Klaus Schubert
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Challenges to European Welfare Systems

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Preface

This book provides the first encompassing inventory of how European Welfare Systems (EWS) have developed since the outset of the financial crisis in 2007. In contrast to its predecessor, "The Handbook of European Welfare Systems" (edited by Klaus Schubert, Simon Hegelich and Ursula Bazant in 2009), it does not give a general overview on current EWS, but focuses on three aspects, i.e., (1) the financial crisis, (2) the demographic change, and (3) how EWS deal with these challenges by adopting social policies of risk prevention and opening up opportunities.

The first part of this book consists of in-depth national country studies of all member states of the European Union (excluding Slovakia) as well as EU candidate countries (excluding Albania and Montenegro). The structure of the chapters is basically the same, thereby focusing on the three aspects named above while at the same time also leaving room for national specifics. In order to ensure comparability, with very few exceptions, the same Eurostat data will be used.

Building on the country studies, the second part consists of comparative chapters on (1) the balance of preventing risks and opening up opportunities, (2) the demographic change, (3) public debt, and (4) the role of the European Union in the context of EWS.

In sum, 59 (!) experts from all countries under investigation contributed to this volume. It is self-evident that a huge project like this cannot be undertaken without the support of many colleagues. First of all, we would like to thank the authors of this book for their high commitment and cooperation during the 2 years of this project by contributing not only individual country chapters but also by participating in our internal review procedure. Their patience and willingness to respond to our often far-reaching suggestions are also greatly appreciated. Simon Hegelich of FOKOS, Siegen/Germany, hosted our kick-off conference "Challenges to European Welfare Systems" in Siegen (Germany) in March 2013 which paved the way for the present volume. Special thanks go to Manuel Clemens, Lukas Jerg and Johannes Keil for valuable support, especially for their editorial work. Last but

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not least, we would like to thank Cathryn Backhaus for continuously helping to move this project ahead and particularly also for her indispensable language assistance.

Münster, Germany — Klaus Schubert
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Summer 2015 — Johanna Kuhlmann

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Recent Developments of European Welfare Systems: Multiple Challenges and Diverse Reactions

Johanna Kuhlmann, Klaus Schubert, and Paloma de Villota

1 Welfare After the 'Golden Age'

Since the 1970s, the so-called golden age of the welfare state has come to an end. Events such as the oil crisis in 1973 changed the economic situation of welfare states and gave rise to the question how the welfare state could maintain its tasks in the context of a changing economy (Castles et al. 2010: 9). Furthermore, European enlargement since the 1990s, the deepening of the European integration and the increasingly supranational character of the European Union call into question the conceptualization of the welfare state: "Instead of the one welfare state, we must assume a diversity of welfare states in a state of complex interdependence and with limited sovereignty" (Schubert et al. 2009a: 20). Moreover, modern welfare is—to different degrees—produced by private, market and state activities. Thus, modern welfare is the result of a changing mixture of private and family efforts, market and business supplies and state regulation, state financing and sometimes also state or quasi-state provision. Since it is necessary to "include *all* welfare arrangements relevant to secure social risks and to open up new social possibilities" (Schubert et al. 2009a: 20 f.), it is reasonable and much more appropriate to use the term and concept of a welfare system than that of a welfare state.

Also apart from political and economic changes to European Welfare Systems (EWS), the list of challenges is long. The tertiarisation of employment and changes in traditional family structures call the appropriateness of traditional institutional

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welfare arrangements into question (Bonoli 2005). Especially the demographic change puts welfare systems in Europe to the test. Apart from very few exceptions (e.g. Iceland and Ireland, see also Ainsaar and Rootalu 2016), most countries are confronted with population ageing due to low fertility rates and expanded lifespan that challenge the financial sustainability of (especially insurance-based) welfare systems (Hinrichs and Lynch 2010: 361). Although awareness of the process of demographic change has existed for a long time—and the demographic change can thus be considered as a rather old challenge to European Welfare Systems—only few countries began dealing with the demographic change at an early stage, while most ignored it for a long time. Against the background of a higher lifespan, among the most popular measures for shaping the demographic change is an increase in the retirement age in many European countries in recent years, thus adopting national pension systems to changing demographic conditions. On the other hand, politicians in many countries try to overcome low fertility rates by means of a family policy that strongly promotes a better life-family-reconciliation such as improvements in child care. It is, however, important to note that the exact timing and design of the policies can strongly vary from country to country. Migration also changes the demographic structure of a country. While it can be observed that migration is in most countries increasing, the migrants' origins and motives differ broadly. The free movement of workers in the EU enables employees to work in principle throughout the whole European Union and indeed, in many countries, immigrants are building a strong basis for the functioning of the welfare system, e.g. in terms of looming shortage of skilled workers or care work. At the same time, however, research in public attitudes reveals that immigrants are perceived as a threat to welfare systems by some parts of the public (van Oorschot 2006).

With the onset of the financial crisis[1] in 2007, a new challenge of so far unforeseen extent entered the stage. Whether since then the pressure to restructure welfare states across Europe has intensified is a question that many social policy scholars have been controversially dealing with. An early attempt to analyse the impact of the crisis on welfare state developments has been made by Farnsworth and Irving (2011). In their edited volume, they state that the impact of the crisis depends on two factors: "the objective 'facts' of the extent of economic collapse, and the more ideological dimensions of crisis management, which concern the ways in which the crisis has been defined, understood and responded to" (Farnsworth and Irving 2011: 1). Against this background, the book offers both theoretical reflections as well as (partly comparative) case studies, covering countries such as South Korea, China, Canada and the United States as well as some European countries such as e.g. UK, Ireland and Germany. The authors conclude that generally crisis can trigger change, but more specifically the direction of change is

[1] To be precise, when analysing the financial crisis, several phases can be distinguished: The banking crisis (2008) was followed by an economic recession (2009) which consequently resulted in a fiscal crisis of the state (since 2010) and, in turn, also in a monetary crisis of the euro (since 2011) (Hemerijck 2012: 69).

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heavily dependent on the politics of national welfare states and can take the forms of both welfare expansion and retrenchment.

The question how the crisis has influenced welfare states is also the subject of two special issues from ‘Policy and Administration’. The respective issues cover a wide range of European countries as well as Australia (Greve 2011) and particularly small European Welfare States (Greve 2014). Greve considers both the high level of public deficit and the demographic change an “explosive cocktail” (2011: 34) and observes a tendency towards retrenchment, although—again—national peculiarities do certainly matter.

Especially quantitative studies on the impact of the crisis on welfare states point to retrenchment (e.g. Obinger 2012; Armingeon 2014). Van Kersbergen et al. (2014) deal with the retrenchment argument from a qualitative perspective, asking if retrenchment really is “the only game left in town” (van Kersbergen et al. 2014: 2). Analysing social policy between 2010 and 2012 in four countries, i.e. the UK, Germany, Denmark and the Netherlands, they find that both retrenchment and expansion can be found during the crisis (see also Borosch et al. 2016).

Van Hooren, Kaasch and Starke analyse the influence of different economic crises on welfare states in Australia, Belgium, the Netherlands and Sweden. They find that crises open no windows of opportunity for fundamental change. Rather, incremental “shock routines” (van Hooren et al. 2014) are dominating in this policy field. The authors argue in another contribution that welfare state development in times of crises is rather dependent on the distribution of powers in the national party system, but also on automatic stabilizers at work (Starke et al. 2014: 228). While in welfare states with low benefits and few automatic stabilizers, crisis responses are shaped by partisan politics, the partisan effect on change is limited in generous welfare states with robust automatic stabilizers. The authors’ findings of “shock routines” are compatible with observations from other authors: Chung and Thewissen (2011) argue that welfare policies in times of crisis tend to fall back into ‘old habits’, indicating that mainly such policies are adopted that ‘fit’ the respective country’s welfare institutions.

Mayes and Michalski (2013) take a broader approach: Instead of focusing exclusively on the economic crisis, they also have a look at challenges that build the “backcloth against which the drastic changes in welfare state provisions were brought in the wake of the financial crisis and the sovereign debt crisis” (Mayes and Michalski 2013: 18), such as e.g. rising inequality and social services, thereby also focusing on multilevel governance. Again, one of the major findings is that the outcomes of the crisis differ considerably in European countries.

2 The Purpose of This Book

This book provides the first encompassing inventory of how European Welfare Systems have developed since the outset of the financial crisis in 2007. Unlike many other studies that have been dealing with this time span, it thereby acknowledges that *multiple challenges*—beyond the financial crisis—have been

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contributing to the recent restructuring of national welfare systems. Against this background, the volume focuses on the question how multiple dominant challenges (and the interplay of these) have changed the structure of national welfare systems, thereby focusing especially on (1) the demographic change, being an 'older' challenge to European Welfare Systems, and (2) the financial crisis, constituting the more recent challenge. However, the volume also leaves room for national specifics.

It is undeniable that the financial crisis constitutes a distinct factor for welfare state development. Focusing not exclusively (exclusively in italics) on the financial crisis is especially for two reasons: First, the financial crisis the financial crisis has hit single European Welfare Systems at different times and in different ways. As will be shown in the country chapters, some countries have been especially hit by the crisis—in these cases, a focus on the crisis seem perfectly appropriate—while in other countries, the crisis has been of minor importance compared to other challenges. Second, our argument is that also other challenges remain virulent. Even if we take for granted that the financial crisis is a serious challenge to EWS, evidence shows that in many welfare systems, it is not the current crisis but earlier financial, organizational or institutional deficiencies and national idiosyncrasies that put welfare systems under pressure. In other words: Frequently, earlier domestic problems turn up again, get accelerated by the current crisis and then appear in harsher form. Sometimes these effects can be directly studied, like the up and down of inequality in a society (e.g. Eydal and Ólafsson 2016). Sometimes surprising effects can be shown, e.g. that in some countries the gender gap on the labour market has slightly been diminished (Bettio and Varashchagina 2014; Greve 2016). In any case, challenges to EWS cannot simply be reduced to one single challenge such as the financial crisis.

What is more, it is self-evident that political reactions, strategies and decisions to tackle these challenges are always adopted in the context of national conditions and circumstances (see also Farnsworth and Irving 2011). Bonoli and Natali (2012) state that "countries have adopted policies that broadly go in the same direction, but maintain substantial differences" (Bonoli and Natali 2012: 14), a process which they call "contingent convergence" (ibid.). We would like to point out an additional aspect: As challenges hit European Welfare Systems in different ways, the single EWS' policy reactions to these challenges differ considerably and sometimes even point in opposite directions. Regarding the financial crisis, while some countries have switched to strict "austerity policies", other countries introduced, at least temporarily, so-called "Stimulus Packages" that some consider as being a Keynesian approach. More generally, while social policy in the "golden age" consisted mainly of risk prevention, meaning basically 'traditional' social policy in terms of passive monetary transfers, e.g. pension or unemployment benefits, social policy in recent years cannot be restricted to risk prevention any more. Especially since the 1990s, scholars have been trying to capture changes and new strategies of policy makers in national welfare systems with different concepts among which, to name only a few, especially popular are the concept of retrenchment (Pierson 1994; Starke 2006), the concept of new social risks (Esping-Andersen 1999; Taylor-

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Gooby 2004; Bonoli 2005) and the concept of social investment (Morel et al. 2012; van Kersbergen and Hemerijck 2012) (for details, see Borosch et al. 2016).[2] While all of these concepts differ considerably, they all share the assumption that a (partly fundamental) restructuring of welfare has been taking place.

In this context, policies that take a preventive character and that aim at opening up opportunities are becoming increasingly important. They are often also labeled as 'activation policies' or 'social investment policies', aiming to strengthen human capital by focusing for example on measures for fostering employability and work-family reconciliation. As will be shown in this volume, while all EWS are somehow designed to deal with traditional risks, policies of opening up opportunities have only been established in some EWS, while they are only slowly evolving in others.

3 The Structure of the book

The present volume consists of two parts:

The **first part** brings together 31 country studies of all member states of the European Union (excluding Slovakia) as well as EU candidate countries (excluding Albania and Montenegro) and Iceland (that used to be an EU candidate since 2009 but dropped its EU membership application in 2015). All country chapters have been written by authors who know the countries like the back of their hands, thereby providing detailed up-to-date descriptions of reform processes in the respective countries. The chapters all follow the same structure while also leaving room for national specifics. Taking into account that challenges to EWS are multiple and complex, the country chapters aim to answer the following questions:

1) *Which challenges are relevant within the respective European welfare system?,* thereby putting special emphasis on the common challenges of the demographic change and the financial crisis,
2) *To what degree do these challenges result in national policy-making?* And, as far as it is possible at this point of time:
3) *What effects have been achieved?*

Thus, in contrast to its predecessor, "The Handbook of European Welfare Systems" (Schubert et al. 2009b), the volume does not give a general overview on European Welfare Systems but focuses especially on current challenges they are facing. The volume can therefore also serve as a good starting point for future research. However, what the country chapters show at first glance is that peculiarity and plurality can be regarded as distinctive features of European Welfare

[2] Some of them have also entered the political debate, such as the concept of social investment that is also pushed forward as an EU strategy (Nolan 2013).

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Systems—a finding that has already been dealt with in the context of "politically limited pluralism" elsewhere (Hegelich and Schubert 2009).

This argument is strengthened in the second part of the book, consisting of comparative chapters that strongly rely on the findings of the first part of the book.

Nikola Borosch, Johanna Kuhlmann and Sonja Blum analyse how EWS have adapted their social policies since the outbreak of the crisis. They distinguish between (1) policies directed at an expansion or retrenchment of risk protection, and (2) policies directed at an expansion or retrenchment of opening up opportunities. Although their policy mapping shows that EWS' pathways remain to be characterized by a high diversity, they can identify three major dimensions of change in EWS: (a) retrenchment and (b) activation policies, while being increasingly adopted for decades, turn out to remain important drivers of reform processes during the crisis. Especially universal risk prevention programmes suffered cutbacks in many EWS. Moreover, the authors observe a growing number or extensity of (c) selective measures. More specifically, they argue that a great share of these measures is targeting narrowly defined social groups or special needs.

In a comparative chapter on the demographic change, Mare Ainsaar and Kadri Rootalu show to what extent demographic processes affect EWS. As a result of their research, they construct seven country clusters ranging from (1) high population risk, (2) moderate population risk, (3) future population risk, to (4) minor concern, (5) moderate population growth, (6) intensive immigration, and (7) high population growth. What is more, the authors give an overview on how changes in population structure and demographic processes are linked to political views and rhetoric about social policy at the start of the twenty-first century in EWS.

In his comparative study, Simon Hegelich uses a Eurostat COFOG dataset on budgetary behaviour to demonstrate in a quantitative perspective how EWS reacted towards the crisis. Notably the sharp increase of welfare expenditure to immediately counter-act the crisis shock and subsequently the different ways of turning down the rapid budgetary increase prove the concept of 'politically limited pluralism' (Hegelich and Schubert 2009) as rather valid, thus showing that the concept remains a useful approach to also explain crisis behaviour of EWS.

Finally, Nicole Kerschen and Sweeney Morgan analyse European social integration policies by showing how European institutions since 2007 focused on economic coordination to respond to the crisis and postponed further European social model construction. In this contribution, they also consider a specific field of tension of the European Union: On the one hand, the EU aims towards more convergence in welfare issues and social policies and supports especially the new member states. On the other hand, it only has few instruments of rather weak nature at its disposal. Currently the member states are acting under crisis-driven constraints, especially those countries that are subject to macroeconomic adjustment programmes (ECB, EC and IMF) and/or subject to excessive deficit

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procedures. As a result, the differences within the EU and between the Member States are increasing tremendously.

As the onset of the financial crisis in Europe in 2007 was our impetus (but, as has been developed above, not our only analytical focus throughout this book), we would also like to finish with a brief remark regarding the crisis: When we started working on this volume in spring 2013, we knew that the end of the crisis was still not in sight—but we surely would not have been able to anticipate what would happen and how fast things would change. While we are writing this introduction in summer 2015, on the current peak of the financial crisis in Greece, the impact of the financial crisis across European Welfare Systems still cannot be foreseen. Future pathways of EWS will to a large extent continue to depend on socio-economic boundary conditions. Further research is therefore indispensable.

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Part I

Country Studies

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Reforming the Austrian Welfare System: Facing Demographic and Economic Challenges in a Federal Welfare State

August Österle and Karin Heitzmann

1 Introduction

Across Europe, the financial crisis has deeply shaken the economy and created enormous challenges lasting up until today. The Austrian economy, in particular the banking sector, has been hit considerably by the crisis; even though to a smaller extent than in many other countries. Measures to support the Austrian banking sector and to prevent bankruptcy of at least three of them, a substantial drop in exports, a decline in tax revenues and measures to alleviate the negative consequences of the crisis led to sharply increasing public debts (from 60.2 % in 2007 to 74.0 % in 2012). At the same time, Austria is still doing comparatively well in terms of unemployment, increasing from 3.8 % in 2008 to 4.8 % in 2009 (compared to 5.2 % in 2005), and decreasing again to 4.3 % in 2012 (see Table 4). In 2013, Austria had the lowest unemployment rate among all EU-27 member states. This chapter will examine the development of the Austrian welfare state and of social security for the population in this country. It focuses on the changes since 2007, and studies the impact of the fiscal and economic crisis and of demographic shifts, but also particular risks and opportunities for the Austrian welfare system. Following the respective reactions and debates in this country, the chapter finally discusses current and potential future pathways of the Austrian welfare system.

1.1 A Brief Characterization of the Austrian Welfare System

The roots of the modern Austrian welfare system can be traced back to the 1880s, when work accident and sickness insurance were introduced as the first two

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branches of the social insurance system (Tálos 1981). Mandatory insurance, self-administration and close employment links were established as key principles of the Austrian social insurance model, features still valid up until today. With old-age insurance in 1907 and unemployment insurance in 1920 the third and fourth branch of the Austrian welfare system was established. But, it was only in the 1960s when the social insurance system was extended to farmers and the self-employed. With the economic crisis in the 1970s, the issue of financial sustainability of the welfare state slowly became an issue in debates. Until the 1990s, however, there were still important extensions in welfare programmes, including material extensions in health insurance coverage, the introduction of a comprehensive long-term care scheme in 1993 or the extension of social insurance coverage to new forms of atypical employment (Österle and Heitzmann 2009). From the mid-1990s, issues of cost-containment increasingly dominated social policies (Obinger and Tálos 2010). Respective changes included cuts and non-adaptation to inflation, but also structural modifications. Developments in family policies and long-term care policies, for example, have emphasized a universal approach rather than the social insurance principle. With this, an already existing emphasis on cash benefits in family policies was also extended to long-term care policies: an approach that involves both the opening of choices for recipients and also cost-containment. In the past decade, demographic challenges, limitations to public funding or issues of competitiveness have repeatedly been put forward in calls for welfare retrenchment or a restructuring of the welfare state, a debate that has further intensified with the fiscal and economic crisis that has hit Europe in the recent past.

In the comparative welfare state literature, Austria is characterized as a corporatist, conservative, continental or male breadwinner welfare state (e.g. Esping-Andersen 1990; Sainsbury 1999). It is built on the main pillar of a social insurance system covering pensions, health care, unemployment and accidents. Here, financing is based on income-related contributions from employers and employees, with larger shares of tax funds used in health and pension schemes. In addition to the employment nexus, there is also a close family nexus in Austrian social insurance schemes, as, for example, with the existence of non-contributory benefits for family members in health and pension schemes. Universal programmes as the second pillar of the Austrian welfare model dominate specific areas, most notably care related policies (family and long-term care policies). Finally, poverty relief is organized in a third pillar following the social assistance principle (Badelt and Österle 2001; for details see Sects. 4.2–4.7).

In terms of expenditure, public social protection spending in Austria amounts to 29.5 % of GDP in 2011, compared to 29.0 % in the EU-28 average (see Eurostat 2014a). From a European perspective, social expenditure in Austria is lower than in the Nordic welfare states or in France, but far beyond the levels in the Central Eastern European member states. From a historical perspective, social expenditure has been on rather stable levels since the mid-1990s (28.8 % of GDP in 1995 and 28.5 % of GDP in 2008), but then saw a substantial increase from 2008 to 2009 (30.7 %). This increase is due to a beyond average increase in social protection expenditure, but even more to a shrinking GDP in that period (Statistik Austria

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2014a). In 2011, social protection expenditure was again below 30 % of GDP (see Table 1).

With regard to social protection expenditure by function, pensions (including survivors' pensions) account for 50 % of total social protection expenditure, a level only exceeded by few other EU member states. This large share and the demographic developments discussed below make the pension system a major target for expenditure containment considerations. Health, with about a quarter of total social expenditure, is the second largest policy field, also targeted by cost containment considerations. All other areas account for the remaining quarter of total social expenditure. It includes expenditure for families and children (about 10 % of total social expenditure), followed by disability and unemployment. Policies addressing housing and social exclusion account for less than 1.5 % of total social expenditure.

1.2 Structure of the Chapter

After this brief characterization of the Austrian welfare state, the following two sections examine two major concerns shared by all European welfare systems, the demographic changes (Sect. 2) and the economic and fiscal crises that hit Europe from 2008 (Sect. 3). Both sections present facts and figures on the extent of the challenges and discuss the implications for the welfare system. Section 4 then studies the developments in specific welfare sectors. It first analyses the context for welfare reform, addressing policy-making in a federal country as an additional major challenge, before proceeding to problem perceptions, developments and responses in policies of the labour market, pensions, health care, long-term care, family and child care as well as policies to combat poverty and social exclusion. As will be seen, Austria has seen significant reforms since 2007, changes that are mostly a response to specific challenges and actor constellations, but far from paradigmatic. This is not least because of the still relatively strong welfare state consensus and broad public support for the existing welfare system. In the concluding Sect. 5, a summary of challenges and responses will lead to a final discussion of the sustainability of and of potential future pathways for the Austrian welfare system. All data, unless otherwise stated, are derived from Eurostat (2014f) and Statistik Austria (2014f) databases.

2 The Demographic Challenges

2.1 Status-quo and Forecasts

With regard to demographic changes, Austria is no exception to European wide trends. The total population increased from 7.7 million in 1990 to 8.4 million in 2012 and is expected to increase to almost 9 million in 2030. More importantly for welfare systems, the population structure has considerably changed since 1990. The proportion of those 65+ has increased from 14.9 % in 1990, to 15.4 % in 2000 and to

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Table 1 Social protection expenditure by function

	2000	2005	2006	2007	2008	2009	2010	2011
Total (% of GDP)	28.3	28.8	28.3	27.8	28.5	30.7	30.6	29.5
€ per inhabitant	7364.94	8592.92	8869.46	9189.74	9661.76	10,123.10	10,385.69	10,511.54
By function (% of total)								
Old age	39.63	40.67	41.37	41.94	42.33	42.52	43.01	43.96
Survivors	8.33	7.44	7.32	7.21	7.02	6.79	6.67	6.63
Health	25.88	25.67	25.53	26.11	26.42	25.80	25.42	25.23
Unemployment	4.89	5.79	5.82	5.31	4.98	5.77	5.66	5.25
Family/children	10.69	10.62	10.35	10.10	10.19	10.22	10.33	9.86
Disability	9.48	8.42	8.12	7.82	7.53	7.46	7.44	7.57
Housing	0.38	0.39	0.42	0.42	0.41	0.39	0.37	0.34
Social exclusion	0.73	1.01	1.07	1.10	1.12	1.05	1.09	1.15

Source: Eurostat (2014a)

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17.8 % of the total population in 2012, while the share of those below 20 years of age has decreased from 24.2 % in 1990 to 23.2 % in 2000 and to 20.3 % in 2012 (see Table 2). These changes are determined by various factors. Life expectancy at birth for women, between 1990 and 2012, increased from 78.9 years in 1990 to 82.8 years in 2012. For men, life expectancy increased from 72.2 years in 1990 to 77.7 in 2012. Total fertility rate is 1.44 in 2012 and has remained on very moderate levels with only slight ups and downs since 1990 (1.46). This is on similar levels with other Central European countries and some of the Southern European countries, but on lower levels than the EU average (1.57 in 2011). A major fact contributing to a growing population despite low fertility rates is a migration balance that has been positive, even though with significant ups and downs, every year since 1990.

The ageing of the population will become even more significant in the coming decades. A 2013 projection of Statistik Austria (2014c) expects the population to grow from 8.4 million in 2012 to 9 million in 2030 and 9.3 million in 2050. The age structure of the population will change even more substantially than it did in the past two decades. The proportion of those 65+ will increase from 17.9 % of total population in 2012 to 28.2 % in 2050, while the proportion of those aged 20–64 will decrease from 61.8 % to 53.4 % in the same period (see Table 3). The most significant changes are taking place between 2020 and 2035, when the proportion of those 65+, e.g., will increase by 6.4 % points. A major factor contributing to this development is that the strong birth cohorts of the 1950s and 1960s are moving into the age group 65+. At the same time, life expectancy at birth is expected to grow for another 4 years for men and 3.5 years for women between 2012 and 2030 (Statistik Austria 2014c).

2.2 Implications for the Welfare System

The ageing of the population and the change in the relative proportion of older people and those in the employment age are regularly cited as endangering the sustainability of the existing welfare system. For example, the population of those aged 65+ as a proportion of the total population aged between 15 and 64 is expected to increase from 26 % to 48 % in Austria between 2010 and 2030 (compared to an increase from 26 % to 50 % in the EU-27) (Eurostat 2008). Simply speaking, as those in the employment age contribute the largest share of taxes and social insurance contributions, it is today four persons in the employment age bearing a substantial part of the required funding for pensions, long-term care or health care for those 65+, while it is expected to be just two in 2030. Welfare policy debates regularly refer to the demographic pressure, but it is mostly pension policies, and to a much smaller extent long-term care policies and health care policies, where demography becomes a more obvious driver of reforms and reform debates. Otherwise, demographic changes are a major factor contributing to current and future budgetary pressures that are put forward in defining the room for welfare extensions or welfare restructuring.

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Table 2 Demographic indicators, 2000–2012

	2000	2005	2006	2007	2008	2009	2010	2011	2012
Total population, million	8.00	8.20	8.25	8.28	8.32	8.36	8.38	8.40	8.41
% Aged −19	23.2	22.1	21.9	21.6	21.4	21.1	20.8	20.6	20.3(*p*)
% Aged 65+	15.4	15.9	16.4	16.9	17.1	17.4	17.6	17.6	17.8(*p*)
% Aged 80+	3.4	4.2	4.3	4.5	4.6	4.7	4.8	4.9	4.9(*p*)
Old age dependency ratio	22.9	23.5	24.3	25.0	25.4	25.7	26.1	26.0	26.2(*p*)
Life expectancy women	80.6	81.6	82.0	82.3	82.5	82.5	82.8	83.1	82.8
Life expectancy men	74.6	76.0	76.5	76.7	77.1	76.9	77.2	77.6	77.7
Fertility rate	1.36	1.41	1.41	1.38	1.41	1.39	1.44	1.43	1.44
Migration balance[a]	17.272	44.332	24.103	25.470	24.650	17.053	21.316	30.705	43.797

Source: Eurostat (2014b), Statistik Austria (2014b)
Notes: [a]National data
(*p*) Provisional data

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Table 3 Population projection, 2012–2050

	2012	2020	2030	2040	2050
Total population, million	8.4	8.7	9.0	9.2	9.3
% Aged −19	20.2	19.3	19.2	18.8	18.4
% Aged 20–64	61.8	61.0	56.9	54.1	53.4
% Aged 65+	17.9	19.7	24.0	27.1	28.2

Source: Statistik Austria (2014c)
Notes: The projections build on the assumption that the fertility rate will remain on very moderate levels and on the assumption of a continuously positive migration balance. (For details see Statistik Austria 2014c)

The budgetary implications of the demographic changes have recently been explored in the 2012 Ageing Report (European Commission 2012) with a focus on pensions, health care, long-term care, education and unemployment. Significant increases in public expenditure are projected for pensions, health care and long-term care. For Austria, in a reference scenario (for details see European Commission 2012), it is projected that public pensions as per cent of GDP will increase from 14.1 % in 2010 to 16.1 % in 2060, that is an increase of 2 % points in Austria compared to 1.7 % points in the EU-27. In health care and in long-term care, projected increases amount to 1.6 and to 1.2 % points, respectively. The projections have to be dealt with extreme caution given the long view into the future and given that a variation in the assumptions leads to considerable variations in public expenditure increase. But, the study clearly indicates that demographic changes will create substantial economic pressure over the coming decades.

3 The Challenges Arising with the Economic and Fiscal Crisis

Across Europe, the financial and economic crisis of 2008 and 2009 has deeply shaken the economy and created enormous challenges that are still noticeable. The negative impact of the crisis made many nation states react with two successive types of fiscal policy interventions: First, governments attempted to stabilize the economy by allocating public money. Second, and as a consequence of enormously risen public debts, austerity packages have been—and still are—implemented. In this section, we illustrate the development of main "crisis indicators" for Austria and focus on both the welfare state's reaction to the economic crisis and its responses to the resulting fiscal crisis, characterized by tight budgetary constraints.

The impact of the global economic crisis on Austria is reflected by key economic indicators. For example, an economic growth rate of 3.7 %, evidenced for 2006 and 2007, has not been achieved since. In 2008, GDP growth amounted to 1.4 %. In 2009, the economy shrunk by 3.8 %: this was the first decline since 1981 (when GDP shrunk by only 0.1 %, though). In 2010 and 2011, economic growth appeared to have recovered with rates amounting to 1.8 % and 2.8 %. However, its speed has become moderate since. GDP growth amounts to 0.9 % in 2012 and to 0.3 % (projected) in 2013 (see Table 4). The growth rates forecasted for 2014 and 2015

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Table 4 GDP, public debt and unemployment

	2000	2005	2006	2007	2008	2009	2010	2011	2012
GDP at current prices, PPP per inhabitant	25,100	28,200[a]	29,800	30,900	31,200	29,500	31,100	32,400	33,300
Real GDP growth rate	3.7	2.4	3.7	3.7	1.4	–3.8	1.8	2.8	0.9
General government deficit, % of GDP	−1.7	−1.7	−1.5	−0.9	−0.9	−4.1	−4.5	−2.5	−2.5
General government gross debt, % of GDP	66.2	64.2	62.3	60.2	63.8	69.2	72.3	72.8	74.0
Unemployment rate									
Total	3.6	5.2	4.8	4.4	3.8	4.8	4.4	4.2	4.3
Men	3.1	4.9	4.3	3.9	3.6	5.0	4.6	4.0	4.4
Women	4.3	5.5	5.2	5.0	4.1	4.6	4.2	4.3	4.3
Aged >25	5.3	10.3	9.1	8.7	8.0	10.0	8.8	8.3	8.7

Source: Eurostat (2014c, d, e)
Notes: [a]Break in time series

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(1.7 %) continue to be way below the level achieved before the crisis hit Europe—thus suggesting that the negative effects of the crisis are still tangible.

In terms of economic sectors, the banking industry was among the first affected. And similar to many countries, the Austrian government stabilized the industry by transferring considerable amounts of public funds (*Partizipationskapital*) to the banks. Moreover, three banks were nationalized either fully (Hypo-Alpe Adria, Kommunalkredit) or partly (ÖVBA) to prevent them from bankruptcy, thus enhancing public expenditure even further. Alongside the banking sector, the export industry was hit by the economic crisis. In 2009, Austrian exports shrunk by more than 20 % as compared to the previous year. The resulting reduction of production not least enhanced the pressures on the Austrian labour market. And the Austrian government reacted at once—aiming at maintaining employment high and keeping unemployment low. This has mainly been achieved by massive interventions of active labour market policies (Kopf 2013).

The most important instrument in this respect was the facilitation of short-time work (Mandl 2011). Its duration has been prolonged to 24 months and it was made available for temporary agency workers (a large part of the workforce in the export industry). The instrument has been widely used: In 2009, and thus at the peak of the crisis, more than 66,500 workers were on short-time work and received related benefits, in 2010 the number already shrank to 23,700 (Mandl 2011: 303). In addition to short-term work, further measures to reduce the workforce while keeping unemployment low were amended and utilized. For example, it has been made easier for employees to go on educational leave for a minimum of 2 months and a maximum of 1 year. The number of employees using this option achieved a peak in May 2009 with 5300 (Hochrainer et al. 2011: 41). In addition to these and other labour market related measures (Hochrainer et al. 2011; BMASK 2013b), Austria's long tradition of annual wage bargaining processes between social partners helped to keep both rises of minimum wages and real wages comparatively moderate—thus keeping labour costs low.

The mix of these measures allowed Austria to dive through the crisis without too many troubles for the labour market. Indeed, the country managed far better than most other member states of the European Union to keep unemployment low. In 2012, it had the lowest unemployment rate within the EU-28 (4.3 %). Concerning youth unemployment, the rate of 8.7 % is—after Germany—the second-lowest of all member states and indeed far below the EU-28 average of 23 %. Austria also scores more favourably than all other European welfare states in terms of long-term unemployment. In 2012, the rate amounted to 1.1 %, which compares to an EU-28 average that is more than four times higher. However, more recent data indicate that the situation of the Austrian labour market is deteriorating—not least due to the still more than sluggish GDP growth. It is expected that unemployment will continue to rise in 2014 and 2015.

Labour market measures have not been the only interventions set by the government to tackle the economic crisis. In October 2008 and December 2008, it implemented two programmes to activate the economy. The first addressed small and medium sized enterprises by improving infrastructure, facilitating access to

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capital and extending opportunities for state guarantees. In the second programme, the government made attempts to strengthen the economy, e.g. through investments in the construction industry. Moreover, to keep private consumption levels high, an income tax reform originally planned for 2010 was implemented earlier. For those with a taxable income between € 15,000 and € 50,000, it led to a reduction in the overall tax burden of about 2 %.

The interventions set by the government were rather successful in keeping unemployment low and employment levels high. However, the price for this stabilization was an increase of public debts from a low of 60.2 % of GDP in 2007 to 74 % in 2012 (see Table 4). Even though this is a less drastic development as compared to the EU-28 on average (where public debts increased by 26.3 % points in the same period), it is mainly the development of this indicator that evoked considerable concerns both in politics but also in public debates. Not least due to the dual development of sluggish GDP growth and enhancing public deficits, the country's economic perspective was downsized from a triple-A rating to AA+ by both Standard and Poor's and Moody's in January 2012; a downgrading that received broad attention in public media. This also applied to the attempts of the European Union, and most notably the member states of the euro area, to stabilize both the common currency and the various risk countries within the euro area. A large part of the public feels that deteriorating economic development is not predominantly "homemade", but rather imported as a result of Austria's membership in the EU and the euro zone.

Since the financial and economic crisis entered Europe in 2008, several amendments have also been made to the Austrian social security system. However, as will be shown in more detail in the next section, changes in that period include retrenchment as well as extensions and restructuring and many of the changes to welfare programmes are part of longer term developments rather than just ad hoc responses to the crisis. Given the increase of public debts in Austria, reducing the public deficit became a major government's concern from 2009/2010 onwards. Social security and health related expenditures make up 57 % of all public expenditures in 2009—thus making these branches obvious candidates for budget cuts. And indeed, a first austerity package implemented in 2010, led to changes in pension policies (e.g. deteriorations for a specific pension form, *Hacklerpension*, for people with long employment records), long-term care policies (making it more difficult to qualify for long-term care benefits by raising minimum hours of necessary care needs) as well as family policies (e.g. a reduction of the duration of family benefit for children in full-time education from a maximum of 26 years to a maximum of 24 years).

It soon became evident that the measures implemented by this first austerity package did not suffice to overcome the fiscal problems. Therefore, the government introduced a second austerity programme in 2012, which eventually should lead to a substantial reduction in public debt and allow for a debt brake (*Schuldenbremse*). Over the period of 2012–2016, the proposed package envisaged a cost containment volume of € 26.5 billion. About 30 % of this amount should be financed by new taxes and the rest by reducing expenditures. Reforms within the pension and labour

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market system were projected to save up to € 7.3 billion, and reforms of the health care sector up to € 1.4 billion until 2016 (Bundeskanzleramt Österreich 2012). The target is to achieve a balanced budget by 2016.

Meanwhile, however, a failed realization of some of the proposed measures of the second austerity package (including, for example, the implementation of a transaction tax at the level of the European Union, which should have contributed € 1.5 billion up until 2016), sluggish economic growth as well as a negative growth prospect together with higher expenditures than envisaged for the banking sector (especially to the already nationalized Hypo Alpe-Adria), led to an adaptation of the cost containment volume: the government recently agreed that the cost containment volume over the period of 2014–2018 amounts to € 24.24 billion; if the target of a balanced budget in 2016 is to be maintained.

4 Reforms, Risks and Opportunities

4.1 The Context for Welfare Reform

Demographic changes and the economic context have become major context variables for reform debates and for reforms to the welfare system, even more importantly with the global crisis of the past few years. But developments in the Austrian welfare system are also strongly shaped by the federal structure of the country (Obinger 2005). Austria's welfare state has a long tradition of regionalism. For many welfare sectors, there is shared responsibility between the state level and the provincial levels. This is the case for health care (Sect. 4.4), long-term care (Sect. 4.5), family policy (Sect. 4.6) or poverty relief programmes (Sect. 4.7). The split between national and provincial roles in welfare policies, and, more importantly, often shared responsibilities in specific welfare sectors not only contribute to differences in the structure of benefits and coverage. With a view to welfare reforms, this federal structure can either work as a major hurdle in implementing novel approaches because initiatives from one level receive blockade from the other level. Or, it might allow for innovation in single provinces which then might have the potential to diffuse across the country. There are examples for both developments in the past. In the more recent past, conflicting lines between the national level and the provincial levels often have been stronger than those between political parties on the national level. Treaties of state-provinces have therefore commonly been used to resolve problems arising from this split and to agree on reform plans.

In what follows, major welfare reforms and reform debates in the 2007–2013 period will be discussed for selected welfare state sectors. The discussion attempts to identify the relative importance of demographic and economic challenges driving the respective reforms and to identify the risks and opportunities connected to the respective developments. As will be shown, labour market policies together with broader economic policies formed the main response in the initial stage of the economic crisis. Major changes that occurred in other welfare sectors are

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determined by a multitude of factors and are largely in line with longer term directions in the respective policy field. The budgetary pressure that became more pronounced after the initial years of the economic crisis had an impact on policies in all the sectors, but so far it did not induce any paradigmatic change.

4.2 Labour Market Policy

Despite the economic crisis, employment figures in Austria remained high: In 2008, Austria's employment rate (15–64 years) amounted to 72.1 %, in 2012 to 72.5 % (compared to an EU-28 average of 64.5 % and 64.1 %). However, Austria's success in keeping employment high is also due to a rise of atypically employed persons: In 2011, 31 % of the Austrian workforce (excluding the self-employed) was atypically employed, 49 % of women and 12 % of men. In 2007, the proportion was 3 % points lower (Knittler and Stadler 2012: 481). As has already been mentioned, Austria's unemployment rate remained low despite the economic crisis. This is, in addition to moderate wage setting, not least the result of massive interventions by active labour market policies (e.g. the expansion of short-term work and educational leave, see Sect. 3). Consequently, expenditure for this branch of labour market policies (including, for example, expenditure for further training, including benefits for people participating in this training) as a proportion of total labour market expenditure rose by 12 % points between 2002 and 2012, achieving a share of 34 % in the latter year (BMASK 2013a, b: 38). This suggests that the active component of Austrian labour market policies considerably increased in importance within the last decade—not least thanks to co-finance of the European social fund. As in many other countries, activation of the (unemployed) workforce thus has become a more prominent approach.

Austria has been particularly successful in keeping youth unemployment low. In addition to active labour market policies, this is often attributed to the country's dual education system. The government is keen on fulfilling a training guarantee (*Ausbildungsgarantie*) for young people, thus allowing them to complete a vocational training and further education at vocational training schools (*Berufsschulen*). To comply with the guarantee, young people are not only trained by private companies but also within publicly run training centres (*überbetriebliche Lehrausbildung*), which were introduced in 1998. In these, they are trained and educated for a profession and then search for a job in the private market as already qualified workers. In 2012/2013, 9,400 young people attended such a publicly run centre. During the peak of the economic crisis, the number of participants has increased considerably (and amounted to more than 11,000 participants in both 2009/2010 and 2010/2011). This suggests that the economic problems in the private sector have been mitigated by the public sector—thereby helping to keep youth unemployment low (BMASK 2013a).

Allowing for a low retirement entrance age maybe best explains Austria's good performance concerning the unemployment rate of the elderly (which amounted to 3.0 % in Austria in 2012 as opposed to 7.3 % in the EU-28). In 2012, the average

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entrance age into retirement amounted to 57.4 years for women and 59.4 years for men (HV der Sozialversicherungsträger 2013: 23), which also explains the low employment rate of the 55–64 year old population in Austria. It amounted to only 43.1 % in 2012, which compares to an EU-average of 48.8 %. Unsurprisingly, the low entrance age into retirement (combined with demographic developments) poses a considerable problem for pension budgets in Austria (see below).

In contrast to Germany and its Hartz-reforms, the passive component of labour market policies in Austria has not undergone major reforms. Unemployment benefit (*Arbeitslosengeld*), i.e. an insurance-based benefit, and unemployment assistance (*Notstandshilfe*), i.e. an insurance-based but means-tested benefit granted after unemployment benefit has expired, make up the two-tiered cash transfer system still relevant for the unemployed with a history of insured employment. And even though unemployment assistance is a means-tested transfer, its receipt is still very much perceived as a citizen's right rather than a charity. However, sanctions, usually in the form of a reduced transfer payment or a short-term abolition of transfers, have become wider used means to discipline people in the last decade. In 2011, the Austrian labour market service (AMS) reported more than 103,000 cases of sanctions (AMS Österreich 2013: 77), which compares to 65,000 cases in 2002 (AMS Österreich 2003: 39). This suggests that benefit rights have indeed been closer linked to recipients' obligations to remain in or re-enter employment, indicating a strengthening of workfare elements.

4.3 Pension Policy

With 50 % of total public social expenditure in Austria, the pension system takes a larger share than in most other European countries. This, together with demographic changes and specific patterns of the Austrian pension scheme, have made this pillar of the welfare system one of the most debated in Austrian social policies. The pension system builds on a compulsory social insurance scheme, employer based insurance and voluntary private insurance. While social insurance schemes differed quite considerably in the past, major efforts have been made in the past decade to harmonise public pension insurance for all employees, most importantly through the General Pension Act 2005 (Schulze and Schludi 2007). With this Act, schemes are currently in a transition period with different rules applying to different groups, in particular different age groups. From 2028 onwards, e.g., pensions will be determined by the previous income in the 'best' 480 income months (240 months in 2008, plus 12 months each year till 2028).

Reforms and reform debates since 2007 have largely been driven by the demographic changes and its implications for pension expenditure (Fink 2013). Total expenditure amounts to € 37 billion in 2013, an increase of 30 % compared to 2008. In the same period, tax funded subsidisation of the insurance based system has increased from € 6 billion in 2007 to € 8.8 billion in 2013. In addition, expenditure for a means-tested and tax-funded benefit which guarantees a minimum pension

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(amounting to € 857.73 for a single pensioner in 2014) has increased from € 0.93 billion to € 1 billion in the same period (BMASK 2014).

A particular focus for recent pension reforms and debates is various early retirement options. While official retirement age is 65 for men and 60 for women, effective retirement age is 62.9 for men in old age pensions and 53.8 in invalidity pensions, while it is 59.3 for women in old age pensions and 50.3 in invalidity pensions (BMASK 2014). First, aimed at increasing effective retirement age, a major change of the invalidity pension was introduced in 2012, valid for all those below the age of 50 by January 2014. Accordingly, access to an invalidity pension will be tightened and only be given in case of permanent invalidity and if requalification is neither appropriate nor reasonable. Otherwise, the invalidity pension will be replaced by a rehabilitation benefit (a prolonged version of the sickness pay). Reintegration will be facilitated through extended medical rehabilitation and requalification measures. It is expected that the reform will lead to an accumulated cost containment effect of around € 1 billion in the 2014–2018 period. A second target of reform debates focusing on retirement age is the option of early retirement at age 55 for women and at age 60 for men, in case they have 40 or 45 contribution years, respectively. From 2014, this early retirement option—depending on the birth year—is merged with the so-called corridor pension, allowing retirement at age 62 for men and 57 for women. The only exception still allowing retirement at age 60 and 55, respectively, is employment in so-called heavy labour. Thirdly, while retirement age of women will be adjusted to that of men in half year steps from 2024 until 2033, there have recently also been proposals to start that process earlier. So far, however, this proposal did not find broad support. Similarly, there was no majority supporting a postponement of regular retirement age so far. It is argued that increasing the effective retirement age should be given priority before considering an increase in regular retirement age. Overall, pension policies have been a major element in the austerity package debates of the past few years. Many of the proposals, however, are not new on the agenda. Rather, growing budgetary pressure combined with a view to future demographic challenges facilitated the realisation of reform proposals.

4.4 Health Policy

In the 2011 OECD Economic Survey of Austria, the health care system in this country was described as highly-regarded but costly (OECD 2011). An analysis of major performance measures indicates average or above average performance if compared to other OECD countries (Österle 2013b). With regard to citizens' satisfaction, the 2010 Eurobarometer survey shows that 82 % of the population value the system as very good or good, a level reached by no other EU country (European Commission 2010). At the same time, however, expenditure levels and the use of specific resources (such as hospitals) are beyond OECD average. Cost concerns and calls for cost containment have therefore been strong on the agenda since the mid-1990s. These concerns have been an important driver in health reform

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debates, even more so after a substantial growth in public debt from 2009. Even more importantly, growing consensus that the split of competences between state level, provincial level and social insurance funds requires major structural reforms has increasingly fuelled health reform debates (Hofmarcher and Quentin 2013). This has led to a major reform in 2013, but without a paradigmatic change in the Austrian health system (Österle 2013a).

Because of split responsibilities between the federal and provincial level, health care reform efforts have repeatedly been agreed on in state-provinces treaties. The 2005–2008 reform agenda made a major attempt to improve coordination and cooperation between state level, provincial level and social health insurance funds through establishing novel coordinating bodies on national and provincial levels, the introduction of the Austrian structural health plan replacing an earlier hospital and major equipment plan or the development of a more coherent quality strategy. The 2008–2013 reform agenda reinforced the aims of the previous period, not least as a response to the critique that despite the new institutional frame actual reform efforts remained slow and added new elements such as the electronic patient documentation. In that period, growing public debt caused by the economic crisis has intensified calls for more substantial reforms to contain cost increases in the health sector. An austerity programme published in February 2012 expects the health care sector to contribute € 1.37 billion (which is more than 5 % of the annual public health expenditure) for the 2012–2016 period, without providing any details on how to achieve the volume. These were then first published in June 2012 in a paper agreed on between national level, provincial level and social health insurance funds. Based on this agreement and after further debates (not least because of the resistance of doctors), the 2008–2013 state-provinces treaty was prolonged until the end of 2014 and the Health Reform Act finally passed the Parliament in 2013.

At the core of the 2013 health reform is a system of health objectives for the provision, funding, quality, structures and processes in health care. Contracts between the parties, regular monitoring and reporting and a system of sanctions should help to achieve the objectives and consequently lead to a cost-containment effect of € 3.4 billion until 2016. As a further aim, from 2016, annual increases in public health expenditure should not exceed the average GDP growth in the official medium term forecasts. The 2013 reform did not change the roles of national level, provincial levels and social insurance funds in the health care system, but it has introduced new modes of cooperation and coordination, strongly linked to a system of health care objectives, monitoring, reporting and sanctioning. While the first monitoring report will only be published in the course of 2014, there is agreement that the reform at least has the potential to reduce widely known inefficiencies in the system and to develop a more cooperative approach to health care governance. Similar to other social policy branches, changes to the health care system in the crisis period are part of longer term agendas. Major contributions of the health care system to the austerity programme are expected from making the system more effective and more efficient.

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4.5 Long-term Care Policy

Similar to other continental European countries, long-term care was a latecomer in welfare state development. In Austria, long-term care was established as a distinctive pillar of the welfare system in 1993. A comparatively generous nationwide cash-for-care system was introduced, providing cash benefits according to seven levels of need. At the same time, provincial responsibility for the development of social services, both in institutions and in the community, was confirmed. Provinces—agreed on in a state-provinces treaty—were required to develop an adequate infrastructure following provincial plans on the future need for such services. Other than in Germany, long-term care was not established as a fifth pillar of the social insurance system but as a universal tax-funded system. In the past 20 years, long-term care policies have been characterised by gradual changes in the cash-for-care system, in the provision of social services and in support measures for informal carers. These changes included extensions in publicly funded provisions as well as measures of retrenchment. The main reform adding a major new element to the system agreed on in 1993 is the regularisation of previously illegally employed migrant care work in 2007 (Österle 2013b).

From the 1990s and more significantly in the past decade, Austria has seen a growing market of migrant care workers in private households, so-called 24-hour care workers. Care workers from Central Eastern European countries are employed in private households to provide the necessary care and support to people in need of care. The arrangement is one of two care workers staying in the respective household and replacing each other for 2–4 weeks shifts in Austria before returning home for the same period. Up until 2006, this was a grey economy of care. But in the summer of that year, the illegality suddenly became a major political concern in the pre-election period. Broad consensus among political parties first led to a temporary amnesty and then to a major comprehensive reform that was driven by two objectives: first, to establish a regular frame for migrant care work in private households, and second, allowing an option that does not lead to substantially increasing costs for private households. This was above all achieved by allowing a self-employment option and by a new means-tested subsidy that should help covering additional costs arising from social insurance contributions and taxes care workers have to make. In terms of take-up, the regularisation is widely seen as a success. At the same time, however, migrant care work in private households remains a precarious work relationship and—because of the lack of qualification requirements—involves a substantial risk for de-professionalisation in the long-term care sector (Bauer and Österle 2013; Österle 2013b). The regularisation established a new element in the Austrian long-term care system. The main driver of the reform was broad pre-election consensus about the illegality of the previous mode, but an illegality for which users should not be kept responsible, and the urgent need to establish a mode of using migrant care work in private households that is legal and at the same time affordable. From a public expenditure point of view, 24-hour care provides an option to provide long hours of care work with

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considerably less public financial support than would be required in a situation where the respective provisions are covered by traditional social services.

Apart from the regularisation of migrant care work, other changes to the long-term care system since 2007 were only of a gradual nature (Fink 2013; Österle 2013b). Changes were responding to specific needs, such as an extension in the definition of care needs in 2009, recognizing the particular needs of people with dementia and of severely disabled children. From 2009, social security for family carers was extended by offering free social pension insurance (which was only subsidised before) and non-contributory social health insurance. Another significant extension was an increase in the long-term care benefit by 3–4 %, the first partial price adjustment of the benefit since 2005. From 1 January 2014, family carers can agree with the employer to go on leave or to use part-time work for between 1 and 3 months if caring for a close relative. If the option is taken up, public support includes pension insurance coverage and a new care leave benefit. On the other hand, eligibility criteria for benefit levels 1 and 2 (the lowest levels of care needs) were tightened from January 2011. This change was part of an austerity programme introduced at that time, a cut that was facilitated not least because the cash-for-care system in Austria defines long-term care needs more widely than in any other European country, covering more than 5 % of the Austrian population. Similar to other policy fields, policy debates in long-term care refer to demographic challenges and the economic context of the crisis years, but neither of these factors became the only driving force in adapting the long-term care system. An additional continuous reference point in long-term care policy debates and reforms is the role of national and provincial levels. The most important changes in this respect in recent years were the creation of a new nationwide long-term care fund to stimulate the development of services on provincial levels in 2011 and the centralisation of responsibilities for the cash for care system on the national level in 2012. Before, provinces were in charge of the cash for care system for specific groups such as disabled people. Taken together, recent developments in long-term care were driven by a general consensus that long-term care—not least with a reference to the demographic changes and increasing employment participation—will need further investment. At the same time, all debates go along with stressing the need to consider the budgetary constraints (Österle 2013b).

4.6 Family and Childcare Policy

Family policy is the most important non-insurance based social policy branch in Austria. In a European comparison, Austrian family policy is characterized by both relatively high expenditures (10 % of total social security expenditures in 2011 vs. 8 % in the EU-28) and a relatively large proportion of cash transfers (74 % vs. 64 % in the EU-28 in 2011). The latter confirms the conservative character of the Austrian welfare state: in-kind benefits and most notably childcare facilities are still scarce, especially for children under the age of three. Together with conservative attitudes (Baierl and Kaindl 2011: 13 ff), the current policy mix, and a

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comparatively high gender wage gap (23.4 % in Austria in 2012 as compared to 16.4 % in the EU-27), reinforces the low employment participation of mothers. For example, 79 % of all mothers aged between 25 and 49 years with at least 1 child below the age of 15 were employed in 2012 which compares to 97 % of fathers. The part-time proportion of these mothers amounted to 71 %, the proportion of fathers to 5 % (Statistik Austria 2013b: 85). This data suggest that the traditional separation of gender roles in male breadwinners and female caretakers is still a valid model in the conservative Austrian welfare state (Schlager 2014).

Both, economic pressures on families and political pressures from supranational and international organizations (e.g. regarding the realization of the Barcelona targets concerning childcare services) gradually impose modifications of the conservative family policy regime in Austria. Even though the country remains a “slow mover” (Morgan 2012: 169), recent policies implemented or amended encourage parents to re-enter employment earlier after a child has been born, and provide some more incentives for fathers to take on parental leave (Blum et al. 2014; Leitner 2010).

These have also been the aims of recent reforms of the childcare benefit (*Kinderbetreuungsgeld*), i.e. a cash allowance granted to all parents on leave after the birth of a child. Prior to 2008, and up until today, a caring parent has the possibility to receive a flat rate payment for a maximum of 30 months. Parents are free to share the benefit period. If the second parent takes parental leave, the benefit period can be extended by another 6 months. Two more options were introduced in 2008, again with an additional benefit period if the second parent gets involved. Respective benefit options amount to a maximum of 20 months (plus 4 months) or 15 months (plus 3 months). The shorter duration is linked to higher monthly benefits. In 2010, a fourth and a fifth option—with a shorter benefit period and extended benefits—were introduced. Parents now can also opt for a flat-rate payment for 12 months (plus 2 months) or an income-related payment granted for the same time-length. Even though the alternative possibilities of parental leave were only implemented in 2010, they are already utilized to some extent. In 2012, 12 % of all benefit recipients in that year were using one of the two short-time alternatives (12 + 2), another 4 % used the 15 + 3 alternative and 22 % used the 20 + 4 alternative. This still leaves a majority of recipients using the longest period of benefit receipt (30 + 6). But their proportion is decreasing. According to recent statistics, about 50 % of current applicants go for this option. This suggests that the policy reform contributed to some extent in preventing mothers from exiting the labour market for an extended period of 3 years or more. The overall proportion of fathers among those on parental leave in 2012 (about 4 %) has not increased significantly since 2008. However, a growing number of fathers get involved in the parental leave programme, most importantly in the 15 + 3 and the 12 + 2 options, but predominantly for very short periods of just 1–3 months.

In addition to reforming childcare benefit, Austria has made progress in increasing the number of and attendance in childcare facilities, thereby opening up employment opportunities for mothers. For example, in 2005, only 10 % of all children aged between 0 and 2 attended such a facility. In 2012, this proportion rose

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to 21 %. However, there are considerable differences across federal provinces in Austria—which are responsible for providing these facilities. For example, in Vienna, 35 % of children between 0 and 2 years attend childcare facilities. In Styria the relevant proportion only amounts to 11 % (Statistik Austria 2013c: 85). Variations between the provinces also occur regarding daily opening hours or annual closing days (Statistik Austria 2013c: 69). Despite these differences between the nine provinces, since 2010 all children are obliged by the government to attend at least 1 year of kindergarten. The current coalition government plans to extend this obligation to another year, albeit only for those "who need it", i.e. mostly children with no or low German language skills.

Further changes in family policy in recent years were more closely linked to the economic crisis: This is the case of the family benefit (*Familienbeihilfe*) scheme, a cash transfer granted to families with children. Whereas from July 2014 onwards the benefit level has been increased slightly (amounting to a monthly payment of € 109.70 for each child under the age of 3 years, up to € 158.90 for a child aged 19 or above), the maximum payment period was reduced from 26 years to 24 years in 2011 (provided the child is still in full-time education). In 2008, and as a result of a larger policy package implemented shortly before the national elections, an extra (thirteenth) month of family benefit was paid. In 2011, this extra benefit was abolished again due to tight budgets, and substituted through an extra annual bonus of € 100 for children aged between 6 and 15. Blum et al. (2014) in their analysis of family policies during the crisis conclude that the crisis only had a limited effect on the pathways of Austrian family policies. The familialistic orientation is still dominant even though there is growing emphasis on the social investment character of family policies.

4.7 Poverty and Social Exclusion

The at-risk-of poverty rate in Austria amounted to 14.4 % in 2012. It affects 1.2 million people in this country and compares to an EU-28 average of 17 %. In 2008, the rate amounted to 13.4 %, implying an increase of the at-risk-of poverty rate of 1 % point within 4 years. What has not changed, though, is the composition of the income poor: It particularly affects people living in households with at least one member with a non-Austrian citizenship (31 %), people in households with a (long-term) unemployed member (40 %), single women without pension income (29 %) as well as with pension income (24 %), people living in single-parent households (30 %) or in households with three or more dependent children (25 %) (Statistik Austria 2013a).

Whereas the at-risk-of poverty rate in Austria remains below the EU-average rate, social organizations supporting the poor observed that the type of assistance they grant has changed. Welfare state benefits traditionally covered fundamental needs, such as rent or heating. Nowadays, these expenditures are often financed by private relief organizations, such as the Caritas. However, this observation had already been made before the economic crisis had hit Austria (Dawid 2014).

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Concerning the Europe-2020 target on people at-risk-of poverty and social exclusion, which in addition to people-at-risk of poverty also includes those with low employment intensity and those deprived according to various indicators, the EU-28 average amounted to 24.8 % in 2012. This compares to a rate of 18.5 % in Austria. The country is thus among the member states with the lowest proportions of people at-risk-of poverty and social exclusion. Compared to 2008, when the rate amounted to 19.7 %, some progress has been made, even though this has not been consistent (2009:18.3 %; 2010: 18.2 %; 2011: 19.2 %; Statistik Austria 2014d). Whereas the at-risk-of poverty rate increased between 2008 and 2012, it is particularly the indicator on material deprivation that has decreased considerably in Austria (2008: 6.4 %; 2012: 4.0 %) (Statistik Austria 2014d).

The major policy shift concerning benefits for the poor in recent years refers to social assistance. In 2010 and 2011, the nine federal provinces of Austria introduced a minimum income scheme (*Bedarfsorientierte Mindestsicherung, BMS*), which in large parts replaced the social assistance scheme that had been in place since the 1970s. The implementation of this new benefit marked the end of a process that had started long before the economic crisis hit Europe or Austria. It is, however, important to note that the reform passed the parliament and was implemented in the time of the economic crisis despite the fact that additional public funding was involved.

One of the main changes concerning the new benefit refers to a harmonized benefit level for Austria. Benefits of the social assistance scheme have differed profoundly between the provinces, which are still in charge of BMS payments, though. In 2014, the harmonized benefit level amounts to € 813.99 for a single person (including a housing benefit of € 203.50). In addition to the harmonization of benefit levels (which, by discretion, may be raised by the provinces but not lowered), some further aspects have been changed as compared to the old social assistance scheme: Most notably, recipients of the BMS are now integrated in the Austrian sickness insurance, which is an important improvement for the recipients. A further change refers to a stronger commitment to activate recipients of working age to (re)enter the workforce (Bergmann et al. 2012). Therefore, the collaboration between social welfare offices and the employment centres of the Austrian labour market service (AMS) has been intensified. For example, it is now possible to file applications for the minimum income benefits directly at the AMS centres (even though these applications are then not dealt with in these offices but forwarded to the social administrations of the provinces). The renewed emphasis on an activation of recipients of the BMS not least has led to the fact that this scheme is mentioned in the European Commission's Social Investment Package as a case study regarding examples of policies attempting to actively include people excluded from the labour market (European Commission 2013: 46f).

Regarding the number of recipients, in 2012 more than 220,000 people received benefits from the BMS scheme, which is an increase of 14.5 % as compared to 2011. However, despite improvements, this new benefit is also criticised—in part harshly—by commentators on the Austrian welfare state (e.g. Dimmel and Pratscher 2014), as well as from representatives of NGOs engaged in assisting the

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poor and excluded in Austria (e.g. Die Armutskonferenz 2011). One aspect of this critique refers to still large variations between the provinces concerning the number of recipients. For example, in Vienna, more than 126,000 people received benefits from the BMS in 2012. This compares to 19,000 persons in Lower Austria, a province whose population size is about the same (Statistik Austria 2014e). This suggests that there is still quite some discretion in granting this benefit across the nine provinces—and that non-take up continues to be a problem (Dimmel and Fuchs 2014).

5 Pathways of the Austrian Welfare System

5.1 How Sustainable Is the Austrian Welfare State?

According to an analysis of the EU-SILC 2009 wave for Austria, 7 % of adults were completely satisfied with the current political system. They did not see any need for change. 72 % were satisfied but suggested revisions in some respects. 21 % were noted to be dissatisfied with the political system and required a complete reform (Statistik Austria 2013d). Also, according to EU-SILC, a large proportion of adults in Austria remain very satisfied or satisfied with their life even during the years of the economic crisis (2007: 77.5 %; 2009: 79 %, 2011: 78.7 %) (Statistik Austria 2013d). These results indicate that the political system in Austria is still supported by the vast majority of the population—legitimacy thus is not put into question. Not least, the results suggest that the Austrian population remains satisfied with the welfare system. This is also confirmed by surveys more specifically focusing on welfare state issues. With regard to the health system, for example, 82 % of the population value the system as very good or good, a level reached by no other EU country (European Commission 2010).

Against the background of the economic and the fiscal crisis, the population appears to accept that reducing the deficit has to be a key concern of contemporary politics. Nonetheless, there also is a strong feeling that public expenditures have mainly been directed at the Austrian banking sector and the ESM, whereas those particularly hit by the crisis nationally (*KrisenverliererInnen*) have not profited yet. This, but also findings on, for example, large inequalities in the distribution of wealth in Austria as suggested by a recent study (OeNB 2012), has intensified debates on distributional justice. A large part of the population feels that distribution is unequal in this country—and requires reforms. Several actors, e.g. the social democratic party (SPÖ) or the Austrian chamber of labour (*Arbeiterkammer*), and civil society movements (such as attac) insist on reintroducing national taxes on wealth (most notably on income deriving from capital), and to reintroduce inheritance tax, which was abolished in 2008 due to a verdict by the Austrian constitutional court. The people’s party (ÖVP) so far impedes such policies. Despite demands for a more just distribution of income and wealth, social peace in Austria appears to be solid. The global movement of the “we are the 99 %”, for example, has not been very prominent in this country. Even though there have been

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demonstrations—such as one in March 2009 under the slogan "*Wir zahlen nicht für eure Krise*" ("we will not pay for your crisis")—the effects of the protests have not been sustainable—despite intensifying the debate on redistribution.

If the financial sustainability of the welfare state is questioned, this is mostly with a reference to the pension scheme, and, to a lesser extent, the health sector. Together, the two sectors account for about three quarters of total social expenditure. With regard to the pension system, sustainability concerns are mostly raised with reference to the demographic changes. In a broader sense, however, issues of sustainability are also brought into the debate when discussing structural deficiencies. This is the case in the health sector, where the current complexity of actor relationships and a lack of integration between inpatient and outpatient care is seen as a major cause for increasing health care costs. Similarly, in family policies it is argued that financial means could be invested more effectively. Moreover, it is distributional concerns that are driving current debates in family policies. Many, therefore, argue for more fundamental reforms in the Austrian welfare system. In their view, incremental policy changes prevalent in Austria might threaten the (financial) sustainability of the welfare system in the long run. Others—given that the system proves to be very robust and not prone to radical changes—argue that incremental policy changes enhance the trust of the population in the system, in itself a major root for sustainability.

In early 2014, the Austrian population has received clear signs that the fiscal and economic crisis is not over. Seasonal unemployment rates have seen sharp increases compared to the last winter season. And, payments for the support of one of the nationalized banks are further increasing. It is expected that it will cost up to € 19 billion to stabilize the Hypo-Alpe Adria bank, a development that might require an additional austerity programme. The feeling of dissatisfaction, therefore, might increase in this country and intensify debates about the distribution of the burdens.

5.2 What Future for the Austrian Welfare System?

The development of the Austrian welfare system in the past two decades is characterised by continuity and gradual changes rather than paradigmatic transformation. Since 2007, with the financial, economic and fiscal crisis, this development has not fundamentally changed. The crisis had an impact on facilitating reforms, including changes that meant a cut-back of benefits. But that period has also seen expansionary measures in specific policy fields. And, social policies had a strong stabilising effect, both in terms of the effects on GDP and employment, and in terms of the expectations of the population (Leoni et al. 2011).

Concepts that moved to the centre of welfare debates in many other countries, such as a stronger workfare orientation or the social investment state, had some impact in this country, but to a smaller extent. An example of the former is passive labour market policy (see Sect. 4.2). Whereas the number of sanctions concerning the receipt of unemployment benefit and unemployment assistance have increased (which suggests a strengthening of the workfare orientation), the system largely has remained unchanged—as compared to the Hartz reforms in Germany. Social

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investment also appears to become a more relevant concept for the Austrian welfare state (even though this is hardly ever referred to in the policy discourse as being "social investment") (Bock-Schappelwein et al. 2009). The speed of change is slow, though. For example, the extension of childcare facilities in this country is often not followed by respective extensions regarding opening hours or closing days of these facilities.

Welfare retrenchment played a weaker role in this country. This is a consequence of multiple factors including a comparatively favourable economic development, a relatively strong consensus orientation in the Austrian political system (and the population), or the complex mix of national and provincial roles in social policy making. But these circumstances tend to also limit room for more innovative or even path-breaking changes to a system. And, this characterisation of gradual rather than fundamental changes, at least so far, has not been changed for the times of the crisis. This, of course, is also the result of the fact that Austria was hit much less by the economic crisis and that unemployment is still on comparatively moderate levels. As a consequence, the discussion in this country is not about the end of the welfare state, but about the amendments needed to make it sustainable. And, despite very distinct views in specific policy areas about the necessary changes, there still seems relatively broad agreement among the main political actors that the welfare system is sustainable.

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Belgium, or How Inertia Can Have Unexpected Benefits in Times of Crisis

Ive Marx and Nathalie Schuerman

Oh strangest of all strangenesses, the deep longing for the whole world to be more like Belgium.
(John Lanchester 2011)

1 Introduction

The above quote is taken from an article by John Lanchester, published in 2011, in the London Review of Books. The article emerged soon after it was becoming clear that the recession, which had started in 2008 and appeared to be waning around that time, was in fact turning into a prolonged double dip recession. Except, that is, for Belgium. That was remarkable, notes Lanchester[1], because Belgium at the time did not have a government. In fact, during one of severest crises in recent memory, the country had been without a government for more than 15 months. That absence had meant no cuts and no 'austerity' packages, contrary to what was considered *de rigueur* around that time. The assertion was that from an economic point of view no government was better than a government pursuing cuts in welfare systems.

This is one element that makes Belgium's trajectory during the crisis period special and intriguing. The analysis presented in the previous paragraph merits nuance. First, in the Belgian multi-layered governance structure, the federal government is one—admittedly important—actor among many, including regional and communal governments. We will argue here that what made Belgium so relatively resilient during the crisis was not the lack of a government per se, nor the absence of budget cuts as such. The reason was that there was no cost cutting to a system that

[1] Paul Krugman (2013) made a similar point, comparing Belgium and the Netherlands. http://krugman.blogs.nytimes.com/2013/08/13/a-tale-of-two-flat-countries/?_php=true&_type=blogs&_r=0

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by its design and development contained many automatic stabilizers. Almost ironically, it was exactly the elements of the Belgian social security which were subject to the most heavy criticism prior to the crisis, that proved most crucial during the crisis. In particular the several unemployment insurance schemes, including the work time reduction schemes, were among these social security elements.

Nevertheless, from recent literature it can be derived that during the past decades, policy development in Belgium is no longer solely a tale of institutional resilience (Van Mechelen et al. 2013). The past decades were marked by a transition towards a welfare state with a stronger emphasis on activation, minimum income protection and attention to new social risks such as lone parenthood and long-term unemployment. There has been an expansion of spending on employment subsidies and child care provisions, but also a growing number of unemployment benefit suspensions (Van Mechelen et al. 2013). Additionally, the government has aimed to limit the early exit options, causing much vocal resistance from the trade unions, and less vocal but sometimes equally real resistance from employers (Hemerijck and Marx 2010). The Belgian welfare state has proven to be considerably more adaptive in response to new needs and cost-containment pressures than it is usually given credit for. At the same time important challenges remain. The social security system is not well prepared to deal with the added pressures brought by an ageing population. Belgium features one of the most robust and redistributive welfare states among OECD countries. However, compared to most industrialized countries, the division between working and non-working population at active age is also much larger. A deterioration of the dependency ratio will add further stress to a welfare system that is among the highest spending in the OECD, in a country that is driven by political tension. The system is also facing serious issues of consistency and legitimacy, in part because of ongoing state reform.

As documented in Marx (Marx 2009), welfare state change in Belgium has not happened through big sudden interventions hitting deeply, and profoundly altering the working principles of the system. Instead, there have been lots of (apparently) marginal changes, "technical alterations", or non-interventions. This also happened through "one-off measures" that proved impossible to implement as structural change, but which through repetition created historical precedent and fait accompli. That opaque and difficult to understand multitude of piece-meal changes did add up to something more significant.

The institutional set-up of Belgium's welfare state has ideally accommodated for such stealthy change. While gradual change in the Belgian case included many demonstrable functional adaptations (arguably in some respects more successful than 'big reform' changes elsewhere), the process has also resulted in a highly opaque, complex system that is confronted with serious issues of transparency, internal consistency and hence governability. In addition, a legacy of decades of inter-regional and linguistic conflict is a convoluted federal system in which competencies remain allocated in a way which precludes a high degree of policy consistency. In that sense the future does not necessarily bode well.

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This chapter aims to describe some of the key developments within Belgium's welfare system since the start of the financial and economic crisis and covers the current challenges Belgium has to face due to these more severe years. It will address the following main questions:

1. What are the main challenges facing the Belgian welfare state, especially since the 2007 crisis started?
2. Which reforms have been conducted in reaction to these challenges and which pathway has the Belgium's welfare system been following the past decade?

2 Demographic Change and Population Ageing

Similarly to many other European countries, Belgium is also facing societal challenges that are attributable to social, demographic and economic changes. In this section we will focus on the demographic trends (e.g. fertility, life expectation and migration) in the period starting from 1960 to the present. Furthermore, attention will be paid to the future development of the population. The last sub-section deals with the consequences of these demographic trends for the Belgian welfare state.

2.1 Demographic Trends

The total population of Belgium has grown substantially in the past decades, from 9,220,000 in 1960 to 11,161,642 in 2013 (see Fig. 1) (Eurostat 2014). As in many other European countries, population ageing is an issue of major concern in Belgium as well. Life expectancy at birth has increased steadily over the past few decades. Namely, both men and women gained more than 10 life years between 1960 and 2012 (women: from 72.8 to 83.1 and for men: from 66.8 to 77.8 respectively) (Eurostat 2014).

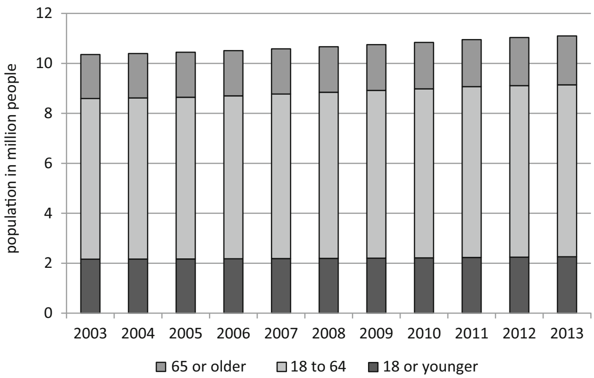

Fig. 1 The population growth by age, 2003–2013. *Source*: Statistics Belgium (2014)

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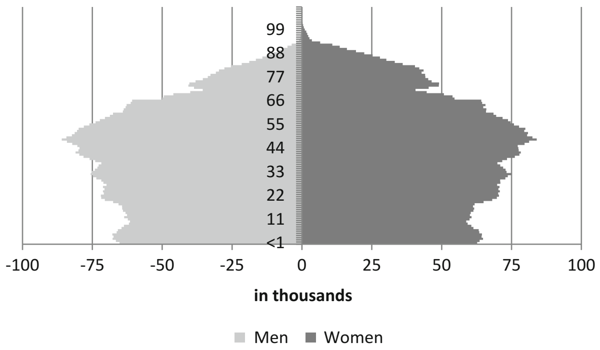

Fig. 2 The age pyramid of the Belgian population, 2013. *Source*: Statistics Belgium (2014)

The age pyramid in Fig. 2 shows that in recent years the 'peak' is situated around age 48 years old. The base of the pyramid is substantially narrower, with the lowest point around age 10.

Simultaneously with the ageing trend, the total fertility rate dropped from 2.55 children per woman in 1960 to a low of 1.49 in 1985. Since then, it has recovered quite strongly to 1.83 in 2012, a rise that was largely a result of delayed childbirth. The average age of Belgian mothers at child birth has increased during the past decades, from 28 years old in 1960 to the age of 30 nowadays, which is almost identical to the EU27 (Eurostat 2014). This increase might be attributable to a transition in the timing of family formation.

The old age dependency ratio—the population 65 years and over in comparison to the population aged 15 to 64—in Belgium shows an upward trend: with a ratio of 18.5 in 1960 and 26.8 in 2013, and slightly lower than the EU27 ratio of 27.5. In this context, it is important to note that the replacement rates of Belgian public pensions are rather low compared to many other European countries, having failed to keep up with overall living standards from the 1980s onwards (Anderson et al. 2007).

In 2011, the median income of elderly in Belgium was 74 % of that of those aged below 65. This compares rather unfavourably to France (101 %), Germany (90 %), the Netherlands (87 %) or the EU27 (89 %) (Eurostat, based on EU-SILC, 2014). Cutting replacement rates (or letting them erode further) is therefore not an obvious option. An alternative strategy, increasing labour force participation among the elderly, has proven politically very difficult.

While migration is often touted as a possible solution to population ageing, the Belgian track record in this respect should warn against overly optimistic assumptions. Belgium has experienced very sizeable migration over the last few decades, both from within the European Union and from third countries. The net migration has been positive in all but a few years since WWII, and soared from the 1980s onwards, contributing to population growth. As of 2013, 84 % of the Belgian population had been born into Belgian nationality. Half of the individuals that were foreign-born have obtained Belgian citizenship. The remaining 8 % were foreign born and had a foreign nationality.

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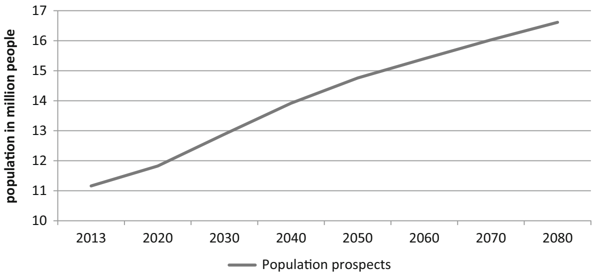

Fig. 3 Population growth prospects. *Source*: Eurostat (2014)

2.2 Population Forecasts

As for the total population, the prospects indicate a substantial growth in the coming decades, to more than 16.5 million inhabitants (Eurostat 2014) (Fig. 3).

Additionally, the life expectancy for both men and women is estimated to rise and will converge: namely men are expected to become 87 years old, whereas this is 89 years for women (Statistics Belgium 2014). While the composition of population is currently 17 % of people aged below 15, 65 % in the age category between 15 and 64, and 18 % aged 65 and older, the expectation for 2060 is 16 %, 58 % and 26 % respectively (Eurostat 2014). Therefore, it can be stated that the shift towards a heavier top in the age pyramid, as discussed in the previous sub-section, will continue to shift upwards the upcoming decades. The last aspect to mention here, is the old age dependency ratio that is predicted to increase substantially in the upcoming decennia, namely from 27 % in 2013 to about 40 % in 2060 (Eurostat 2014).

2.3 Consequences for the Belgian Welfare State

The demographic transitions described in the section above have also shown their (partial) impact on the welfare state.

Unemployment—which was close to the European average until early 2008 (around 7 %)—rose less dramatically compared to most other countries and recovered more quickly (once again with the exception Germany). In 2013, the unemployment rate was 8.4 compared to an EU average of 10.3 %. It can be underlined that total unemployment rates remained rather stable over the years and during the crisis (see Table 1). Moreover, a turnaround in unemployment rates is visible if gender is taken into account: In the year 2012 the unemployment rate of men surpassed that of women for the first time in history. This trend is a consequence of the enablement of reconciliation of work- and family life.

On the other side of the coin, Belgium is among the EU countries with the lowest employment rates for the elderly (i.e. aged 55–64), namely 31.8 compared to the age of 50.3 in EU27 (Eurostat 2014). Belgian policy makers applied a policy of labour shedding through early retirement from the 1970s onwards. Its effect on

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Table 1 Unemployment rate total, by sex and under-25s, annual average in %, 2003–2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	8.2	8.4	8.5	8.3	7.5	7.0	7.9	8.3	7.2	7.6	8.4
Males	7.7	7.5	7.6	7.4	6.7	6.5	7.8	8.1	7.1	7.7	8.7
Females	8.9	9.5	9.5	9.3	8.5	7.6	8.1	8.5	7.2	7.4	8.2
Under 25	21.8	21.2	21.5	20.5	18.8	18.0	21.9	22.4	18.7	19.8	23.7

Source: Eurostat (2014)

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older workers' employment rates has been manifest. In 1983, approximately 30 % of the population aged 55–64 was in employment. By the early 1990s, this share had dwindled to just over 20 %. From the late 1990s, the rate has started to increase again, partly driven by female employment within the baby-boomer cohort. Still, at below 40 % in 2012, increasing older workers' employment continues to be one of the main priorities for the Belgian welfare state (Eurostat, based on Labour Force Survey 2014).

Whilst Belgium is often considered as one of the OECD countries with the most liberal systems in terms of granting nationality, the social inclusion of migrants appears to be very problematic, and this problem worsened substantially during the crisis period. International comparative studies show that in Belgium, the gaps between natives and migrants from outside the European Union are significantly wider than in other European or OECD countries (Corluy et al. 2011). This applied to a wide range of dimensions (see Table 2). To illustrate, the gaps in activity and employment rates for immigrants are much wider (particularly among women), while the penalty in terms of income poverty risk is considerably higher (OECD 2012). Furthermore, on active age, immigrants from outside the EU are overrepresented among benefit recipients, mainly in the less generous social assistance (Corluy and Verbist 2010). Rather worryingly, the disadvantage also applies to the native born offspring of non-EU immigrants, who also have a very large penalty in terms of literacy (measured in the OECD PISA studies), as well as in the labour market (OECD 2012). Under the current settings, no short term fixes should be expected from immigration.

Still, the demographic challenge to the Belgian welfare state remains formidable (Vandenbroucke 2012). The cost of social expenditure (including health care), which was in 2011 estimated at 25 % of GDP, is expected to rise to 29.5 % by 2030 and 31.5 % in 2050 (Hoge Raad van Financiën 2012, OECD unfunded pension liabilities).

Beyond these demographic challenges in Belgium, also the fiscal and economic crises have undoubtedly left their traces in the country, causing new challenges to be dealt with. The extent of the impact and the subsequent consequences will be discussed in the following two sections.

Table 2 Employment and living conditions of immigrants

	Native Belgians	Immigrants from EU27	Immigrants extra EU27
Population share 2013	88.7	7.2	4.0
Employment 15–64 in 2013	62.1	63.6	46.0
Very low work intensity 18–59 in 2012	13.3	17.2	32.4
At-risk-of-poverty (18+) in 2012	18.9	30.6	60.4
Severe material deprivation (18+) in 2012	3.7	8.5	24.5

Source: Eurostat, based on EU-LFS and EU-SILC

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3 Fiscal and Economic Crisis

Belgium has weathered the recent economic storms remarkably well. In the initial phase of the crisis, its GDP contracted less than in most European countries (see Fig. 4; see also Fig. 6). The subsequent recovery was also slightly more vigorous in Belgium than in most of its peers (with a clear exception of Germany).

Despite the fact that the Belgian welfare state is one of the largest and most redistributive in OECD countries (OECD 2011), it faces a number of challenges in terms of sustainability: some similar to other countries, others more country-specific.

With regard to fiscal sustainability, it should be noted that the Belgian public debt—at least prior to the recent crisis—was substantially higher than in many of its peer countries and substantially above the 60 % target for the Eurozone (see Fig. 5). The general government gross debt has decreased considerably since the beginning of the 1990s, namely from 130.2 in 1995 to 99.8 in 2012, with a major drop below 90 % during the entry of the crisis. Three phases can be identified in the recent evolution of the Belgian welfare state. Public deficits soared as a result of the oil crises in the 1970s and economic turbulence of the early 1980s, as scores of workers became economically redundant (Marx 2007). Benefit caseloads, particularly in

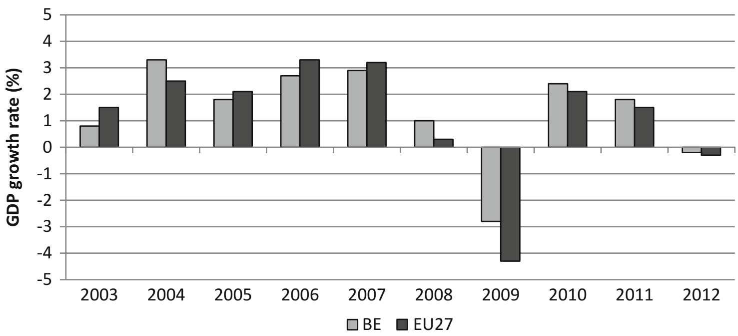

Fig. 4 GDP growth rate—volume, 2003–2012. *Source*: Eurostat 2014

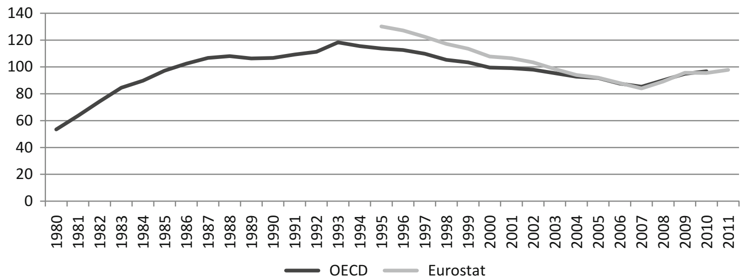

Fig. 5 Belgian public debt as a share of GDP (%). 1980–2012. *Source*: OECD; Eurostat

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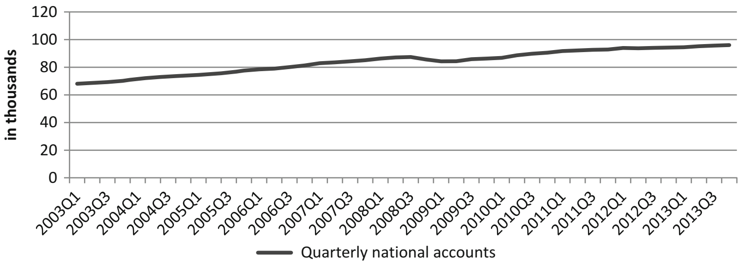

Fig. 6 GDP quarterly national accounts, seasonally adjusted and adjusted by working days, in millions of euros, 2003–2013. *Source*: Eurostat (2014)

unemployment and early retirement soared, as Belgium became a paragon of 'welfare without work'.

The early 1990s brought a significant trend break in public finance, triggered by the Maastricht criteria in preparation for Economic and Monetary Union. Consecutive federal governments have shown a commitment to reducing the deficit and lowering public debt (critics would argue, however, that budgets were often embellished through one-off sales of public assets rather than structural measures). The Great Recession, despite having had a comparatively mild impact on most macro-economic indicators, caused a new trend break. In 2008, the debt rose again for the first time since 1993.

At this point in time, it remains very difficult to predict the future prospects of the Belgian federation, let alone its welfare state. Clearly, there are strong centrifugal forces at play. The Flemish nationalist vote continues to go from strength to strength. At the 2014 federal elections, a party propagating a shift towards a confederal model in the medium term (possibly independence in the long-term) won the largest share of the Flemish vote. Each consecutive round of state reform has granted additional powers to the devolved entities. The transfer of child allowances to the communities, in a context of diverging child poverty rates. Can be considered emblematic in this respect (Vandenbroucke 2012).

Still, there are a number of countervailing forces at work. Some argue that the European Union prevents the federal level from disappearing, even actively promoting cooperation between the communities and regions (Beyers and Bursens 2006). Very pragmatically, the sheer difficulty of negotiating a distribution of the Brussels-Capital Region. the large state debt, as well as pre-committed spending on pensions is also considered as preventing a quick dissolution of the country. Finally, there appears to be a robust commitment to Belgian unity both among a sizeable share of the electorate (even in Flanders) as well as among the political elites ('traditional parties'). Still, economic convergence between the main regions would be very welcome in terms of sustainability, regardless of which future form Belgium or its successors may take.

Despite some very structural problems, Belgium did weather the storm of the crisis well, especially on the unemployment front. This is surprising for a number of

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reasons. First, the country is often considered among the most 'open' or 'globalized' in the world. International developments are clearly relevant for this rich but small European country, where the trade to GDP ratio exceeded 85 % in 2012 (OECD 2014).

Second, Belgium was politically rudderless throughout most of the Great Recession. The federal elections of 10 June 2007 had resulted in a political deadlock, linked to large differences over constitutional reforms between the leading parties in the Dutch-speaking North and francophone South. A long coalition formation period followed, and subsequent governments proved unstable, with the governments each lasting less than a year. New elections took place in June 2010, but only deepened the division. The subsequent formation negotiations lasted a record breaking 541 days, up to 6 December 2011. As already stated in the introduction, some commentators linked the mild effect of the crisis to the political crisis, stating that 'no government' was preferable to a government implementing cuts and austerity, as many countries across Europe started fiscal consolidation (Lanchester 2011). However, tempting this may be, such an account most probably understates the discretionary (expansionary) measures taken by subsequent (caretaker) governments throughout the crisis, as well as the large welfare state that was already in place.

As stated previously, the Belgian welfare state redistributes large amounts of income, and acts as a strong automatic stabilizer in crises (Van Rie and Marx 2013). Dolls et al. (2012) estimate that taxes and transfers absorb 53 % of a proportional income shock in Belgium, second only to Denmark (56 %) and substantially higher than the European average of 38 %. Belgium's strongly progressive personal income tax plays an important role in this respect. Salgado et al. (2012) in their article focus on relative resilience (high in Belgium) and absolute resilience (low in Belgium) provided by the welfare state and put forward that Belgium is a welfare state wherein unemployed individuals can expect a very decent protection level since this system developed generous and long-lasting income dependent unemployment benefits. Furthermore, the Belgian unemployment insurance featured an extensive system of short-time working, well before these became prominent in other countries. Figures from Hijzen and Venn (2011) show that even in 2007 the average monthly take-up of such benefits accounted some 3 % of employees, while in the second country it was less than 1 % of workers. By 2009, this percentage had nearly doubled, making Belgium a clear outlier in this respect.

For all the political turmoil, there was a rather broad consensus on the crisis measures, with active participation and support by the social partners. Crisis packages were adopted in two major waves: December 2008 and May 2009. The measures included the support for purchasing power of workers and benefit recipients, including an increase in benefit replacement rates and lowering of tax burden for low wage earners. For employers, the crisis package included a number of measures aimed at reducing non-wage labour costs. Furthermore, the crisis triggered a renewed commitment to provide outplacement to redundant workers, as well as an increased co-operation between regional public employment services.

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A number of temporary crisis measures (mainly relating to working time) were extended up to the summer of 2011. Two measures were even made permanent in 2012, de facto contributing to the harmonization of labour regulation for blue-collar and white-collar workers. Belgian labour law distinguishes between white- and blue-collar workers (Van Rie et al. 2011). While most parties agree that harmonization is desirable, its actual implementation remains a major bone of contention, not least for the social partners. The crisis measures included the introduction of a short-time working scheme for white-collar workers (previously only available to blue-collar workers) and a redundancy premium for blue-collar workers (whose redundancy payments tend to be far less generous). Thereby, these measures contribute to a de facto convergence of the regulation for both types of workers. In 2013 social partners reached an agreement on the gradual harmonization.

It should be noted that the measures to reduce labour costs have been a staple in Belgian reforms over the last couple of years, whereas the renewed support for purchasing power (i.e. increases of benefits beyond cost of living) had been agreed from 2005. In that sense, the crisis may have accelerated or intensified a number of reforms, without however representing a path-breaking event.

Beyond the pressure to comply with budgetary targets, there was no clearly identifiable role for the European Union throughout the crisis. Belgium saw its bond yield rise compared to Germany, but did not require financial assistance or sign up to conditional aid packages. A number of long-standing recommendations by the EU and OECD were discussed within the government coalition, but not enacted. This applies most importantly to the automatic price indexation of wages and benefits. Moreover, the unlimited duration of entitlement to unemployment benefits also continues to apply, even if the benefit amounts were made more regressive over time.

4 Risk and Opportunities

It should be emphasized that, and as already explained in the sections above, the welfare state of Belgium has continued to be substantially stable during the crisis, whereby the number of amendments in the various policy fields—may it be in terms of requirements or amounts—have been rather limited. Nevertheless, in the sub-sections below we make an attempt to go deeper into the responses in terms of development of several welfare state policy fields to the demographic and socio-economic challenges described in the previous sections. In particular, attention will be paid to social investment and social compensation policies.

4.1 Social Investment and Labour Market Policies

While Belgium remains one of the EU’s biggest spenders in terms of (active age) cash benefits, the so-called ‘social investment turn’ has not gone unnoticed. Social

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investment, as a new policy paradigm, has given rise to an extensive debate regarding its desirability and feasibility. Some have argued that the increased focus on human capital investment and 'preventative' social policy is actively crowding out the more 'traditional' redistributive and compensatory policies, thereby being partly responsible for a failure to reduce income poverty in recent years (Cantillon 2011). Others question the resource competition and re-commodification theses, advocating an approach that carefully balances protection and investment (Vandenbroucke and Vleminckx 2011).

At any rate, total expenditure (in % of GDP) on active labour market policies in Belgium has increased from 1.1 % in 1985 to 1.6 % in 2011 (OECD 2014), generally outpacing spending on other functions (Fig. 7). Much of this spending is aimed at encouraging employers to hire people with higher risks to become unemployed or those who already are in a (long-term) jobless situation (Marx 2009).

While efforts have also been made to enhance supply side work incentives, active labour market policies remain heavily demand-side oriented. A particularly Belgian circumstance is that while 'passive' benefit policies remain at the federal level, job search assistance and monitoring was devolved to the regions. The national employment office (which remained responsible for sanctioning and suspension of beneficiaries) came to depend on the regional offices for information on job search effort. However, the regional and communal bodies mainly considered themselves as service providers to employers and job seekers. With a mandate for job matching, they tended to shun the role of 'bad cop' that is associated with eligibility checks. Despite a series of cooperation agreements, many experts agree that in practice very little information was transferred from the federalized bodies to the national office, at least until the mid-2000s. Up until that time sanctioning was based on a rather arbitrary procedure taking regional average unemployment

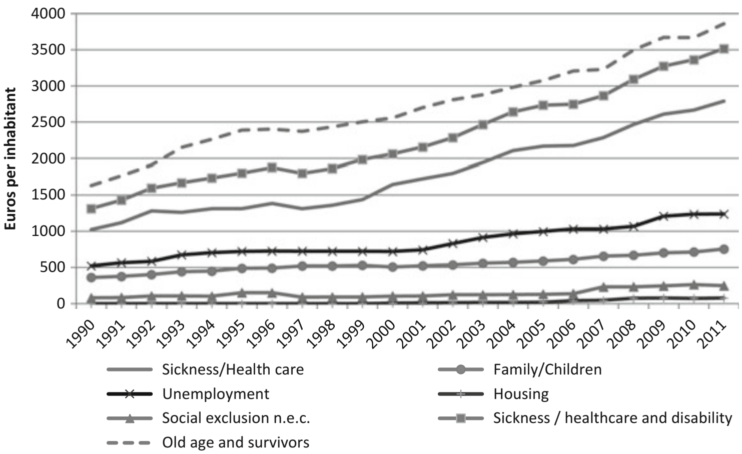

Fig. 7 Social expenditure by function, in Euros per inhabitant, 1990–2011. *Source*: Eurostat (2014)

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duration and family composition into account. From the mid-2000s, however, new cooperation agreements were signed and combined with enhanced monitoring of the unemployed This shift triggered an ongoing debate concerning the responsibilities and duties of the unemployed (Dumont 2010).

In 2004, the federal government introduced the innovative system of 'service vouchers'. The objective was to raise employment levels among the less skilled, to reduce informal economy activity, and to help people achieve a better work-life balance. Consumers use the service vouchers to pay for a limited but potentially high-volume range of domestic activities that are deemed to have been priced out of the regular market, for example cleaning, washing and ironing. Within the European context it is probably the most heavily subsidized scheme of its kind. As a consequence, the scheme has proved tremendously popular, probably making it the biggest scheme of its kind in relative terms. The growth in the number of users and people employed through the schemes has been nothing short of explosive, be it with some levelling off over recent years. Belgian politicians like to hail it as the most successful employment scheme ever devised.

While initially many of the people employed within the scheme had experienced past unemployment spells, new recruitment increasingly draws on the ranks of those already in work. Additionally, entrapment in service voucher jobs also appears to be getting stronger. One of the aims of the scheme was to act as a stepping stone to regular jobs. Now the reverse is happening: people are making the transition from the regular labour market to the subsidized sector. Another worrying aspect is that there is some evidence of partial displacement of regular skilled workers. Elderly, sick and childcare work in particular is being displaced by mostly unskilled service voucher work although the exact scale remains unclear. However, in order to make the system as efficient as possible, in 2007 a training fund was made available by the federal government for service voucher workers to increase their educational skills. Furthermore, in 2007 and 2009, the purchase price of a voucher was raised, since the system showed a tendency to become unsustainable, resulting in a severe drop of 12.2 % in the average number of vouchers purchased (IDEA Consult on the basis of figures from the RVA and Sodexo).

4.2 Pensions

As described in the section on population development (Sect. 2), Belgium has to deal with an ageing population. This trend implies a heavy pressure on old age benefits, which already put the heaviest burden on the welfare state (see Fig. 7). The IMF expects that expenditure on pension schemes will grow an additional 3.6 % of GDP by 2030 (to 15.5 %), which is substantially higher than comparable EU countries (Castanheira and Galasso 2011). Hence, pension policy was and still is a major topic.

The compulsory pillar of Belgium's pensions system (also referred to as first pillar) consists of three separate pay-as-you-go (PAYG) schemes for private sector workers (including the nonprofit sector), for the self-employed and for statutory

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civil servant workers. At the age of 65 and a working career of at least 45 years, an employee is eligible for full old age provisions (Berghman and Peeters 2012). Nevertheless, minimum pension benefits for persons with at least 15 years of work experience are available. Since 2013, a policy reform comprises the increase of the minimum retirement age and career requirements. Furthermore, for pensions since 2007, in the context of the Generation Pact, the government has decided to provide a 2 euro retirement bonus, for each day worked after the age of 62, in order to prevent the elderly from withdrawing from the labour market. Being of Bismarckian design, the compulsory pillar system for employees is funded through social contributions and co-governed by the social partners. Retirement pensions are, in principle, dependent on the duration of the career, gross earnings over these years and household composition. However, since in Belgium's pensions system, as in other sectors of Belgium's social security system, there has been a marked shift from income insurance to minimum income provision (Anderson et al. 2007). Maximum pension entitlements have become an increasingly smaller fraction of real past earnings for people with above average earnings. At the same time, more and more people have come to gain entitlements on the basis of activities that are deemed 'equivalent' to being an employee who actually pays for social security contributions or for whom such contributions are made by the employer. Though still nominally Bismarckian, large numbers of people actually receive social insurance benefits that they have not directly gained right to through contribution payments. Spells in unemployment, for example, count as equivalent, as does time spent in career interruption schemes. It has been calculated that about a third of pensions' entitlements are gained on other grounds than paid work (Peeters and Larmuseau 2005). At the same time, employees' pensions have eroded compared to average living standards. As from 1982 onwards, pensions were no longer indexed to wages, but to prices (note that there has even been several index 'freezes' in the 1980s). A means-tested minimum income guarantee for the elderly acts as final safety net. While there is widespread agreement that the pension system is in need of further adaptation, especially to harmonize pension rights across different categories of workers and to adapt to the dual-earner model, the pace and magnitude of reform remains hesitant.

In 2013 a commission was set up to review Belgium's pension system. That commission delivered its report in June 2014, right after the European, federal and regional elections. The commission made a number of recommendations, including an increase of the retirement age to 67. The commission also recommended that the pensions system be harmonized across occupational categories and to re-strengthen the link between contributions and pension rights, inter alia through a so-called points based system. At the time of this writing it remains unclear which, if any, of the suggested reforms will be effectively implemented.

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4.3 Health and Care Policy

The Belgian health care system is organized through private, non-profit sickness funds and consists of a compulsory health insurance, covering virtually the entire population and providing comprehensive insurance (except for some restrictions for the self-employed). The sickness funds developed historically along religious and political lines. The Christian and Socialist Mutuality's form the largest mutuality insurance, together ensuring about 75 % of the population. Despite the fact that the choice of the sickness fund itself is free, the cover and contribution rates of the insurance and contribution are identical across all funds. Hospital care is provided either by public hospitals or by private non-profit hospitals (Schokkaert and Van de Voorde 2005).

Belgium's health insurance covers a comprehensive but "no-frills" package of medical services and reimburses about three third of the expenses incurred. The Ministry of Health covers the remaining 25 %. Since the beginning of 2008, the coverage in the general scheme and the scheme for the self-employed have become similar, since both are protected agains minor risks (Gerkens and Merkur 2010). The 'maximum bill' provision ensures that people will never spend an excessive proportion of their income on partially or non-covered health care expenditures. Verbist and Lefebure (2007) show that Belgium's health care system is strongly redistributive, in that lower income categories contribute less while having higher needs for health care. The expenditure on health care has been gradually increasing over time: In 1980 the expenditure was about 5 % of the GDP, in 2011 the expenses amount to 8 % (OECD).

In health insurance, as in other branches of Belgium's social security system, there has been a movement towards enhancing minimum protection. Despite many minor reforms, no significant policy adaptions have been implemented during the past decade (Gerkens and Merkur 2010). A reason for this according to Schokkaert and Van de Voorde (2005, p. 3) is that: "the introduction of some financial responsibility did not change the basic structure of the 'regulated bilateral monopoly'—system and therefore regulated competition has never been considered as a serious option." However, modest reforms will be introduced in the upcoming years to increase the accessibility and sustainability.

For individuals in Flanders and Brussels who are in need of long-term care, a non-medical care insurance scheme was implemented in 2001. While in the Walloon part such a scheme is still to be adopted, the Flemish region has elaborated on the scheme intensively by ensuring that the scheme does also (partly) covers the costs of informal care provided by partners, relatives or other persons, rather than just compensating the direct costs of professional care (Colombo et al. 2011).

There have been no major reforms since 2007. There is a continuous concern with the cost of the health care system but this problem is mainly being dealt with through a multitude of technical measures and decisions.

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4.4 Family and Child Policy

In line with the turn towards activation, increasing efforts have been made to facilitate the reconciliation of family and work, particularly by investing in child policy. Belgium has a high coverage in child care compared to its European counterparts. Provisions come both in the form of institutionalized day care centres and private but subsidized "care mothers". Gross fees are strongly income related as well as partially tax deductible rendering child care close to costless for those with the lowest incomes.

The amount of child cash benefits, provided to parents with dependent children below 18 years old varies across different family types. Households are entitled not only to the quasi-universal child cash benefit, but also to the means-tested supplement aimed at social vulnerable groups including long-term unemployed and orphans (Van Mechelen et al. 2013). The quasi-universal character refers to the fact that in early days different benefit levels existing for the employed, self-employed and civil servants, whereas now the amount of child benefits are harmonized and independent of income level and employment status. Nevertheless, they are related to the number, age and rank of the children in the family. Overall, the real level of child benefit payments in Belgium has remained relatively unchanged during the past decades (Cantillon et al. 2012). From 2007 on, there is a gradual, but slow, increase in the expenditure on family and child policy (see Fig. 7).

In the second half of the 2000s, parents with children below 3 years old had the choice between parental leave, which entailed a maximum of 3 months of full time leave or a 50 % cut in working hours during 2–6 months or by 20 % during 5–15 months. The only requirement was stable employment, which implied having worked for a minimum of 12 months with the same employer (Van Mechelen et al. 2013). Facilities for parental leave continue to improve, whereas access to the time credit system has been cut down. Time credit is a career interruption scheme available to all employees regardless of family or care duties. Only employees who have worked for at least 5 years, of which 2 years with the same employer, are eligible for the time credit system. Furthermore, the maximum duration has been reduced to 12 months (in full time equivalents). On the other hand, the child's age limit for parents on parental leave has increased from 3 to 12 years old. Additionally, parents are currently entitled to maximum 4 months instead of 3 months of full time parental leave. This adaptation has caused an increase in the number of persons in leave schemes (Cantillon et al. 2010). Despite the fact that the government has implemented policy changes aimed at facilitating the combination of work and family, the outcomes are not all beneficial. In the child care sector there are still substantial waiting lists, especially in urban areas, where households with a lower socio-economic status are overrepresented (Van Lancker 2013). As a consequence, a Matthew effect can be observed in the effective take-up of child care.

There have been no major reforms to the system since 2007. However, the devolution of the child benefits system was part of the political deal that led to the formation of the Di Rupo government in 2011. In June 2014 a government

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agreement was reached at the Flemish level that includes the broad principles for the Flemish system that is to be implemented over the coming years. One important principle is that an equal amount will be given to every child regardless of rank, and that supplements will be given to the most needy. In the area of child care support no major reforms are planned. The regional governments have committed themselves to increasing the supply of child care facilities and easing access.

4.5 Adjacent Social Policy Fields

Education is organized and financed through the three communities: the Dutch, the French and the German speaking. Both the provinces and municipalities as well the communities ensure the provision of education. A large part of the educational system is in non-governmental hands, which are for the larger part subsidized and hence regulated and monitored by the community governments. This broad organisational structure applies to virtually all educational levels and sectors. Preschool education, extensively used though not compulsory, is provided to children from the age of two and a half until the age of six. Primary schooling is obligatory from 6 years of age and is relatively undiversified; only children with special needs are catered for separately. Secondary education, on the contrast, is more diversified. Pupils can pursue general secondary education, but they can also opt for technical, vocational or arts secondary education. Successful completion of a secondary education trajectory opens the way to tertiary education, which can be pursued at university level or non-university level.

Belgium has experienced a major educational expansion over the course of recent decades, resulting in a considerable rise in expenditure on education (leaving aside the stagnation in educational expenditure between 2008 and 2009). A clear rise of higher secondary and tertiary graduates among younger age categories can be identified, whereby women in younger generations now have higher rates of tertiary attainment than men. The Belgian (regional) educational systems are however notable for their very strong intergenerational reproduction. Promoting equal access to education, higher education in particular, has always been a concern and it has become even more of a priority over recent times. It is for this reason that primary and secondary education is provided at no direct cost to the parents and that fees for higher education are kept very low. There is a system for providing financial support to children from low income households. In Flanders, the Decree for Promoting Equal Opportunity in Education (2008) provides extra support to schools with a high density of pupils from weaker socio-economic backgrounds. Despite these measures, participation and attainment in education continue to show strong gradients by socio-economic parental background. The association between parental socio-economic background and pupils' performance at age 15 is much stronger in Belgium than in the OECD on average (Verbergt et al. 2009). As for early school leavers, the 'Right to Social Integration' (RMI) amended the legal framework in order to enable social assistance beneficiaries to combine welfare receipt and secondary or tertiary education. However, the RMI does not provide

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incentives for local welfare offices to actually stimulate early school leavers to improve their educational attainment. Additionally, for people excluded from the labour market, training opportunities have been expanded substantially. They can now take part in, for example, the IBO-programme ('Individuele Beroepsopleiding') which provides on-the-job training for the less skilled.

5 Conclusions

Belgium has become an unlikely beacon of resilience and stability in times of unprecedented economic turbulence. It has done so by doing what it has done over the past decades: relatively little. Belgium weathered the storm of the economic crisis well for a number of reasons. First, because of the effectiveness of its automatic stabilizers, notably in the form of work time reduction compensation schemes. Belgium was long and rightfully criticized for its apparent inability to tackle chronically high levels of benefit dependency among the working age population. Yet exactly the extensiveness of Belgium's benefit provisions turned out to be a blessing in disguise during the economic crisis period. As a consequence, a (mild) drop in GDP did not result in a sharp rise in unemployment or a strong drop in consumption levels, this also yielding the beneficial second round effect of maintaining domestic demand. Furthermore, the peculiarity of Belgium not having a government for an extended period also helped in a totally unintended but eventually beneficial way. Whereas other countries took a turn towards austerity, Belgium's spending remained stable by default. This happened because the interim government did not have the powers or the inclination to cut spending in a drastic way.

But all this does not mean that Belgium's longer term future remains particularly bright. On the positive side it must be said that social policy in Belgium has not remained inert in the face of a number of new social challenges. Child care provisions, for example, are among the most extensive in Europe and maternal employment levels are among the highest. Belgium is a comparative high spending country on active labour market measures, which come in many shapes and forms, some very innovative ones, for example the service voucher scheme. Work time reduction schemes, notably the career interruption scheme, do help to balance work-life demands. The health system still manages to yield comparatively good and equitable outcomes relative to the public sector cost of the system.

Clearly, however, not all is well. While Belgium performed comparatively well during the crisis period, its structural performance on key dimensions of welfare state outcomes has deteriorated to a level that at best can be labelled as mediocre. Belgium now has a comparatively costly social protection system, and yet it scores close to the EU average in achieving its primary objective of providing people with adequate minimum income.

Despite a very clear shift in policy discourse, Belgium has found it very difficult to move away from 'welfare with work'. Spending on active labour market programmes (training, job subsidies, social security contributions, public

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employment programmes), as well on childcare, has increased quite substantially, putting Belgium in the top league of spenders on such items. But governments and social partners have still by and large failed to implement the kind of social security reform needed to create a real pay-off. Attempts to scale back early retirement have remained largely without result. Likewise, attempts to tighten entitlements to unemployment benefits by closer monitoring and more frequent sanctioning have yet to result in a substantial drop in the number of claimants, although some progress has been made.

There are very significant unfunded pension liabilities jeopardizing the fiscal sustainability of the system in its current form as well as its effectiveness in providing adequate living standards, let alone maintaining acquired living standards. Belgium's public pension system remains largely a pay-as-you-go system. The government's principal pension's policy over the past 15 year was in essence this: public debt reduction. The idea was that bringing down overall public debt would create fiscal scope for meeting rising pension outlays. Prior to the crisis that policy was largely on track with public debt falling sharply from a high of more than 120 % of GDP a decade earlier. The economic crisis presents an enormous setback in this respect, necessitating more drastic pension reform. Since drastic reform in any shape or form has always proved immensely difficult to implement it remains to be seen what the future will bring.

Finally, a peculiarly Belgian challenge remains restoring the consistency and legitimacy of the system. Linguistic conflict has brought a highly complex federal system in which competencies remain allocated in a way which precludes a high degree of policy consistency. Furthermore, the institutional set-up ideally accommodated for gradual change processes which only added to the complexity of the system. As a result, the system is still facing serious issues of transparency, internal consistency, and thus legitimacy. Ultimately, these issues will have to be tackled in a more forceful way.

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The Welfare State in the Context of the Global Financial Crisis: Bulgaria—Between Financial Stability and Political Uncertainty

Rumiana Stoilova

1 Introduction

Bulgaria is a country that has been commended in Europe for the exemplary way it is coping with the financial crisis, maintaining good financial discipline and remaining without a significant budget deficit. However, a lot of risks occurred, especially in 2009 and 2010, for the protection systems for unemployment and pensions, for maternity leave and heating, all of which depend heavily on the state budget. The government was focused on the preservation of the financial stability and of the absorption of European structural funds for regional development and infrastructural projects. However, this was not enough to draw the country out of the economic crisis, to convert economic stability into growth, to increase foreign investments, to create new jobs and to allow more people to increase their income. In early 2013, the feeling in the country was one of loss of stability and predictability of individual life situations. By February 2013, the lack of positive life perspectives, a labour market frozen by the economic crisis, and the generally low wages, gave rise to an increasing disappointment with the government. The unjustified inequalities increased, and the need for more civil control over the private energy companies was spelled out by the protesting people.

After the elections in May 2013, the new government was voted in, which exchanged the ruling party in the period 2010–2013 (GERB) with a coalition

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consisting of two parties which had been in opposition since the beginning of the global financial crisis—Bulgarian Socialist Party (BSP) and the Movement for Rights and Liberties (DPS), the latter representing the Turkish ethnic population in Bulgaria. The coalition of these two parties was supported in parliament by the vote of the nationalistic party "Ataka". The newly elected government, however, soon faced protests provoked by the feeling that parliamentary representation does not reflect the social structure and the attitudes of the whole population. What kicked-off the new protests was the lack of transparency in the nomination of a candidate for the very sensitive, high-security governmental position. The situation rapidly worsened. The street protests lasted several months, followed by the month-long occupation of Sofia University by the students.[1] The change of the ruling government during the crisis did not enjoy greater legitimacy and did not reach broader consensus in society. In 2014, this government also resigned and new elections were fixed for October 2014. This means that the positive financial stability in the country was followed by political instability and a crisis in the consensus, which could be reached between ruling parties and society.

Two different strategies were applied by two governments for overcoming the crisis—the first one, elected in 2009 and ruling until February 2013, of GERB, member of the European People's Party and the next one dominated by the Socialist party elected in June 2013, member of PES at the European Parliament. The government of GERB, which ruled until February 2013, emphasized financial discipline and preferred infrastructure projects rather than the increasing of social payments and minimal income level. The infrastructure projects were funded by the EU structural funds, but required national co-funding and thus reduced the financial ability of the government for social protection. Priority of investment in Bulgaria was given mainly to building and renovating roads and highways. In a period of 3 years, there was a sixfold increase in the amount spent on rehabilitation and an eightfold increase in the money spent on building new road networks. According to government plans, from 2009 until the end of 2013, 288 km of new highway sections were put into operation. The next government, elected in May 2013 (BSP together with DPS), set the emphasis on social protection measures in order to compensate for the low income of vulnerable groups in Bulgaria during the crisis such as pensioners, families with school children and mothers on maternity leave until the child's second year. What is more, the minimum wage was increased on 1 January 2014 from 310 to 340 Lev.[2]

[1] Elections for the new government were held on 14.05.2013, the street protests started on 14.06.2013, and the students' occupation of the central building of Sofia University started on 25.10.2013.

[2] Decision of the Council of Ministers No. 249/11.10.2012.

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1.1 Social Context

Several acute social problems require a deeper analysis in the ways they are dealt with by the government in the crisis years. The highest priority should be given to the very negative demographic processes of population aging, poverty among the elderly, low fertility, and emigration of people of working age. The second priority could be given to another problem—that is of unemployment, with a focus on youth unemployment. The serious problem for Bulgaria has been the limited prospects for young people with low education to find a secure job with a permanent contract even before the economic crisis (Stoilova 2012). The results of comparative studies demonstrate that the "higher educated are less at risk of temporary employment during economic recession than the lower educated. This supports the idea that employers transfer labour market insecurities mainly to lower-skilled employees, who can be more easily submitted to direct supervision and replaced by new workers than higher skilled employees" (de Lange et al. 2014, pp. 208–209). All this puts into question the prospects of lower-educated young people in the phase of economic crises, while the competition for the limited jobs increases.

A third acute social problem is related to the region of the country as well as between urban and rural settlements. Rural settlements are developing previously mentioned negative tendencies—a population consisting mainly of elderly people, scarce chances for jobs, unsatisfactory access to education and health services (dentists, hospitals and pharmacies). The demographic situation in rural settlements is unfavourable. For 2011, the death rate in towns was 12.2 % whereas it was 21.4 % in villages. Child mortality for the same year in urban areas was 7.7 %, compared to 12.2 % in rural areas. The natural population growth rate was negative in villages, as well as in towns, but while it was −2.2 % in urban regions, in rural areas it was −12.7 %, which highlights the negative demographic tendencies in small settlements (National Statistical Institute 2012a). The difficult access to health services in rural environments, combined with the aging of the population and the shortage of job alternatives in agricultural areas, where work is seasonal and not very attractive for young people, increases the social importance of examining the rural-urban and regional disparities in the context of the economic crisis.

A fourth social problem is related to the Roma population, a very vulnerable group in several Eastern European countries, including Bulgaria. This ethnic group faces multiple deprivations leading to exclusion, such as low education, poverty, and permanent dependency on social assistance, poor living conditions and bad health. A high proportion of the Roma population is living without health insurance. Of Roma women in Bulgaria, 59 % said they do not have health insurance, compared with 22 % of non-Roma women, according to an analysis of the Agency for Fundamental Rights (FRA), conducted in September 2013 (Report on the Implementation of the EU Framework for National Roma Integration 2014, p. 10).

This paper aims to examine the effects of the global financial and economic crisis, for the period 2009–2013, upon the vulnerable groups in Bulgaria, and to describe the efforts of the welfare state to protect them from social risks and establish opportunities for the improvement of their situation. The role of the EU

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will be underlined because of the funding for social cohesion and regional development, which is scarce in times of crisis. The descriptive part relies mainly on comparative statistical data starting from 2009 to 2013. Explanations are sought through the analysis of the importance of education, gender, age and ethnicity for the inequalities in society and for the legitimacy of the welfare state policies during the crisis. The structure of the article starts with the description of the effects of the economic crisis on the welfare state, followed by the demographic tendencies. Next are discussed the risks and opportunities seen mainly in education and family policies, in the implementation of measures for the creation of new jobs, especially for young people, and in the pension reform. Finally the problematic legitimacy of the welfare state and the reasons for the misleading societal consensus will be outlined. The reasons for a political instability after having achieved financial stability need a deeper understanding. In the whole chapter, the attempt will be made to discriminate between crisis effects and social problems which have not been solved effectively, during the transition of the Bulgarian society from state socialism to market capitalism.

2 Fiscal and Economic Crisis

During the crisis, Bulgaria has maintained economic stability, but on a very low budgetary level, and large parts of the population, particularly pensioners and ethnic minority groups, are living very close to the poverty line. Although GDP in Bulgaria rose slightly from 2007 to 2012, it still remains very low compared to other EU member states: 10,087.90 billion Euros for the fourth quarter of 2013 (Fig. 1).

From 2009 until 2011 Bulgaria followed the line of budget constraints, cutting the budget deficit by half, and maintaining it at a level that was half the European average. This secured stability in the public finance sector. In 2011, with deficit levels of 2 % of the GDP, Bulgaria even outperformed the Maastrich criteria of 3 %

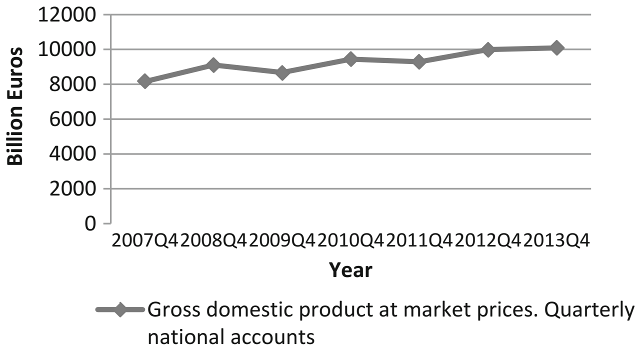

Fig. 1 Gross domestic product at market prices. Quarterly national accounts. *Source*: Eurostat 2014

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Table 1 Unemployment rate by regions in %

	2007	2008	2009	2010	2011	2012	2013
Severozapaden	9.0	7.1	8.0	11.0	12.8	12.3	14.0
Severen tsentralen	10.7	8.5	8.4	11.5	12.8	14.3	15.3
Severoiztochen	10.8	8.6	10.4	14.5	15.4	18.2	16.8
Yugoiztochen	6.5	5.8	6.6	10.6	11.5	11.9	13.0
Yugozapaden	3.9	2.9	4.1	6.8	7.5	8.2	9.8

Source: Eurostat 2014

deficit. The budget deficit in Bulgaria in 2009 was (−4.3 %) and has constantly decreasing—in 2010 it was (−3.2 %), in 2011 (–2.0 %) and in 2012 (−0.5 %).[3] The low budget deficit however is accompanied by a high unemployment rate. The unemployment rate is constantly increasing, being −6.8 % in 2009, and −13.0 % in 2013.

The regional disparities in Bulgaria remain significant. The increase in the unemployment rate is higher than the average of the country in four of the five Bulgarian regions. Only in the region where the capital city Sofia is, Yugozapaden, did the unemployment rate remain below the average for the country, rising from 3.9 % in 2007 to 9.8 % in 2013 (Table 1).

The north-west of the country (Severozapaden) is one of the poorest regions of the EU. This region not only has a high level of unemployment 14 % in 2013, but also the highest share of permanent unemployment (8.6 % in 2011), whereas the Yugozapaden has two and a half times lower long term unemployment (3.5 %) (Eurostat). Beside unemployment, the average wage is also lower. The average wage in the Severozapaden region is among the lowest for Bulgaria (637 Lev per month in December 2011 compared with the average wage for the south-western region) (Yugozapaden), where it was the highest average income in the country (1023 Lev).[4] The data on the ratio between the income of the poor and the wealthy strata show that the poorest 20 % in the Blagoevgrad Municipality (within the Yugozapaden region) have 4.3 times lower income than the wealthiest 20 %. In Vidin Municipality (Severozapaden region) this inequality is the greatest, with 9.3 times lower income for the poorest 20 % compared with the wealthiest 20 %.[5] An obstacle for regional development in Severozapaden region of Bulgaria is the poor road infrastructure. The crisis government 2009–2013 of GERB set the priority on the completion of the construction of a second bridge over the Danube, connecting Bulgaria with Romania, situated in the north-west and connecting Bulgaria through Serbia and Hungary with Western Europe. It was completed in 2013. The first one was built during the time of the Communist regime and is situated in the north-eastern part of the country. However the bridge did not bring the expected positive economic impact because the whole road infrastructure remained very poor. The

[3] Source of data: Eurostat.

[4] National Statistical Institute (2012b).

[5] Source: National Statistical Institute (2011a).

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Table 2 Unemployment rate by sex and age groups—annual average, %

Bulgaria	2009 (%)	2013 (%)
Total	6.8	13.0
Less than 25 years	15.1	28.4
Females	6.7	11.8
Males	6.9	13.9

Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_a&lang=en. Last update: 31.07.2014

overall positive effects of attracting new investment and creating new jobs is expected to follow in some years. What this says on the one hand, is that the crisis is having a detrimental effect on the situation in the poorest regions of the country, and demonstrates on the other hand, that investment in infrastructure was not able to solve the immediate needs of the vulnerable groups, whose situation has further deteriorated, as seen in the rising unemployment rates.

The unemployment rate of young people (less than 25 years) is constantly increasing—starting from 15.1 % in 2009 to 28.4 % in 2013 (Table 2). The unemployment rate during the crisis has increased both for women and for men. However, the unemployment rate for women remains below the average for the country, and for men it is above this average. A very vulnerable group are also the people over 50 years (Lukanova 2011, p. 89).

Social protection expenditure in Bulgaria per head of population have increased constantly from 517.92 million euros in 2007 to 714.51 million euros in 2011.[6] However, they remain insufficient to meet the needs of the vulnerable groups in the country and the rising unemployment rates. The structure of social benefits in Bulgaria has a major part (45 %) allotted to old age and sickness (26 %) (Fig. 2). The share of unemployment benefits is very low, 3 % of which are incentives for a quick return to the labour market.[7]

There was a retrenchment in the number of those receiving energy assistance during the crisis years. Individuals or families are eligible for financial aid for heating (central heating, electricity, or solid fuels) if the income per individual family member is below a certain limit. The aid is transferred every month for a period of 5 months and varies according to age, family status and income.[8] Because of the high share of old people leaving with low pensions in one member households and the high proportion of families with two unemployed parents with small children, a lot of them from Roma ethnic background, the financial support for heating is for them a very sensitive need. The maximum amount of aid has been raised and a decrease in the number of recipients could be registered. In this way, in the period between 2007 and 2011, despite the rising prices and the

[6] Source of data: Eurostat http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00099&plugin=1. Last visited 05.04.2014.

[7] http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tps00106&language=en. Last visit: 05.05.2014.

[8] Source: Ministry of Labour and Social Policy, Agency for Social Protection.

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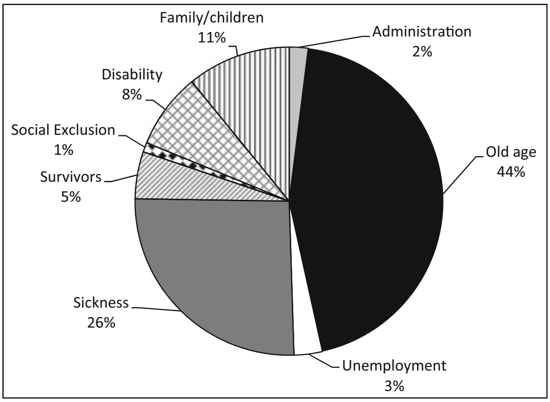

Fig. 2 2011 Expenditure in % of GDP on Social Protection by function. *Source*: Eurostat, http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tps00106&language=en

freeze of income, the total number of beneficiaries of energy assistance decreased from 362,466 in 2007 to 206,452 in 2011. In this case a lack of social awareness of the needs of the vulnerable groups on the part of the ruling government of GERB (2010–2013) could be identified as a contributor to the increase in disappointment among the population.

3 Demographic Changes as a Challenge to the Welfare State

High proportions of pensioners, low fertility rates, emigration among the active population, are stable negative tendencies during the whole transition period 1989–2007. They became a difficult burden for the welfare state also in the crisis time. The total fertility rate in 2011 was 1.51. The coefficient is constantly increasing compared to 2007 (1.42).[9] The population projections point to an extreme decrease in the Bulgarian population from 7.36 million in 2015 to 5.72 million in 2055, 5.53 in 2060 and 4.93 in 2080.[10] All this makes demographic issues very sensitive for Bulgaria.

The median age of the population is high (42.5). The old-age-dependency ratio for Bulgaria in 2011, defined as the ratio between the total number of elderly persons at a generally economically inactive age (65 and over) and the number of persons of working age (from 15 to 64), was 27.0 %, which is close to the EU average of 26.2 %. The rate of increase of the old-age dependency ratio, however, is

[9] Source of data: Eurostat http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde220&plugin=1. Last visited 10.09.2013.

[10] Source of data: Eurostat http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00002&plugin=1. Last visited 10.09.2013.

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much higher here than in other countries, where it is between 0.3 % and 1.6 %, whereas in Bulgaria it is 2.6 %. Another reason, in addition to the low fertility rate, for the increase in the coefficient of old-age dependency could also be the migration of people of active age who, amidst the economic crisis, try to find employment outside the country and rely on work abroad in order to be able to financially support their families staying behind. Some analyses argue that the financial resources provided by emigrants are more than the absorbed funds from European structural funds (Angelov 2010).

In recent years emigration has outweighed immigration. The net migration rate (migrants per 1000 inhabitants) was −3.71 in 2007 and −2.84 in 2012.[11] In the age structure of emigration all age group shares have been decreasing with the exception of the emigrants in the age of 20–39. This age group remained also the largest (39.6 %) of return migrants in 2011. The flow of return Bulgarian migrants however, remains smaller than of those leaving the country. The number of individuals who returned permanently to Bulgaria was 4722 in 2011, which was more than the number of return migrants in 2010 by 1204. Migration remains an important demographic challenge to Bulgaria, and it is unlikely to be solved without economic growth and the creation of new jobs. However, remittances sent by migrants to their families at home are a very significant factor for solving the crisis on a family level. Beside the positive economic effects from emigration and work abroad, many families are experiencing social problems as a result of children being raised by their grandparents and the relationships with the parents often becoming fragile.

3.1 Poverty Among the Elderly

In addition to the worsening age dependency, there is the problem that retirement funds are to a large extent financed from the state budget. In 2010, the transfer from the state budget to the retirement fund amounted to 34 % of all expenditure on pensions.[12] Nearly all pensioners in Bulgaria are disadvantaged when it comes to the amount of pension paid. The fact that the number of those receiving disability pensions is steadily growing is an increasing problem. According to the National Insurance Institute, in 2000, the total spending for disability pensions was 244.2 million Lev which was 10.3 % of all pensions. In 2010 the costs of disability pensions rose to 1397.8 million Lev, which was as much as 20.3 % of the cost of all pensions (a sixfold increase). The rising budget for pensioners during the crisis was unable to adequately compensate for the low replacement rate. The provision of

[11] Source: Index Mundi (2014).

[12] The pension reform undertaken in 2000 was considered successful; however the problem of its high dependency on the state budget remains. In 2009 the state participated as the “third insurance pillar” in providing 12 % of the insurable earnings for each insured person in the Republic of Bulgaria to the retirement fund (Konvergentna programa 2011, p. 5).

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disability pension must be revised and further reforms of the pension system in the direction of an increase of the retirement age must be undergone. However political instability and insufficient consensus during the crisis years are making the reforms in the social sphere very difficult.

In order to cope with the problem of low pensions, many pensioners in Bulgaria take one of the following three approaches: they live in households with younger relatives who are employed; they add to their pensions by working, or they migrate to rural regions (Asenova and McKinnon 2007: 393). To these three coping strategies we can add the reliance on rent from land which owners received through the land reform accomplished in 1991. This amount increased through the subsidies paid from the EU funds for the support of the agrarian sector. There have been no analyses so far on the share of rents from land in the income structure of pensioners, which could allow a better understanding of the capability of European agrarian funds for improving the situation of low income groups during the economic crisis.

3.2 Ethnic Factor

In Bulgaria, in addition to old age, the ethnic factor also greatly contributes to impoverishment. Following the data from the last census in Bulgaria in 2011, two large ethnic groups could be identified which differ from the population at large—ethnic Turks (588,318, which represents 8.7 % of the whole population) and Roma (325,343, which represents 4.8 % of the population).[13] The integration of the Roma population in education and the labour market represents a serious challenge for the country during the crisis. Jeleva and Dittrich (2008) argue for a strategy that they call "anti-segmenting". This includes the implementation of complex policies for the integration of the Roma at three levels—the material, the institutional, and the cultural elaboration.

The material component of the complex policies applied to the Roma population is represented in the form of financial social benefits aimed at overcoming poverty. Financial benefits are primarily paid for children, then to families in which both parents are unemployed, and finally for first-grade schoolchildren from low-income families. The benefits received by Roma families on the birth of a child and during the first year of its life have a greater relative weight in the family budget compared with non-Roma families. This aid at childbirth amounts to 37 % of the entire income of a non-Roma household, while it is as much as 74 % of a Roma household's income (Gabel 2009, p. 70). This difference is due to the generally low income of Roma households, which amount to half the average income of ethnic Bulgarian families. In order to encourage mothers to return to work, less benefits are paid during the child's second year. However, a return to work does not often happen among Roma mothers, who are rarely regularly employed to begin

[13] National Statistical Institute (2011b).

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with, and who are more likely to give birth to another child during the third year of the first born child, than to go back to work (Gabel 2009; Dimitrova 2012).

An example of the integration of Roma to the labour market is subsidiary employment. It was created in order to support permanently unemployed and low-qualified people. During the crisis, the rise in unemployment among ethnic groups was greater than among the majority of the population. According to the findings of sociological research, from 2002 to 2010 the employment rate in the working age population as a whole (aged 15–65) increased from 62 % to 67.1 %. However, unlike the majority, the employment rate of the two main ethnic minority groups, Turks and Roma, decreased. The share of employed persons in the Turkish ethnic group decreased from 66 % in 2007 to 49.1 % in 2010. In 2007 the share of employed Roma of working age was 50.8 %, while in February 2010 it was only 28.6 %. A hypothetical explanation of this trend is related to the fact that the Turkish and Roma people have been engaged predominantly in not qualified work and they were first to leave after the collapse of a construction sector. In agriculture there has also been a significant decrease in employment, by 5 % among Bulgarians and by 10 % among Turks and Roma (Pamporov 2010).[14]

The young age groups are the ones most affected by the decrease in employment opportunities, a tendency which again has a higher negative impact on ethnic groups because of their poorer educational structure. While among the Bulgarian population, 79.1 % of persons aged 15–29, and who are not employed, are still secondary school students or university students, the striking trend among the Roma is that only 20.6 % of this age group (16–29) are still in education, while 16.2 % neither work nor study. The integration of the Roma population in education, the labour market and in society as a whole during the transition period, and further during the financial crisis, represents a major challenge. Investment in the integration of Roma children in education helps create opportunities for vulnerable groups during the crisis and will be looked at in more detail in the next part.

4 Risks and Opportunities

4.1 Labour Market Policies

As has already been pointed out, the low level of foreign investment during the economic crisis created few new jobs. Many work places closed down and the low educated and low qualified workers were the first to lose their jobs. Three of the social protection systems in Bulgaria came close to collapse during the crisis due to a high dependency on the state budget—pension, health and unemployment

[14] Aleksey Pamporov (2010). Open Society Institute, Sofia, jointly with experts from the World Bank, A Study of the Economic Condition of Bulgarian Households in the Context of the World Financial Crisis. The study contains similar models as a study conducted in June 2007. http://politiki.bg/?mod=osf&lang=1&c=cc_osf_heading&m=readDoc&p_id=699&p_inst=383201

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expenditures (Tomev 2012, p. 153). The critics from the trade unions point to the fact that the high level of restrictions on budget expenditure, seen as an anti-crisis measure, decreased the opportunities of the government to compensate for the negative effects on the labour market and to reduce the unemployment rate. "Effective measures, which could have stimulated internal consumption and investment activity, as well as preserved existing jobs and created new ones, were not implemented to a sufficient degree" (Tomev 2012, p. 148).

The anti-crisis labour market policies in Bulgaria were directed at expanding or upgrading already existing programmes, followed by "palliative policies" designed to maintain the status quo in employment—saving jobs (through reduced working hours, forced leave and training of the staff), and to create temporary jobs for some of the released workers (creating jobs through investments in public facilities and infrastructure). The aim of carrying out structural changes and achieving long-term effects through action on the social security system had a small part to play (Beleva 2009).

Public expenditures on labour market policies as a percentage of GDP increased from 4.8 % in 2007 to 5.9 % in 2011.[15] The biggest increase could be identified for out-of-work income maintenance and support (mostly unemployment benefits) and early retirement benefits from 1.4 % to 4.2 %. Labour market measures, which cover activation for the unemployed and other target groups, including the categories of training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives, were reduced from 2.9 % to 1.3 % of GDP. This supports the conclusion that in the labour market policies, governmental efforts are directed more at combating risks than at creating new jobs.

The fact that from January 2009 until September 2011 the minimum wage was not increased, had a very negative effect on the labour situation of the low qualified employees. Prior to the crisis, the minimum wage was usually raised twice a year. The proportion of the minimum to the average wage was 35 % for 2011. For comparison, in the period before the crisis 2002–2009, the minimum wage represented 40–45 % of the medium income in the country.[16]

During the crisis, the government put special focus on measures to overcome the rising youth unemployment. A national initiative started, entitled "Jobs for young people in Bulgaria 2012–2013".[17] The aim was to decrease youth unemployment to 23 % as well as to reduce the level of inactive young people to 19 %.[18] In 2013 changes in the labour code were introduced. According to these an apprenticeship was accepted as a form of employment, and it was hoped to motivate young people with low education and qualifications to participate in training. The number of

[15] Eurostat: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00076&plugin=1—last login 12.05.2014.

[16] Ministry of Labour and Social Policy (2013), p. 234.

[17] Decision of the Council of Ministers from 28 March 2012.

[18] Ministry of Finance (2013).

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young people (up to 29 years of age) who received training or were employed in 2012 in the framework of the national initiative was around 9,400, and 33,000 young people were employed due to measures funded by the Operational Programme for Human Resources. The option to receive an initial investment for entrepreneurs (up to €10,000) exists within the operational programme (Ministry of Finance 2013, p. 15). In 2012, an agreement on "First Job" was signed between the government and the social partners to create new jobs for young unemployed people (up to 29 years). Employers can receive a form of a payment of salaries and social security benefits for employed young people as a financial stimulus measure. The efforts to decrease youth unemployment were focussed on creating new job opportunities, and investments on low-educated young people (who are a very vulnerable group on the labour market in Bulgaria) were greatly increased during the crisis.

4.2 Pension Policies

As a response to the need for serious reforms in the pension system, a very important measure was started in 2011 but then stopped in 2014 after the change in government in June 2013. The measure was the gradual increase in the pension age by 4 months every year, which in Bulgaria is 60 years for women and 63 for men. Critics point out that the decision to increase the statutory retirement age was taken separately and not within a whole packet of necessary measures, which should have been discussed in order to achieve public consensus before being implemented. The measures needed include the regulations for early retirement of specific categories of workers; better control over the process to gain eligibility for disability pensions; better collection of the social security contributions. When only one measure is taken, this leads to a decrease in trust in the government, to a lower motivation to participate in the security system, and is in contrast with the spirit of stability of the pension security contributions (Nikolov 2012). We can agree with this critique; however the gradual increase in the statutory retirement age was a step in the direction of compensating for the aging of the population. It is true that the measures should have been implemented as a whole package of reforms in the pension system, but stopping the process was a negative step to avoid unpopular reforms during the crisis and showed a lack of continuity and weak consensus in society between the experts and between the political actors for the reform efforts.

4.3 Education and Family Policies

Since 2009, Bulgaria has applied a system of differentiated family allowances for the birth of the first, second and third child, the allowance being three times higher for the second child than the first and third child, and was intended to encourage population growth with the birth of a second child. However, this practice was controversial and was put before the Discrimination Commission for the unequal treatment of children in 2013 when the budget for 2014 was discussed. At the

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present time, the government is again disputing before court that this policy is non-discriminative and that it contributes to the improvement of the demographic situation in the country.

In this section it is necessary to also discuss the risks connected to educational deficits and lack of governmental competence: early school leavers, the relatively high proportion of young people neither in education nor work, and how the government is managing these during the crisis years. The low percentage of GDP in Bulgaria allocated for education, which represented 3.8 % in 2010, was less than the average for EU countries (5.5 %).[19] Bearing in mind that spending on education is a determining factor for the competitiveness of human capital, and facilitates the adaptation to changing market conditions, the low governmental investment in education could be considered a serious risk. The utilization of the European funds during the crisis has been seen as an opportunity for human resource development and for social cohesion. Educational policies during the crisis and the measures for the better integration of children in pre-school education as well as the measures for creation of new jobs and the integration of young people in the labour market will be discussed below.

The proportion of children aged 3–6 in child-care institutions (kindergartens and nurseries) has increased during the period 2007–2013 from 73.2 to 82.1 %. This high share of children in daily institutions allows the early return of mothers to the labour market and better work-life options for the parents.[20] The issue of pre-school education was addressed by the government with a programme, which was politically formulated back in 2010 with the adoption of the updated strategy, according to which children between the ages of 3 and 5 must be covered by a system of early involvement in pre-school education. However, many parents opposed this because financial resources were directed towards the reform of pre-school education and maternity leave benefits fell below the minimum wage. The focus on extending the scope of full-time education by the government was accompanied by a freezing of social benefits for mothers of young children until the age of 2 years, when they are not in employment. The new government of BSP and DPS, elected in 2013, increased the benefits for the second year of the maternity leave from 1 January 2014, which made the child care benefits equal to the planned increase in the minimum wage. The effects of the increase in the benefits for the second year of maternity leave could be estimated later, but the measure was generally received positively by most parents. The relation to the crisis could be seen in the appliance of two different political strategies—the first one, applied in 2010–2013, was directed towards a broader inclusion in pre-school education. The second strategy, applied in 2013–2014, was directed towards an increase both in the minimum wage and maternity leave benefit. The first strategy, connected with the implementation of a reform in early pre-school integration, was to improve the preparation of

[19] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-12-033/EN/KS-SF-12-033-EN.PDF

[20] National Statistical Institute, http://www.nsi.bg/otrasal.php?otr=23

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children starting school, and was hoped to particularly have a positive effect on children from poor families.

The policies for reforming the education sector implemented during the crisis were also directed at all-day education for pupils from grades 1 to 8, and were introduced in 2011–2012 under the operational programme Human Resources Development. The goals of the programme are to better master the literary Bulgarian language and to develop the creativity and communication skills of students in a multicultural Bulgarian-speaking environment. In 2010, the programme involved 5,916 pupils with primary education in 324 groups of full-time educational organizations, with an approved budget of 800,000 Lev.[21] In 2011 the coverage of the programme was extended and it involved 6,141 pupils in primary school (between 1st and 4th grade) in 270 full-time groups.[22] The need for programmes directed at children from ethnic groups has also been acknowledged in a separate programme, financed by a human resources development operational programme Educational Integration of Children and Pupils from the Ethnic Minorities, approved in 2011, under which nearly 8 million Lev was allocated to accepted projects for 2012.[23] An increase in both funds and in the beneficiaries is also visible in the amount of funds allocated to university students' scholarships. During the first stage of the crisis, 2008–2010, through the Students' Scholarships project, financed by Operational Programme Human Resources Development, 39 million Lev were allocated and 309,429 scholarships were paid for high results in education, and 30,478 financial awards were given to students for other social reasons. During the period 2010–2012, 320,000 monthly scholarships were paid out, which encompass 8 % of the full-time university students in Bulgaria. A comprehensive impact assessment of these programmes has not been carried out. However the conclusion could be made that European Operational programmes provide Bulgarian society with real opportunities to receive fresh investments for the education of children and students.

5 The Legitimacy of the Welfare State

A basic problem of the welfare state's legitimacy is the fact that there is no improvement in the situation of the groups at the bottom of the social structure of society. Inequality, measured by the Gini coefficient, remained stable being 35 in 2007 and was reduced to 33.6 in 2013.[24] The situation of pensioners living on the

[21] This is equal to about €400,000.

[22] Report on implementation of the national programmes for secondary education development—2010–2011, http://www.minedu.government.bg/opencms/export/sites/mon/left_menu/projects/national_programmes/otchet_programmei-2010.pdf

[23] Ministry of Education, Youth and Science, Decision for approval of evaluating report and providing financial grants No. 801-517.08. http://ophrd.government.bg/view_doc.php/5367

[24] http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tessi190&plugin=1. Last visit 08.05.2014.

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poverty line after many productive years in employment, and of ethnic minority groups finding no stable jobs because of the general trend for scarce labour opportunities for poorly educated people, is very unsatisfactory and lowers the legitimacy of the welfare state.

There is evidence that the economic crisis has more negative effects on low income groups, and is hurting the solidarity and the social integrity of society. Bulgaria is among the countries with the sharpest fall (−10.2 %) in income from 2009 to 2010 and is in the bottom quintile (Di Meglio 2013, pp. 3–4). The decrease for the highest quintile is reported at 2.7 %. The burdens of the economic crisis have obviously not been equally distributed. Haskins and Sawhill recommend the broader implementation of universal programmes in order to "eliminate any competition between the middle class and the poor" (Haskins and Sawhill 2009, p. 107). In times of financial shortages this imbalance in the different social strata becomes even more important. There is still the obstacle that more universal benefits lead to the payment of higher taxes. Bulgaria has one of the lowest flat rate taxes (10 %) and the governments rely on this for attracting more foreign investments and for the creation of new jobs in the country.

Important questions could be raised concerning the legitimacy of the labour market policy implemented during the crisis years. How are policies adopted before the beginning of the global crisis evaluated in the new economic situation? Are they at risk of being removed or slowed down? An example for this kind of policy is the adoption of a system of minimum social security levels in 2003. The measure of differentiated minimum social security levels depending on economic activity was intended to reduce informal labour and the unemployment coefficient as well as to increase the social security of low qualified employees and the amount of social security contributions. In 2014 a survey was carried out which focused on the attitudes of employers and employees on the impact of the system of minimum social security levels on official and on undeclared employment.[25]

When asked about the introduction of the minimum social security levels in the period 2003–2008, 31.2 % of employers stated that the mechanism of negotiation of these security levels between the social partners was an adequate mechanism for the social and economic situation. However, 39.2 % of employers believed they were not adequate. In the period 2009–2013, 29.1 % of employers still believed the mechanism to be adequate, while 44.4 % now felt it was not. Employees gave a similar response—one third was in favour of minimum social security levels, while slightly more were against this mechanism. The economic situation—before or after the crisis—had little effect on opinions. But what is interesting is the large proportion of employees who were undecided: 42.1 % of employees were

[25] The survey was ordered by the Ministry of Labor and Social Affairs, and was carried out by "Estata" marketing agency together with experts from the scientific community in the period 07.02.2014–10.05.2014. The survey includes 6025 standardized interviews, among them 2625 with employers and 3500 with employees. In addition, 6 focus groups discussions have been organized in different towns with the social partners.

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undecided about the adequacy of minimum social security levels for the period 2003–2008 and 38.9 % for the period 2009–2013.

Another survey question was: Has the increase in the minimum social security level in the period 2009–2014 led to an increase in labour costs? The distribution of the answers is: "yes": 73.6 %, "no": 20.2 % and "undecided": 6.2 %. 28.0 % of employers stated that in addition to rising labour costs, a further negative effect in the same period observed by the respondents is the decrease in options to motivate employees through bonuses and additional payments. More positive attitudes could be observed in the increase in the minimum wage, which in the period 2009–2013 has not led to the lowering of the average level of wages according to 61.3 % of the employers. However, 35.8 % disagree with this opinion.

The results show that the discrepancies on the implemented reforms and mechanisms for increasing the paid social security contributions are highly controversial. The economic difficulties during the crisis years increase the probability that differences could lead to the termination of already started and agreed upon reforms between the social partners. That was not the case with the minimum security levels, but it was the case with the increase in the pension age. The above-mentioned survey is a good example of evaluation research on the impact of a crisis on the implementation of reforms in the two sensitive instruments of the government to protect vulnerable groups in the labour market—of the systems guaranteeing minimum social security and wage levels in Bulgaria. This is a typical social democratic stream in the governmental intervention applied during crisis times. Another evaluation research will be undertaken in the autumn of 2014 on the effects of the introduction of all-day education for pupils from grades 1 to 8 in 800 pilot schools throughout the country. This reform is also relevant to the low status groups in society and aims to promote the better integration in schools of children of educationally disadvantaged parents.

6 Implications and Conclusions: From Political Instability to Fragile Reforms in the Social Sphere

The global crisis started in 2009 as a financial one, creating a frozen economic situation in Bulgaria. The overall GDP in the country remained at a very low level, and the lack of or rather slow growth was not sufficient for the welfare state to function normally. The achieved financial stability and the low tax levels did not lead to the expected increase in foreign investments and to more stability in the labour market particularly for the most vulnerable groups, the younger and older members of the working population, and especially for individuals with low education, and those of a Roma ethnic background. For whole regions of the country, such as the north western region, investments in the infrastructure could not immediately create better job opportunities. The remittances from emigrants working abroad led to a significant flow of resources to family members at home. However, emigration is causing further social problems connected with children growing up without one or even both parents and relying on the care of grandparents. The political crisis in

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the beginning of 2013 demonstrated the desire for more justice in society, less severe inequalities, lower prices for energy, higher wages and higher benefits for the children. The street protests in February 2013 led to elections and to a government change, but unfortunately not to more political stability in the country. After the government change in January 2014 the minimum pension, maternity benefits, and the minimum wage have been increased. However this government was also unable to gain enough support and new elections took place on 5 October 2014. The way out of the crisis for Bulgaria remains politically very uncertain.

This situation provides examples for both a prolongation of already adopted government measures and the opposite case of the termination of measures started before the crisis. The minimum social security levels differentiated by economic activities and sectors started in 2003 still remain a subject of negotiations between the social partners although the support and the neglect, in equal proportions of this measure on the side of the employers, could be observed. The change in the pension law in 2012, increasing the statutory retirement age by 4 months every year, had to be temporarily stopped until social stability and consensus could be achieved. The idea of using the crisis as an opportunity for changes in this second case did not come to fruition. It became apparent that lack of consensus between the political parties on sensitive reforms in times of crisis is preventing any change and this is worsening the situation of the vulnerable groups.

At the same time EU structural funds have been utilized successfully during the crisis period 2009–2012 and led to an increase of the use of funds for the creation of new infrastructure. This was beneficial in the long-term for regional development, however, a positive effect on the creation of new jobs or an increase in wages could not be observed. Further opportunities were utilized through the access to funds for human resource development as well as for social cohesion. Despite the large amounts of funds allotted for rural development (the whole budget for Bulgaria, including the national co-financing for the planning period 2007–2013, was just under 1.5 Billion Euros), very little progress has been made in the direction of decreasing the unemployment rates in rural areas, increasing income, improving the qualifications of rural dwellers and reversing the out-migration from these areas (Ministry of Agriculture and Food 2011).[26] Inequalities in rural and urban development in Bulgaria are very deep, accumulated before the crisis and sharpened through the demographic negative tendencies of aging and migration of the rural population. The improvement in healthcare services and educational opportunities

[26] Because of the popularity of the measures supporting large-scale farming and modernisation and—conversely, the lack of information and capacity of small and semi-subsistence farmers to apply for funding, farm structure has been transformed so that the average farm size has been increasing and small farms are closed down or sold off. As a result of the financial crisis, the access to bank loans, associated with participating as a beneficiary in the rural development programme, was greatly hindered. As a response, in 2011, the state granted interest-free loans to municipalities participating in the programmes for specific measures, such as Measure 321 “Essential services to the population and economy in the rural areas”. Such interest-free loans have not been made available to other beneficiaries.

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in rural areas is desperately needed for the country, which could not be achieved during the crisis. Beside the shortcomings, there is evidence to conclude that EU funds represent an important instrument for overcoming the global financial crisis for Bulgaria. The challenge, however, is how to distribute the positive effects from the competitive and well-educated individuals and enterprises to broader social strata including less-educated young people, often from ethnic backgrounds, from poor families, or older workers with low chances of finding jobs in the years prior to retirement. The large number of pensioners living on low pensions represents a permanent challenge to the welfare state. All this makes it necessary to find political consensus on the reforms needed in the pension, education and healthcare systems.

The capacity to reach a national consensus is, however, rather weak. Between the first and the second big parties in the country—one with greater EU identification and market orientation (GERB), and the other, social democratic (BSP)—remains the unresolved question about the communist past. The liberal party (DPS) represents in fact primarily the interests of the Turkish ethnic group, and there are suspicions that this party is not actually integrating but is in fact encapsulating the ethnic community. A further aspect in political elections is the nationalistic vote. The nationalist party "Ataka" failed to gain seats in the elections for the EU Parliament in 2014, however the number of its supporters has remained constant in elections over the past decade. The prognosis is that after the elections in Autumn 2014 Bulgaria will be governed by a coalition—oriented to further EU integration and to the inclusion in the Euro zone. The challenge for the new government will be to focus on poverty and social exclusion while stimulating the growth of the economy.

Three lessons could be drawn from the political instability caused by the global financial and economic crisis in Bulgaria. The first lesson is connected with the crisis government (2009–2013), which did not pay attention to achieving a proper balance between investments in infrastructure and social protection of vulnerable groups. The investments were made mainly for new infrastructure, but the minimum wage was not upgraded, nor were the benefits for the second year of the child, which fell below the minimum wage, and the number of energy beneficiaries were also reduced. The second lesson is connected with the government (2013–2014), which did not act in a transparent way, although it raised the social payments for the minimum wage, and the childcare allowances reached the level of the minimum wage in the country. The proposal to fill the position as head of Governmental Agency for National Security with a person with interests in the media could not be justified before society, and civil society reacted immediately with intensive and long street protests. The inappropriate vacancy was immediately withdrawn, but trust in this government could not be restored. The third lesson concerns civil society itself and the ability of the citizens to control the government. The relative weakness of civil society is that citizens in Bulgaria are active in street protest but not active enough in additional ways of controlling and opposing unpopular and not transparent decisions of the governments. For this, citizens rely on NGOs, but without the support from broader social strata, they could easily be discredited by the power.

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The proper balance between covering risks through social protection and inclusion, and through improvement of educational and job opportunities, is the way to shape a "democratic public" (Kumlin and Stadelmann-Steffen 2014). The distribution of prosperity to broader social strata and the ability to live independently and not rely on regular social payments but on jobs will stabilize the democratic public in the country. The expectation is that better educated citizens will vote for policies and not because of the appeal of politicians to nationalistic feelings or ethnic loyalty. The free choice is what makes individuals join or stop participating, and mobilizes people in various ways, including for political activity. This is precisely the permanent challenge—to convince citizens to make use of their right to vote and for exercising permanent control over the politicians between the elections.

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The Cypriot Welfare State at a Time of Crisis

Odysseas Christou, Christina Ioannou, and Anthos Shekeris

1 Introduction: The Cypriot Welfare System at a Time of Crisis

In January 2008 Cyprus entered the Eurozone. At the time, the global financial crisis had not yet impacted Cyprus, and its welfare state system still provided a relatively high degree of social safety net. This strong social trend of reliability was one of the basic features of the Cypriot welfare state for more than three decades (Shekeris et al. 2009, p. 83–100). But this picture is completely different today; currently, the state of the Cypriot welfare system is determined mainly in terms of the Memorandum of Understanding (MoU), signed between the Cyprus government and the Troika[1], which contains clear provisions in relation to several welfare benefits. From 2008 onwards, the financial position of the country has kept deteriorating. Cyprus is currently experiencing a massive rollback of its welfare state, which is at the moment under extreme financial strain.

Any account relating to socio-economic factors in the country today should begin in 2008. Two months after the country entered the Eurozone, in February 2008, presidential elections brought to power the leader of the country's communist-oriented party AKEL, Demetris Christofias. At the time of election, the country enjoyed surpluses in its fiscal accounts and a healthy banking system. Following his election, president Christofias embarked on a process of fulfilling pre-election promises that included increased welfare spending, mainly in pensions and numerous other social provisions.

[1] The term Troika refers to the group of financial lenders comprised of the European Commission, the European Central Bank and the International Monetary Fund.

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At the time of his election in 2008, the global financial crisis had not yet reached Cyprus. The Presidency of the former Secretary General of AKEL proved to be one of the major grounds for the financial problems of Cyprus, owing primarily to the reluctance of his government to take remedial action to contain the impact on the economy and to negotiate the terms of a bailout programme. By the time of the Eurogroup meeting on Cyprus of March 15–16, 2013, when the unprecedented decision was taken to impose a tax on bank depositors, the recession was already in full swing.

Inevitably the fiscal and economic crisis in the country lies at the heart of the account presented here. It is through the lenses of the current financial situation and the resulting austerity measures adopted that all aspects of the Cypriot welfare state are hereby examined. It becomes clear that all welfare sectors have been ominously affected by the economic situation, namely labour market policy, pensions, health policy, long-term care, family and children, as well as adjacent social policy fields. Moreover, the general level of legitimacy of the Cypriot welfare system is in decline and under threat of further legitimisation given the current conditions of the financial crisis.

The main challenges to European welfare systems that are paid specific attention throughout this book can be prioritised as follows for the Cypriot welfare state. First, the fiscal and economic crisis (Sect. 2) can be perceived as the biggest challenge for the Cypriot welfare system. Owing to the continuous deterioration of fiscal finances in the country since 2008, and the adoption of the MoU in the spring of 2013, the rollback of the welfare state has become a reality. Regarding the timeframe of our investigation, we focus mainly on developments since the outbreak of the financial crisis in 2008, which coincided with the country's national election that brought to power the Christofias government.

Demographic change (Sect. 3) can be regarded as yet another challenge that is however secondary for the Cypriot welfare system, largely overshadowed by the wider fiscal and economic crisis. Even though the sustainability of the social security system is currently being questioned, discussions over its reform are not dominating the current debate.

The following policy sectors are examined in more detail in Sect. 4: (1) labour market policy, (2) pensions, (3) health policy, (4) long-term care, (5) family, children and social exclusion, (6) changes in social policy from universal to targeted policies. The challenges faced in these fields can be seen as being directly related to the financial situation and the austerity package.

2 Fiscal and Economic Crisis

The Cypriot economy has been severely affected by the crisis in the past 4 years. When the Christofias government came to power in 2008 the financial position of Cyprus had a positive outlook with a financial surplus of 1.5 %, public debt below 60 % (not considering intra-governmental debt), per capita income at 92 % of average community income, unemployment rates at 3.9 % and inflation rate at

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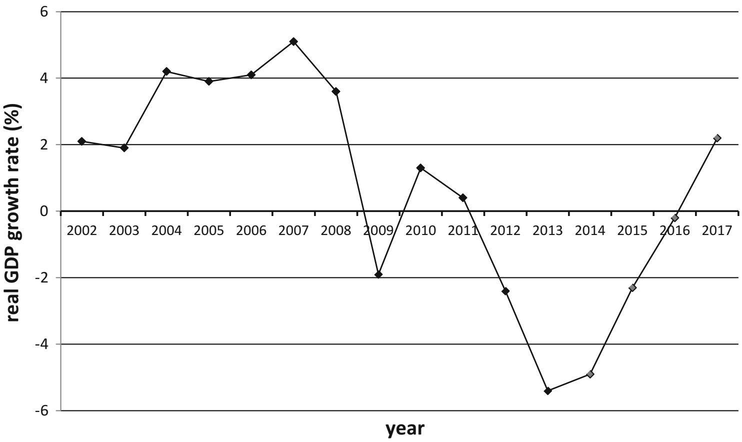

Fig. 1 Real GDP growth rate (%). *Source*: Eurostat (2014j)

2.2 %. According to the European Commission, economic activity in Cyprus exhibited strong growth in the first decade of the millennium, with an average annual GDP growth rate of 3.0 % in real terms, twice that of the euro-area (European Commission 2013a, p. 7). "Growth took place in conditions of almost full employment, with remarkably high job creation (3 % per year on average), low inflation and rising real disposable income" (European Commission 2013a, p. 7).

The government's general position was that the international financial crisis would not affect the Cypriot economy; a belief that continued to reign supreme even after extensive problems were detected in the Cypriot banking system. The signals from international financial markets came in the form of official warnings and downgrading by credit rating agencies as early as 2010. This led to financial instability and, ultimately, effective insolvency, with the country losing access to international capital markets in May of 2011.[2] This was followed by the unfortunate events of July 11, 2011 with the explosion that destroyed the main power station which produced more than half of the island's power supply, after which the economy was thrown into a deep recession. This can be seen in Fig. 1, which depicts the country's GDP annual growth rate which started exhibiting a downward trend from 2011.

This was followed by yet another important development that bore disastrous effects for the Cypriot economy, namely the write-down of Greek debt[3] in late October 2011, as per the decision of the European Council at its Summit of 26–-27 October. For the two largest Cypriot banks—Bank of Cyprus and Cyprus Popular Bank—which maintained extensive operations and exposure in Greece,

[2] For an analysis of the near collapse of the Cypriot economy, see Ioannou and Emilianides (2013).

[3] The decision was to erase around 80 % of Greek debt held by the private sector.

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this meant an immediate need of about €2 billion of additional capital in order to be recapitalised according to European Banking Authority (EBA) rules.

The Christofias government failed to take effective financial measures to deal with these problems and also refused to cooperate with the Troika to negotiate the terms of a bailout programme. The ECB openly acknowledged that the reluctance of the Christofias government to take action exacerbated the situation of the Cypriot economy.[4] In the summer of 2012 all three major rating agencies downgraded government bonds below investment grade, which according to ECB rules, effectively meant that the government debt was no longer eligible as collateral for borrowing from the euro-system. By cutting off liquidity, the ECB signalled to the Cypriot government that it had to negotiate a bailout deal with the Troika; and even though the government did formally apply for Troika assistance in June of 2012, there was no agreement on the structural adjustments required. So even though the Memorandum of Understanding (MoU) was complete in December 2012—with measures including major reductions in pension benefits, in wages and salaries for the broader public sector, privatisations of public and semi-governmental corporations, as well as suspension of cost of living adjustments—negotiations between the Troika and the Christofias government never progressed. At the same time, the government kept accumulating deficits without taking corrective action.

Measures were not taken until March 2013, when the February presidential elections brought to power the Anastassiades government. Anastassiades had made a pre-election commitment to strike an immediate agreement with the Troika for a bailout plan and complete the adjustment programme. It was however expected that Cyprus would be given similar terms to those faced by other countries that had already agreed with the Troika (at the time this included Ireland, Portugal and Greece). Instead, merely a fortnight after Anastassiades took office, in the European Council summit and the Eurogroup meeting of March 15–16, 2003, an unprecedented type of agreement was reached in the form of a "bail-in"; this involved a haircut on deposits aimed at reducing the cost of the bailout for the EU through a process of raising the necessary funds to recapitalise Cypriot banks through levies on depositors' money. More specifically, the decision involved a one-time levy of 9.9 % on deposits over €100,000 (the ceiling for EU account insurance) and a one-time levy of 6.75 % on deposits below that level—those affected by the deposit levy would be given bank shares of equal value. This measure was coupled with an agreement to raise the corporate tax rate of the country to 12.5 % (from 10 %) and to save €1.4bn through privatisations—with the ultimate aim of bringing the debt to GDP ratio to 100 % by 2020—Cyprus would receive a €10bn bailout loan.

[4] See the joint answers by Rehn and Asmussen to the questions raised by MEP's S. Bowles and A. Duff, available at http://andrewduff.blogactiv.eu/2013/05/14/replies-to-the-questions-by-the-members-of-the-econ-commitee.

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Following rejection of the decision by the Cypriot Parliament, a second Eurogroup meeting on Cyprus was held on 24–25 March 2013 in which it was decided to safeguard all deposits below €100,000 in accordance with EU Deposit Guarantee Schemes (DGS). The agreement further involved a downsizing of the financial sector, provisions on fiscal consolidation, structural reforms and privatisations. In particular, the country's second largest bank, Cyprus Popular Bank (Laiki) would be resolved with full contribution of equity shareholders, bond holders and uninsured depositors. Laiki would further be split into a "good bank" and a "bad bank", with the good bank to be folded into the Bank of Cyprus (the country's largest bank) with an accompanying €9 billion of Emergency Liquidity Assistance (ELA) with it. The Bank of Cyprus would be recapitalised through a deposit/equity conversion of uninsured deposits with full contribution of equity shareholders and bond holders.

This marked a major blow to the Cypriot banking sector, which prior to the March Eurogroup meetings on Cyprus amounted to 550 % of Cyprus' GDP—including cooperative banking institutions (European Commission 2013b, p. 11). Over the last 30 years, Cyprus had developed into a major financial centre by establishing treaties against double taxation with a number of countries.[5] Overseas depositors carrying out their businesses on the island kept their money in Cypriot banks as the country also enjoyed a low corporate tax rate.

Following the adoption of the MoU, the imposition of capital restrictions and the new legal framework approved by the House of Representatives on 22 March 2013 concerning the recovery and resolution of banking institutions, the size of the banking sector suffered an immediate decline of 350 % of GDP (European Commission 2013b, p. 11). This figure has since then grown even further following the very recent decisions concerning the resolution of cooperative credit institutions. The overall picture may suffer additional deterioration if one also considers the increasing number of non-performing loans imposing further restrictions on liquidity. According to the latest recorded figures for loans not covered by tangible assets, total provisions reached 50 % of total non-performing loans by the end of 2012, well below the 75 % recorded at the end of 2011.

As already noted, the country's GDP annual growth rate started exhibiting a downward trend from 2011 onwards. This decline was even more rapid in the first half of 2013, reaching a record high of −5.7 % (Fig. 1). The rate of growth of the Cypriot economy is expected to be even more adversely affected in 2014.

The forecasted decline is primarily the result of the negative climate created and the lack of trust in the Cypriot economy and its banking system by local and foreign investors and depositors. This is exacerbated by the temporary imposition of controls on capital flows, enforced following the Eurogroup decision on Cyprus, as well as the contractionary fiscal policy followed by the government and the fiscal consolidation program, which have significantly reduced private spending. The

[5] This effectively means that if profits are earned, booked and taxed in Cyprus, they are not taxed again in the other country.

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Table 1 Prices and sales of construction material

	2010	2011	2012	2013	2014
Price index of construction materials (2010 = 100 %)	120.4	125.3	125.5	124.5	124.9
Local sales of cement (000s metric tonnes)	1335	1152	781	535	400–450

Source: Statistical Service, Republic of Cyprus

restructuring of the banking sector and the bail-in of uninsured depositors further contribute to this negative forecast, as they have resulted in significant loss of wealth and general uncertainty.

It is important to appreciate that, as noted earlier, one of the biggest contributors to GDP and employment had for decades been the country's financial services sector. According to the EC, "financial and insurance activities contributed 9.2 % to GDP in 2012 and provided employment to 19,300 people or 5 % of total employment, above the EU averages of 5.7 % and 2.7 %, respectively" (European Commission 2013b, p. 14). In 2012 it was estimated that around 82 % of employment came from the services sector compared to 75 % in the EU. The contributions of tourism, financial intermediation, local services (wholesale and retail trade), public administration and construction to both employment and GDP were high (European Commission 2013a, p. 25). Especially in relation to the latter, the construction boom of the previous years experienced a radical decline, as can be appreciated in Table 1, which illustrates that despite the fact that the prices of construction materials remained relatively constant in the past 3 years, their sales have been progressively and significantly affected.

Owing to the small size of the domestic market, Cyprus relies largely on imports, mainly in oil, food, construction products and defence equipment. The growth in imports exhibited in 2008 and 2009 was directly related, although not confined, to the construction boom, which led to higher imports of goods for construction purposes. With the onset of the crisis—the uncertain climate initially and the austerity measures thereafter—demand for construction products fell significantly. Similarly, the austere situation has caused a decline in the demand for oil and imported food commodities. According to the latest IMF country report on Cyprus, the fall in imports is in line with domestic demand (International Monetary Fund 2013). As per Fig. 2, even though exports remained largely constant, there was a considerable decline in imports from 2010 onwards.

The crisis has also had an immediate and enduring effect on the state's finances with deficits consistently reaching more than 5 % of GDP, a condition that is expected to continue unabated in 2013 and is projected to start showing signs of recovery after 2016. The level of state debt has followed a similar pattern: in real terms it has approximately doubled since 2008, while the level of state debt as a percentage of GDP has increased from 48.9 % in 2008 to 85.8 % in 2012 (Table 2; for general government gross debt see also Fig. 3).

In 2013, this figure is expected to exceed 120 % and future projections are even grimmer: within the next 3 years, state debt is expected to almost double the

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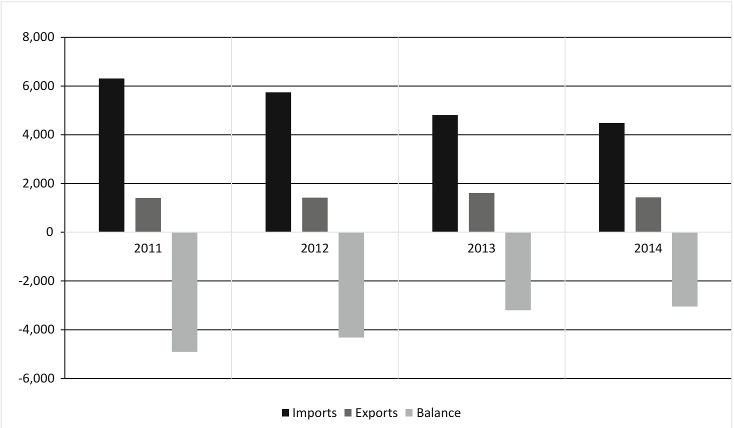

Fig. 2 Current account deficit (imports/exports). *Source*: Statistical Service, Republic of Cyprus

Table 2 State budget/state debt

	2008	2009	2010	2011	2012
State budget balance (% of GDP)	0.9	−6.1	−5.3	−6.3	−6.3
State budget (euros mln)	161	−1031	−920	−1132	−1127
State debt (% of GDP)	48.9	58.5	61.3	71.1	85.8
State debt (euros bln)	8.39	9.86	10.67	12.78	15.35

Source: Statistical Service, Republic of Cyprus

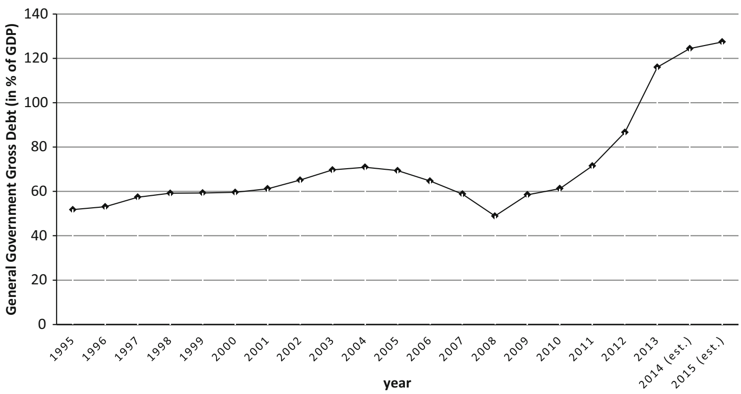

Fig. 3 General government gross debt—annual data (% of GDP). *Source*: Eurostat (2014d)

country's GDP. This, however, is not simply an effect of public spending since the absolute level of state debt is expected to coincide with further contraction of the Cypriot economy with GDP growth anticipated no earlier than 2017 (Table 3). The

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Table 3 Projected GDP growth

	2013	2014	2015	2016	2017
GDP growth (%)	−10.2	−7.8	−2.3	−0.2	2.2
State budget (% of GDP)	−6.0	−6.9	−5.8	−4.2	−3.4
State debt (% of GDP)	120.5	161.7	189.4	191.8	188.3

Source: Statistical Service, Republic of Cyprus

first review of the austerity program by the IMF makes a more favourable prediction of state debt gradually declining toward 105 % of GDP by 2020 (International Monetary Fund 2013).

The aims of the recently adopted MoU are the promotion of fiscal consolidation through reduced spending by the public sector, increasing the efficiency of public spending and the functioning of the state apparatus, as well as enhancing revenue collection. The austerity program includes a variety of structural adjustments in order to reach these goals, including public spending cuts and tax increases such as raising VAT to 19 % by 2014 and the corporate tax from 10 % to 12.5 % in 2013, in addition to a privatization scheme of semi-governmental and public-affiliated organizations that will be further described below.

Public sector expenditure is one of the primary targets of the Memorandum and bringing the financial affairs of the state in order is considered essential to the stabilization of the economy. The objectives specified in the Memorandum are to sustain the ongoing process of fiscal consolidation in order to achieve a GDP surplus of 4 % by 2018, to curtail what is deemed to be excessive public spending, and to undertake structural adjustments in order to improve taxation and fiscal sustainability.

A primary method of achieving these goals will be the implementation of measures on expenditure that target the public sector wage bill which represents a significant portion of public expenditure and the growing size of which can be regarded as a major cause of the growing government deficit. Undoubtedly, this issue was not caused by the global financial crisis as it represents a systemic effect of how the public sector model of governance was implemented in Cyprus since its independence in 1960 and how it evolved over the ensuing years. Prior to the implementation of the austerity measures that will be explained further below, the public sector wage bill accounted for between 30 % and 35 % of public spending between 2007 and 2012. The reported expenditure during the first two quarters of 2013 suggests that a reduction of about 9 % has already been achieved, which exceeds the projection of a reduction of 7.3 % by the end of the year as a result of the measures implemented. The first review of the program by the IMF illustrates that all primary balance and spending targets have either been already comfortably met or will be met by the end of the years; as a result, no additional measures have been or are expected to be proposed, while measures for 2014 and beyond will be reassessed in future reviews.

In 2012, Cyprus implemented a progressively scaled reduction in emoluments of public and broader public sector employees that ranged from 0 % for the lowest

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wage bracket (below 1000 euros) up to 12.5 % for the highest (above 4000 euros). An additional flat-rate reduction of 3 % on all wages of public and broader public sector employees and pensioners will be implemented in 2014. Additional expenditure measures included the extension of the suspended practice of Cost of Living Allowance (COLA) for the public and broader public sector, as well as the extension of the freeze of increments and general wage increases on gross earnings and pensions until the end of the program in 2016.

Steps were also taken to reduce the number of public sector employees by at least 4500 over the period of 2012–2016 through the implementation of a hiring freeze of new personnel on first-entry posts in the broader public sector until the end of 2016, by implementing a 4-year plan aimed at the abolition of at least 1880 permanent posts (a reduction of 3.8 %), and by instituting a ratio of recruitment for new positions to retirements of 1:4, as well as a hiring freeze of new hourly paid employees. Additional streamlining measures intended to bring about efficiency included measures to increase the mobility of civil servants within and across line ministries and other government entities. The reported figures of employment in the broader public sector in 2013 indicate less 2382 positions than 2012, the lion's share of which is in the central government sector (Statistical Service 2014).

New measures introduced in 2013 are expected to produce a reduction of at least 29 million euros in the total outlays of allowances for public sector. This will be achieved by taxing the pensionable allowances of senior government officials and employees such as secretarial services, representation, and hospitality allowances, by implementing a 15 % reduction in all other allowances provided to public sector employees and by reducing the daily overseas subsistence allowance for business trips by 15 %. Additional measures include the suspension of first/business class travel by state officials other than the President of the Republic of Cyprus and the President of the House of Representatives with the exception of transatlantic travel, the abolition of the right to duty free vehicles for employed and retired senior public sector official and the extension of the wage freeze to all state officials and permanent secretaries until 2016.

In its letter of intent to the IMF the Cypriot government proposed "substantial structural reforms to improve the efficiency of the public sector, including through the timely privatization of viable state-owned enterprises" (International Monetary Fund 2013, p. 49), as a central pillar of the structural fiscal reform package to be undertaken which also included the streamlining of extra-budgetary entities and the rationalization of the public sector through the discontinuation of non-core activities.

The privatization process will follow a series of steps. First, the state will establish an inventory of all assets owned by all levels of state administration (central government, municipalities and regional administrations) by the end of 2013 in order to assess the expedience of divestment, restructuring or liquidation of all SOEs. A concurrent process will determine the degree to which SOEs can conform to international standards of compatible best practices in terms of governance and will assess the business prospects, and potential liabilities of the SOEs for the state as well as the scope for orderly privatisation. The privatization plan

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targets specific SOEs, especially in cases where natural monopolies tend to arise, such as the telecommunications (CYTA), electricity (EAC) and ports (CPA) authorities. The plan is intended to improve economic efficiency through enhanced competition and encouragement of capital inflows, and to restore debt sustainability. The expected fundraising for the state through the privatization plan is at least 1 billion euros by the end of the program period in 2016 and an additional 400 million euros by 2018.

3 Demographic Change and Population Ageing

Demographic change is influenced by three main and interrelated factors: fertility, mortality and migration. The Cypriot welfare state is no exception to an EU-wide trend marked by low birth rates, ageing populations, changing family structures and also patterns of migration (see Fig. 4). Even though demographic behaviour is not currently dominating public dialogue in Cyprus—owing to the more severe economic and fiscal concerns outlined in the previous section—these trends aggravate the welfare crisis, as the social protection system becomes all the more unaffordable.

Indicative of the issues associated with the changing demographic challenges is the growing social protection expenditure as per Fig. 5, whereby these have almost doubled in 2011, since 2003, although below that of the average of the euro area (18 countries). At the same time, the current financial crisis that has severely affected the country, calls into question the economic viability of current fiscal programmes. In order to appreciate the natural demographic challenges facing the country, one must consider the low fertility rates and mortality levels.

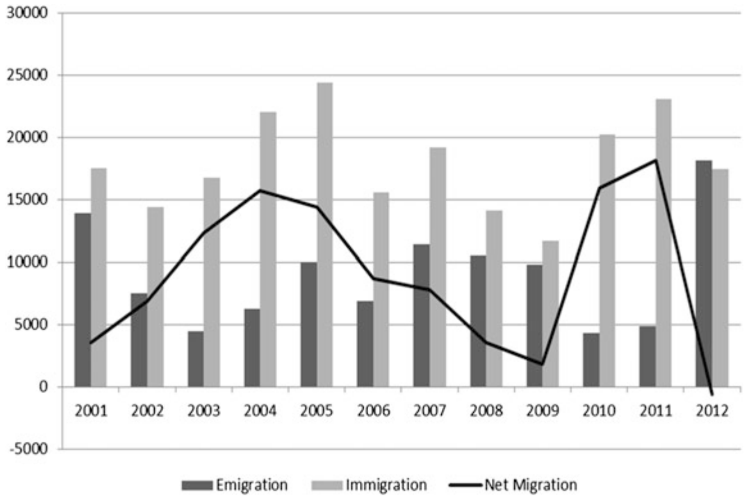

Fig. 4 Immigration, emigration and net migration. *Source*: Eurostat (2014a, e)

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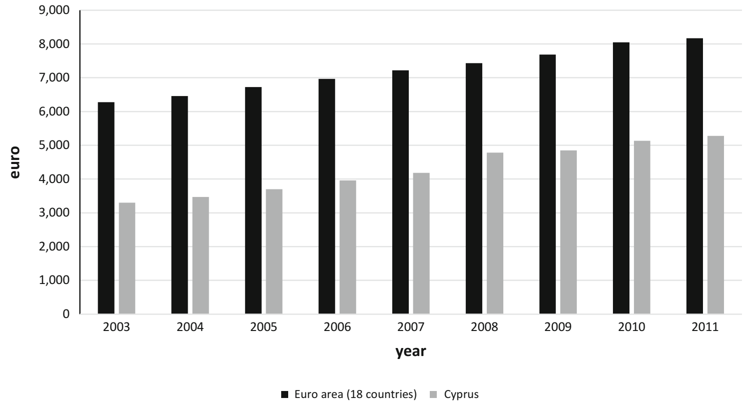

Fig. 5 Expenditure on social protection per inhabitant (in euros). *Source*: Eurostat (2014c)

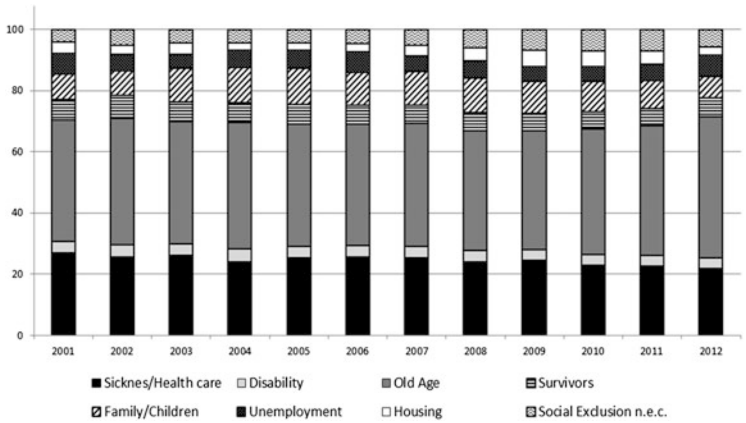

Fig. 6 Expenditure on social protection per inhabitant by function (%). *Source*: Eurostat (2014b)

It must also be highlighted though, that the social protection expenditure by function as depicted below in Fig. 6 is expected to be thrown into disarray. The expenditure since 2001 until 2011, whereby statistics are available, shows no major or substantial natural changes following as is the course of what is described as per above. Evidently, social exclusion expenditure has been growing whereas the expenditure on old age dominates this period. What can be expected though, and it remains to be seen, is the substantial dominance of the unemployment benefits as of 2013 onwards. Invariably changes to social expenditure will be dictated by the economic situation as per the Troika and the reorganisation of these will become clear due to the very drastic economic changes that have occurred.

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The total fertility rate in Cyprus today is at 1.39 children per woman, which is significantly lower than the 1.58 EU-28 average in 2012 (Eurostat 2014k) and categorized by the European Foundation for the Improvement of Living and Working Conditions as very low fertility. (European Foundation for the Improvement of Living and Working Conditions 2010, p. 4). The long-term decline in fertility rates can easily be attributed to the combination of a number of factors: the urbanisation of the society, the wider participation of women in the labour force coupled with a lack of sufficient policies reconciling work and family life, the growing financial needs associated with providing children with a better life, and higher levels of education. Many couples choose to postpone getting married and/or having children or choose to stop after one child which is supported by a mean age of women at childbirth of 30.6, a figure which has increased from 28.9 within a decade and is higher than the 30.1 EU-28 average of 2012 (Eurostat 2014g). Thus with couples getting married later in life and with more women entering the labour market, the fertility rate has exhibited a rapid decline. Other low fertility factors relate to wider availability and usage of contraceptives, as well as higher abortion levels.

At the same time, the country is faced with a reduction in mortality over time, with a continuing marked increase in life expectancy having been exhibited since the 1960s. According to the European Commission Demography Report 2008 (Commission of the European Communities 2008, p. 53), "one of the most impressive socio-economic achievements of developed societies has been the marked reduction in mortality or, in other words, the large increase in life expectancy." This can be attributed to greater longevity, reduced infant mortality, socio-economic developments, better health care, as well as better access to free and improved medical care. Thus, as can be seen from Fig. 7, the population in Cyprus is likely to grow in the next years.

Cyprus has traditionally ranked among the high-income countries of the EU, with very low poverty levels and high levels of education. Cyprus has traditionally

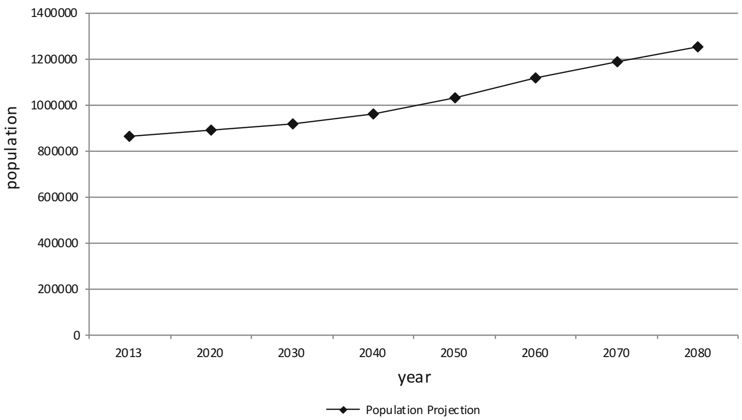

Fig. 7 Population projections for Cyprus. *Source*: Eurostat (2014h)

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also enjoyed low unemployment levels, recent shifts towards higher unemployment levels notwithstanding. The aforementioned factors, combined with improved access to health care over time, contribute to lower mortality rates.

The result of this economic, social and medical progress that Cyprus exhibited in recent decades, combined with reductions in the number of children that people nowadays choose to have, is an ageing population. Cyprus has a growing number of citizens that have reached, or are approaching, retirement age; life expectancy has risen from 76.6 to 78.9 for males and from 81.4 to 83.4 for females since 2001. These figures are consistent with the general trend of life expectancy in the EU and are even marginally higher (Eurostat 2014f). The welfare state is finding it all the more difficult to financially support its elderly population through various schemes, especially through the social security system. The ageing of the population is projected to lead to steady growth of population size at an annual average of 0.8 % over the next 50 years and a more than doubling (from 18.64 % in 2010 to 47.57 in 2060) of the projected old-age dependency ratio over the same time period (Fig. 8). Coupled with the high levels of unemployment (especially among young people), this puts the viability of the Cypriot welfare state at risk, as the persistence of this trend ultimately means that there will be fewer people working and thus contributing towards the social security system.

It has become clear however, that the financial crisis has given rise to considerable challenges to the welfare state. Given that welfare expenses account for a large proportion of state spending, such policy schemes seem unlikely to be devised and implemented at the present time. Quite to the contrary, the rollback of the welfare state is the current state of affairs.

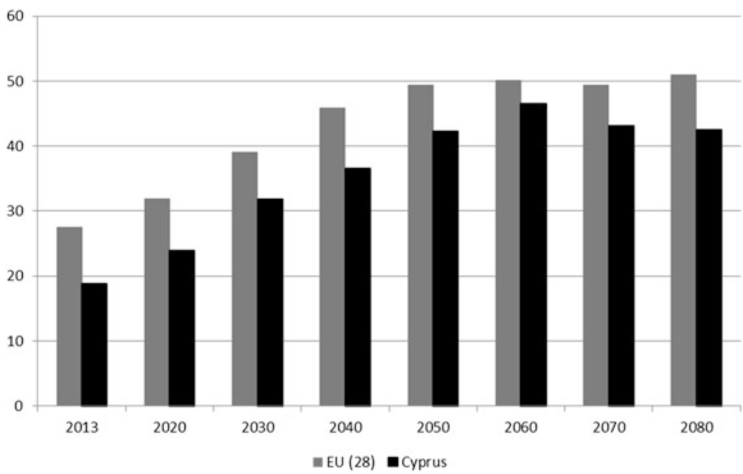

Fig. 8 Projected old age dependency ratio (%). *Source*: Eurostat (2014i)

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4 Risks and Opportunities

4.1 Labour Market Policy

The labour market structure of Cyprus has for years been defined by cooperation between three parties: the trade unions, the employers' representatives and the government. Organised interests—in the form of organised employers and organised labour—have traditionally played a central role, being actively incorporated into the policy-making process. This tripartite system of interest intermediation, the 'Cypriot Corporatist Model' (Ioannou 2009), works in institutional practice by workers being represented through their trade unions and employers through either or both of the two main employers' organisations of the island. The government is represented through the Ministry of Labour and Social Insurance, as well as the Ministry of Finance and the Planning Bureau, which are responsible for the economic aspects of the system. Thus corporatist practices have successfully governed policy-making in the industrial field of the country for years.

Cyprus had traditionally enjoyed a relatively high level of trade union organization. According to official government statistics, trade union membership was around 55–58 % of the total number of employees in 2009. This high trade union membership was for years concurrent with very high employment rates. Following the onset of the financial crisis, the implementation of austerity measures and the rise in unemployment, trade union organization has largely decreased and the influence of trade unions increasingly challenged. According to the Labour Force Survey, the yearly average unemployment rate increased from 7.9 % to 11.8 % between 2011 and 2012, as opposed to an unemployment rate of only 3.7 % in 2008 (see also Figs. 9 and 10 for Eurostat data). These rising levels of unemployment and the economic downturn of the past few years, however, have had a profound effect

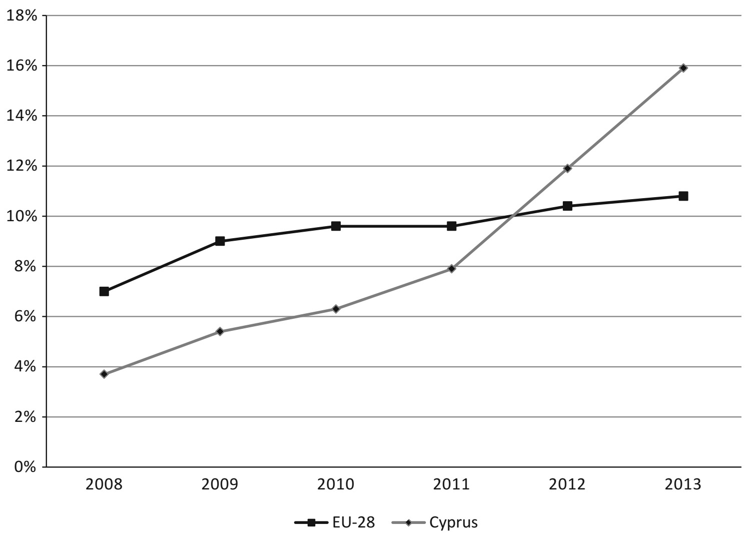

Fig. 9 Annual average total unemployment rate. *Source*: Eurostat (2014o)

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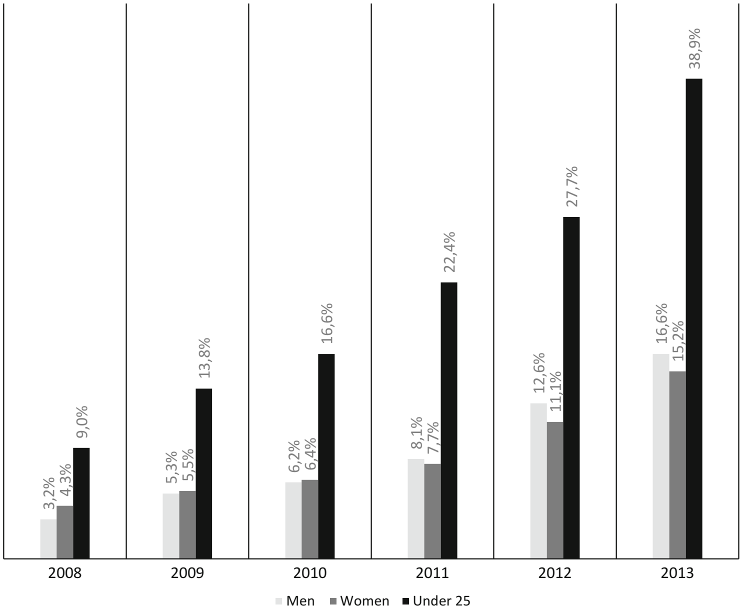

Fig. 10 Unemployment rate by sex and age groups (under 25)—annual average, %. *Source*: Eurostat (2014l, m, n)

on the labour market. They primarily revealed the structural problems of the economy, "namely the limited diversification, the engagement in low added value activities and the lack of investment in innovation and new technologies leading subsequently to low productivity, the economy being highly sensitive to cost and vulnerable to external shocks and employing low skilled workforce" (Cyprus National Reform Programme 2013, p. 7).

In view of these multiple challenges to the labour market of the country, the MoU specifically calls for labour market reforms as a way of mitigating the impact of the crisis on employment, limiting the occurrence of long-term and youth unemployment, facilitating occupational mobility and contributing to improving the future resilience of the Cypriot economy in the face of adverse economic shocks (Cyprus Memorandum of Understanding on Specific Economic Policy Conditionality 2013, p. 25). The Employment National target set is 75–77 % of the population aged 20–64 to be employed by 2020 (Cyprus National Reform Programme 2013, p. 6).

The objectives outlined by the MoU are the following:

(1) the implementation of a system reform on wage indexation;
(2) the preparation and implementation of a comprehensive reform of public assistance;
(3) the linkage of any change in the minimum wage to economic conditions.

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The Cypriot authorities have also agreed with the Troika to introduce reforms to the country's framework of setting wages. Following a progressive scale of wage cuts in 2012 and streamlining of allowances in 2013 with a full year effect of 1.2 % of GDP, an additional 3 % horizontal wage cut will take place in the public sector as of 1st January 2014 which constitutes a reduction of 0.4 % of GDP. Furthermore, the Cypriot authorities have also agreed to suspend the Cost of Living Allowance (COLA) system until the end of 2016. Its suspension is aimed at inducing adjustment in real wages, which will help reflect better developments in labour productivity and competitiveness.

4.2 Pensions

The issue of inequalities between public and private sector pension schemes has been a focal point in the broader debate over welfare reform since 2011 within the context of the further intensified economic vulnerability following the MoU agreement. The very funding of the pension schemes, the replacement rates as well as the overall level of pension benefits and the retirement age are the primary points of contention in this debate.

The General Social Insurance Scheme (GSIS) run by the Social Security Fund (SSF) was introduced in 1963. Reforms undertaken the following year extended compulsory insurance to every person gainfully employed in Cyprus, including all categories of self-employment. Further reforms in 1980 replaced the scheme of flat-rate contributions and benefits with an earnings-related insurance scheme (Cyprus National Reform Programme 2013, p. 175). The current pension schemes in Cyprus include: the General Social Insurance Scheme (GSIS) which is comprised of the Social Pension Scheme (SPS) and the Special Allowance to pensioners (SAP), the Government Employee Pension Scheme (GEPS) including other Public Sector Employees Pension Schemes and Voluntary Provident Funds (VPFs) (Mannaris 2012, p. 49–58).

The GSIS was designed to provide benefits for sickness, unemployment, old age pension, employment injury, maternity, invalidity and benefits to survivors. It must be underlined that the pension system is still, to a large extent, maturing and many pensioners, in particular those from the private sector, continue to face the risk of poverty today (Petmesidou 2012, p. 6) in particular the elderly whereby "... Cyprus appears to have a negative record [as elderly poverty is] among the highest in Europe" (Koutsampelas 2012, p. 69–70). Occupational pension plans provide supplementary pensionable benefits to their members. The GEPS are specifically aimed for Government and semi-Government sector employees and are financed almost entirely by general taxation on a pay-as-you-go basis. The majority of private sector employees have no supplementary pension protection at all or are covered by other VPFs which may take the form of defined contribution provident funds and have serious weaknesses in terms of their effectiveness as retirement income vehicles.

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The main source of retirement income for the majority of the workforce is the GSIS. This, however, does not allow for an adequate, safe and sustainable pension income. Indeed, the average replacement ratio in Cyprus even up to the lead up to the crisis in 2012 was relatively low at 35 %, compared to 53 % in EU-27 (Petmesidou 2012, p. 11). Over the years the GSIS has become financially unsustainable and has been forecast "to rise from about 9 % of GDP in 2010 to about 16.5 % of GDP by 2050 and drive public pension expenditures to be among the largest in the EU" (Simone 2011, p. 3). The challenges it faces are complex and multifaceted as these stem from amongst others, the decrease of fertility, increasing longevity, inadequate financing as well inherent design faults, illustrating the interconnections between demography and the welfare system as outlined above.

Over the past few years reforms of the pension system have been taken with the aim of improving its long-term financial viability. Measures were taken regarding the GSIS from as early as 2009 and measures targeting specifically the GEPS (Petmesidou 2012, p. 7) in the second half of 2011 (Cyprus Memorandum of Understanding on Specific Economic Policy Conditionality 2013). The March 2009 legislative amendment of Social Insurance provisions aimed at ensuring the sustainability and viability of the GSIS until 2048 (Planning Bureau 2012). It adopted stricter qualifying conditions for pension entitlement—specifically from 3 to 10 years of basic insurance from 2009 to 2012—primarily as an incentive towards active ageing.

Parallel to this, in a bid to reduce the number of pensioners living below the poverty line due to inadequate pension income, the Government in early 2009 had adopted the income support scheme for low income pensioners and the Easter grant (*a one-off grant given during the Easter period*). The outcome of this policy was evident as early as 2010 where a steady decline of the rate of poverty amongst pensioners aged 65+ became evident (Ministry of Labour and Social Insurance, Republic of Cyprus 2012, p. 8). Nevertheless, the policy did little in terms of sustaining the viability of the actual GSIS and instead increased public pension spending.

The 2011 reforms of the GEPS were aimed at reducing public spending. New legislation passed in April aimed at curtailing the pension privileges of high-ranking Government officials creating estimated budget savings of up to 1 million euros per year. Furthermore, a bill approved in August, and which stemmed from the pressure for fiscal adjustment, introduced a 3 % contribution from the salaries of civil servants and employees of the broader public sector. It must be noted that new entrants to the civil service will be insured under the GSIS as the GEPS is expected to be abolished by 2065 (Petmesidou 2012, p. 8).

The lead up to the MoU in 2013 has been emblematic of debates among the political parties both within the Parliament and in the public eye with regards to the pension system as a whole, in addition to the presidential debates in the run-up to the February election. At the same time, bargaining and potential stand-offs between trade unions and the incumbent Government developed including other social partners and a broader concern in society regarding detrimental forecasts predicted with respect to the pension system. Abruptly, these ground to a shocking

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halt following the events of the Eurogroup and the climax to the MoU in April 2013 as described above.

Due to the expectation of increasing pension spending and the associated burden on the welfare system, the MoU directly tackles this issue by extending the significant reforms already implemented in order to: reduce pension spending, ensure the long-term financial viability of the pension system through 2060, and limit the fiscal subsidy to the General Social Insurance Scheme for credited contributions for current and future pensioners and for the non-contributory pensions (Petmesidou 2012, p. 15).

4.3 Health Policy

It must be underlined that Cyprus lacks a universal health care system in addition to facing challenges regarding the organization as well as management of the health care system that has been depicted as obsolete and deficient (Petmesidou 2012, p. 7). Moreover, it has a huge array of private health facilities, without any effective control by the Government, or formal coordination with public healthcare, which is characterized as fostering "duplication, waste of resources and poor quality of services" (Petmesidou 2012, p. 7).

Over the years the health care system has been relatively sheltered and unscathed from public scrutiny and as such has expanded unabated by reforms (European Commission 2012, p. 17). There seems to be an evident relative unwillingness and resistance to reform which can, to a large extent, be attributed to the multiplicity of interests in the specific field. As early as 2001 the law for introducing a General Health System was enacted with the aim of rationalising but also improving healthcare (European Commission 2012, p. 15). However, since then very little has been done as targets were "dropped as unrealistic and political stalemate dominated" (European Commission 2012, p. 15).

Until now, there has not been any pressure from society towards radical reforms due to the fact that the majority of beneficiaries have been using private healthcare services instead of public healthcare that is either free or provided at a reduced cost. Until 2012:

> . . . around 85 % of the population is eligible. However, only 40 % of the population use public healthcare services, mainly due to the inefficiencies and long waiting times. . . [whereas] around two thirds of the total healthcare cost in Cyprus is covered by the private sector (European Commission 2012, p. 15).

Invariably, this fragmentation between the public and private sectors of healthcare provision has led to an unequal distribution of services and large inequities with respect to access to care in addition to a general lack of regulation of both care capacity and quality. Despite this, the crisis and the MoU, with its austerity policy measures, have led to a reverse flow towards private healthcare with many patients now opting for free public sector healthcare facilities.

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Over the years, Cyprus has expended little on healthcare. However, it has been increasing at a higher rate than nominal GDP, making healthcare reform necessary. In the light of the imminent crisis various measures in 2011 and 2012 had been taken aiming at cost containment (Petmesidou 2012, p. 16). These measures included a 30 % increase in the charges for service provision to non entitled public health users, a redefinition of the income groups that enjoyed fee access, a 10 euro fee was introduced for those using the accident and emergency units whereas the registration fee for everyone visiting public health units was increased (except for pensioners).

The MoU specifically outlines changes to the healthcare system, jeopardizing to a large extent the free universal coverage objective indirectly stipulated by successive Governments. It introduces or increases fees in various areas in an attempt to create a sustainable healthcare system. It underlines the need to re-evaluate the category system, limiting access to chronic disease patients. It also specifies a contribution (1.5 % of gross salaries) by public servants and public servant pensioners. It increases the fees for medical services for non-beneficiaries by 30 % and pursues the increase of fees for usage of higher levels of care. It introduces financial disincentives for using emergency care services in non-urgent situations and minimizes the provision of medically unnecessary laboratory test and pharmaceuticals. Moreover, it seeks a restructuring plan for public hospitals in order to improve quality and optimize costs of hospital management (Cyprus Memorandum of Understanding on Specific Economic Policy Conditionality 2013). It must be underlined that at a time when demand and the need for public health services is on the rise, the Government is reducing its spending on the sector in a need to meet its fiscal sustainability targets whereas the MoU is increasing the financial burden on healthcare beneficiaries.

4.4 Children, Family, Housing and Social Exclusion

The drastic reduction in government revenue combined with its obligations resonating from the MoU, to restrict its fiscal deficit, have had implications on the family and children. Despite an increase in child poverty from 13.1 % in 2009 to 13.9 % in 2013, Cyprus still maintains a position as an EU country with low child poverty. Child poverty however, is expected to increase as it is linked with the austerity cuts and as per our discussion the unemployment rate also that is expected on the increase (EU Network of Independent Experts on Social Inclusion 2014, p. 7).

As per the report of the EU Network of Independent Experts on Social Exclusion (*ibid*) it is clarified that children from single parent families are the most vulnerable as well as those families who have children aged 12–17 and finally families with a large number of children. In early 2012 the government had already begun working on streamlining benefits by merging and phasing out current available benefits as well as on focusing and better targeting of various social transfers. Child and student benefits were the first to be reformed.

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Indicative of these reforms are:

- **Child benefit reform**. Change in the definition of child and exclusion of one-child families and developed in accordance to gross annual income of parents with major reductions the higher the income.
- **Student grant reform**. Higher percentage reductions for this public benefit in accordance to income of parents. PhD students are not eligible for the benefit, while Master students are, if their family income stands below €30,000.
- **The single parent benefit** is designed to provide income support to mono-parental families. The benefit is given only to families which already receive the child benefit accordance to income brackets.

(Koutsampelas and Polycarpou 2013b, p. 51–52)

As per above it must be highlighted that despite the lack of official specific statistics, overall, the family in Cyprus has been put under a lot of strain due to the crisis and the MoU. Reforms undertaken in 2011 as part of the run-up to the MoU, coupled with the current austerity measures, have, amongst others, already reduced household income with '. . . rural households [being] more affected by the economic crisis.' (EU Network of Independent Experts on Social Inclusion 2014, p. 18). Many businesses have made salary cuts and/or redundancies, or even closed down, causing a significant reduction in household income. Further to this, there has been an increase in different forms of taxation; namely, property tax, the statutory corporate income tax, tax on interest income, the levy on deposits raised by banks and credit institutions, as well as an overhaul of the tax system for motor vehicles. Of importance also is the clause for the reduction of expenditure on various housing schemes. The MoU contains clauses for a Comprehensive Housing Scheme, discontinuing the special grant for acquiring a first residence, and ceasing the provision of loans and loan guarantees related to house construction and acquisition under all Government-administered housing schemes (Cyprus Memorandum of Understanding on Specific Economic Policy Conditionality 2013, p. 12–13). It must be highlighted that with the first Government initiated round of austerity cuts in 2011 households located in the middle and upper strata of the income distribution were affected. The post-MoU era, with the taxes imposed and the restrictions implemented on the welfare system will also affect low-income households (Koutsampelas and Polycarpou 2013a, p. 10).

Through the literature, reflective of the general situation is the poverty rate that is increasing at a rather high pace specifically between 2009 and 2013. This poverty rate increase is also directly linked to the 'explosion' in unemployment as analysed in the relevant section. Dealing with this major challenge faced by the government seems to be a key element in impeding the issue of poverty. The greatest poverty risk was faced by the elderly (those above 65 years of age); 40.6 % of the elderly in Cyprus faced the risk of poverty, whereas the EU average for the same period was 20 % (Statistical Service 2011, p. 6) 25.5 % of women faced the risk of poverty as opposed to 21.8 % of men. Furthermore, non-EU nationals residing in Cyprus were at greater risk of poverty and social exclusion than either people who were born in Cyprus or in any other EU country (Statistical Service 2011, p. 8). In 2011, 14 % of

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the population lived in households in which the annual income was below the poverty rate; that is, less than €10.328 per person (Statistical Service 2011, p. 9). What must be underlined though, is that whereas in 2011 the percentage of the population at poverty risk is decreasing (contrary to previous years), the figure for those at both poverty and social exclusion risk is increasing.

The current availability of data gives us limited insight into potential shifts in poverty, inequality, and social exclusion. Indeed, it is still too early to draw conclusions on more recently recorded poverty levels. In light, however, of the expectation that 2014 will be worse than 2013 in terms of economic performance (European Commission 2013a, p. 53), one can expect the numbers to be overwhelming. It may be predicted that with the signing of the MoU, an increasing number of households will fall below the poverty line (Koutsampelas 2011, p. 53). Not only is the unemployment rate increasing, but a very large number of social transfers are being adjusted. Moreover, one can expect that considerable re-allocation of the poverty risk will take place across all age groups.

In the run up to the MoU and the light of the mounting economic pressure in 2011–2012, the then Government, amongst other reforms of a number of social benefits, changed the eligibility rules of the public assistance scheme (Koutsampelas and Polycarpou 2013a, p. 10–11). These changes marked a shift from universality to selectivity and were based on stricter means-testing criteria as well as specifically for the public assistance scheme, there was a freezing of the benefit provided to over 43,000 individuals (Petmesidou 2012, p. 21).

The MoU specifically highlights that many social transfers have to be reformed through both merging and phasing out, and/or better targeting, so as to reduce the total number of beneficiaries while protecting the most vulnerable. This will be addressed through "the introduction of a common definition of income sources, financial assets, and movable and immovable property to be taken into account for means-testing" (Cyprus Memorandum of Understanding on Specific Economic Policy Conditionality 2013, p. 24). This involves, amongst other things, the lowering of income thresholds, accounting for wealth, and broadening the sources of income (Ibid 2013, p. 24).

In line with the MoU the current Government strives to focus the monetary aid provided to date, specifically to those, as President Anastasiades stated, "beneficiaries [. . .] who have an income below that which can assure them a dignified living, irrespective of age, class or professional situation" (Cyprus Mail 2013). It will strive to achieve this through the reformed public assistance programme—the Guaranteed Minimum Income (GMI) which was adopted by the Ministerial Council on 26 July 2013 and enforced 11th July 2014.

Specifically on the request of the Troika for a 200 million euro spending cut on social transfers the following are being phased out:

- Easter one-off allowance
- Single one-off allowance given to single old age citizens
- Heating allowance
- Marriage allowance

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- Temporary public assistance allowance

Whereas the following have suffered budgetary cuts:

- Special allowance to pensioners
- Christmas present by 20 %
- Funeral allowance by 30 %
- Maternity allowance instead of 75 % of the paid salary 72 % will be paid
- Allowance for buying a car by disabled
- Allowance for the blind by 9 %
- Summer subsidy holiday plan by 50 %

What is perhaps disheartening though, is that although from the economic point of view the GMI does, to some degree, address the fiscal issues of the Government, the reality still remains and seems to be further compounded by the MoU. Taking into account that about one third of the income of low-income individuals is derived from social transfers, these readjustments are expected to alter the rates of poverty in the country by increasing the percentage of the population classified as below the poverty line.

Indicative of the extent of the current ongoing conditions faced by many Cypriots today, are the following accounts:

> People drive to pick up food parcels in upmarket Mercedes and BMWs. What happened? What kind of disaster means once-affluent professionals now join queues for the basics of life? The answer: an economic crisis. (BritishRedCross 2013)

> George Savvides of the Greek Orthodox Bishopric of Paphos said that the church is feeding more than 2500 people in Paphos once a month; they also provide some families with financial aid.

> Most of the people we are helping come to us regularly for help. The welfare department can't cope and so they are referring them to us. The number is growing every day.[6]

4.5 From Universal to Targeted Policies

The ongoing economic crisis and in particular the demands, as set out of the MoU have, thrown the welfare system off its conceptualised tangent. The welfare reforms envisioned through the reformed public assistance programme, the Guaranteed Minimum Income (GMI), are clearly a shift from universalism to selectivity. This latter shift by far seems to be the most critical outcome of the impact of the crisis on the welfare system of Cyprus, the success of which will be assessed in the near future.

[6] George Savvides Cyprus Mail (2013) http://cyprus-mail.com/2013/09/22/church-municipality-and-private-charities-share-the-burden-in-paphos/

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What must be highlighted, are specific issues that relate to the fact that "welfare selectivism can be beneficial only under certain conditions; and can prove harmful if these conditions do not hold" (EU Network of Independent Experts on Social Inclusion 2014, p. 11). With regards to Cyprus where amongst others, "talk of corruption, a decline in trust vested in others and the sense that the state does not treat the citizen in anything approaching a fair or impartial manner" (Officer and Taki 2013, p. 11) does not seem to provide a sturdy backdrop on which to implement the GMI.

In addition to these vocal and deeply engrained critical societal issues, other factors also interplay and may jeopardise the implementation of the GMI. Information required regarding the economic situation of potential beneficiaries is imperative for means testing rendering this, to date, a major weakness for the government due to the fact that information does not seem to be readily available. In addition to this, the reliance and the role of the family along with the support the latter offers in particular to do with inter-generational support "... blur(s) the lines between the seemingly and truly poor [and so] distinguishing between the needier and the non-needier is likely to be the largest challenge of forthcoming social reforms in Cyprus" (EU Network of Independent Experts on Social Inclusion 2014, p. 11).

Other arguments posed by the EU Network of Independent Experts on Social Inclusion (2014) that may threaten the implementation of the GMI relate to induced behavioural changes, social stigmatisation and political economy arguments.

In a statement made by President Anastasiades, whereby he strived to engage and reassure citizens by setting the cornerstone of the reformed social policy, he underlined that:

> Beneficiaries will be all of our fellow citizens who have an income below that which can assure them a dignified living, irrespective of age, class or professional situation,
> (Cyprus Mail 2013)

Bearing in mind the recent history of Cyprus questions have been posed through numerous reports following a string of national disasters (such as the stock exchange, the HELIOS airplane disaster, the tragic consequences of the massive destruction caused at Mari, the crisis leading to the bail in and the MoU) whereby dysfunctional relationships have been identified "... between the civil service and their political masters, between civil servants and the efficient and effective roles they may be expected to discharge, as well as problematic relationships between citizen and political party" (Officer and Taki 2013, p. 2).

Moreover these are often embellished further with discussions raising "...issues of corruption, the phenomenon of rousfeti, gross state inefficiency, poor regulatory control and excessive bureaucracy" (Officer and Taki 2013, p. 26). In the light of this, invariably, one can only merely wonder at the level of success in the implementation of the GMI.

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5 Conclusions

The central question raised in this chapter concerned the main challenges the Cypriot welfare system is faced with today. It is clear that the state of the Cypriot welfare system is largely determined at present in terms of the Memorandum of Understanding (MoU), which contains clear provisions in relation to several welfare benefits. This was further elaborated in this chapter through an in-depth look at the country's social policy fields. In all sectors it is clear that we are currently experiencing a considerable rollback of the welfare state.

The origins of this economic downturn date back to 2008, when uncontrolled fiscal spending, combined with the effects of the global financial crisis, as well as the country's oversized banking sector, brought about the rapid deterioration of the country's finances. The austerity package that was eventually agreed between the Cyprus government and the Troika determines questions of social provisions and is inevitably central to any discussion concerning the Cypriot welfare state. In light of this, any other parameter impacting welfare provisions is largely overshadowed by the effects of the fiscal and economic crisis facing the country. This is clearly evident in the case of demographic trends; even though the country is faced with very low fertility rates and an ageing population, which inevitably puts further financial strain on the system of social protection, this issue is not currently central to the public dialogue in Cyprus, as it is marginalised by the wider economic and fiscal concerns.

A general sense of uncertainty is one of the primary contributors to the sentiment of weakening trust in the state and, correspondingly, to the legitimacy of the welfare system. In view of all these, it is finally acknowledged that, following more than three decades of a strong social trend of reliability by the Cypriot welfare state, its general level of legitimacy is today in decline and under threat of further delegitimization.

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Czech Republic: Awakening of Politics of Welfare

Vojtěch Ripka and Miroslav Mareš

1 Introduction

1.1 Paradoxes of the Czech Welfare System

In the debate on the Czech welfare system, there have been number of contradictory views ranging from the assessment of its post-1989 development as a clear return to the Christian democratic model of continental Europe (Aspalter et al. 2009) to the recombinant welfare model of Alfio Cerami (2010). As Aidukaite convincingly shows, structural and institutional factors lead to the conclusion that a distinct post-communist welfare system is not the most appropriate heuristic device even for the Czech Republic (Aidukaite 2011). Even if the hybridization detected earlier by Hacker still has some substantiation (Hacker 2009), the Czech Republic has seen some divergence since then both in the field of social security and pensions (see the relevant sections of this chapter) and might not be assessed as stable, as might have been the case by 2008 (cf. Bazant and Schubert 2009, p. 533). Still, the Czech Republic is in most respects, such as welfare system performance, timing and financing an outlier somewhat stretching the post-communist welfare system category towards conservative systems.

The period from 2007 till early 2013 saw the Czech welfare system undergoing multifaceted and paradoxical change, while most observers would probably agree that the scale of changes was by far the most radical since the mid-1990s, where the departure from the communist system lost its momentum. The paradoxical nature of the series of restructuring is at least fivefold. The first paradox is the stark contrast between the relative modesty of policy reforms and the strength of the public response, which is illustrated by the rise of the new actors, dealt with in the concluding section. The second paradoxical aspect of the development lies in the

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fact that contrary to the expected continuity in weak civil society response as the main explanation for the decay towards neoliberalism, the Czech Republic experienced both growing civil society-led coalition against the "'neoliberal attack' on social rights" (Potůček 2012, p. 278), an alliance of newly emerged radical groups, more traditional social democratic groups and ex-communist forces (Potůček 2012, p. 351). Thirdly, the conglomerate of measures commonly coined as neoliberal reforms includes anti-paternalist elements that enlarge space for choice for the groups vulnerable to social risks, such as parents with infants or clients relying on social services (see section on family), or mentally challenged people.

Fourthly, the most paradoxical aspect is the discrepancy between the rhetoric of the protest movement stressing the dismantling of the welfare system being detrimental to most of the population on the one hand (cf. Potůček 2012) and the fact that the level of measured "success", i.e. output remains largely intact: redistributive policies, though limited if measured as a proportion of the GDP (EUROSTAT 2013), are still very effective when it comes to reducing poverty or maintaining comparatively equal distribution of income as measured by the Gini index (EUROSTAT 2013). Even though these are merely crude measuring instruments, it still shows specifics of the arena of Czech welfare politics and policies.

Finally, it was agreed that the Czech welfare system lacked any particular strategy and its leitmotif remained relatively stable (Ripka and Mares 2009). What Saxonberg and Sirovátka assess as "neoliberalism by decay" (2009) turned into a modest neo-liberal drive with reinforced inner consistency and with a marked rise in meritocratic principles.

The challenges posed to the welfare system by the economic and financial crisis are in fact universal and double: simultaneous decrease in revenues and financial strain on the provision of welfare. Insurance systems should create partial protection against such adverse shock due to their theoretical self-financing nature. In theory, the social security, health and pension systems are all insurance based, and so they should have survived the challenges without much harm. However, as the insurance nature is or was rather a fiction, as we have shown earlier (Ripka and Mares 2009, p. 117; Ripka 2010), it could not. While unemployment due to the external economic crisis is seen as one of the greatest threats, demographic challenges are not perceived as pressing trends. Though rapid ageing in combination with low fertility might be much more alarming in their long-term impact compared to for instance in Germany, the awareness of the strength of the challenge is much less current in the Czech Republic.

1.2 Structure of the Chapter

The logic of the chapter follows the logic of recent developments in the welfare system and welfare politics. Two general challenges—the recent economic crisis and persistent population ageing—are shared by most European states, but they both have their "national" dynamic and country-specific implications and responses. The nature of these challenges in the Czech Republic mirror exogenous

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influences. In the case of the demographic challenges, attention is paid to the evolution of current trends in demographic behaviour, largely influenced by the communist regime from 1948 till 1989, which was to a large degree a result of subordinate policy within the "socialist camp". Moreover, the serious specific future challenge of migration also fits this perspective.

The following storyline of the economic crisis is not straightforward. The interaction between governmental social and economic policies in the Czech export-oriented economy cannot be understood without the dynamics of the political arena. A confluence of a number of factors could easily have been understood in a simplified way as a genuine, neo-liberal reaction to the economic crisis, while its roots go back well before the crisis and the final shape of reforms had been smoothed out.

The section on risks and opportunities reflect both these smoothening processes as well as the roots of changes and shifts in different policy domains analyzing family policies, reforms in pensions, labour market and health.

A considerable part of dynamics of welfare policies implying shifts, changes or smoothening out lie in the awakening of politics of welfare in the Czech Republic. That is why the last section on risks and opportunities is devoted to the rise of new actors and reconfiguration of the old ones.

2 Demographic Challenge

2.1 Demographic Behaviour and Its Roots

The set of problems brought about by an advanced state of population ageing, as Vanhuysse and Goerres (2013) call it, has shared, immediate and clear causes: increasing life expectancy and low fertility rate. Due to the change in the political and economic system in 1989, the Czech Republic has experienced untypical developments since 1990. A sharp decline in the fertility rate followed by most probably a temporary increase by the end of 2000s, rapid growth of life expectancy and uneven, but relatively low immigration and emigration flows.

The clear and immediate causes do not provide insight into understanding the economic, social, political factors that are behind these fundamental changes. Neither could simple descriptions and various projections lead to enhanced understanding of policy implications. The situation is made even more complicated by the legacy of the 40 years reign of belief in social engineering. This legacy of the communist rule increases scepticism of scholars and increases cautiousness of political arguments regarding pro-natalist policies reminding one of the State Population Commission (cf. Wolchik 2013).

The transformation in 1989 is described by Holmerová et al. as a transition in demographic trends, especially reproduction patterns typical for the "socialist model" (high and early marriage rate, a relatively high birth rate, low average age of mothers at childbirth, but also a high abortion rate and low life expectancy) to the Western European model.... developed in 1960s" (Holmerová et al. 2011, p. 80).

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More specifically, the Czech Republic has encountered the second demographic transition, but with country-specific features (Sobotka et al. 2003, pp. 270–271). This "catching-up" does not, at first glance, fit the post-1989 development due to the increase in fertility rate and also is not compatible with the relatively sharp increase in total fertility rate with its peak in 2008 (keeping nearly the same pace in 2009 and 2010; see Table 1). It does not entirely explain the extremely low fertility rates in place till early 2000s below 1.2, a pace similar to the well-known collapse in Spain (Bongaarts and Sobotka 2012, p. 87).

Both these differences could still be explained, since they partly share the same denominator—a change in the life-cycle of mothers, or in other words deferred childbirth. The direction of the change (rise) as well as the timing is not unique. It is consistent with the developments in 19 European countries (reflected in the mean fertility rate development of the EU27 in Table 1), itself a rare process open to interpretation (Bongaarts and Sobotka 2012, p. 110). The prevailing approach to understanding this reverse in the long-term trend of the decreasing fertility rate prevailing for some time in Europe is commonly ascribed to a halt in deferred childbirth, but compared to the other countries, the Czech Republic's relative steepness of change is very high.

Sobotka and Bongarts have tried to use the common denominator of life-cycle change and adjusted the fertility rate controlling for this change. In the case of the Czech Republic, the adjustment is crucial, since the mean age at first birth rose dramatically: from early 20s in 1990 to late 20s in 2010 (Bongaarts and Sobotka 2012, p. 87). The resulting "tempo-adjusted total fertility rate" present us with a completely different picture—a relatively smoother development, mostly decrease.

2.2 Demographic Forecasts

The precarious nature of demographic forecasting is well known and logical, it does not deviate that much from other forecasting exercises. However, given the magnitude of recent revisions, researchers should be aware of the high level of uncertainty in forecasts for the Czech Republic (cf. Burcin et al. 2010, p. 37). The revision that took place in 2008 recalibrating the demographic projection of 2003 of the Czech Statistical Office (CSO) included not just a "slippery" phenomenon of migration, that increased two times more in 2007 and 2008 than the highest variant of 2003 predicted, while the increase of the fertility rate was underestimated even in the high variant (1.33 predicted and 1.50 actually reached) (Šimek et al. 2010, p. 2). A similar shift was observed in 2013, this time regarding a marked decrease in net migration (see Table 2). If the previous section offered a relatively persuasive ex-post explanation for the unexpected deviation in fertility rate by the second half of 2000s, its ex-post character should be underlined.

The main issue at stake according to the CSO is not whether the population will drop in the future, but when it is going to happen. As a recent forecast by the CSO shows, the low and medium variants of forecasts place the drop already in this decade, while the high starts just 10 years later. Life expectancy seem to follow a

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Table 1 Total fertility rate in the Czech Republic and in the EU 27

GEO/Time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
European Union (27 countries)	:	:	1.46	1.47	1.50	1.51	1.54	1.56	1.60	1.59	1.60	1.57
Czech Republic	1.14	1.14	1.17	1.18	1.23	1.28	1.33	1.44	1.50	1.49	1.49	1.43

Source: Eurostat

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Table 2 Projection 2013

Year	Natural change			Net migration			Total change		
	Low	Medium	High	Low	Medium	High	Low	Medium	High
2012[a]	387	387	387	10,293	10,293	10,293	10,680	10,680	10,680
2020	−21,717	−14,668	−9356	328	10,082	19,841	−21,389	−4586	10,485
2030	−47,405	−34,620	−24,974	2226	11,659	21,110	−45,179	−22,961	−3864
2040	−54,573	−41,872	−31,950	3933	13,079	22,259	−50,640	−28,793	−9691
2050	−62,421	−49,222	−38,954	5571	14,384	23,291	−56,850	−34,838	−15,663
2060	−78,707	−66,739	−57,298	6733	15,238	23,885	−71,974	−51,501	−33,413

Source: CSO Forecast 2013
[a]Actual rate

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Table 3 Projection 2013—number of inhabitants

Year	Number of inhabitants by 1.1		
	Low	Medium	High
2012[a]	10,505,445	10,505,445	10,505,445
2020	10,439,628	10,532,373	10,623,359
2030	10,107,178	10,396,701	10,658,023
2040	9,618,111	10,126,418	10,580,711
2050	9,086,977	9,812,872	10,457,236
2060	8,446,121	9,388,273	10,219,438

Source: CSO Forecast 2013
[a]Actual rate

Table 4 Forecasted dependency ratio

Year	Dependency ratio	
	Aged (%)	Total (%)
2012[a]	23	45
2020	32	56
2030	38	59
2040	46	67
2050	59	82

Authors' own calculation based on the 2013 forecast by the Czech Statistical Office (medium variant)
[a]Actual rate

steady trend and the precision of its forecasts increases with time, but the net migration has increasing influence on the forecasts and actually is even less stable than the weaker factor of the fertility rate (Burcin and Kučera 2011, p. 62). That is why the most recent projection of the CSO reduced the migration rate according to its recent drop and projected the net population decrease even earlier from 2020 to 2030 according to the respective variant (Czech statistical office 2013a). There are three main trends of demographic development on which the up-to-date forecast is based (disregarding the possible temporary deviations): a steady (but relatively slower) increase in life expectancy, a steady, but low flow of net immigration and at least a steady fertility rate (see Table 3).

If we accept these assumed shifts, all the variants expect a drop in the total population in 15 years at the latest with high variant. However the resultant age-dependency ratio rises steeply and might have the most imminent consequences, as shown in Table 4. Doubling by 2040, it puts enormous pressure on the pension system, health care system and the long-term care, but first and foremost on the potential economic output to finance the welfare system (see Sect. 4).

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2.3 Migration: A Symbolic Issue and Precautions of the Future?

If we look from the perspective of the older member states of the EU, migration might seem to be an issue with rather symbolic or relatively distant future-driven salience in the public arena. The proportion of 4 % of immigrants in the population is far below the level of most countries of the EU, but it is amongst the highest (with Slovakia's 4.4 %) among the post-communist countries. What makes the phenomenon relatively more important is the fact that until 1990, the exposure to foreigners was minimal and the net migration remained negative. The growth of the immigrant population is a matter of the post-1989 period, while the more intense culturally diverse experience grew only in the last 15 years (beforehand, the dominant flow was from Slovakia).

With the steady increase in economic conditions, the Czech Republic transformed from a transfer country to final destination. Due to the geographical conditions which made the Czech Republic a Schengen country without Schengen borders, the inflow of immigration remained rather limited until 2005 (see Table 5). However, the rate of immigrants in the population subsequently nearly doubled between 2004 and 2008. The assessment of the Czech migration policy by Drbohlav includes "relatively mature integration policy" compared especially to Poland and Hungary with the "integration as assimilation", and no regularization of the irregular immigration (Drbohlav 2012). Table 5 shows recent instability in net migration with the peak in 2007/2008 and current slowdown.

The economic crisis and rise in unemployment added to the creation of a governmental programme of repatriation of legal as well as illegal immigrants in 2009. Though the support offered to cover the repatriation costs and the expectations of the government were high, the programme generally failed due to low interest of Vietnamese and Ukrainian workers, the two largest groups, to make use of this opportunity despite rising unemployment among these communities (Rulikova 2012, p. 265). Despite the aforementioned relatively low proportion of immigrants, a feeling of economic and social insecurity associated with these groups has risen significantly with the crisis (European Commission 2010). Though earlier analyses reported unexpectedly high declaratory solidarity with immigrants (van Oorschot 2008, p. 10), more detailed public opinion persistently show significant unpopularity of the two largest groups of immigrants, Ukrainians and Vietnamese (CVVM 2014).

The upcoming projected challenge is the deployment of migration in demographic policies in order to halt the population decrease. Projections differ in many aspects including the expected migration rise as a patch to low replacement rate of workforce caused by low fertility (called sometimes replacement migration). The positive net migration to the Czech Republic places it among Western countries (together with Hungary) and the projected level of net migration would substantially change the composition of the population in the next decades (Bijak et al. 2013, p. 55).

As the "pull" factors are caused predominantly by the relatively high economic performance (and potentially also by the welfare mix) and the immigrant workers

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Table 5 Crude rate of net migration plus statistical adjustment

GEO/Time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
European Union (27 countries)	2.3	1.4	3.7	4.1	3.8	3.3	3.3	3.2	2.6	1.7	1.9	1.8	1.8
Czech Republic	−2.7	−1.4	0.7	2.0	1.3	3.0	2.9	7.7	6.5	2.4	1.4	1.6	1.0

Source: Eurostat

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mostly filled branches in which the Czech labour force was reluctant to be employed in, "the foreign labour was rather complementary than competitive vis-á-vis domestic workers" (Drbohlav 2012, p. 213). Among the two largest groups, the Ukrainians mostly work manually in the construction industry and as cleaners, both with employee status, while the Vietnamese are mostly self-employed in retail and gastronomic services (Bartoňová 2010).

The pull trend is, however, highly uncertain and questionable taking the decline in economic performance into account. Above all, the role of migration, as Coleman reminds us, is not a stable and long-term solution, unless the Czech Republic allows for a "permanent and radical change in the cultural and ethnic composition" (2001, p. 6; cf. Rabušic et al. 2003). Despite the targeted migration policy, there seem to be few signs that Czech society and Czech politics are prepared for a steady flow of migrants especially given its current cultural and ethnic homogeneity and majority-defined conception of nation-state (Staerklé et al. 2010, p. 514).

3 Fiscal and Economic Crisis

Despite the fact that the global financial crisis has not directly impacted upon the domestic financial system and economy, the Czech Republic did not avoid the global economic crisis that started in 2008. The recession of the Czech export-oriented open economy with the volume of export of nearly 70 % in 2007 (EUROSTAT 2013) peaked in 2009 with a 5 % fall in GDP. The subsequent recovery that started in 2010 has not been persuasive and the economy returned to slight recession of over 1 % in 2013. The main reasons are usually identified as being a combination of decreased demand for Czech exports, decreased domestic demand and also relatively low investments, both public ones in the infrastructure and private ones to increase competitiveness. The two latter factors contrast sharply with the developments of the Polish economy (Schneider 2013b).

The indirect nature of the impact of the financial crisis on the Czech Republic has its origins in a number of causes. The most important is the historically rooted condition of the domestic banking sector. Due to the delayed privatization of the banking sector from the late 1990s, which was preceded by a process of cleaning of credit portfolios from the non-performing loans accumulated during the period of the so called banking socialism (Bárta and Singer 2006, pp. 208–209), the banking sector by the beginning of the financial crisis in 2007 was owned by West European banking houses. Among their assets, the Czech banks remained the least "toxic", which can be illustrated by the fact that balance sheet liquidity was the highest among the EU countries followed by Belgium (Frait et al. 2011, p. 8). Another reason for an indirect effect of the financial wave of the crisis was relative underdevelopment (or alternatively wise conservatism), of the financial tools such as securitization.

The secondary impacts of the economic crisis were, however, much more tangible, with an economic decline shown in Table 6. The spillover effects with a

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Table 6 Czech Republic: key macroeconomic indicators

Indicator		2007	2008	2009	2010	2011	2012	2013
GDP	%, y/y	5.7	3.1	−4.5	2.5	1.8	−1.0	−0.9
Household consumption	%, y/y	4.1	3.0	0.2	1.0	0.5	−2.2	0.1
Gross capital formation expenditure	%, y/y	15.5	1.9	20.2	5.4	0.8	−5.0	−4.4
State budget balance/GDP	%	−1.8	−0.5	−5.1	−4.1	−3.7	−2.6	−2.1
General government debt/GDP	%	27.9	28.7	34.6	38.4	41.4	46.2	46.0
State debt/GDP	%	24.4	26.0	31.3	35.5	39.2	43.4	43.3

Source: CZSO 2014

decrease in demand for cars at the top pushed the export-oriented Czech economy into recession of about 4 % in 2009 (Connolly 2012). This happened regardless of the car-scrap scheme in Germany, which itself brought about a short and sudden increase in early 2009 (cf. Myant et al. 2013). The initial response of the government was denial of severity of the crisis (Myant 2013, p. 187), probably motivated by upholding consumer confidence. This attempt was not successful since the consumer confidence fell as the stagnation of household consumption in 2012 shows (Czech statistical office 2013b).

However, the same conditions that contributed to a stable position of the Czech financial system affected the stance towards the active steps of the EU towards the failing economies. The rising scepticism towards the capacity of the EU to enforce its rules, especially in the eurozone, resulted in the decreasing will to contribute to the wave of bail-outs and in the end also to a very low domestic will to adopt access to the eurozone. The public support turned from the 2009 parity of support sharply to about 72 % majority against the adoption of the euro by the end of 2012 (Eurobarometer 2012b, p. 11), and indeed to very low overall support for any EU policy in general. What was still a relatively positive assessment of the impact of the EU membership in 2007 gradually turned into growing discontent in most aspects, including social security and prudence of economic management. It is paradoxically the very same instruments of the euro accession process not taken seriously by the euro zone members, namely the "Excessive deficit procedure" which started in 2009, that gave more fuel to the austerity plans of the right wing coalition government during the second phase of the economic crisis.

The domestic frustration caused by bail-out strategies promoting solidarity, excessive spending strategies and reluctance to follow rules by the eurozone members affected domestic politics (the impact of which we can see in Table 6). As in some other EU countries, the social democrats, with their spending plans and long-term support for the public sector and "European model of welfare state", were not able to convince voters about their prudent economic management in 2010 (LeDuc and Pammett 2013). The arguments associated with the crisis, encapsulated as the "Greek threat" by the political right or "Greek scarecrow" by the political left

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from 2009 (Stegmaier and Vlachová 2011, p. 239), were mostly in line with neo-liberal measures planned anyway by the right-wing coalition. The austerity plans and threat of economic sustainability finally became one of the main decisive factors in general elections in 2010 and boosted the legitimacy of the newly formed right-wing government for cuts (Linek 2011, pp. 952–953). Welfare system measures did not play any substantial role either in the fall of the government coalition in 2013, nor subsequent general elections. Rather than welfare cuts boosting social democracy, it was the governing incompetence that gave rise to populist movements without any stable welfare policies.

The reaction towards the upcoming longer crisis was thus mostly a series of budget cuts, referred to even by the very members of the government including the prime minister from 2010 as "inconsiderate (mechanical) budget cuts" (Kubík 2010), while the population reacted with a stark decline in demand. These cuts affected not only state administration as a whole and investment projects such as the improvement of infrastructure or defence capacities, but also part of social expenditures—in real terms mainly family related benefits and health care (EUROSTAT 2013). The depth of cuts is being questioned, as the main driver of consolidation of public finance was rather an increase in VAT (Roháč 2014). As Schneider concludes, the relatively mild welfare cuts may have been kept to the maximum of societal acceptability (2013a).

The state administration employees faced both a wage freezeand also staff cuts. Infrastructure projects were reduced. Moreover, as can be seen on Table 7, even though the reduction of debt was declared as a priority, the right-wing coalition calling itself "the government of a responsible budgetary control" was not able to halt its rise. Still, compared to the mainstream Keynesian answer to the crisis in the eurozone, where the debt rose from 2007 to 2012 by 24 %, the Czech Republic's debt rose "only" by 18 % (Table 7).

The world economic crisis is persistently perceived as the greatest imminent threat to the Czech Republic by the population (CVVM 2012). This could be ascribed to the fact that it became an integral part of the political campaign to use the "Greek threat", but also to a lesser extent to less evident types of threats such as ageing. However, as an open, export-oriented economy, the condition of the markets in the EU, especially Germany, is a key factor for domestic economic development. However, for the second "dip" of the recession, domestic factors have to be blamed as well including the quality of governance (Carney et al. 2013).

Table 7 Government consolidated debt in percentage of GDP

GEO/Time	2007	2008	2009	2010	2011	2012
European Union (27 countries)	58.9	62.2	74.5	80.0	82.4	85.2
Eurozone (16 countries)	66.5	70.3	80.1	85.6	87.4	90.8
Czech Republic	27.9	28.7	34.6	38.4	41.4	46.2

Source: Eurostat

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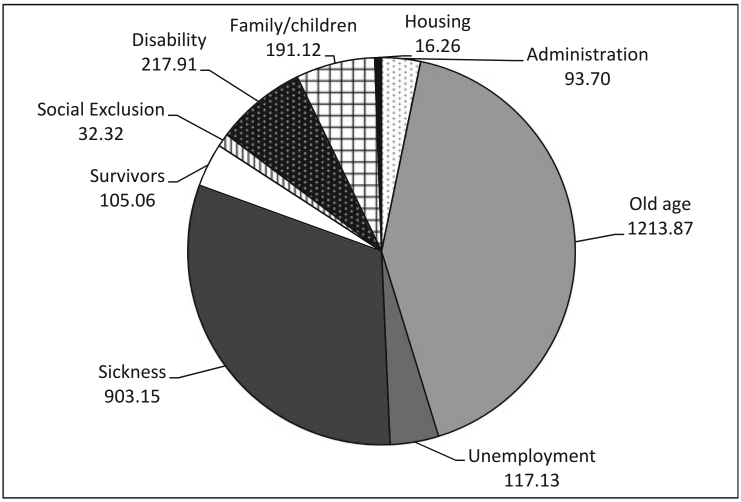

Fig. 1 Social protection expenditure by function in 2011 (in PPS per head). *Source*: Eurostat

4 Risks and Opportunities[1]

4.1 Family and Children

The family policy domain was a sector where the effect of demographic behaviour was experienced in the most immediate way. The pressure created by the aforementioned demographic "deviation", i.e. temporary increase in the birth rate up to the peak in 2008, caused a rise in demand on pre-school education and care facilities. Moreover, as it departed from the trend of a gradual fall in the birth rate in previous years, it created a kind of pressure in reverse direction on the capacity of the daily care centres.

The system of formal childcare remained largely unchanged with its two disparate tiers: up to 3 years are subject to day care centres under the supervision of the Ministry of Health. The pre-school education from 3 up to 6 years (until regular compulsory schooling) is supervised by the Ministry of Education. The overall usage of day-care centres with its 5 % share in the cohort is relatively low, compared both to the pre-1989 level, but also to other European countries. However, the crisis might have impacted on its recent rise, since the share shot from 1 % in 2008 to 5 % in 2011 (EUROSTAT 2013).

The number of children in pre-school education (for children from 3 to 7 years) remains at about the same level as in 2008, returning to the level of 1991 (MŠMT 2013). On the one hand, the composition of pre-school education and care providers

[1] For the social protection expenditure in the different policy domains in 2011, see figure 1.

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did not change much since the coming of the stronger cohort with highly predominant municipality-run facilities. On the other hand, nearly doubling the share of the pre-crisis capacity of private facilities (even if the change is just between 1 % and 2 % share) (MŠMT 2013) might be attributed also to limited elasticity of supply by municipalities. It might reasonably be expected that the role of the roman catholic church, negligible in their share in pre-school facilities (0.3 %), is going to rise soon as a result of church property restitution that started on a mass scale just in 2013 (Anderson 2013).

In the case of primary schools, the practices differ highly according to regional approaches, and data on the demand and use of school clubs [školní družina] is limited. However, it was estimated that an average of 50 % of children in the 7–11 years age cohort is regularly using these facilities, while the offer decreases for the older groups in primary schools (Kuchařová 2009).

Limited capacity and internal migration that changes the local demand brought about a number of public disputes. The most visible one ended with a statement by the office of Ombudsman on the criteria for the selection of pupils for pre-school education (Public Defender of Rights-Ombudsman 2011), where the condition of an offer of a place was based on permanent residence registration under the respective municipality.

Features of family policy regarding social security maintained a trend set up in 2007: pluralization of benefit schemes. Parental leave with parental allowance remains multi-track, and in its longest option is still among the highest in the world (up to 4 years) (OECD 2012). Introduction of informal forms of care and facilitation license procedures for day care centres provided by the employer did not become much proffered yet (Meuleman and Chung 2012), but it remains an option for the portion of the cohort for which the capacity of formal care does not suffice.

Leaving the individualization of parental leave in 2008 aside (Ripka and Mares 2009, p. 112), the "interrupted dual-care model" that started in the early 1970s and diverged from the mainstream policies of state socialism remains generally unchanged (c.f. Hašková and Klenner 2010). Apart from parental leave, the dominant measure of family policy, the family welfare mix is composed of:

a) fluctuating, but relatively important indirect support of both dependent children and parents on parental leave through tax allowance,
b) deployment of all pillars of social security measures—sickness insurance benefits, state social support benefits and social assistance.

Sickness insurance includes mainly maternity cash benefits and care benefits for taking care of ill children. The state social support does not include only multi-track parental leave, but also means-tested child allowance (European Platform for Investing in Children 2014).

As an analytical report of the Czech Statistical Office from 2010 shows, despite the fact that the share of unemployed women after paternal leave is disproportionately high (ČSÚ 2013), only a minority of the population is dissatisfied with the

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options at hand (mainly facility-wise). However, the rate of dissatisfaction of about 6 % is more telling when broken down by gender—nearly all those dissatisfied are women, which means about 12 % (ČSÚ 2013).

The most important change in policy regarding childcare is a long-term plan to de-institutionalize the care for abandoned children. Pressured by the EU (cf. Ivanova and Bogdanov 2013), the general shift from institutionalized care towards professionalized foster care was planned in 2012 through the National Strategy for Disadvantaged Children from 2012. With one of the highest relative proportions of children in residential, institutionalized care centres in Europe (Hamilton-Giachritsis and Browne 2012), the system became contested not only by experts in numerous disciplines (Browne 2009), but also from a legal point of view regarding the right-based strategy at Czech and international courts (Cilečková and Chrenková 2011). The resulting National Strategy and National Action (MPSV ČR 2013) plan seem to directly address the issue by the gradual dissolution of institutional care and its replacement by foster care. The plan should be fully accomplished by 2018.

Sustainability of family policy, apart from its impact on work-life harmonization, remains beyond political debate, but might soon become a pronounced political problem. The fluctuation of costs with the boom in 2005/2006 and partial retrenchment in 2008 (Ripka and Mares 2009, p. 112) should not divert attention from the largely unchanged level of costs of maternity and parental leave or indirect support by the reduction of taxes in particular. For the year 2009, that means after most of the parametric retrenchment changes occurred, OECD measured the highest "spending on maternity and parental leave per child born (as a % of GDP per capita)" among all the OECD countries, nearly three times more than the average level of 27 OECD countries (OECD 2013).

4.2 Pensions

The long-lasting debate on restructuring of the pension system, which started in the mid-1990s, has concluded with the completion of a three-pillar system in 2013. The debate entered a more focused and seemingly structured phase by 2004 with the establishment of an expert committee that offered models capturing pension plans of all relevant political parties (cf. Ripka 2010). However, no consensus even among coalition partners was found until 2010, which made the Czech Republic a regional outlier (Orenstein 2008). The proposed three-pillar system was fully introduced by adding the second one in 2011, effectively only from 2013. The launch of the second pillar final version became relatively low key. A voluntary capital system run by private funds (and an alternative of a state run one) is financed by an opt-out option of merely 2 % paid by the employee and 3 % supplement redirected from the employees' pension contribution to the state pension system. The main argument behind the second pillar is to support sustainability of the system. For those workers who opt-out, the contribution rate to the second pillar decreased from 28 % to 25 % (c.f. European Commission 2012, p. 97).

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Regarding the fact that a number of CEE countries took the other direction by renationalizing (Hungary) or decreasing contributions (Poland, Slovakia) of the second pillar (Hirose 2011, p. 9), the result is less modest than at first sight. Still, a reversal of this measure is declared by almost all potential parties to form the new government after early general elections in October 2013. Given the fact that the introduction of the second pillar did not meet with public acclaim when less than 80,000 Czech citizens over 35 participated, the scrapping of the plan directly referring to Hungarian Orban's course of action (Chamonikolas and Laca 2013) is probable.

The redistribution principles of the first, state pillar became a subject of several judicial disputes regarding the replacement rate, which made it extremely egalitarian given its insurance-based nature (Ripka and Mares 2009). With the lowest possible majority, the Constitutional court declared the pension formula in 2010 null and void and ordered the government to implement a more adequate solution for higher earners (Ústavní soud České republiky 2010). The government subsequently raised the replacement rate for workers earning more than 1.5 times average earnings (Hirose 2011, p. 10). The dissenting views as well as most political parties viewed the ruling as overstepping of the separation of powers and the result increased fiscal strain. Generally, there are two opposing views on the current system and its future development. A number of economists warn against keeping the defined benefit system and call for a more responsive defined contribution scheme (European Commission 2012, p. 36). It is highly improbable that the Czech Republic is going to change. The social policy experts, warning against rising social inequalities in the region, endorse the Czech (and Slovenian) gradual shifts in the pension scheme for keeping the re-distributional effects at work (Hacker 2009, pp. 154–155).

Indisputably positive effects of the pension system is reported by D'Addio et al.—mechanical financial incentives to continue to work between 60 and 65 years of age (2011, p. 625). A reverse direction is, however, fostered by the perceived age discrimination by employers. According to recent topical Eurobarometer, being over 55 is perceived not only as the strongest source of discrimination by employers in the Czech Republic, but also as the most prominent (Eurobarometer 2012a, pp. 43–46, 88).

The European Commission's Ageing Report and Budgetary Projections, building on the creation of the second pillar, projects a relatively mild short term budgetary strain until 2020 (European Commission 2012, p. 39), but the risk in the longer run are forecasted as inevitable and might become even more pronounced as the second pillar is dismantled.

The economic downturn, a result of global economic crisis, increased the strain on the pension system and added to the longer-term effects of population ageing. Even though contributions of the PAYG system are not held separately and become a regular part of the general state budget, records of revenues are naturally kept. The balance of the system historically remained in surplus from 1993 till 1997 and again from 2004 till 2008, when it entered a period of rising deficits (Král 2011). The third pillar did not alter its stable, but limited role. However, with the abolition of the

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second pillar, an overhaul of the whole pension system including the construction of the third pillar must follow (Takáč 2014).

4.3 Labour Market

The structure and shape of the labour market has been affected by the economic crisis both on a substantial as well as symbolic level. The importance of the fact that the unemployment rate reached its post-1989 peak, as we can see in Table 8, is associated with what Vanhuysse calls Czech exceptionalism (Vanhuysse 2006). The transition strategy after 1990 (or more precisely 1992) included strategic use of labour policy including soft budget constraints and active creation of jobs by the government. As we have singled out earlier, the tradition of prioritizing a low unemployment rate was valid even in 2000s as a constituent of its welfare leitmotif (Ripka and Mares 2009, p. 103).

The labour policy continued with a series of shifts towards dismantling of the social democratic conception engendered in the Labour code from 2006, while the main effort started in 2011–2012. In the name of increase of flexibility of the labour market, the government kept on reducing the legal protection including prolonging the probationary period, allowing more space for fixed term contracts. Moreover, two different initiatives arose as a direct and temporary measure to the economic crisis, both to protect the already employed. The Czech version of the German *Kurzarbeit*, a subsidized short-term working scheme and governmental support for training activities of employers had some impact, especially in 2009. Their appeal still appears to be limited to only a small fraction of the employed population (Clasen et al. 2012, pp. 11–12). Apart from that, the Czech Republic reduced social contributions paid by employers (Bonnet et al. 2010, p. 59). Generally, the balance gradually shifted towards the creation of new jobs, both by direct support and by a decrease of protection, while active labour market policy measures remain relatively marginal and conditions for unemployment benefits became tighter.

From the Lisbon strategy, the economic components were taken much more seriously. The general tendency against social investment associated with the labour market has been slightly reversed by the implementation of European Social Fund programmes (Nikolai 2012, p. 109). The issue of effectiveness of active tools of employment policies remains debatable. Some experts are sceptical towards active labour market measures due to their high costs and low effectiveness in the early 2000s (De la Porte and Jacobsson 2012, p. 140). However, local experts point

Table 8 Total unemployment rate (not seasonably adjusted)

GEO/Time	2007	2008	2009	2010	2011	2012
European Union (27 countries)	7.2	7.1	9.0	9.7	9.7	10.5
Euro area (17 countries)	7.6	7.6	9.6	10.1	10.1	11.4
Czech Republic	5.3	4.4	6.7	7.3	6.7	7.0

Source: Eurostat

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out the marked effects of active labour policy in spite of a decrease in its impact due to the economic crisis, especially in the case of re-qualification programmes (Hora 2012, pp. 42–43).

The single most controversial measure was making community service a condition of unemployment benefit [veřejná služba]. Implemented in 2012, it became a matter of political and legal contention. The debate focused on a balance between human right issues and reactivation (or socialization) effects, while the founding principles of the construction of employment insurance remained largely devoid of public attention. The final say, as in a number of other cases, was had by the Constitutional court, which prohibited making unpaid public work a precondition of such benefits on the grounds of human dignity (Ústavní soud ČR 2012). As in other cases, the Constitutional court has strengthened its position as a veto point of policy change.

The recent rise in unemployment from 2008 (see Table 8) contributes to a very high perception of insecurity vis-*à*-vis other EU countries (Ervasti et al. 2012, p. 58). Unlike most EU countries, youth unemployment did not explode (Brada and Signorelli 2012), since from a stable 18 %, it rose to nearly 20 % in 2012, similar to the level of 2004 as Table 9 shows. The set of factors contributing to the relatively low level of youth unemployment include a rising educational level as well as a low rate of temporary employment forms (Scarpetta et al. 2010, pp. 17–18).

The general feature of the Czech labour market consisting of comparatively low level of part-time workers could be interpreted in at least two, contradictory ways. The positive interpretation of the share of only 6 % of part-time contracts (compared to the mean of 20 % in the EU28) could be either hailed as a result of the high level of protection of labour. Alternatively, it could be criticized as a negative aspect of the inflexible labour market impacting especially on women. This feature remained largely unchanged by the economic crises, disregarding measures implemented by the Czech government to support part-time employment (Clasen et al. 2012, p. 11). The impact of the economic crisis on long term unemployment began in 2009, but an expected dramatic increase did not occur as the level returned to pre-2008 level about the EU average (EUROSTAT 2013).

The dualist nature of the labour market policies remained in place and resembled the situation in Germany (Clasen et al. 2012, p. 57). The policy mix consists mainly of compensatory policies. Most measures implemented following the economic crisis were just parametric and led to re-commodification rather than social investment (De la Porte and Jacobsson 2012).

4.4 Health

The series of shifts of regulatory and organizational nature in the health care system since 2007 were not abrupt, but could be assessed as substantial. The successful reconfiguration of some of the basic parameters of health care, such as the number of hospital beds (excessive in 1990) and an increase in the relative number of physicians to the EU level (Hacker 2009, p. 158), did not deepen, but the set of

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Table 9 Youth Unemployment (less than 25 years, annual average)

GEO/Time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	17.0	16.6	16.0	17.6	**20.4**	19.3	17.5	10.7	9.9	16.6	18.3	18.1	19.5

Source: Eurostat

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newly implemented reforms launched novel instruments of cost-sharing by patients redirecting it from its previous social democratic settings.

The regulatory, cash payments introduced in 2008 made a paradigmatic change and became the most visible symbol of changes in the welfare system. Despite the modest amount of these so called patient fees (less than 1.5 euro for a single use of medical services) and caps on the annual expenditure of the individual patient, they became a flagship of social democratic opposition which called them "anti-social". The original intent of the fees was dual: to limit the excessive outpatient contacts with medical personnel and to increase the financial stability of the system by diversifying the sources of its financing (Antonova et al. 2010). Though the data does not indicate a radical increase in the financial burden even among the vulnerable groups, Krůtilová and Yaya conclude that they resulted in catastrophic payments by pensioners and low earners (2012). The fees might have played a positive role in keeping the healthcare budget sustainable (Antonova et al. 2010). The private health spending remained comparatively low, on the same level as the lowest share of out-of-pocket expenditures in France and the Netherlands, well below a country of the CEE (EUROSTAT 2013).

More recent contentious issues are definitions of the standards of health care covered by health insurance. Up to now, the system does not allow payments for medical services above a certain standard, which clearly increases space for corruption (Muszyńska et al. 2012). However, the current government faces strong opposition both from the interest groups of providers of services and the social democratic opposition, also due to the fears about the Ministry of Health succumbing to the interests of the pharmaceutical industry in the process of defining these standards.

The chief consequences of the economic and demographic challenges thus remain largely unresolved—future regulation of health care costs and a gap between health care and social services for the elderly (Holmerová et al. 2011, p. 90).

5 Conclusion

5.1 The Rise of the "New" Actors

There were two evident types of changes identified in previous sections of this chapter. Changes in policies appeared in an interplay with the appearance of "new" actors such as the Constitutional court, a new repertoire of contentious politics and restructuring of coalitions. The assessment of the type of change, with which this chapter concludes, may not be grounded without a review of these changes on the part of political actors within the welfare domain.

Since 2006, with the exception of a gap year 2008/2009, the coalition governments were dominated by a right wing party or parties. Despite the fact that the steps towards restructuring of the egalitarian, nominally insurance based social security system were mostly moderated by coalition parties, the number of

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plans or decisions of the governments gave rise to the importance of players previously less powerful or at least less visible in the social policy sector.

The social-democratic opposition appealed against a number of major restructuring socio-political efforts of the government to the Constitutional court, including measures in the labour sector, pension and health and social security which extended the political contention to this powerful judicial body turning it occasionally into an effective veto player. The evolving role of the Constitutional court in the welfare agenda remains to be assessed. However, despite the fact that the grounds of appeal relevant for social policy are various, the predictability and self-restraint of the Constitutional court towards politics are in question. While the rejection of appeal against the introduction of "regulatory payments" in health services from 2008 based on the principle of restraint, the same principle was not used for a rejection of a set of cuts in social expenditures ruled against due to a perceived procedural squeeze-out of the opposition in 2011.

The case of the individual pension from 2012 is an example of the unpredictability and puzzling nature of the rulings associated with the welfare system. In a case that seemed to present a marginal factual problem of the creation of old-age pensions for individual Czech citizens stemming from their employment in the former Slovak part of the federation, the Constitutional court ruled ultra vires of the European Court of Justice (cf. Komárek 2012). This unpredictability and activism does not mean that the government does not itself occasionally supply fuel with its lack of respect of the constitutional principles, which was clearly the case in the regulation of rents, several times circumventing the constitutional court's ruling in the 2000s (Lux and Mikeszova 2012).

The fact that the trade union density is well below the OECD median (as well as mean) of that in the OECD countries (as of 2009, OECD 2013) definitely does not mean that trade unions play a negligible role in the Czech welfare system. The main change in behaviour of trade unions following the economic crisis was not to do with the level or impact of the activity, but rather in their repertoire of action employed and in the composition of coalitions they have entered (cf. Myant 2010). The general trade union movement remains tightly connected, both on a personal as well as policy level, with social democrats.

From direct cooperation on key legal norms once the social democrats were in power: labour code (cf. Ripka and Mares 2009), the trade unions went over to direct action. A series of strikes in late 2010 till mid-2011 (and in early 2012) (The Economist 2010) not experienced in the Czech Republic since the early 1990s, showed the growing discontent and readiness to act against what the coalition of protesters led by the trade unions termed "škrtforma" ("cutform") (Czech-Moravian Confederation of Trade Unions (ČMKOS) 2011). A large strike, at least in domestic terms, that included a previously unknown blockade of transport in June 2011 was reinforced by a neoliberal dismantling of the welfare state (Hála 2011). The coalition, including newly arisen NGOs, was mobilized by the alleged attack on the lower classes. Though both the scale and the drivers should not be given too much recognition from a European or international point of view, it is still a new phenomenon that entered the Czech welfare politics and public space in general. It

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altered the attitudes towards the contentious repertoire of welfare politics and released democratic instruments, such as blockade and strikes, from previous burdens associated with the alienation of trade unions from the society due to their largely discredited communist past.

5.2 Change of Welfare System?

A critical juncture in the Czech welfare system development can hardly be identified, at least without space for retrospection (Capoccia and Kelemen 2007), but as Mahoney and Thelen stipulate, even non-abrupt, slower changes might be highly consequential (2010). First, the awakening of politics of welfare should clearly reject the applicability of Pierson's "era of austerity" thesis (2002; Pierson 1996). Its defining feature, the blurring of political differences vis-à-vis practical political steps of retrenchment simply does not apply since differences between political parties persist and are even growing (cf. Finseraas and Vernby 2011).

The detected neo-liberal drive by the right-wing governments from 2006/2007 were paradoxically boosted (or at least not averted) by the economic crisis forming a conjuncture (Pierson 2004). The largely exogenous shock induced by the crisis rather increased the level of discretion in enforcement and weakened veto possibilities (Mahoney and Thelen 2010), even if probably just for a limited time.

Following Streeck and Thelen's scheme (2005), the changes in most chief policy domains were rather incremental. Some sort of backlash with a new government led by social democrats seems to be inevitable, at least in the case of the second pillar of pensions and cost-sharing by patients in health care. However, the gradual push towards individualization and increase in meritocratic elements within the welfare mix might persist and abrupt changes from the upcoming governments are going to be curbed by demographic and economic challenges.

If we concluded in 2008 (Ripka and Mares 2009, p. 119) that there is a space for a new welfare consensus, on what platform could it be built given the awakened politics of welfare? A set of largely unresolved political challenges with the social housing and social exclusion at the forefront is a prime example of a divisive issue that prevents any basic agreement on the shape of welfare system. Regardless of ideological differences, a major driver of change was increased individualization since 2006 (Ripka 2010). Amable (2011, p. 23) convincingly demonstrated that the strengthening of the individualistic aspects of welfare systems is shared by the modern left. Individualization might well be the core of a new welfare consensus and lead to the awakening of a new politics of welfare in the Czech Republic.

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Crisis? What Crisis? Restructuring the German Welfare System in Times of Unexpected Prosperity

Sonja Blum and Johanna Kuhlmann

1 The German Welfare System in Times of Crisis: Continued Welfare State Restructuring or Back to Old Habits?

Crisis—What crisis? With the benefit of hindsight, it is easy to state that the financial and economic crisis since 2007 has not shown an extensive influence on the German welfare system. However, in general terms, also other developments could have been expected: With its social insurance institutions, the German welfare system is still very much centred around the "labour question", indicating the provision of income replacement to (traditionally: male) workers in the event of social risk (Palier 2010: 604). The financial and economic crisis put the labour question at the centre by raising fears that business closures would lead to rising unemployment and overstretch the social systems. Overall, theoretically, the comparative welfare state literature expects far-reaching reforms and particularly retrenchment in times of economic crises: "All theoretical perspectives within comparative welfare state research predict radical reform in this circumstance" (Vis et al. 2011: 338). On the other hand, empirically, the German welfare state seems to be characterised by rather minor adjustments over the last years.

Talking of rather minor adjustments over the last years, it has to be kept in mind that the main crisis of the German welfare state lay already in the late 1990s and early 2000s. Back then, Germany was internationally portrayed as a "conservative welfare system" par excellence, as such being particularly struck by challenges such as new social risks (e.g. work-family reconciliation) and at the same time being incapable of constitutive reforms (Esping-Andersen 1996). Then, however,

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system-shifting reforms have been identified, particularly conducted by the first and second red-green governing coalitions (1998–2005) and the subsequent grand coalition of Christian and Social democrats (2005–2009). Against that background, Germany became kind of a prime example of paradigmatic change in the Bismarckian welfare states (Palier and Martin 2008)—now brand-marked with an "eppur si muove" (Häusermann 2010).

The constitutive social policy reforms thus were already implemented *before* the financial and economic crisis set in. It can partially be traced back to these reforms that, in a way, Germany has turned from the 1990s "sick man of Europe" into an economic model country. This proves true despite the economic crisis: Indeed, the unexpected upswing of the German economy and decreasing unemployment rates are remarkable (see Sect. 3).[1] Within the EU, Germany thus finds itself in an area of conflict: On the one hand, there is the view of the "model pupil" who now has to pay for other countries' debts. On the other hand, and more prevailing, there is the view of the crisis as indeed a joint, European crisis also endangering the German economy and welfare state—as being member of the Euro zone, particularly dependent on exports etc. What is more, chancellor Merkel has repeatedly stressed the European Union (and especially the Monetary Union) as common destiny (*Schicksalsgemeinschaft*) for preserving the European idea of peace and liberty (Handelsblatt 2011).

Summing up, first, the main reforms of the German welfare state were implemented right *before* the crisis and partly explain the comparatively successful developments of the economy and labour market. Second, this seems to be one reason why rather small, successive reforms were implemented in recent years instead of ground-breaking shifts. Nevertheless, the question remains whether Germany continued its path entered before the crisis or altered it. Course changes can also be anchored in rather "minor" social policy reforms, but over time accumulate and lead to larger shifts (Streeck and Thelen 2005). Especially, the cost-intensive social-investment path could be assumed to be in danger in the face of economic threats and austerity needs.

So the question is how the German welfare system has evolved since the beginnings of the financial and economic crisis in 2007. Against this background, this chapter focuses on two main questions: First, what have been the main challenges the German welfare system has to face? And second, which reforms have been conducted in reaction to these challenges and what pathways has the German welfare system followed in recent years?

Regarding the timeframe of our investigation, we focus mainly on the developments since the outbreak of the financial crisis in 2007. However, at times we also need to go back to the early 2000s when recent developments in the policy sectors where initiated.

[1] This chapter was completed in July 2015, i.e., before the large number of refugees coming to Germany was on the political agenda. Thus, the question how they might change the structure of the German welfare system will not be part of this chapter.

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As Obinger (2012) assumes, welfare state retrenchment will happen at least in the medium term—amongst others, since there is a need for savings and there is almost no scope left in other policy areas (such as cutting back the military, selling state-owned enterprises, increasing taxes). However, Vis et al. (2011) have shown at least for the German austerity package of 2010, that savings could be made exactly there: Between 2011 and 2014, 80 billion € should be saved primarily through higher taxation, cancelling subsidies, as well as major reforms of the army and public administration. At the same time, 12 billion € were foreseen in the savings package as investments in education and research (Vis et al. 2011), which might be seen as an indicator for a continued social-investment strategy. However, the savings package also included cutbacks in social policy benefits and entitlement regulations, some of them seeming minor on their own, but taken together carry weight (see Sect. 4). The latter points again to the question whether Germany continued with its reform path entered before the economic crises or altered it. For the immediate crisis reactions, Chung and Thewissen (2011: 354) find the latter to be the case: Germany, the UK and Sweden, they argue, fell back "on 'old habits' by adopting social and unemployment reactive policies that can be identified based on their institutional legacies". Chung and Thewissen (2011: 366) see the German reactive policies (e.g. reduced working hours regulation, phased early retirement scheme), marked by "conservative characteristics" as they were directed at "maintaining traditional status relations in labour markets".

On the other hand, social policy fields have been increasingly characterised by "opening up opportunities". For example, education policy, more and more, is seen as a welfare issue. Also family policy and particularly questions of work-family balance have gained importance since the 2000s. While the German welfare system has taken responsibility for these new social challenges, at the same time in the "traditional" social policy areas an overarching aim has become to increase individual responsibility by new institutional arrangements, e.g. for pension provision (Hegelich et al. 2011: 12).

The main challenges to European welfare systems that are paid specific attention to throughout this book can be prioritised as follows for the German welfare state. First, socio-demographic changes (Sect. 2) can be regarded as one of the biggest (especially future) challenge for the German welfare system: They question the sustainability of the social insurance systems and have also been used as a central argument for reforms in the political debate. In contrast, the fiscal and economic crisis (Sect. 3) is not regarded as a particular challenge to the German welfare system as the national economy recovered very quickly from the crisis in the second quarter of 2010 and since then has not been much affected. Nevertheless, there have been important policy changes in reaction to the crisis that need to be addressed. Against the background of the specific socio-demographic problems the German welfare state has to handle, the (re-)balance of welfare policies addressing risks and opportunities (Sect. 4) represents a second large challenge. Many of the implemented reforms of the welfare state can primarily be seen as a reaction to socio-demographic change, while other policy changes also point to additional challenges. Risks and opportunities are prioritised as a significant challenge as we

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witness far-reaching changes from social compensation towards social investment in most policy domains. What is more, although many reforms have already been conducted, still many challenges remain unsolved and require a reorientation of traditional risks and opportunities policies. The conclusion (Sect. 5) summarises the main findings of the chapter and also discusses whether the on-going developments may pose a threat to welfare state legitimacy.

2 Socio-demographic Changes, Population Ageing and Disadvantaged Groups

Socio-demographic changes and their implications are certainly among the main challenges the German welfare system has to face. While the socio-economic and corresponding demographic shifts in Germany have been evident from the late 1960s, they were only sustainably anchored on the political agenda as a problem to be tackled from the 2000s. The main focus hereby has been on population ageing, a shrinking workforce and a growing number of pensioners. Most recently, the ongoing sharp rise in migration changes the expected socio-demographic constellations and associated challenges dramatically. In the following, we will focus on these developments and population forecasts. Afterwards, we will attend to the development of atypical employment forms and poverty levels, with a focus on disadvantaged groups most hit by these phenomena in Germany. In Sect. 2.3, consequences for the German welfare state will be discussed.

2.1 Demographic Developments and Population Forecasts

In 1999, the German parliament commissioned a committee of inquiry on the economic and social consequences of demographic change. In its final report of 2002, the commission analyses challenges and possible policy options in the fields of labour market policy, education and childcare, migration, pensions, health and long-term care (Deutscher Bundestag 2002). In the 2000s, demographic change and population ageing have been an often-used and powerful argument for reforms in many policy areas. For example, demographic change was the first and foremost argument for the cutbacks in public pensions and parallel strengthening of private arrangements (Hegelich et al. 2011: 68). Also, the introduction of an income-dependent parental leave benefit explicitly followed the goal of increasing (later called: stabilising) birth rates (Mätzke and Ostner 2010).

Germany has one of the lowest fertility rates across the EU and the OECD countries. The total fertility rate (TFR) in Germany increased after WWII reaching a peak in the mid-1960s and then dropping sharply from 1969. Fertility rates have been relatively stable during the past decades—with about 1.4 children per woman (1.41 in 2013). As elsewhere, trends are related to other changes in fertility behaviour (such as a rising age of the mother/father at first birth or higher percentages of childlessness), to individualisation, and to the pluralisation of family

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forms (e.g. with single parents or blended families gaining importance). The gap between the “ideal” number of children (as reported in surveys) and the “actual” one has also been taken up by political actors as giving scope to political action, by setting in craft policies and family benefits that help people realising their child-bearing preferences.

The first population forecast of the German Federal Statistical Office was already conducted in the 1960s. Its most current population forecast was published at the end of 2009. Overall, this 12th population forecast comprises 12 variants on the basis of three model calculations. Forecasts are given until 2060 (concerning German-internal migration between the federal states only until 2030). The 12 variants are based on different expectations regarding fertility, life expectancy and migration. They do not yet include the data of the 2011 census: At the end of May 2013, the first population statistics on the basis of the 2011 EU Census were published. They showed that, at the end of 2011, Germany had 80.3 million inhabitants—not 81.8 million, as expected through the praxis of constantly updating the last census of 1978. Therefore, population numbers for Germany must be adjusted accordingly also in the forecasts. Moreover, general trends as described in the following will be affected significantly by the rising influx of refugees as of 2015.

Following a long period of population growth, the development reached a turning point in 2003, since when the German population had been shrinking. Before 2003, the population decline that was already taking place because of deaths outnumbering births could still be mitigated by immigration. At least before summer 2015, it seemed most plausible to use one of the “middle variants” of the population forecast, which assume a continuance of current trends in fertility and life expectancy. Based on these “middle expectations”, Germany would have between 65 and 70 million inhabitants in 2060 (Federal Statistical Office 2009: 12), or, in other terms, more than 12 million less than today. What is more, there would be decisive changes in the age structure of the population—or the so called “age pyramid” that has already ceased to be a pyramid. Until 2060, the proportion of children and young people is expected to sink to 16 % and that of people aged 20 to 65 to 50 % (Federal Statistical Office 2009: 14). At the same time, there are expected to be 34 % aged 65 and older and even 14 % over the age of 80.

Portraying these trends for the national level, however, only gives an incomplete picture as the expected population development differs decisively between the 16 German federal states. The following table gives an overview on the forecasted population decline until 2060. It is again based on a “medium variant” of the 12th population forecast study.

As shown in Fig. 1, there are enormous regional variations in the degree of population decline. A particularly small decline is expected for the city states such as Hamburg, Bremen and Berlin, and also for some other West German states. The Eastern federal states and the Saarland, on the other hand, are all expected to shrink by more than 30 % and even more than 40 % in the case of Saxony-Anhalt and Thuringia. Variations in population development on the local level will again be (and already are) highly diverse.

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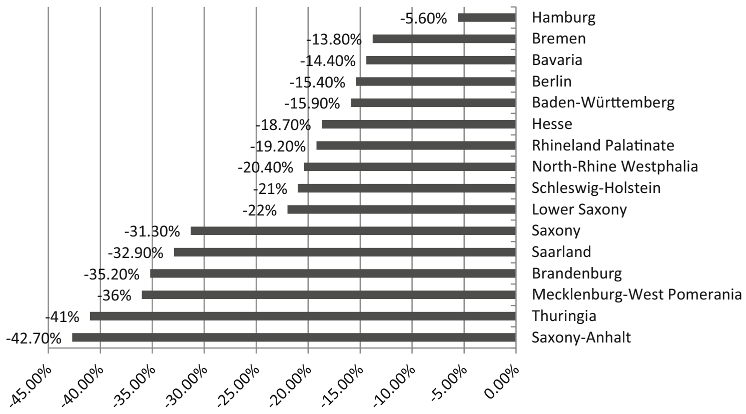

Fig. 1 Forecasted population development in the German federal states from 2009 to 2060 (percentage change) (Internal migration between the federal states only forecasted until 2029). Data source: Federal Statistical Office 2010a (own calculations)

Current migration trends, however, significantly affect these (expected) population developments. While Germany has experienced high immigration rates during recent decades, net migration then turned negative. In the aftermath of the economic crisis, however, immigration to Germany has again been increasing decisively: In 2012, 1,081,000 people moved to Germany, which contrasted with 712,000 who moved away, brought a positive migration balance of 370,000—the highest number since 1995.[2] In 2008 and 2009, the balance of migration had even been negative. As a consequence, the German population increased overall by 200,000 in 2012. The immigrants mainly came from Eastern and Southern European countries hit particularly hard by the crisis. For 2015, an influx of at least one million refugees to Germany is expected. It remains to be seen how permanent migration numbers will develop over the years to come.

2.2 Atypical Employment and Poverty

Since 2005, the number of people in employment has risen continuously, while unemployment rates have decreased (see Sect. 3). At the same time, the share of atypical employment forms has further been on the rise, i.e. part-time work of 20 h/week or less, fixed-term employment, temporary employment or minor employment (so-called “mini jobs”). This can result in demographic problems as atypical employment might lead to poverty in retirement age. The following figure shows the over-time development of atypical employment forms, as opposed to the number of standard employment relationships (i.e. permanent employment contract

[2] Numbers of the Federal Statistical Office available at: https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/Bevoelkerung/Wanderungen/Wanderungen.html

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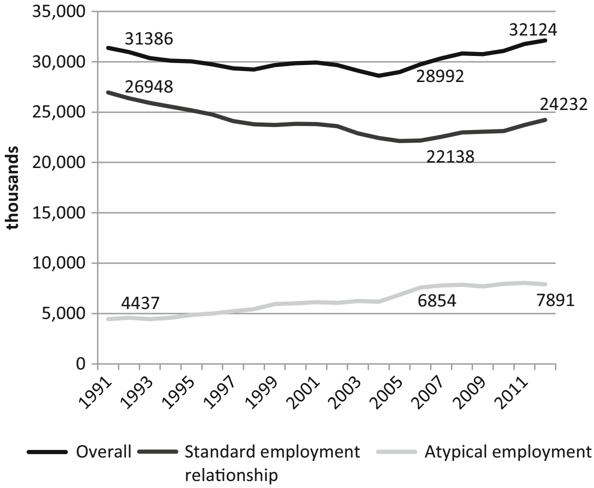

Fig. 2 Development in the forms of waged work (1991–2012) (Three data points given for 1991, 2005, and 2012). *Source*: Federal Statistical Office, Mikrozensus

of full-time work or part-time work of 21 h/week and more). As Fig. 2 shows, the rise in employment since 2005 can be traced back to both—a rise in atypical employment, but also in standard-employment relationships.

Atypical employment forms and "mini jobs" particularly concern low-qualified workers. They are, at the same time, also strongly connected to demographic developments as atypical employment forms occur more frequently at specific groups, especially women and migrants. Eurostat data for 2013 e.g. shows that women's part-time employment is around four times higher than men's. Migrants are also disproportionately affected, amongst others due to the difficult recognition of qualifications in Germany.

The rise of atypical employment has been associated with growing inequalities in the labour force. Another related issue is the development of low wages of less than two thirds than the median income (currently 10.36 € per hour). In 2010, about 20.6 % of employees in companies with ten employees and more were receiving a low wage, as compared to 18.7 % in 2008 (Federal Statistical Office 2012). Most of them were in atypical employment.

As EU-SILC data show, in 2011 almost every sixth person in Germany was at risk of poverty (16.1 %), that is 13 million people (see also in the following Federal Statistical Office 2013a). In all age groups, women had a higher risk of poverty than men. Single-parent households in Germany have a risk of poverty that lies substantially above the average (38.8 % in 2011). However, also persons living alone show a high risk of poverty (32.4 % in 2011). Households with two adults and children in the household are less affected, but among them households with three children and more have a comparatively high risk of poverty (12.5 % in 2011). The age group of 65 and older showed a below-average risk of poverty (15 %), as did the age group of 75 and older (12.6 %). However, the phenomenon of poverty in old-age is increasingly visible in Germany and expected to rise significantly in the future.

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2.3 Consequences for the German Welfare State

Structurally, the German pension insurance is affected particularly strongly by demographic changes: With its pay-as-you-go system, it is very sensitive to changes in the relation of revenues and expenditures (Boeckh et al. 2011: 367). Therefore, there has been a long debate on the strengthening of elements operating by the funding principle *within* the existing system or even the replacement *of* the current system by a fully-funded pension scheme. Against the background of the population developments described above, there will be (and already are) profound changes on the German labour market: a shrinking labour supply, skills shortages and an older workforce. Together with the structural changes such as the expansion of the service sector, this increases the need for highly qualified employees, for life-long learning, and for a higher labour market participation of women and older workers (Allmendinger and Ebner 2006: 227). Against that background, it is also widely discussed how the German economy can profit from the refugees currently moving to the country. Regarding the increase of atypical employment forms, these have partly been enhanced or even been enabled in the first place by the "Hartz reforms" in labour market policy (see Sect. 4).

The demography-related reforms in labour market policies correspond to those in family policy, as there the focus shifted towards bringing more women into employment and enhancing policies to reconcile work and family life. Furthermore, in face of the very low birth rate, demographic motives gained importance. Empirical evidence—particularly provided by the OECD—was taken up by policymakers showing that, in international comparison, there is a positive correlation between high female employment and high fertility, if work-life balance policies are in place. Due to their very high risk of poverty, single parents as a group have been in the focus here, as reconciliation policies should enable them to be gainfully employed and thereby reduce their poverty risk.

On the basis of the 12th population forecast, the Federal Statistical Office (2010b: 27) calculated that, until 2030, a number of 3.37 million people with permanent care needs can be expected. For a comparison: In 2007, only 2.25 million people in Germany were in need of high-maintenance in the sense of the German long-term care insurance that was introduced in 1995 (ibid: 21). More than two thirds of them were cared for within the household, most of them solely by relatives. The share of persons with long-term care needs among the population would thereby rise from 2.7 % today to 4.4 % in 2030 (ibid: 28). While the needs of long-term care rise, traditional familial resources to do this care work are decreasing, e.g. due to higher employment of women and a growing number of childless pensioners (Boeckh et al. 2011: 309). The higher life expectancy also challenges health policy. It increases the risk of diseases and also special forms, such as dementia or multiple morbidities. The Federal Statistical Office (2010b) also forecasted the development of hospital stays: Just taking into account population developments (and not, for instance, changed states of health), hospital stays would be expected to rise by 8.8 % until 2030, from 17.9 million stays per annum to 19.3. Furthermore, there will be changed diagnoses—e.g. more stays due to

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cardiovascular diseases, less stays due to pregnancy and births—which requires reorientations in the training of medical specialists and in the capacities of different hospital departments.

On the local level, the sometimes enormous population decline and correspondent structural change, as can be witnessed especially in regions of Eastern Germany, raises high challenges to the welfare system in a wider sense. For example, the infrastructure is deteriorating in such regions, as railroad stations, schools, post offices or doctors' surgeries are closed down. The shortage of doctors is likely to become a general problem in Germany, particularly in rural areas, but also with regard to certain branches such as general practitioners. Against the background of high unemployment rates in such regions, especially young people and families are moving away. As a consequence, regional disparities might grow in the future.

On the level of welfare state *politics*, relationships and solidarity between the generations have been widely discussed, often associated with the fear of generational conflicts over resources. Especially against the background of the pay-as-you-go pension scheme, a conflict of "the old vs. the young" is quite prominent in the public debate and the media (May 2013). Also, but not as strongly discussed, are supposedly growing conflicts between people with children and people without children. On the other hand, empirical research for Germany so far has rather negated the existence of strong generational conflicts in Germany, for instance in electoral terms (Goerres 2008).

3 Fiscal and Economic Crisis

In comparative studies that analyse the impact of the economic crisis on welfare states, Germany is often depicted as an "outlier" (Vis et al. 2011: 343) or "exceptional case" (Chung and Thewissen 2011: 360): Initially, Germany was very much hit by the crisis, especially illustrated by the strong GDP decline in 2009 which indicated the deepest recession Germany ever had to face (Zohlnhöfer 2011: 227). However, since 2009/2010, the German economy has recovered very quickly from the crisis. While the GDP reached a low-point in 2009, one year later it was at a level comparable to the situation before the crisis and has been rising since then (Fig. 3).

However, the increasing GDP is only one side of the coin as the general government gross debt has gradually increased from 65.2 % of GDP in 2007, reaching a peak in 2010 with 82.5 % and gradually recovering since then as in 2012, the general government gross debt was 81 % (Fig. 4). As Germany violates the Maastricht Criteria, the German Federal Commission decided in 2009 to limit new indebtedness ("debt brake").

The unemployment rate, currently the lowest since German reunification, is always taken as a proof that the crisis has been overcome (Fig. 5): While Germany was, up to the 2000s, always considered as "problem child", the unemployment rate is since 2008 below the EU average. Also youth unemployment is with 8.8 % the

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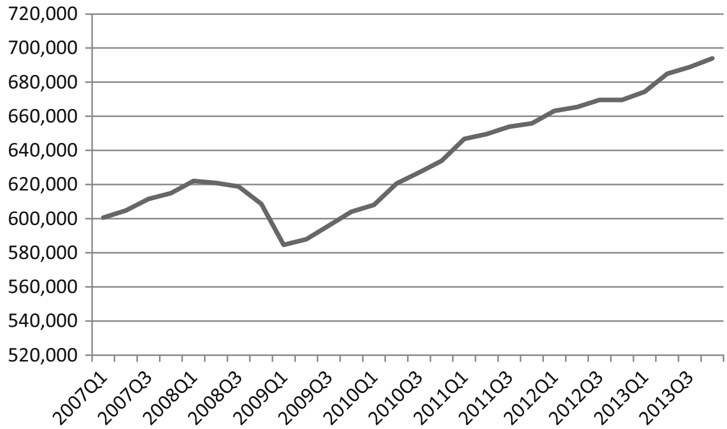

Fig. 3 Quarterly national accounts: GDP and main components—Current prices *(in millions of euros, seasonally adjusted and adjusted data by working days)*. *Source*: Eurostat

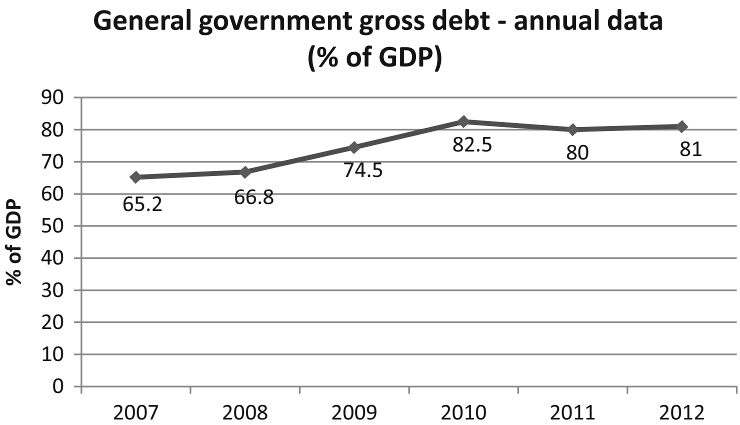

Fig. 4 General government gross debt—annual data (% of GDP). *Source*: Eurostat

lowest in the EU. These data already indicate why the crisis did not trigger fundamental welfare state reforms. However, it has to be noted that the decreasing unemployment rate is also often ascribed to the Hartz-Reforms (Sect. 4.1) which have, among others, significantly lowered the barriers to enter the labour market and have, therefore, helped more people to enter employment.

How can one explain this "German miracle" (Reisenbichler and Morgan 2012: 550)? According to Vis et al. (2011: 338) that analysed the reactions of six welfare states (among which Germany) towards the crisis, three phases can be distinguished (Vis et al. 2011: 338): While the first phase in 2008 mainly addressed the banking sector by injections of capital (Vis et al. 2011: 344), we will focus primarily on the second phase also starting in 2008 that was mainly characterised by a Keynesian

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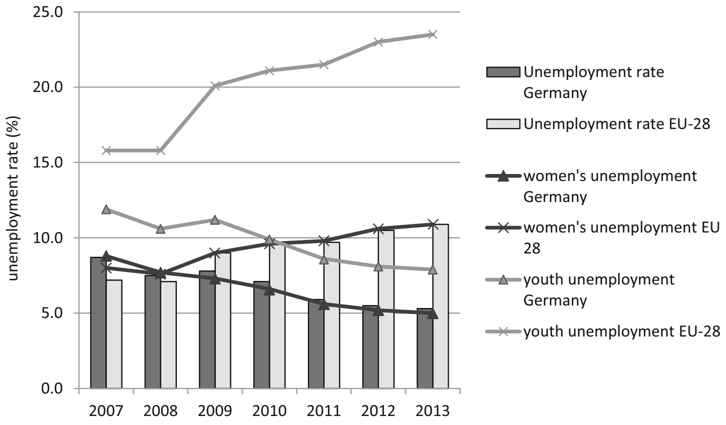

Fig. 5 Unemployment rate. *Source*: Eurostat

approach towards the crisis: Although, of course, bank rescues also have an influence on prosperity, it was the second phase that more directly addressed the German welfare state. The third phase, encompassing the policy measures since about 2011, was primarily characterised by austerity policies, for example by significant cuts in public spending (Vis et al. 2011: 350). This phase only partially holds true for the German case.

The Keynesian approach is given expression especially by the two stimulus packages "Securing Jobs by Strengthening Growth" of November 2008 and "Pact for Employment and Stability in Germany" of January 2009. Although both focused primarily on fiscal policy, they also included several social and unemployment measures. The first stimulus package had a relatively modest fiscal volume of 11 billion € (i.e. 0.5 % of 2008 GDP) which was the reason why it was considered as having mainly symbolic importance (Zohlnhöfer 2011: 233). The second stimulus package, including 54.3 billion € (i.e. 2.1 % of 2008 GDP), was more encompassing (ibid: 233). Although the actual size and impact of the German stimulus package compared to stimulus packages in other countries is controversial, the German package is remarkable in that it represents a paradigmatic change in fiscal policy by adopting a Keynesian approach (Zohlnhöfer 2011: 236).

Regarding social and unemployment measures, the main aim of these measures consisted clearly in keeping "insiders in their jobs to preserve their skills by active state interventions" (Chung and Thewissen 2011: 361) as rising unemployment was perceived as the greatest challenge the crisis posed (Vis et al. 2011: 347). In this regard, one of the most striking measures was the short-term work (*Kurzarbeit*), as part of the second stimulus package. In fact, short-term work has been an instrument of income maintenance in Germany since the late 1980s. It is characterised as a typical Bismarckian policy in its "dual nature" by Sacchi et al. (2011: 466): On the one hand, it can be classified as a social policy instrument as it supports income maintenance for workers who might otherwise lose their jobs. On the other hand, it

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can also be classified as an industrial policy instrument as it enables firms to keep their highly skilled workers instead of dismissing them. Four central components of the short-term work scheme can be highlighted (Sacchi et al. 2011: 480): 1) Eligibility conditions for firms were loosened; 2) short-term work was extended from originally six to 18 months; 3) the Federal Employment Office paid 50 % of social insurance contributions; 4) also temporary agency workers were included. These measures resulted in an extensive use of short-term work that reached a peak in May 2009 when 1,144,407 million people were in temporary employment, but has approached the level before the crisis since then.

Another important measure was the reduction of contributions to unemployment insurance as well as health insurance (Chung and Thewissen 2011: 361). In addition to that, several "complementary policies" (ibid.) were implemented, among which the most important are activation policies in labour market policy as well as tax cuts (Zohlnhöfer 2011: 234). Finally, the so-called car scrappage scheme (*Abwrackprämie*), providing a bonus when purchasing a new car and scrapping the old one, was introduced as a temporary measure to secure jobs in the automotive sector (Dümig 2010: 292) as a German core industry.

Also because of its crisis management, Germany is generally described as "winner of the crisis" because the recession was mitigated and the unemployment rate remained relatively stable (Zohlnhöfer 2011: 236). However, the positive developments in the labour market can also be traced back to the Agenda 2010 reforms of the second red-green government (2002–2005). Those reforms had already led to a significant recovery of the labour market since 2005 (see Sect. 4.1). However, it can be asked which, after all, was the decisive factor for the German "success story": Did the fiscal crisis pose a "window of opportunity" for the resurrection of the conservative welfare state that (re-)adopted some of its core functions by the protection of labour market insiders (especially in male-dominated sectors) and tax cuts (Chung and Thewissen 2011: 366)? Or were primarily the firms responsible for the good developments during the crisis because they (and not the state!) chose, in the end, to preserve rather than to cut jobs (Reisenbichler and Morgan 2012: 550)? In fact, the "German miracle" is best understood as resulting from concerted efforts by the government and industry. However, also trade unions played an important role, especially concerning the successful use of short-term work during the crisis.

4 Risks and Opportunities

During the 2000s, the German welfare system was fundamentally restructured by the so-called "Agenda 2010": Although also developments in the 1990s in the core social policy fields point to a stronger individualisation of risks, it was through the "Agenda 2010" that in 2003 Chancellor Schröder announced far-reaching structural reforms that should transform the "sick man of Europe" to the leading country in Europe in terms of prosperity and employment. In fact, this reform path—encompassing especially labour market, pension and health policies—has been

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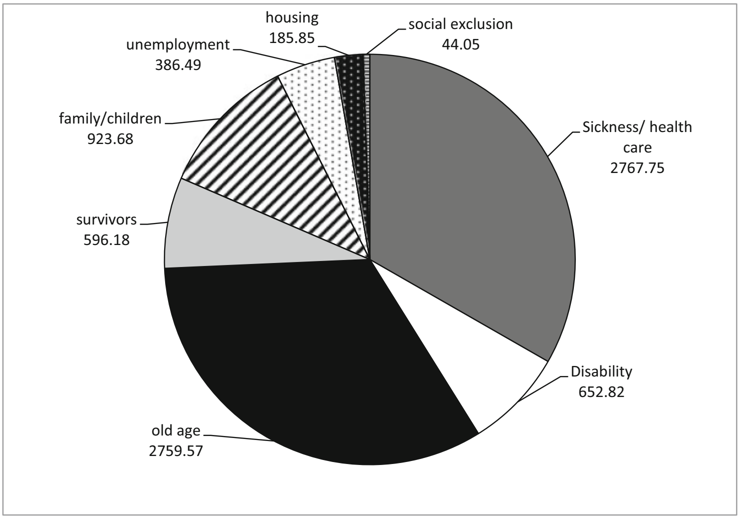

Fig. 6 Social protection expenditure by function in 2011 (amounts given in Euros per inhabitant). *Source*: Eurostat

generally continued by changing governments since then. In this process, the traditional meaning of social policy as preventing risks has continually been replaced by new arrangements that rather foresee a mixture between preventing risks and opening up opportunities. The latter has been framed by different notions, e.g. "enabling welfare state" or "social investment state". Policies along the risk prevention paradigm have also been continued, however, for example in long term-care. Thus, it becomes clear that the German welfare system is a complex and also ambiguous arrangement whose balance between preventing risks and opening up opportunities is continuously modified. When comparing the different social protection fields, Fig. 6 shows that expenditure is largest for pension policy and health care.

4.1 Labour Market Policy

The shift from focussing primarily on risk prevention to putting increased emphasis on opening up opportunities has been paradigmatic in labour market policy. A stronger activation focus can be found in German labour market policy since the 1990s (Fleckenstein 2012: 854 ff), but it was especially the reform package (Hartz I–IV) undertaken by the red-green coalition since 2002 that launched a new era in labour market policy.

The Hartz legislation has been described as one of the "most ambitious German reform project[s] in social insurance policy since World War II" (Kemmerling and Bruttel 2006: 90). It integrated the unemployment and social assistance scheme—whose parallel existence was considered ineffective and too bureaucratic—into a

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new scheme, the "basic income support for job seekers". Following a "carrot and stick" approach, activating elements were introduced into German labour market policy, such as qualification measures and job placement on the one hand, and sanctions as well as tightened eligibility criteria on the other hand. What is more, along with the reorganization of the Federal Labour Office, so-called Job Centres were introduced where personal advisers and job seekers are working together for the job seeker's re-entry into the labour market.

Apart from rather short-term reactions following the economic crisis (Sect. 3), labour market policy in Germany is mainly characterised by continuity and adaptation of the Hartz legislation, e.g. a simplification of existing instruments in terms of labour market policy in order to be more effective, as well as harder sanctions in case of breaches of obligations (Hegelich et al. 2011: 167–169).[3] However, there are also developments that, at first glance, seem to challenge the shift in labour market policy: In the literature, minimum wages are often considered as a partial withdrawal of the Hartz legislation (Dümig 2010: 294) because they are related to higher costs for employers and might therefore increase the barriers to hire employees. Others argue that minimum wages guarantee the functioning of the Hartz legislation, preventing the fact that many employees, due to low wages, have to apply for social benefits in addition (Hegelich et al. 2011: 172–175). In Germany, minimum wages have been a highly contested issue for a long time. The grand coalition (2005–2009) as well as the coalition of the Conservatives (CDU/CSU) and Liberals (FDP) (2009–2013) introduced sectoral minimum wages. In the coalition agreement of the current grand coalition, CDU/CSU and SPD have agreed on the introduction of a general minimum wage of 8.50 € per hour for all sectors and employment relationships. After a period of transition, it shall be fully implemented from 2017 (Bäcker et al. 2014: 17).

There are also other elements that can be seen as contradictory to the Hartz legislation: In 2008, the eligibility period for unemployment benefits was progressively extended from 18 months up to 24 months. This modification was especially addressed to older unemployed people who demonstrably have more difficulties in finding a new job. However, the extended eligibility period contradicts the aim of reducing non-wage labour costs as it narrows the financial scope of the unemployment insurance and can, in the long run, also lead to higher contribution rates (Hegelich et al. 2011: 170).

The described developments show that demographic change is currently not in the focus of labour market policy. Indeed, the aim of the reform path pursued by the Hartz reforms was to increase labour market participation at any price. Thus, the Hartz reforms have especially led to an increase in atypical employment

[3] Given the considerable number of reforms in order to adapt the Hartz legislation, only two reforms will be presented here exemplarily: The aim of the Labour Market Instruments Re-orientation Act (2009) was to simplify the existing labour market instruments in order to increase the efficiency of labour market policy. The law on improving integration opportunities on the labour market (2012) further reduced the existing labour market instruments. Both laws also increased the discretion of employment agents in dealing with their clients.

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(see Sect. 2.2). These forms of employment raise problems for social security, especially concerning pensions as lower contributions are paid which threatens the sustainability of financing.

4.2 Pensions

Against the background of demographic changes and the specific challenges of the German pay-as-you-go pension insurance, the reform course of the red-green government (1998–2005) was marked by a successive dismantling of the first and a parallel fortification of the second and third pillars of the pension system. For instance, the public pension level was decreased and linked to the net wage instead of the gross wage (Hegelich and Meyer 2009: 129). In 2002, the so-called *Riester-Rente* was introduced: a private, fully funded pension savings scheme, operated by insurance companies, but subsidised by the state. These reforms have at least washed out the German pension system's "intergenerational contract", whereby the working population pays for the pensions of the retired.

In spring 2007, the grand coalition agreed to successively raise the legal retirement age from 65 to 67. From 2012, the retirement age will be gradually increased by 1/2 month(s) for the birth cohorts[4] and the cohort of 1964 is the first for which the new regular retirement age of 67 years fully applies. An exception was introduced for insurants with 45 years or more contribution: They can still retire at the age of 65 without accepting pension reductions. Therefore, paradigmatic policy changes can be identified that were implemented in German pension policy in view of demographic concerns—with the degrading of the first and strengthening the second and third pillars of the pension system, and with raising the pensionable age (Schmidt 2010; Lamping and Rüb 2004).

Since the onset of the crisis, this reform course has not been retracted, but it has been successively corrected. First, for the years 2008 and 2009, the grand coalition suspended the so called *Riester-Treppe*: Otherwise, these "Riester steps" would have foreseen that the annual pension adjustment is 0.6 percentage points lower than the average increase in wages of the previous years. Through its suspension in 2008 and 2009, the pensions increased by 1.1 % instead of only 0.46 % (Steffen 2012). This was related to the economic crisis, but also to an increased discussion of poverty among the elderly (Hegelich et al. 2011: 162; Bäcker et al. 2013: 6). What is more, it was decided in 2009 to introduce a so-called *Schutzklausel* (hedge clause), which guarantees pension stability even in the case of *shrinking* wages: Before that reform, nominal pension cuts were possible in case of negative wage development (Schmidt 2010; Steffen 2012). Most recently, pension policies have been marked by the overall positive development of the German economy and the

[4] In terms of political strategy, it has been argued that the grand coalition here pursued "blame avoidance" through time politics, by spreading the increase from 65 to 67 years over a very long time span (Schmidt 2010).

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surplus funds of the social insurances: From January 2012, the contribution rate to the pension insurance was lowered from 19.9 % to 19.6 % and, from January 2013, again to 18.9 % (and thus the lowest contribution rate for 18 years).

In the run-up to the September 2013 general elections, pension policy was high on the agenda, and the grand coalition agreed on four major pension policy reforms in its coalition treaty (cf. also in the following Bäcker et al. 2014: 6). First, the CDU/CSU brought through the introduction of a *Mütterrente* (mothers' pension), which improves the childrearing pension points for mothers of children born before 1992.[5] Second, there shall be improvements in the pensions of people with reduced earnings-capacity due to illness or disability (*Erwerbsminderungsrente*). And third, advocated by the SPD, a full pension will be introduced from the age of 63 for insurants with 45 contribution years. This will then be gradually increased to the age of 65, according to the general gradual increase of the pensionable age to 67. Fourth, a *Lebensleistungsrente* (literally: lifetime-achievement pension) shall be introduced at a later stage, which increases the pension of low-income earners with 40 contribution years and which may be made dependent on investments in private pension schemes.

Summing up, German pension policies *after* the red-green reforms seem to be ambivalent in terms of welfare state restructuring. On the one hand, the quite far-reaching reform which increased the legal retirement age to 67 is in line with the reform path entered by the red-green government. On the other hand, the intermission of the "Riester steps" and the "pension guarantee" of 2009 go in a different direction and they also contradict the understanding of sustainability that was characteristic of the "Agenda 2010" (Hegelich et al. 2011: 151). This "course correction" is further enhanced by the reform plans of the current grand coalition, The full pension from the age of 63 and the mothers' pension, in particular, lessen individual responsibility. They have been debated in terms of inter-generational transfers. What is more, they show a focus on old-age poverty and social justice (see Österle and Heitzmann 2016) rather than demography, but the adequacy in these regards can be questioned, given that those profiting from the full-pension from 63 will be male skilled-workers (with 45 contribution years) rather than those most suffering from old-age poverty.

4.3 Health Policy

The field of health policy has always been characterised by a relative unwillingness to reform, but since 1992 the policy sector has continuously evolved towards more competition and privatisation (Gerlinger 2013). The aim of the subsequent, mainly incremental reforms—touching the fields of provision, funding and regulation—was to build more efficient structures in order to maintain the contribution-based

[5] This had been discussed for several years, since mothers of children born before 1992 are here disadvantaged compared to mothers of children born 1992 and later.

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social insurance system. The demographic change in particular questions the financial sustainability of the health insurance system because people are becoming older and make greater demands of health services. What is more, globalisation, locational competition and medical progress challenge the existing health system (Gerlinger 2013: 337). In health policy, risk prevention is still the dominant policy task. There are, however, also some aspects of the recent reforms that point to a higher individualisation of risks, for example as insured persons have to bear more and more costs.

The "Act for modernising the statutory health-insurance system" (2003) was introduced to promote more efficiency by intensifying competition between insurances, introducing measures for quality insurance and strengthening the role of the patient. Especially striking was the fact that the reform marked a first step towards a stronger financial burden for insured persons because they had to bear a part of medical expenses that were completely covered by the insurance before. A particularly controversial aspect in this context was the introduction of a consultation fee of 10 € per quarter which was, however, abolished again in 2012. Apart from decreased costs for the health insurance system, the stronger financial burden for the insured person was also seen as a policy instrument that should lead to preventive behaviour. In addition, it was anticipated that medical consultation would decrease in general (Aust et al. 2006: 190). The focus on prevention can in particular be considered as changing the balance between preventing risks and opening up opportunities, since it partially shifts responsibility for healthcare from society to the individual.

The "Act to reinforce competition between the German statutory health insurances" (2007) continued on the reform path by restructuring the funding of the health insurances. The most visible part of the reform was the introduction of a "health fund" (*Gesundheitsfonds*) in 2009: While prior to the reform, health insurance contributions were collected from the insurances, they are now collected centrally and in a second step distributed to the insurances, thereby following a complex pattern that corresponds to the respective disease profile of the insured persons (Hartmann 2010: 334). If insurances are not able to cover their costs, they can raise extra contributions from their clients. The aim is to promote more competition between the health insurances. The CDU/CSU and FDP coalition in 2012 has also promoted further competition between the health insurances by changing the "Law prohibiting restraints of competition" (*8. GWB-Novelle*).

The "Act on the restructuring of the medicines market" (AMNOG) in 2010 was adopted in order to strengthen competition in the pharmaceutical market. The reform aimed at preventing rising costs for medicine, thereby also enhancing patients' rights which is an aspect that is increasingly considered in recent health reforms, e.g. also in the *Patientenrechtegesetz* (2012) that integrated patients' rights into the German Civil Code. The "Act for sustainable and socially balanced financing of statutory health insurance" (2011) implicated profound changes in financing by freezing the employer's contribution rate and by reorganising the extra contributions that were introduced in 2009. Critics also argued that the redistribution effect inherent to the reform would lead to diminishing solidarity by reducing

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the financial burden of the employers while increasing the financial burden of insured persons with especially lower or middle incomes (Gerlinger et al. 2012: 4–5).

Regarding territorial inequalities (see Sect. 2), the *Versorgungsstrukturgesetz* (2011) should be mentioned. Its aim is to mitigate the existing shortage of doctors in structurally weak regions; however, it is questionable whether the reform will really be able to address the problem adequately (Gerlinger et al. 2012: 7).

The given overview shows that health policy in recent years has on the one hand been characterised by high reform activities; on the other hand—and unlike pension and labour market policy—its “core”, that is the contribution-based insurance system which is publicly regulated and financed, has not fundamentally changed, although privatisation is becoming increasingly important (Gerlinger 2013: 359). However, the downside of this relative continuity (that will, according to the coalition agreement between CDU/CSU and SPD from 2013, also be pursued by the current government) is that important challenges remain unaddressed. One of the biggest problems here is the coexistence of public and private health insurances (Bäcker et al. 2014: 33).

4.4 Long-term Care

In the context of risks and opportunities, the policy field of long-term care is especially interesting: Since its establishment in 1995, which acknowledged that long-term care was no longer an individual but a social risk (Rothgang 2010: 447), many attempts were made to improve the risk prevention within this policy field. This is also due to the fact that long-term care will become more important, as people are becoming older and make increasing demands on care services (see Sect. 2). Thus, while risk prevention is becoming less dominant in most of the other social policy fields in Germany, it is still the dominant orientation within the field of long-term care.

The long-term care insurance is confronted with several problems: First, the definition and the level of benefits are a point of discussion. One point of critique is the inadequate inclusion of people with dementia. Second, the existing system still relies heavily on family arrangements, while “future care arrangements” (Rothgang 2010: 448) need to be developed. Finally, the long-term care insurance—being a pay-as-you-go financing system—also suffers from financial problems (Bönker 2010: 352). As the policy area was, in comparison to other social policy fields, into the 2000s characterised by relatively low reform pressure and is, similar to health policy, a field of very competing expert opinions (Bönker 2010: 354), there have been no encompassing reforms up to 2008 when the “long-term care further development act” was implemented. The main point of the reform was infrastructural improvement, especially by introducing the so-called “nursing care time”. What is more, quality improvements (e.g. by expert guidelines) were introduced (Rothgang 2010: 449).

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In 2013, another reform of the long-term care insurance (*Pflege-Neuausrichtungs-Gesetz*) was conducted. It improved the situation for people with dementia, but did not contain a new definition of who is in need of care (Bäcker et al. 2013: 27) which is considered as essential for addressing long-term care adequately. What is more, the reform was not able to solve the financial problems the long-term care insurance will face in the long run. However, the recent reform comprehends an element that could clearly be regarded as a shift from risk prevention to opening up opportunities (Bäcker et al. 2013: 27): A private complementary insurance (*Pflege-Bahr*) was established that is fiscally subsidised. The design of the reform can be regarded as a renunciation from solidary contributory funding (Bäcker et al. 2014: 35), especially because insurance premiums do not depend on income, can be differentiated according to age and are paid without the employer's participation. Accordingly, the *Pflege-Bahr* was criticised by politicians, experts and social associations (Bäcker et al. 2014: 35). Further developments in the field of long-term care will show whether this complementary insurance will lead to a paradigmatic shift in the policy field or whether it is just a "drop in the ocean".

4.5 Family and Children

The red-green government initiated a reform path of German family policy—which traditionally has been found to be "familialistic" and supporting a male breadwinner system (Lewis and Ostner 1994)—particularly through a parental leave reform in 2001 and a childcare expansion law in 2005. Only with the grand coalition, however, these continued expansion and restructuring efforts have been rated to be paradigmatic (Mätzke and Ostner 2010; Blum 2012). Overall, the reform focus has been on work-family balance, labour market integration of mothers, and activation of fathers—therefore, it can be said that family policy has shifted towards opening up opportunities, namely opportunities to reconcile family and waged work for both parents. However, it could also be said that this was prevention of a risk that had traditionally been scarcely prevented in the "cash-centred" German family policy, namely the risk of parenthood (particularly for mothers).

In 2006, the former parental leave benefit, which had consisted of a low flat-rate benefit paid over a comparatively long period of 24 months[6], was replaced by the *Elterngeld* (parental benefit). The *Elterngeld* is a wage replacement of 67 % of the former net income, paid over a period of 12 months plus 2 additional "partner months", which (at least) must be taken by the other parent and otherwise expire. The minimum amount of the benefit, e.g. paid to formerly non-employed parents, was set at 300 € and the maximum amount to 1800 €. Parents may work up to 30 h per week while receiving parental benefit. Then, however, only the "missed out"

[6] From 2001, there had been a "budget option" of receiving 450 € for 12 months (instead of 306 € for 24 months).

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income through reduced working hours is replaced. As evaluations show, the *Elterngeld* has been successful in its goal to stipulate mothers' re-entry into the labour market after one year (Geyer et al. 2013). Also the participation of fathers in parental leave has risen significantly. From the children born in the second quarter of 2012, 29.3 % of fathers took up parental benefit—the majority of them (78.3 %) not longer than for the two "partner months" though (Federal Statistical Office 2013b).

In combination with the parental leave reform, the central state and the federal states[7] agreed in 2008 to undertake massive investments in Germany's lacking childcare infrastructure: The aim was set to create childcare places for 35 % of under-three-year olds until 2013—which has more or less been reached by now, but with huge regional variations.[8] From August 2013, also a legal right to a childcare place from the age of one year has been in place. This childcare expansion was, amongst others, also driven by the EU "Barcelona targets" of creating childcare for 33 % of children under three (Blum 2012).

In 2009, the universal child allowance (*Kindergeld*) was increased—an expansionary measure which is to be understood against the background of the incipient economic crisis and the upcoming general elections of September 2009 (Schmidt 2010). By 2010, the new government of CDU/CSU and FDP again increased the child allowance. After these "economic stimuli", the savings package followed in 2010: As part of that, the minimum amount of the parental benefit (300 €) was now credited against the allowances of long-term unemployed, i.e. it was effectively abolished for that group. At the same time, the wage replacement rate of the *Elterngeld* was reduced slightly for medium and higher incomes (while, already in 2007, it was slightly increased for low incomes). Irrespective of the latter, the parental benefit reform was one of the elements of the savings package criticised for conducting retrenchments in the group of the most needy (Butterwegge 2012).

In 2012, a new family policy benefit was finally agreed upon that had already originated as a coalition compromise in the course of the 2008 childcare law and that had been heavily debated ever since (Blum 2012): the *Betreuungsgeld* (home-care benefit). From August 2013, 100 € per month were paid to parents who do *not* make use of publicly financed or subsidised childcare for their 1- and 2-year olds.[9] From August 2014, the payment was increased to 150 €. With expected annual costs of 1.2 billion €, the CDU/CSU and FDP coalition thereby strengthened again the expansionary character of German family policy. Judged by its direction, however, it partly reversed the reform path entered by the CDU/CSU and SPD predecessors as the new home-care benefit re-strengthened the familialistic elements of German family policy (Bäcker et al. 2013: 19). In 2015, however, the

[7] Within German federalism, the *Länder* are responsible for the area of childcare.

[8] In 2008, only 10 % of under-three-year olds in the Western *Länder* had visited a formal childcare facility, while it was already 38.4 % of that age group in the Eastern federal states (Federal Statistical Office 2008).

[9] Absurdly, however, they could e.g. use the money to pay a private childminder.

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German Constitutional Court ruled that the home-care benefit was not consistent with the constitution. At the time of writing this chapter, it remained unclear to what extent the resources freed by its abolishment will be invested into other measures, such as childcare, or deducted from family policy.

4.6 Adjacent Social Policy Fields

Traditionally, the German welfare state (*Sozialstaat*) followed a rather narrow definition of policy sectors, aligned along the social insurances. This has gradually changed over the last decades, e.g. with regard to education policy and housing policy, which are established policy fields, but nevertheless kind of "emerging" *social* policy fields.

Responsibilities for education are divided between federal levels. Those of the central state have been further diminished with the large *Föderalismus*-reforms of 2006 and 2009. Nevertheless, also the central state has continued to set decisive measures in educational policy (Mahner and Wolf 2010), especially in the field of early childhood education and care (see above). Educational policy in the time of the grand coalition was characterised by shared problem definitions between political parties. These included: below-average results of German students in international benchmarking such as the PISA studies, high social inequalities regarding educational changes, and the educational participation of young people (especially with migration background). Against that background, the measures taken included the introduction of educational standards, language development courses, and the expansion of full-time schooling (Mahner and Wolf 2010; Augustin-Dittmann 2011).

The main instruments of German housing policy are social housing and the support of home ownership e.g. through tax allowances. The German housing market, however, is characterised by low rates of home-ownership in international comparison. Especially since the run-up to the September 2013 general elections, housing policy issues have been quite prominently discussed, as rental prices in Germany have diverged and sharply increased in the larger cities and university towns. Against that background, the grand coalition introduced a legal limitation of rental prices (so called *Mietpreisbremse*), which prohibits landlords from increasing rents by more than 10 % of the local prices when re-renting tenements.

5 Conclusions: Pathways of the German Welfare State

In this chapter, we raised the questions as to what are the main challenges the German welfare system has to face, which reforms have been conducted in reaction to these challenges and what pathways the German welfare system has followed in recent years.

With regard to the first question, demographic change and its consequences can certainly be deemed to be among the greatest challenges for the German welfare

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state, also in the years to come. Not only is the German population expected to shrink considerably in the next decades, but there are also decisive regional differences—between East and West, between North and South, as well as between certain cities that gain and many cities that decline in population. These processes are enhanced by internal migration, and strongly affected by external migration refugee situation. Especially against the background of the demographic changes in Germany (Sect. 2), an issue that could endanger welfare state legitimacy in the future are growing regional inequalities, e.g. with vital infrastructures such as schools or doctors' surgeries being closed down in depopulated areas of Eastern Germany already today. Combined with the drastic changes in the age patterns of the population, these processes influence all areas of the welfare state. This is one important factor of why welfare state restructuring and a new balance between those social policies providing for risks and those enhancing opportunities is a second large challenge in Germany. On the other hand, the economic crisis does not (or no longer) pose a challenge to social policies as in many other countries. After Germany was hit relatively badly and experienced a deep recession in 2008/2009, it has quickly recovered and currently exhibits a favourable situation of labour market and economy. Thus, although national social policies are of course shaped by processes of Europeanisation, the EU does not—unlike in other European countries—directly intervene in German policies. On the other hand, European developments also pose new challenges to the German welfare system.[10]

The legitimacy of the German welfare system is up to now not seriously questioned. In general, there is a considerably high welfare state consensus uniting not only the large "welfare state parties" CDU/CSU and SPD (Schmidt 2012: 46), but also the Green party. In principle this also applies to the FDP which, however, is currently no longer represented in the German parliament.[11] What is more, the CDU/CSU has been increasingly shifting to the left. This point is for example illustrated by the recent introduction of a general minimum wage (see Sect. 4) which is also supported by the CDU/CSU but used to be a typical social democratic topic. This welfare state consensus also includes a general agreement towards the Agenda 2010 reforms and the subsequent realignment of welfare. Even Angela Merkel praised the Agenda 2010 reforms launched by her predecessor in office, Schröder, as being largely responsible for the country's economic upswing. The reforms are also increasingly accepted by the public (Gerlinger et al. 2012: 22). DIE LINKE is, so far, the only party with a divergent understanding of social welfare, as it demands a higher level of social interventionism (Schmidt 2012: 46).

[10] The increasing immigration of people from Bulgaria and Romania due to the complete free movement of workers for EU citizens has, for example, become a highly contested issue in the political debate.

[11] For the first time since 1949, the FDP with 4.8 % of the votes, remained below the threshold of 5 % needed to enter parliament.

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The second question raised in this chapter was how the profound developments of the last years relate to social policy outputs of the grand coalition (2005–2009), the CDU/CSU and FDP government (2009–2013) and the current grand coalition. The observation e.g. by Schmidt (2010) that social policies under the grand coalition were marked by high continuity and no larger welfare state restructuring should at least be complemented: While it holds valid for "traditional" social policies in the areas of health or pensions (with the important exception of increasing the pensionable age), it does not apply to new-social-risks fields such as family policy and education. In these fields, welfare state restructuring under the grand coalition was remarkable and assessed as paradigmatic change by the literature, for e.g. with the introduction of an income-dependent parental leave benefit and the massive expansion of public childcare for under 3-year-olds (Blum 2012; Augustin-Dittmann 2011). During the coalition of the CDU/CSU and the FDP (2009–2013), social policy seemed to be characterised by "inertia"; some spoke of a *Reformstau* (reform gridlock)—a word which had rather faded away since its excessive use in the mid-1990s, the final years of the "Kohl era". Furthermore, the focus of the Merkel government has clearly been on the European debt crises, at the expense of domestic political issues. Looking at the pathways that have been followed, the reforms are often various or pointing into different directions. For example in family policies, the childcare expansion was continued (while a rather familialising home-care benefit was introduced, and then abolished again due to the Constitutional Court ruling). And in pension policy, the retirement age has been increased to 67 by the grand coalition, while the CDU/CSU and FDP government later introduced a "pension guarantee" in case of shrinking wages.

Now with the grand coalition in office, the latest reforms indicate more far-reaching reform activities again. Until now, an overall welfare state retrenchment seems not to have occurred to that extent: The social investment perspective that has been adapted in nearly all policy fields also demands certain (financial) resources, especially in the fields of family/children and education. As is shown in Fig. 6, the expenditures for children/maternity form a significant social spending area after sickness and old age. So in this regard, the findings of Vis et al. (2011) that contradict the popular retrenchment discourse in times of crisis can be confirmed. For the immediate crisis reactions in Germany, Chung and Thewissen (2011) identified a return to "old habits" of the conservative welfare state. Overall, this seems not to be identifiable when extending the temporal perspective: Although the short-term reactions towards the crisis seem, indeed, to point in this direction, social policy making in Germany is overall characterised by "new habits"—that are illustrated in the new-social-risk fields (e.g. childcare expansion) and also in the general sticking to the "Agenda 2010". What is already visible, however, is that the reforms and reforms plans of the current grand coalition imply a shifting balance between "risk prevention" and "opening up opportunities": Especially with the reforms in pension and labour market policy (e.g. the minimum wage), a stronger focus on the prevention of risks is re-emerging. This is to be understood as a form of "course correction"—both in the face of policy and political outcomes of the "Agenda 2010" reforms.

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Denmark: Still a Nordic Welfare State After the Changes of Recent Years?

Bent Greve

1 Introduction

This article will discuss the development in the Danish welfare state from late 2008 to 2013; however a few historical remarks will be included, thereby also trying to encapsulate how and if the financial crisis have had an impact on Denmark. The analysis follows a classical welfare state analysis approach by looking at whether changes have altered what are perceived as the core issues in the Nordic welfare states such as equality (economically and gender), approach to full employment including active labour market policy, universality in access and ways of financing the welfare state (Kangas and Kvist 2013; Greve 2012a).

This article focuses more on whether a change has in fact taken place, rather than why, and examines what type and direction of change. The focus is thus to a lesser degree on whether the changes would have occurred anyway or whether the fiscal crisis was the window of opportunity for change. Empirical data will be used as the main element in describing the developments of recent years, and this will be combined with changes in legislation and institutional structures during the time in question. This will also include a presentation of the political agreements reached in recent years within social and labour market policy. This further due to the fact that most of the agreements made have been done in compromises between a large majority in the Danish parliament, in accordance with Danish parliamentary tradition, implying that they will not be changed after the next general election unless all involved parties agrees (the next election will take place at the latest in September, 2015). It is thus a desk top study mainly based upon official documents as the background for the presentation of the changes in a specific case: Denmark. In this sense it is also a case study where the aim is to compare the traditional

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understanding of Denmark as a Nordic welfare state with the ongoing changes in recent years, cf. the elements mentioned above, and, by this discuss whether this still holds.[1]

Already from the outset it has been clear that the changes in recent years especially have been made in view of the expected demographic changes, cf. Sect. 2, and less as a response to the financial crisis, although the long-term economic sustainability of the Danish model has been used as reference for the suggested changes. The demographic changes and its possible impact on the welfare state in the longer-run is therefore the focus in Sect. 2, including a long-term forecast of the demographic development.

Demography has been a central argument for two reasons:

(a) possible impact on public sector spending and income.
(b) possible influence on the labour supply in the future.

These are therefore the central issues this section deals with.

In Sect. 3 the focus is on the social investment perspective (Morel et al. 2012) although this has been less strong in the public debate in Denmark, presumably due to the fact that in several areas (day-care for example) this has been implemented in the Danish welfare service model for years.

In Denmark in autumn 2013, there was indication that there might gradually be an improvement in the economic development although unemployment was still high compared to the normal level in Denmark, but low compared to most other countries in Europe. A debate has revolved around how strong the recommendation from the fiscal compact should be interpreted and whether or not Denmark thus would have the possibility, through active fiscal policy, to stimulate the economic activities and growth in the Danish economy. Therefore Sect. 4 focuses on the fiscal and economic crisis and its possible impact.

Support for the welfare state, with differences in different areas, is the focus in Sect. 5, before Sect. 6 sums up and concludes the article.

2 Demographic Change

As in many other countries, the demographic composition of the Danish population is changing. There are relatively more elderly and fewer young people thereby altering the old-age dependency rate. This occurs despite the fact that Denmark has a higher fertility rate, around 1.8, than in many other European countries, and up from 1.73 in 2012 (see Table 1), but it is not a level where the population will be able to be sustainable unless there is migration into Denmark.

[1] Focus on the development of social services in Denmark can be found in Sirovátka and Greve (2014).

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Table 1 Development in population, net migration and total fertility rate since 2000

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total population in 1000	5.330	5.349	5.368	5.384	5.398	5.411	5.427	5.447	5.476	5.511	5.535	5.561	5.581
Net migration	10.094	12.022	9.614	7.025	4.962	6.734	10.118	20.229	25.213	15.341	16.847	13.406	16.521
Total fertility rate	1.77	1.74	1.72	1.76	1.78	1.80	1.85	1.84	1.89	1.84	1.87	1.75	1.73

Source: Eurostat, accessed the 28th June, 2014

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The net-migration towards Denmark has also been stable in recent years with a net inflow of around 22–23,000 persons (23,751 in 2012, Danmark Statistik 2013: p. 20). This has been a combination of around 67,000–72,000 migrants coming to Denmark and 45–48,000 leaving Denmark. Table 1 shows the Eurostat data for the development of migration since 2000, which are slightly different, but also show a positive net-migration towards Denmark.

The population forecast builds upon historical development and how this is expected to continue regarding fertility, death and migration thus influencing the composition of the Danish population in the years to come. The structure of the population has an impact especially on spending/income in the public sector and labour supply as argued above. The impact of demographic changes on welfare states is discussed in other places (Greve 2006, 2014).

In Table 2 the last prognosis for the demographic changes until 2050 is shown using the historical development in data as a background for the calculation.

Table 2 is a clear indication of the shift in the demographic composition of the Danish population in the next 35 years. The number of elderly above the age of 80 will more than double, whereas at the same time there will be fewer people of working age and thereby on the labour market, although the changes here are less pronounced. The number of children and those in need of care and primary education will seemingly remain stable.

These changes and expected changes have influenced welfare policies. This is a challenge for the welfare state for example due to the fact that today especially those above the age of 80 are in need of social and health care. However the ongoing and expected increase in the use of welfare technology and rehabilitation seems to reduce the possible pressure on both public sector spending and also the need for trained labour within the area, and as argued the growth in the economy also influenced the pressure (Greve 2006). Furthermore, new ways to support the elderly including rehabilitation is expected to help them take care of themselves for a longer time implying that even if people are living longer the pressure for welfare state services will not increase to the same degree. People are additionally not only expected to live longer, they are also expected in general to have a better health as a combination of better living condition and also an increase in the level of educational attainment as those with higher levels seems to live longer, e.g. the inequality related to health.

Recent years have seen public information campaigns and other initiatives in an attempt to try to reduce sickness related to obesity, alcohol, use of drugs and lack of exercise. This is also expected to increase average life-expectancy, but also the number of healthy years, and, thereby reducing pressure on public sector spending.

These changes and expected future changes in the demographic composition have been used as a core argument for several of the more dramatic changes in the Danish welfare state. This includes changes in the early retirement benefit systems, a higher statutory pensionable age and an attempt to get students to complete their studies in a short a time as possible (see also Table 3). Demographic changes, such as the expectation of there to be fewer people of working age and thereby a risk of a shortage of manpower in the future, have been used as a central argument for

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Table 2 Change in the age composition of the Danish population until 2050 by age group

Age group	2013	2015	2020	2025	2030	2035	2040	2045	2050
0–9	642,476	627,928	604,760	646,933	694,975	702,780	690,894	672,267	664,459
10–19	693,344	683,560	668,696	638,029	613,750	655,697	704,080	712,039	700,090
20–29	681,847	719,005	761,145	745,517	731,152	701,773	679,924	723,371	772,205
30–39	700,034	673,044	659,887	728,368	772,091	759,829	746,769	718,915	698,115
40–49	815,894	800,740	742,148	667,518	648,974	717,020	762,359	751,281	738,782
50–59	727,751	749,214	790,489	776,317	718,582	644,482	626,199	694,259	740,446
60–69	693,516	688,563	663,657	700,918	743,447	733,458	681,548	612,369	596,966
70–79	415,083	458,956	563,265	585,327	576,064	618,700	664,524	662,001	621,653
80–89	192,051	196,030	223,957	286,662	360,846	379,263	388,171	430,649	472,284
90–99	39,623	42,093	45,964	50,127	61,624	84,543	108,278	114,518	125,003
100+	1009	1036	1211	1603	1829	2188	2971	4526	5806

Source: Danmark Statistik, available at www.dst.dk

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Table 3 Overview of central changes in social and labour market policy with a focus on the impact of those receiving support since the year 2009

Year and name of agreement	Central contents	Focus on
2009 More young in education and jobs	Active measures for persons aged 15–17 years who are not in work or education	Human capital
	Immediate action offer for persons aged 18–19	Increased coercion
2010 Agreement on recovery of Danish economy 2011 Agreement on later retirement Finance bill agreement	Shorter unemployment period Change in calculation of benefits Reduction in tax-expenditure for payment of trade-union membership Reduction in length of early retirement benefit and later age of retirement A short time with longer unemployment benefit (from 2 to 2½ in 2012) More focus on education than work first, including support job-rotation, help for people with dyslexia. Start help will be abolished	Work-first approach Increased coercion Work more Human Capital
2012 Acute-job package Finance bill 2013 Stronger focus on social dumping	Employer should present so-called acute-jobs where those in risk of losing unemployment benefits have the right to be interviewed In the first half of 2013 right to education for those no longer has right to unemployment benefit A pressure on the Danish labour market with foreigners using free-movement working for lower wages should be reduced by clearer rules on how to work in Denmark	Work-first Human capital Human capital
2013 Decision in Parliament in June on change in social assistance system	An agreement changes the social assistance especially for those below the age of 30, who in the future if they do not have a further education be given an educational grant at a lower level than social assistance. Duty to work for social assistances e.g. to take community service work until they find work. Increased sanctions for citizens deemed able to work if not searching actively for a job. A new job type "nytte-job" will be offered to those who are able to do some kind of work	Human capital and job-coercion
2013 Temporary labour market benefit	As a consequence of shorter unemployment benefit (max 2 years) more people would have been without welfare support as they are not eligible for social assistance. From January 2014 until the end of 2016, they can instead receive temporary benefit at 60 % of the highest level of unemployment benefit for a single person and 80 % for those with children	Income replacement

Source: Greve (2012a) and updated based upon recent agreements in the Danish Parliament, cf. the ministries websites, especially the Ministry of Finance (www.fm.dk) and the Ministry of Employment (www.bm.dk)

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changes in the welfare system. The pressure from demographic transitions has thus especially focused on how to be able to increase the labour supply in Denmark. This is despite the fact that in Denmark there are currently unemployed people available, although this is at a lower rate than in most of Europe.

Migration has in the recent years, at least since autumn 2011, not been a central argument and issue for the changes in the welfare state. A lower inflow of immigrants has reduced this, albeit, see later, the increase in the free movement of workers, especially from Eastern Europe, and their rights to welfare benefits has questioned the sustainability and legitimacy of the system. Otherwise, this reduced focus on migration can reflect that in principle one issue that would have been able to reduce the lack of manpower would have been a higher employment rate of migrants in Denmark. However, there is still implicitly often a debate on who deserves and who does not deserve to receive benefits, and migrants who have not worked in Denmark are those seen as not deserving. This has often also been framed in the more general perception that people should have strong economic incentives to take up a job rather than receiving welfare benefits (see also Table 3), and has thereby been a political economical argument for changes in the way the system is structured. The deserving/undeserving is thus still an undercurrent issue in the debate on welfare states development (cf. also Greve 2012b).

3 Risks and Opportunities/Social Investment and Social Compensation

The Danish welfare state can be seen as an in principle front-runner to use the welfare state as a social investment state (cf. for discussion on social investment Morel et al. 2012). This is especially due to the long-term trend of ensuring high quality and affordable day care as also argued in the EU employment strategy and also the ability to combine work and family life. Given the tradition of the Nordic welfare states, including Denmark, as being service welfare states, the social investment perspective seem less pronounced in the debate on changes, although development of welfare services are still seen as central. Below is a presentation of central issues related to day-care, family allowances and creation of incentives to work. However, first there is a short overview over public sector spending with regard to social policy.

The overall distribution of social security expenditures is shown in Fig. 1.

As can be seen from Fig. 1 old age, sickness, disability and family counts for more than 85 % of all social expenditures, e.g. the core welfare state areas. Changes in demography might thus also influence overall level of spending, but also how central the social investment perspective is. In the following the central policy areas and changes herein will be presented.

Day care for children is a central social investment area. In 2011 97.1 % of the 3–5 years of age where in a day-care institution, and of those between 0 and 2 years it was 68.2 %, and given the maternal and parental leave on the birth of a child, this is also close to 100 % (Danmark Statistik 2013). It has thus been a possibility to

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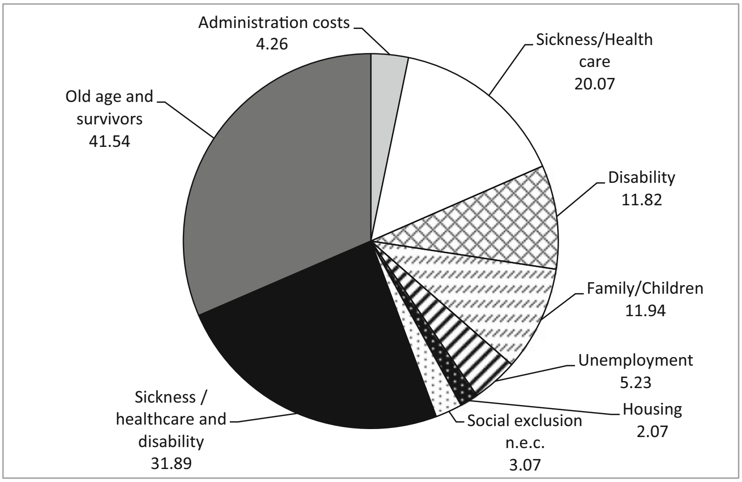

Fig. 1 Functional distribution of social security expenditures in 2011, % of total spending

combine work and family life—also for single parents. Although there are household income dependent fees, which were around 365 Euro for the youngest and 210 Euro for those between 3 and 5 years per month in 2012, these have been reduced or abolished for low income earners.

In 2008 there was even an increase in the family allowance for the youngest child, although there was an attempt to reduce family allowances to families with more than 3 children by imposing a ceiling on the total amount to be received. This was abolished by the incoming government in 2011. Still, there has been a reduction in the level of benefits of 5 percentages points over the years 2010–2012[2] implying a real reduction in buying power given that they are indexed-based upon the consumer price index. From 2014 family allowances will be means tested against the household income if above approx. 94,000 Euro and then with 2 % pr. 100 Euro, implying a shift in the Danish welfare policy. The level is however small and the overall expected reduction thus limited, but once a principle has been introduced this can be used to make changes over the coming years. A small incremental change can thus in the longer run imply a fundamental path change regarding the impact of the means-test in the welfare model.

Not only social investment has been in focus in Denmark, but also how and to what extent there are incentives to take up a job. One of the implicit ways of increasing the distance of disposable income between those on the labour market and those outside the labour market has been by increasing the deduction in taxable income when having a job (working allowance) to 6.95 % of income from 2012 with a maximum of approximately 3000 Euro. This is thus an indirect way of reducing the value of welfare benefits by implicitly lowering the taxation of income

[2] This is based upon information from www.skm.dk

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when being on the labour market. In 2014 this was further changed so that single mothers and fathers have an extra tax deduction.[3] All in all this points towards trying to use strong economic incentives in order to get people to take up a job, the main problem however is that also those already in stable and permanent jobs get the same reduction in the tax to pay. It is thus implying a reduction in total taxable-income without any strong direct impact of creating jobs, e.g. labelled deadweight-loss in economic terminology.

The long-term trend, also before the financial crisis, has been to gradually reduce the size of welfare state benefits, and thereby the incentive to take risks has also been reduced as the economic compensation in case of unemployment is lower than before. In a way this is a slow retrenchment approach.

Despite the fact that social investment is not used as a central argument for the Danish welfare state policies, it seems to be very central to the understanding of how the model is working and that the welfare state is a support to ensure that work and family life can function, although recent years has seen a rhetoric increasingly focusing on a work-first approach in the welfare state approach. This has been especially in relation to those receiving social assistance and unemployment benefits.

This was also the focus of a change in the educational grant system arguing that this would put pressure on students to complete their education earlier (and thereby have more years on the labour market) and at the same time ensure revenue to be used to expand economic activity. At the same time the indexation of benefits was also reduced, implying that in the longer run the level and generosity also of the educational grant system will be less than it used to be.

Also in the area of pension and early retirement there have been changes. In recent years several agreements have been made implying changes in the time and option regarding retirement from the labour market with the aim of increasing labour supply. In May, 2011 an agreement (Plovsing 2013) was reached where the age of early retirement was increased from 60 to 62 years of age, which is 5 years earlier than in the reform of 2006. From 2014 to 2017 the pensionable age will be increased from 65 to 67 years and will then be linked to changes in life-expectancy from 2027, implying that if the life-expectancy increased by 1 year the retirement age will increase by approximate half a year. The early retirement benefit was also shortened to 3 years and with a stronger dependency on the individuals saving for pension purposes. There have at the same time in recent years not been core changes in the level of pension benefits, but this has to be seen in the light of changes in the 1990's where the supplementary part of the Danish pension system was made means-tested also against income from pension savings. Given that most Danes by now have an occupational-based pension, this suggests that even more Danes will only receive the low state basic pension. It is thus decisions made around 20–25 years ago that are central to the reduction of the financial pressure on the financial viability of the Danish welfare state. Thus history seems to matter, and

[3] See www.skm.dk

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also that these changes with the implementation of occupational pension funds and changes in the pension system were made at a time where presumably very few were aware of the long term consequences, and, thus there was no criticism of the changes.

There has due to the risk of lack of manpower in central welfare services areas been a change in focus in the Danish labour market policy towards a stronger focus and impact on work first (see also Table 3).

A change in the Danish flex-jobs and early retirement pension system from June 2012 is a further example of the tightening of the welfare system in Denmark. The flex-job system starting in the year 2000 has been, in principle, a success story in that it has made it possible for people with a risk of not getting a job to work for a limited number of hours and still have a reasonable income. However, it has also been a rather costly employment policy and there was an increase from around 10,000 persons in 2000 to above 52,000 persons in 2012. Flex-jobs will still be available, but for previous high income earners the economic compensation will be less generous than it used to be as it will, for those hours the individual is not able to work in the flex-job, be at the level of unemployment benefits. The decision also changed the system so it would be possible for those only able to work a few hours to be given the right to flex-jobs. This at the same time reduced the option to get early retirement pensions as this only can be awarded if it is not possible to work at all, and in the agreement from June, 2012 it will not be an option, except for very few groups where it is expected that they not at all will be able to come closer or enter the labour market. For those under the age of 40 it will no longer be possible to permanently get early retirement pension. Instead a resource approach will be used, attempting to find types of work they will be able to do and further help individuals in- or reintegration into the labour market and the wider society.

A core argument for these changes was that in 2012 there were around 245,000 on early retirement pension with expenditures at 5.6 billion Danish Kroner. Furthermore, a change had taken place so still more people were getting early retirement pension due to a psychological diagnosis and fewer based on a physical diagnosis. Within the changes it was also argued that a rehabilitation team in the local municipalities should be clearer about and focused on how to ensure that persons will be able to help themselves. It is too early to evaluate the outcome of the changes.

Long-term care seems not to have been reduced during the crisis, although a stronger focus on rehabilitation and support, including the use of welfare technology, has come more into focus, and therefore also that the elderly is not only living longer, they also have a healthier life.

4 Fiscal and Economic Crisis

The fiscal and economic crisis have affected the Danish welfare state, as in other countries in Europe and around the world, in two different, however interlinked, ways. One being the need to safeguard the continued functioning of the financial

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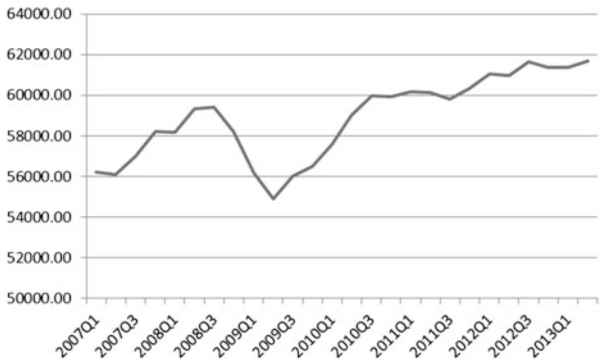

Fig. 2 Seasonally adjusted GDP in current prices in millions of Euro and adjusted data by working days. *Source*: Eurostat

sector and at best also to ensure capital to small and medium sized companies to avoid a continuous negative economic development. This includes the ambition to avoid recession and to have growth in the economy. Secondly, that the unemployment grew although from a European perspective, it was still relatively low level; however for younger people there has been a very high level of unemployment not otherwise seen in recent times. Growing unemployment implies higher public sector expenditure and lower tax-income and thus a change in level of public sector deficit, often labelled automatic stabilizers, e.g. that even without new decisions in parliament there is an increase in public sector spending and reduction in public sector income.[4] The high level of youth unemployment can be seen as a first indication that the impact of changes in the welfare states are unevenly distributed and that the young generations have had a price to pay for the economic downturn.

Figure 2 shows the development in GDP since the first quarter of 2007.

Figure 2 shows, as in other European countries, the clear negative impact on GDP in the wake of the financial crisis and that it was only at the end of 2011 that a level clearly above the pre-crisis level had been reached. By the middle of 2013 the economic growth was still slow and even less growth is expected in 2014.

Some core data for the Danish development with regard to the changes in the years following the financial crisis in public sector deficit, economic growth and level of unemployment is shown in Table 4.

The data shows that unemployment has increased and that Denmark has also been in a state of growth crisis, even in recession in both 2009 and 2012. There was a dramatic fall in GDP in 2009 with the implication that the overall wealth in Denmark today has still not reached the same level as before the crisis hit the world economy. Public sector deficit increased as a consequence of the support to the banking sector, but also due to the in-built automatic economic stabilizers in the Danish system, as mentioned above, meaning that when more people are

[4] In good times it works the other way round so it functions automatically to reduce economic activity, and thereby the economic activity is automatically changed in both up and downward direction so that overall economic activity (and therefore unemployment) is less strongly influenced by the business cycle).

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Table 4 Core data for the economic development since 2007

	2007	2008	2009	2010	2011	2012
Unemployment as percentages of the labour force	3.8	3.4	6.0	7.5	7.6	7.5
Youth unemployment rate	7.5	8.0	11.8	14.0	14.2	14.1
Employment rate	74.7	75.5	74.5	73.0	72.4	72.2
Growth in GDP	1.6	−0.8	−5.7	1.6	1.1	−0.4
Public sector deficit as % of GDP (+ implies surplus)	+4.8	+3.2	−2.7	−2.5	−1.8	−4.0
Total public spending as % of GDP	50.8	51.5	58.1	57.7	57.6	59.6
Public sector debt as % of GDP	27.1	33.4	40.7	42.7	46.4	45.8
Total public sector revenue as % of GDP	50.8	51.5	58.1	57.7	57.6	59.6
Growth in public sector consumption	1.3	1.9	2.1	0.4	−1.5	0.2

Source: Eurostat databank, except growth in public sector consumption from www.dst.dk

unemployed, public sector expenditure increases and income decreases as revenue from taxes and duties decline. These automatic stabilizers have at the same time contributed to the fact that the increase in the level of unemployment has been less strong than in other countries, as they are higher in Denmark than in many other countries due to the higher level of generosity and use of income tax-system in the Danish welfare state. In 2011 for the first time in many years the public sector consumption (e.g. not the total level of spending, but consumption as measured in the national accounts systems) declined. There have also been cuts in the number of civil servants and in this way the costs of the welfare state have been reduced and there has not really been leeway for increased spending in welfare. This, combined with, the fact that there is an ongoing development with more elderly and fewer children (cf. Sect. 2), has made the change in the composition of public sector spending even more important than before. Again, compared to other European countries, the level of debt is at a relatively low level, and just a few years with economic growth and balance in the public sectors economy will substantially improve the situation further.

It is from the data in Table 4 further clear that Denmark has also witnessed increases in the level of unemployment and especially youth unemployment in the wake of the fiscal crisis. Besides an increase in the level of unemployment, there has also been a reduction in the employment rate indicating that some of those losing their jobs will be leaving the labour market. So, this being an indicator of low economic activity, and low demand for labour also negatively influences the overall labour supply. Although this is difficult to predict, this might change again when the economy moves towards a higher level of economic activity. Since the start of the economic crisis the unemployment rate has on average been higher for men than for women in each year between 2009 and 2012 (Danmark Statistik 2013 p. 40). This is a reflection of the fact that the private sector has been harder hit than the public sector.

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The welfare state has reacted to the economic crisis mainly by trying to focus on preventing the collapse of the banking sector, but also, by in the autumn of 2011, by trying to kick-start the economy again. However the attempt to expand activities and reduce the economic decline was not really successful (cf. again the data in Table 4). Furthermore, there has been an ongoing discussion on whether and to what degree the welfare state were and could continue to be sustainable especially in its ability to finance welfare activities.

There has also been a growing emphasis on the effectiveness and productivity in Danish society, and not only in the public sector. The slow development in productivity in the private service sector has been argued to have an overall negative impact on the economic development, a report from the Danish productivity commission has shown (Produktivitetskommissionen 2013a), which also has discussed productivity in the public sector (Produktivitetskommissionen 2013b).

Despite the reduction in public sector consumption and a slow development in public sector spending, changes have been made in certain areas. For some of the most vulnerable, for example, there has been some improvement. In the autumn of 2011, the incoming government abolished the so-called "start hjælp" (introductory benefits), the ceiling of the level of social assistance and the rule of the requirement of 450 h of work for a couple in order to receive social assistance, which came into effect as of the 1st January 2012. These were rules which the previous government had introduced mainly in order to reduce welfare transfers to migrants coming to Denmark and unable to get a job.

In general the European Union has not really played a role in the development of the Danish welfare state in the wake of the crisis, with the exception of debates revolving around how to be able to fulfil the criteria within the fiscal pact of the EU and the increase in free-movement (cf. later). This has had the impact that the further development of the public sector has been related to either the 3 % deficit or 0.5 % structural deficit criteria within the economic and monetary union. Despite the fact that Denmark is not part of the fiscal compact, it has still accepted it. In this sense the economic criteria within the EU system have had a strong impact on how active a fiscal policy the government has wished to pursue. The demand that each country should present a National Reform Programme has only meant that a goal has been set committing Denmark to reducing the number of people in households with high unemployment with 22,000 people towards 2020 (Danish Government 2012).

In the spring of 2013 an agreement on a growth plan for Denmark was achieved including reduction in duties on goods sold especially near the German border, an increase in public sector investments, reduction in company taxation and support for the improvement of private houses by a specific tax-rebate.[5] The focus here was thus more on total employment, rather than on a social investment perspective. Overall, it indicates a focus on how to increase and expand the Danish economy in

[5] Cf. http://www.fm.dk/publikationer/2013/aftaler-om-vaekstplan-dk/~/media/Publikationer/Imported/2013/Aftaler%20Vækstplan%20DK/web_aftaler_om_vaekstplan_DK_pdfa.pdf

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the light of the tight economic conditions. Still, the limits set by the European Fiscal Compact reduced the willingness to expand the Danish economy even further.

The fiscal and economic crisis thus have had an impact on the overall level of employment and economic activity, and the option to expand the economy in a Keynesian way of steering the economy has only been used in a more limited way.

5 Legitimacy

The Danish welfare state still has a high degree of legitimacy, although the debate and discussion on who is deserving and who is not deserving seems to have had some impact on the decisions related to what should be done about the unemployed, and also how and to what extent the people on social assistance should be treated. Who is deserving and who is not is an old Danish welfare debate, where those who have been working most of their life (pensioners) are often seen as deserving, those who only more limited has been on the labour market often are seen as less deserving.

There has been an increase in attitudes towards more redistribution in the time from 2002 to 2008. There is still in Denmark, as in many other European countries, a wish for government intervention in order to ensure well-being (Svallfors 2012). However, the overall picture in the development from 2002 to 2012 on whether or not the government should reduce inequality presents a more mixed picture, see Table 5.

Table 5 shows that when Denmark had a stable and strong economy, from around 2005 and onwards, the support for the government to reduce differences in income levels increased, and then fell back in the first year of the crisis with a slight increase in 2012. This thus indicates that in times of economic constraints this might even in a solidaristic country like Denmark reduce support for this type of public sector intervention. The implication being that in good times legitimacy and support to those in need are strongest.

Table 6 shows elements related to the legitimacy of the Danish welfare state in five specific areas.

Table 6 indicates that in 2008 people expected young people in Denmark to be able to get a job; today this is no longer the case, cf. the youth unemployment data in Table 4. Health care is seen as relatively efficient, whereas the living standard of pensioners and the unemployed is evaluated less positively. Given also the recent reduction in the replacement rate, this indicates that the population in Denmark must today be expected to be less positive with regard to the level of welfare benefit, in spite of the fact that there has continuously been an ongoing discussion on the incentives or lack of incentives to take up jobs. However, overall, the belief that the Danish welfare state is effective and efficient is still upheld, thus pointing to continuous support for the development of the service in the welfare state.

Regarding benefits and levels of benefits this view is slightly different. As also pointed out in Sect. 3, these have been more under pressure. For example, an agreement on social assistance in April 2013 has meant that social assistance has

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Table 5 Viewpoints in Denmark related to the question: Should the government reduce differences in income levels?

	2012	2010	2008	2006	2004	2002
Agree strongly	8.6	9.8	11.5	11	9.7	7.6
Agree	31.0	29.6	30.2	28.5	28.3	35.8
Neither agree nor disagree	22.2	22.4	22.3	25.5	22.7	12.2
Disagree	29.6	31.2	29.3	28.1	30.2	36.1
Disagree strongly	8.6	7	6.7	7	9	8.3
Total	100	100	100	100	100	100
N=	1650	1536	1568	1461	1405	1403
Difference	1.4	1.2	5.7	4.4	−1.2	−1

Source: European Social Survey round 1–6, available at http://www.europeansocialsurvey.org/

Table 6 Issues of legitimacy in the Danish welfare state

	a	b	c	d	e
Extremely bad/inefficient	1.9	0.6	0.9	0.3	1.1
01	2.8	1.5	2	0.4	1.8
02	6.5	4.8	5.6	1.3	3.4
03	11.7	13.6	12.1	2.7	7.4
04	9.9	16.6	10.5	5.2	8.1
05	17.7	24	20.8	10.5	13.4
06	12.3	15.5	13.3	9.8	13.4
07	17	13.1	15.7	19.9	23.6
08	15.1	7.5	13.3	29.1	18.5
09	3.7	2.2	4	13.7	6.3
Extremely good/efficient	1.3	0.7	1.8	6.8	3
Total	100	100	100	100	100
N	1598	1568	1484	1565	1586
Average	5.4	5.1	5.4	7.0	6.1

Note: Averages are calculated by awarding 1–9 points, 1 point for bad/inefficient and 9 points for good/efficient the others points from 1 to 9.
a) Standard of living of pensioners
b) Standard of living unemployed
c) Provision of affordable child care
d) Opportunities for young people to find job
e) Efficiency provision of health care
Source: European Social Survey, round 4, in 2008 and calculations based hereupon. Available at http://www.europeansocialsurvey.org/
Note: These questions were only asked in this round.

been reduced for those below 30 years of age, and also that they should participate in further education if they do not have secondary education qualifications, or for those with further qualifications are expected to work in what has been labelled "useful jobs" within the public sector for at least 25 h per week. The changes have been brought about not only as part of the financial crisis, but also due to a crisis in

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the acceptance of whether those outside the labour market are actively searching for a job, willing to move geographically and take up a job at a lower or even very low level of income outside their normal area of competences. This is a further indication of a shift towards a work-first approach.

The indexation of benefits has been changed in such a way that this in combination with funds set aside to support the most vulnerable, implies that the real value of social benefits will decrease over the years to come and furthermore the compensation rate for the unemployed will continue to decrease as it has been doing for the past 15 years, implying that the generosity of the Danish welfare state has been diminishing.

In Denmark within certain state-decided rules there are options to locally decide and prioritize on the level of quality within certain parts of the social service system. This has however been so for a long time, and it cannot be argued that this has had either a positive or a negative impact on the support for the welfare state.

Another question of legitimacy refers to recent developments within the European Union, especially in the wake of the increased use of free-movement for workers by people from Eastern Europe. In June, 2013 the Danish government announced that: “It is our conclusion, that it is not possible that workers from other EU countries shall have a certain amount of employment, before one can received the benefit”, and that approximately 1900 EU citizens were covered by the rule. This conclusion was reached based upon the fact that the EU Commission has argued that this is against the rules regarding the free-movement concerning co-ordination of social security, including the aggregation principle. Employment in Denmark is defined as working at least 9 h per week, or for self-employed at least 18.5 h. The implication is that people only working in Denmark for a short time can also receive the relatively generous universal family allowance and that this might reduce the legitimacy of the welfare state.

The risk of free-movement for the universal welfare state was also part of a report that was published in March, 2011 (Regeringen 2011). The report focused on the challenges for a universal welfare state of migration including free-movement and further, in certain social services areas, including free education, and thereby that not only regarding social security benefits there could be a need to have waiting periods.

A court decision on the 21st February 2013 implied that if a person is taking up a job giving a person the position as a migrant then there will be access to the universal educational grants if entering a study. The court argued that the law regarding free-movement: “must be interpreted as meaning that a European Union citizen who pursues a course of studies in a host Member State whilst at the same time pursuing effective and genuine employment activities such as to confer on him the status of ‘worker’ within the meaning of Article 45 TFEU may not be refused maintenance aid for studies which is granted to the nationals of that Member State” (Case C-46/12—ruling on the 21st February 2013). Following the court decision it has been estimated to cost the Danish welfare state around 30 million Euro, and has raised the issue about whether to change the rule to

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include the requirement of having lived in Denmark for some time before being eligible for study grants. The different cases and also historical changes depicted above are a clear indication of that the combination of EU rules on free-movement with court cases and the EU Commission's intervention implies a pressure on universal welfare state in Denmark, partly because it increases expenditures, partly because legitimacy will be reduced.

Part of the debate on legitimacy also revolves around whether the welfare state is sustainable, especially in relation to financing, who gets the benefits and whether the labour supply is sufficient. The degree of equality can finally also have an impact on how legitimate the welfare state is seen.

The Danish welfare state it is argued, especially by the Ministry of Finance, will be sustainable given that the changes pursued have made it possible to increase the labour supply and also because of the changes in the social assistance system, as mentioned earlier in Sect. 2, cf. also Appendix 1. Furthermore, the focus on and changes in the tax-system should make a sustainable economic development sustainable.

What is less clear from recent year's changes is how and whether this will ensure a continuation of the high degree of cohesion in Danish society and also whether this will imply a strong deviation from the path of a greater equality as has been a cornerstone in the Danish welfare state (Greve 2012a).

The issue of sustainability was also part of the tax-agreement in June 2012 and decided in parliament in September 2012. The agreement brought about lower taxes for high income earners, a higher income tax allowance and lowering of the indexation of social benefits; except for pensioners, who are eligible for pension supplement, will be compensated for (Plovsing 2013). It was with this agreement that from 2014 family allowances were made dependent on income for those above a certain income. These changes will imply a higher degree of inequality between those in the labour market and those outside.

At least the economic debate has pointed to and used long-term sustainability as the main reason for increasing the economic incentive to work and has further focused on how to increase the falling labour supply, as discussed in Sect. 2, by encouraging people to work more years by finalizing their education as early as possible and working longer before retirement.

Furthermore, in recent years the government has tried to encourage investments in infrastructure, public sector building and in the private sector by extra economic incentives to increase the demand in the construction sector. However this has only had a limited impact on the overall level of unemployment.

6 Conclusions

The Danish welfare state has undergone structural as well as social changes over the last years. Despite the historical strong focus on equality and full-employment and an active labour market policy focusing on inclusion and increasing the skills of the workforce it seems that the Danish welfare state model is no longer so profoundly different from other welfare states in the North-West of Europe, thereby following a

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pattern where the difference in Europe is more likely on an East/South and North/West axis (Greve 2008) than the more historical division as indicated by Esping-Andersen (1990). Part of this has been on the way for a long-time, such as the change in the pension system with more people dependent on having actually worked in order to ensure a decent pension.

Also the active labour market policy has changed away from the Nordic equality perspective and is focusing more strongly on a work-first and coercion principle than it used to. The relative decline in the level of social benefits also points in the direction of a more European welfare model, meaning that a stronger division between rich and poor can be expected to continue in the years to come reducing the degree of equality in the Danish society. At the same time and pointing in another direction is that the services for children, elderly and health care are still universal social services. Thus Denmark, within the social investment approach of delivering of services, still seems to be in focus, whereas the level of social benefits and the pressure on those receiving welfare state benefits has become even stronger than before. This implies that the universality and generosity of the Danish welfare state within the area of benefits has been reduced, and also that there is pressure on the welfare services.

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Economic Recession and Changes in the Estonian Welfare State: An Occasion Not to Waste a Good Crisis

Mare Ainsaar and Liisa-Evi Kesselmann

1 Introduction

For many countries, the economic crisis was accompanied by an increased burden of social expenditure, a rise in unemployment and people's heightened economic uncertainty. At the same time, the welfare state itself depended on economic resources, which were now under threat due to the recession. Hence, we can see that welfare choices vary greatly by country during the economic crisis. These choices were influenced by economic opportunities, but also by many other factors—such as path dependency, public attitudes, political preferences, values and the main contributing factors of the welfare state. This chapter gives an overview of social policy changes during the 2008–2010 economic recession in Estonia. The analysis is based on statistical material and media reports on political action. Media reports are a good source for public policy analyses in Estonia, as they represent all the main actors in the policy process. Different interest groups and policy actors have quite free direct access to media (Harro-Loit and Pallas 2013). Germany as one of the largest countries in Europe and EU27 data are used for statistical references in policy process comparison.

2 Economic Recession and Political Landscape in Estonia

Estonia is a country with a flexible labour market in combination with wide inequality, a strong reliance on the housing sector, and low trade union density. These types of countries with a small and open economy, strongly dependent on

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foreign markets, experienced the biggest problems during the economic crisis (Tridico 2013). Estonia was one of the worst performers in the European Union in crisis management, taking into account labour market indicators and the GDP level.

Estonia witnessed the first signs of economic recession already in 2008. Real GDP dropped 4.2 % in 2008 and in 2009 the decline was 14.1 %, while in most of EU 27 member states the decline was observed only in 2009. Typically, for Estonia as a small country with an open foreign market, the rapid economic growth was replaced with a stark decline. This happened despite, and in fact due to, the fact that Estonia experienced one of the highest economic growth rates before the crisis from 2000 to 2007 (Jõgiste et al. 2012). The main reason behind the recession in Estonia was the collapse of credit-financed consumption, while the banking system was quite stable (Vetter 2008). The economic recession lasted from 2008 to 2010/2011 in Estonia. Only in 2010 was growth in real GDP visible, and by 2012, the GDP surpassed the pre-recession level (Fig. 1).

Despite rapid and stark economic decline, Estonia also had the makings for an easier exit from the crisis. As a result of the conservative fiscal policy of 2003–2007, Estonia had a very low level of general gross public debt (Table 1) and some budget surpluses in a special state reserve for emergency occasions—stabilisation reserve—approximately 10 % of GDP (Jõgiste et al. 2012).

An important factor that influenced the actions of the government during the economic crisis was political competition, which made the budget negotiation situation tenser. The crisis period of 2008–2011 included three different elections, which all made the political debate and coping with the economic situation politically more aggressive—the 2009 local government elections were followed by European Union Parliament elections and the general parliamentary election in 2011. Estonia is usually ruled by coalition governments. After the 2007 parliamentary elections, the government was formed by three parties: two liberal parties

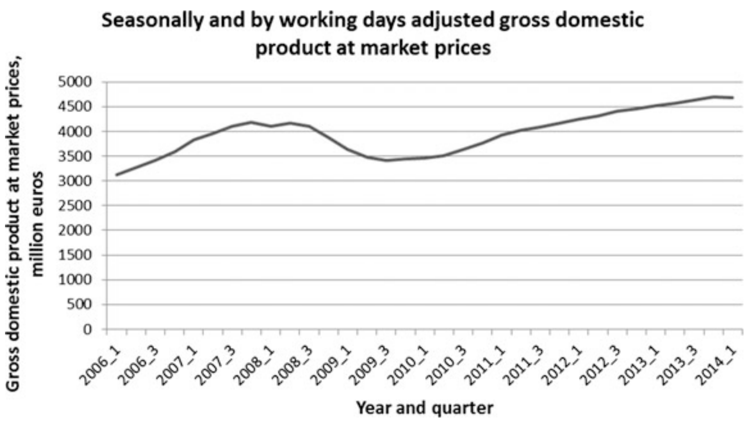

Fig. 1 Seasonally and by working days adjusted gross domestic product at market prices, million euros (Data source: Eurostat)

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Table 1 General gross public debt, % of GDP

	2005	2006	2007	2008	2009	2010	2011	2012
EU (27)	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Germany	68.5	68	65.2	66.8	74.5	82.4	80.4	81.9
Estonia	4.6	4.4	3.7	4.5	7.2	6.7	6.2	10.1

Data source: Eurostat

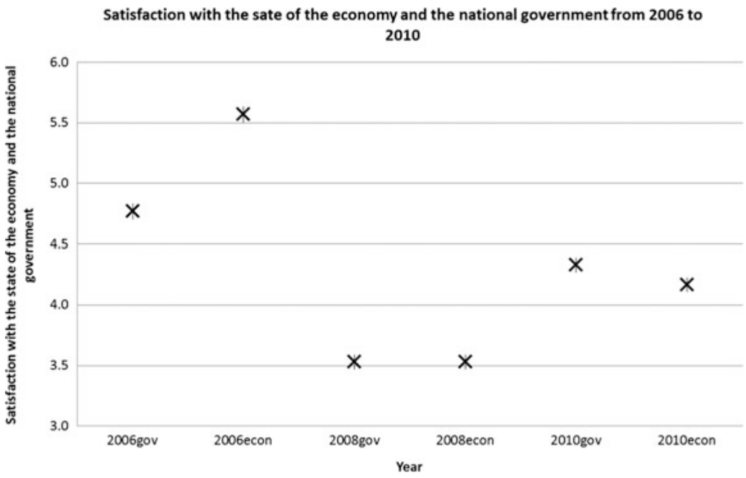

Fig. 2 Satisfaction with the state of the economy and the national government from 2006 to 2010 (mean on a scale 0 not at all to 10 completely, data from European Social Survey)

(about 35 % seats in parliament), and the left-wing Social Democratic Party (10 %). When the economic difficulties emerged, the coalition's ability to arrive at a compromise was put to the test, for example the year 2008 brought along the politically sensitive decision to suspend the reduction of income tax. That meant a breach of one of the main campaign promises of the main liberal coalition party, as well as the deficit in state budget. A balanced budget was regarded as a value in itself on the Estonian political landscape and it was one of the major political principles of the liberal parties. Political competition between the coalition parties as well as the approaching local government elections in 2009 made relations within the coalition even tenser and this culminated in 2009 with a booting out of the Social Democratic Party from the government.

Although the economic difficulties of 2008/2009 resulted in a lowered satisfaction with the government and the economy (Fig. 2), the country preserved surprisingly stable governance during the crises. Difficult budgetary negotiations did not pass without political victims—the Social Democrats left the government, those parties who remained in power did not lose the political trust of the public, despite the cutbacks. By the end of 2010, satisfaction with the government had almost returned to the pre-crisis level, although the country's economic situation still

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merited suspicion and the liberal coalition in power got the right to form the government also after parliamentary elections in 2011. A surprisingly large part of the population supported the government, believing society's development to be on the right track even in 2010 (Vihalemm 2011). Coping with the economic crisis and the collective abidance may also have been fostered by a shared strategic goal—accession of Estonia to the euro area. Thanks to the people's relatively high support for the euro (Jõesaar 2010) and the achievement of the goal in 2011, the disagreements between the media and various parties may also have been more restrained and the willingness to forbear the difficult times greater than other circumstances.

There were no major strikes or demonstrations in Estonia during the cuts. One explanation has to do with the fact that the cutbacks did not affect major social policy expenditures, or those that concerned all population groups, and attempts were mostly made to maintain the status quo. Old benefit schemes were not trimmed; rather, the freshly established ones were abandoned before people had become accustomed to them, and some of the new schemes were postponed. As a result, the economic crisis has not significantly decreased the public support, apart from the rise in unemployment and the pay cuts.

3 Fiscal Efforts of Government: Combination of Austerity and a Long-term EURO Adoption Plan

Total expenditure on social protection rose in many countries during the economic recession, including Estonia (Fig. 3), although many spheres experienced cutbacks. In spite of growth, the level of social security remained quite modest in Estonia, compared to the EU average. On the other hand, not all social policy changes were trigged by budgetary problems during the turbulent years of economic recession. Altogether, there were few austerity-related necessary social policy changes.

Fig. 3 Total social protection benefits PPS per head (Data source: Eurostat)

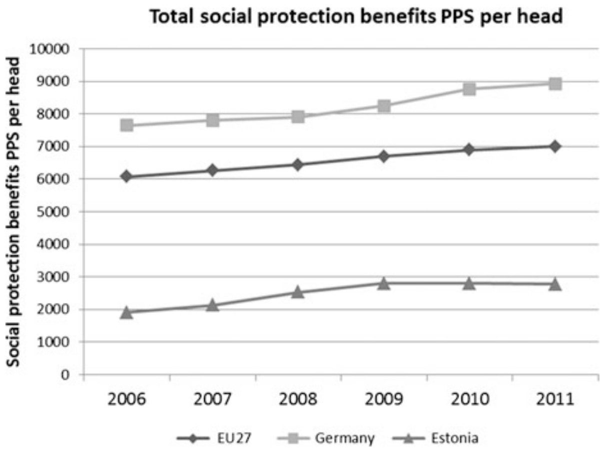

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Table 2 Social protection expenditure by function in 2007 and 2010 (amounts given in euros per inhabitant, taking into account the PPS and percentage from total expenditure)

	EU 27				Estonia			
	per capita PPS		% from total		per capita PPS		% from total	
	2007	2010	2007	2010	2007	2010	2007	2010
Total	6255	6907	100	100	2096	2807	100	100
Sickness/Health care	1832	2033	29.3	29.4	700	752	33.4	26.8
Disability	520	549	8.3	7.9	195	306	9.3	10.9
Old age	2470	2702	39.5	39.1	900	1224	42.9	43.6
Survivors	387	406	6.2	5.9	16	16	0.8	0.6
Family, children	507	552	8.1	8.0	242	357	11.6	12.7
Unemployment	315	415	5.0	6.0	24	118	1.2	4.2
Housing	130	140	2.1	2.0	3	7	0.2	0.3
Social exclusion	91	107	1.5	1.5	12	23	0.6	0.8

Data source: Eurostat

Table 2 provides information on social protection expenditure structure by function in 2007 before economic recession and in 2010. In all areas of social protection, Estonia lagged behind the EU average level in terms expenditure per capita PPS and it had a different structure than the EU average. Sickness/health care, old age pensions and families and children had a stronger position in the basket of social protection expenditures in Estonia both in 2007 and in 2010, although there was less money available per inhabitant than in EU 27 average. Housing, poverty and social exclusion, on the other hand, were less developed areas. While the expenditure on social protection generally rose in the EU in the period of 2007–2010, and this also applies to Estonia, we can see one exception in Estonia—survivors' support, which did not rise to the same extent in Estonia.

The activity of the Estonian government during the economic crisis period of 2008–2011 should be analysed in terms of a combination of political, economic and euro area-related aspirations. The government's fiscal efforts to cope with the economic recession are described in detail by Jõgiste et al. (2012), who write that the first attempts to cut expenses were made in April 2008, but an understanding of the severity of the crisis developed over time. The main area of cutbacks in the 2008 negative supplementary budget was the government operational expenditure, which the government decided to decrease on average by 7 % on the basis of the solidarity principle across all domains and occupational groups. With regard to the general cutbacks, an exception was made only for state pensions that continued to increase despite the economic crisis both in 2008 and in 2009. The main source of concern for the government was the lower than expected inflow of consumption-related value added tax and excises. In 2008–2009 it became clear that the economic forecast had been too optimistic, the state budget was negative and, according to the government, more budget cuts were needed. Jõgiste et al. (2012: 189) provide a detailed description of the events that followed "*In 2009, several policy measures and planned policy actions were cancelled (e.g. fully paid paternal benefit and*

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school allowance) *or delayed* (*e.g. the reduction of income tax and an increase in the basic exemption or tax-free allowance*). *To increase budgetary revenues*, *VAT and state fees were raised*, *and larger-than-usual dividends were drawn from some state-owned companies*".

Joining the euro zone was a long term security goal for Estonia. One of the preconditions for adopting the euro was a budget deficit under 3 % of GDP, which had been hard to achieve under the former inflation conditions, but succeeded in the period of cutbacks. Against the background of general cutbacks, the inflation level dropped, and in March 2009 it seemed that Estonia could finally meet all of the Maastricht criteria for joining the euro zone in 2011, which was seen as a guarantee for Estonia's welfare and security (Koorits 2009). Hence, in addition to dealing with the general economic and fiscal problems, meeting the criteria for switching to the euro became one of the goals of government policy at the time of prudence. For example, during the drafting of the 2009 state budget the minister of social affairs made the announcement that "*The long-term interest of all Estonians*, *in order to increase the welfare and guarantee the security of Estonia*, *is the euro*. *All other policies must be subjected to accession to the euro zone*, *as the adoption of the euro will create positive means for a more rapid development of the state*" (Pevkur 2010). Although there were also other, more sceptical opinions, most of the government and the public agreed that the euro was a goal worth pursuing.

In 2009, budgetary expenditures were heavily trimmed and extraordinary sources of revenue were sought. At the end of 2009, the budgetary position of the public sector was improved, mainly by cutting back on expenses and by raising taxes, increasing the dividends from state-owned companies and selling state property. As a result of such measures, the revenues in the state budget were not diminished even in 2009, the year of the deepest recession, when the economy decreased by almost 14 % (Ülevaade 2013). In May, the 2010 Convergence Report by the European Commission, which assesses the readiness of non-euro EU countries to adopt the euro, concluded that Estonia clearly fulfilled the criteria for adopting the euro in 2011 (European Commission 2010). Estonia adopted the euro in 2011. According to an ex-post evaluation by the National Audit Office, the low deficit during the crisis and achieving a budget surplus in the period of 2010/2011 showed that the government of Estonia employed a strict budgetary policy at the time of the crisis, "which no other EU member state was able or willing to achieve" (Ülevaade 2013: 10).

4 Social Policy Changes, Demographic Development and the Ageing of the Population

Population issues used to be considered important at government level in Estonia because of the small size of the total population (Ainsaar 2009). Estonia is among the most rapidly depopulating countries in Europe (Ainsaar and Stankuniene 2011). All population forecasts foresee the continuation of this depopulation in future. It happens mainly because of the unfavourable age composition of the country's

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population and a continuous negative net migration. Estonia holds an intermediate position among European Union countries in terms of population ageing and fertility. The proportion of the "65 and over" age group is close to 18 % and the total fertility rate was around 1.7 births per woman in 2008–2010. Life expectancy, however, is one of the lowest in the European Union. This section describes the main policy changes trigged by demographic arguments such as retirement policy, population growth and health policy during the economic recession period (Table 3).

The establishment of the position of the minister of population affairs (a cabinet minister without a ministry) in the mid 1990s reflected the importance of the population issue for the country. The main aim of the work of minister's office was to coordinate integration and population policies in a country. The position and institution was abolished during the economic recession in 2009 when the minister of population affairs, together with the Social Democrats, was forced to leave the coalition. Although cost-cutting and the need to diminish the administrative expenses of the public sector were named as the main reasons for abolishing the minister's office, it was also a long-term goal of the leading liberal party, to cut state sector expenses and positions of "special" ministers, which they did not manage to achieve in previous political situations. Hence, they used the argument of economic crises to abolish the institution.

4.1 Family Policy

Children and family have always been an important social policy area for Estonia, despite a general relatively liberal social policy. Before the crises the government took numerous actions in the field of family policy. The payment period of the income-dependent parental benefit (100 % coverage of previous salary) was extended to 1.5 years, and the paternal leave benefit, as well as foster care allowances, was increased. In 2008, the last minister of population affairs of the Republic of Estonia, reported on the number of policy changes which took effect in 2008: An exemption from income tax was extended to the first child (previously only from the second child); the payment period of parental leave benefit was extended by 4 months, i.e. until the child is 1.5 years old; a working father gained the right to take 10 days' paternal leave with benefit equal to the average salary, during the mother's maternity leave or within 2 months of the birth; in cooperation with local governments, additional funds were invested into construction of child day-care facilities and to raise the wages of kindergarten teachers; additional

Table 3 Total fertility rate and crude rate of net migration with adjustment 2005–2012 in Estonia

	2005	2006	2007	2008	2009	2010	2011	2012
TFR	1.52	1.58	1.69	1.72	1.7	1.72	1.61	1.56
Net migration rate	−3.8	−4	−2.1	−1.5	−1.6	−2.8	−2.9	−2.8

Data source: Eurostat

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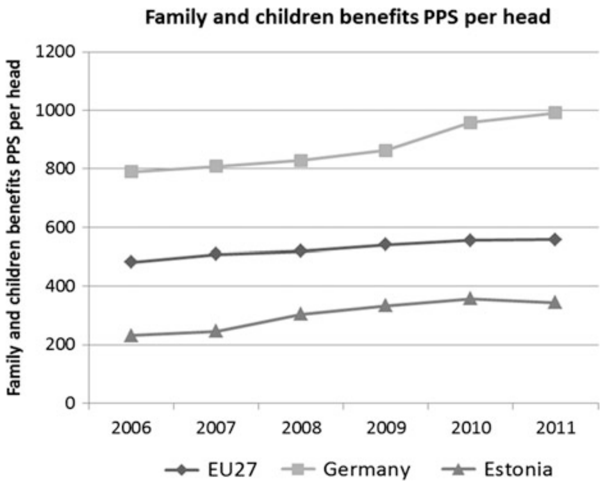
parental leave was granted to one of the parents. In May 2009, as the Social Democrats left the government, the position of the minister of population affairs was abolished and many family policy measures were cancelled in the following year.

The government coalition report published at the end of 2009 showed that, the government had the most problems with family policy-related coalition agreement promises. While 77 % of the coalition's agreement promises were fulfilled, in the area of family policy, the respective figure was only 29 %. For instance, of the promises made in 2007, granting fathers a 14-day parental benefit during the mother's maternal leave or within 2 months of the birth, several benefits for families of three or more children, a 13 % contribution for sickness insurance for parents receiving parental benefits, and raising the pension insurance coefficient for stay-at-home parents had yet to be implemented. As a result of the economic crisis, it also proved unattainable to support the construction of day-care facilities to the promised extent and to establish the intended 128 euro state-funded hobby allowance for children participating in some kind of music, sport or other hobby training groups. Family policy contained the biggest number of items that required commitments according to the coalition agreement. However, the economic recession shrunk the state budget and politicians were unable to keep their promises. All in all, however, the expenditure on children and families grew faster compared to the EU 27 average (Fig. 4).

The state spent about half of all the family policy funds on income related (100 % of previous salary) parental leave benefit (up to 1.5 years after birth), and the expenditure kept increasing year by year. In 2009, a discussion began on the subject of reducing the income related parental leave benefits or changing the calculation principles—the disproportionally large parental leave benefit paid to wealthy parents was seen as unfair against the background of an overall need for

Fig. 4 Family and children benefits PPS per head (Data: Eurostat)



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cutbacks. However, the discussion lead nowhere, as the fixed share benefits from a salary was a political promise made by the leading liberal party in coalition.

In 2010, a department for children and families was created within the ministry of social affairs in order to replace the activities of the abolished office of the minister of population affairs. However, the department did not have the competences which the special minister had had. The diminishing importance of family policy within society was also reflected in the fact that the parties became more cautious about giving out family policy related promises during the 2011 parliamentary elections than in previous elections (Turk and Võrk 2011). All parliamentary parties apart from two (the Reform Party and the Green Party) supported the idea of so called parental pension benefits to the parents in order to raise fertility (Raun 2009). This led to the draft legislation for parental pension, which was to be enforced by the beginning of 2012 and provided additional benefits for parents who had brought up a child. The bill was partially introduced in 2013, and is not expected to be introduced in full until 2015 due to lack of funding (Salu 2012). During the political crises of 2012, the prime minister declared that there are plans to alter the child benefit system. The plan was to shift Estonia more towards a needs-based family policy system and create child benefit for families living in relative poverty. The initiative was an old plan of the leading liberal party, which they had not succeeded in bringing into the arena in previous coalitions. The change was presented as a substantial increase in child allowance, although the use of this poverty-related benefit was limited.

4.2 Health

The Estonian health care system is characterised by the redistribution of resources from higher income groups to lower income groups. All in all, sickness, health benefits PPS per capita are modest in Estonia, compared to other European countries. Health care in Estonia is mostly funded from the Health Insurance Fund, which covers the expenses of both health services and sickness benefits. The second most important source consists in individual out-of-pocket contributions. In Estonia, individual out-of-pocket payments made up 20 % of the total health care expenditure in 2008 (Aaviksoo and Sikkut 2011). Studies show that health care in Estonia had the best price/quality ratio in the EU, and according to the European Health Consumer Index Estonia was ranked 11th in the list of the most patient-friendly health systems in Europe (Eesti 2008). People's satisfaction with the health care system was around the European average.

Already before the economic crisis, the need to reform the health insurance system was apparent. Among other things, it was proposed to move individual insurance from the Health Insurance Fund to the state budget in order to leave more funds available for health services, but that proposal never materialised. In 2009, new possibilities were sought for the funding of health care. The Health Insurance Fund recommended reducing the cost of health services by 6 % and raising the patient's cost-sharing contribution. Experts advised that the Health Insurance

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Fund's reserves be used instead of making cutbacks, but the minister of social affairs disagreed. The system of sickness benefits was changed from July 2009, when the period not covered by sickness benefits was increased from 1 to 3 days, and the Health Insurance Fund started paying sickness benefits from the ninth day of illness.

By the end of 2009, the final package of austerity measures included a reduction of service by 6 % and a 15 % increase in the patients' cost-sharing contribution for nursing care. In response, the Patients Advocacy Council declared that although it will support the efforts of the government to adopt the euro, it could not approve of the introduction of the European common currency at the cost of the worst-off and least privileged members of society. The Board of the Estonian Trade Union Confederation proposed using excises, capital taxes and dividends from investments to gain additional funds. The expenses to health care did not change remarkably during the following years.

By the end of 2011, the Health Insurance Fund had made a number of changes to the following year's budget and allotted more money for family physicians and for the pay-rise of hospital doctors and nurses in order to increase the funding for health services to the 2009 level and reduce the emigration of physicians and nurses. Family physicians complained that the funds were inadequate. The funding changes were intended to be carried out in a way that the capitation fee varies according to the patient's age, with pre-schoolers and the elderly given more money.

4.3 Pensions

A continuous rise in the proportion of retired people and their high interest in politics (Ainsaar and Maripuu 2009) makes older people a very attractive target group for politicians. Generally, the retirement pension replacement rate is low in Estonia, and the average age for retirement for men and women is around 63 years. The current Estonian pension system is built on three tiers, although the majority of current pensioners receive the pension according to the old system, which does not have an individual contribution element but only consists of government contributions.

During the 2007 parliamentary elections, a great emphasis was put on a rise in pensions, and it formed one of the most important points of the coalition agreement of the new government. After the 2007 elections, a new pension bill was passed which altered the principles for calculating the pension coefficient to account more for the previous year's average wages in the country and hence keep the pensions competitive, given the general level of inflation. In 2008 the former minister of social affairs and member of the parliament, Eiki Nestor, expressed confidence that "pensioners can now be certain that increases in pensions will not be lagging behind wage increases, and it is clear for the state how big the transition costs are going to be" (Niitra 2008). Given the changes in the legislation and the growing number of the elderly, we can observe an overall increase in pension expenditures in 2008–2009 in Estonia.

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The expenses related to the disbursement of pensions can be covered from state revenues, loans and the stabilisation reserve created to a large extent for pensions. The stabilisation reserve was not used until 2008 (Kalamees 2008).

Due to the elections and the general weight of the opinion of the elderly, pensioners were closely linked to the political rallying during the economic cutbacks. While the opposition predicted a decline in pensions during the economic recession, the opposition parties fought for the right to pose as the defenders of the elderly. The different political parties competed among themselves about who would send more signals about their role in the protection of the retirement pensions. As a result, pensioners were relatively better off during the economic crisis than working people (Ainsaar 2011). While unemployment was on the rise and wages were trimmed in various fields of occupation (Eamets 2011), pensions rose. In 2009, the rise was smaller (a total of 5 %) than prescribed by the 2007 amendment (15 %), but it was still there. "The pressure of the difficult economic situation forced us to make changes in this area, too," admitted the minister of social affairs. Commenting on the pension increase, the prime minister expressed the opinion that 5 % instead of 15 % shows that pensioners are showing solidarity with the rest of society, and found that the rise in pensions was not populism but part of the plan for economic recovery, as financially less secure people typically direct their funds into consumption instead of depositing them (Raun 2009).

In 2009, the government agreed to increase the statutory retirement age to 65 years by 2026. The main arguments for the bill were the increasing proportion of the elderly in the overall population in the future and the incapability of the state budget to cover all of the related expenses. Obviously, it was more about long-term policy plans than austerity. Although there were speculations that the decision might be influenced by the OECD, the minister of social affairs denied this and referred only to the ageing of the population (Tamm 2010) as well as the need to send the right signals to retired people.

In 2009, the government decided to freeze government contributions to people's individual pension pillars until the end of 2010 and let people choose for themselves whether or not to continue contributing to their own accounts during these 2 years. Up till then the government had promised all those who contributed voluntarily to the second pension pillar that the government would add 2 % extra, now governmental contributions were cancelled and some recovery has been promised since 2011. The decision was motivated by the fact that analyses indicated a negative growth of the bank's pension funds, and cancellation of state contribution to these funds was seen as the best option for state budgetary cutbacks. According to an analysis published by an independent research centre (Kase 2009), pension funds in private banks were the main ones to lose from the suspension of second pillar contributions, therefore it was not surprising that the decision met fierce opposition only in banking circles, but was nevertheless carried through. In the opinion of the minister of finance (Social Democrat), it was a wholly reasonable step in light of a GDP decline and negative productivity of pension insurance funds. However, Eiki Nestor, a prominent Social Democrat member of parliament and one of the initiators of the pension system in Estonia, was unwilling to accept the idea of the

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pension system taking a hit. Hence, the idea started to circulate that in 2 years' time, the state should somehow compensate unpaid contributions (Karnau and Linnamäe 2009). To those who still decided to continue making contributions, the state promised to contribute 4 % on its part from 2014 if people would continue their contribution. A total of 37 % of the people who had joined the second pillar of funded pensions chose to continue with their contributions (Kallas 2009).

A debate on the cutback of state expenditure on pensions finally led to the expulsion of the Social Democrats from government in May 2009. It had been agreed that the minister of finance would perform further calculations for a discussion on abolishing the income tax release for pensioners. When the minister of finance (Social Democrats) published the calculations publicly first, the prime minister (Reform Party) saw it as competition for the role of supporter of pensioners. In 2009, the decision to abolish the income tax release for pensioners from 2010 was nevertheless made, except without the involvement of the Social Democrats in government. Such reductions were considered more realistic than direct cutbacks on the nominal pensions, given the political situation. No political party wanted to take the risk of directly reducing pensions before the European Parliament elections.

5 Labour Market and Unemployment

The most drastic changes took place in employment and unemployment policy. In 2007 and at the beginning of 2008, the unemployment rate in the country was 4 % and there was plenty of labour available, as a large young generation reached the working age. The economic boom was reflected in the likely shortages of skilled labour (Brixiova and Egert 2012). However, the end of 2008 was already accompanied by a rapid increase in unemployment (Fig. 5). The peak of registered unemployment and the related public expenditure arrived in 2009 and the

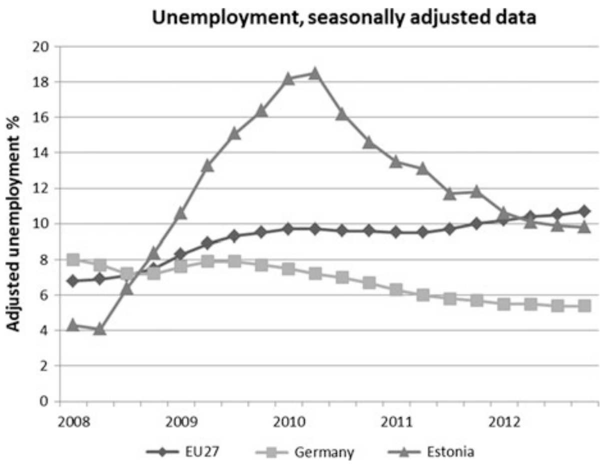

Fig. 5 Total unemployment (%) seasonally adjusted data (Data: Eurostat)

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Table 4 Long term and youth (less than 25) unemployment

		2008	2009	2010	2011	2012
Long-term	European Union (27 countries)	2.6	3.0	3.9	4.1	4.6
	Germany	4.0	3.5	3.4	2.8	2.5
	Estonia	1.7	3.8	7.7	7.1	5.5
Younger than 25 year	European Union (27 countries)	15.8	20.1	21.1	21.4	22.9
	Germany	10.6	11.2	9.9	8.6	8.1
	Estonia	12.1	27.5	32.9	22.3	20.9

Data: Eurostat

unemployment level in Estonia remained above the European average until the beginning of 2012. Unemployment numbers among young people exhibit a similar trend while long-term unemployment developed with delay (Table 4). Long-term unemployment began to drop again in 2010, but still maintained a very high level even in 2012. Eamets (2011), analysing market changes in broader terms, found that compared to some other countries, the labour market of Estonia reacted to the economic crisis quickly and flexibly. The implemented measures included the reduction of working time and wages and the layoff of employees.

Low level of unemployment benefits influenced the total state expenditure on labour market policy, which was rather low. Even combined with health insurance, unemployment benefit was not sufficient to motivate a person to register as unemployed (Kahu 2010), and expenditures were reduced even more because many people were unmotivated to register as unemployed in Estonia. The role of active labour market policies was rather marginal in Estonia, but rose remarkably during the crises period (Brixiova and Egert 2012).

At the end of 2008, parliament approved the new Employment Contracts Act, which became a source of heated discussion throughout the following years. The aim of the act was to alter the labour market policy in the spirit of flexicurity; at the same time, the act was also supposed to contribute to the accession of Estonia to the euro zone (Kass 2008b). Although there was general consensus that the old Employment Contracts Act from 1992 was out-dated, and the motion to amend it was not directly related to the economic crisis, the process of negotiations about law touched several politically sensitive issues, and the act itself addressed several subjects that gained importance in relation to the economic crisis (unemployment benefits, the conditions related to the termination of employment contracts). The political negotiations about wording of the act and the related discussions were extremely heated. The first draft of the act increased unemployment insurance, provided a lowered redundancy payment and an equal redundancy payment for all employees, regardless of their length of employment. Among other things, the bill stated that the unemployment insurance benefit would increase from 50 to 60 % of the last average wage for the first 100 days of unemployment. After 3 months, the unemployed would start to receive 40 % of their former average wages. Getting rid of employees became easier. The bill substantially decreased redundancy payments and terms for advance notice of redundancy. Furthermore, the consent of a labour

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inspector was no longer needed to dismiss a pregnant woman or parents raising children under 3 years of age.

The first draft from January 2008 was not approved by the trade unions and the Social Democrats, who were then part of the government, and a fight ensued between the different political forces. In February, the OECD Secretary General visited Estonia and emphasised the flexibility of the labour market as a vital component of competitiveness, while the prime minister of Estonia made a statement declaring the inflexible labour market as the biggest problem for Estonia's economic development. In April, after 3 months of negotiations, the employers, trade unions and government representatives signed the new conciliation version of the Employment Contracts Act; however, as early as May 2008, even the government parties began to distance themselves from the agreement once again. The ministers from two coalition parties began to criticise the bill and refused to approve it in the next round. The biggest source of disputes was the redundancy payment.

Next, a public discussion emerged on the subject of the rate of unemployment insurance premiums. The ministry of social affairs maintained that, compared to the unemployment insurance premium of 0.9 % (0.25 % for the employer and 0.65 for the employee) in 2008, the new bill would widen the circle of the recipients of the unemployment insurance benefit and raise the benefit level, while the rate of the unemployment insurance premium only needed to be increased to 1.1 % (0.35 % by the employer and 0.75 by the employee). The government also set a further criterion for the deliberation of the act, namely that the premium may not exceed 1.5 and the social partners involved in the negotiations agreed to that (Kass 2008a). In November 2008, the Unemployment Insurance Fund made a proposition to the government to raise the unemployment insurance premium from 1 July 2009. The workers would then need to pay 1 % of their wages for the insurance, while the employers would pay 0.5 %. The trade unions objected, but their protests were in vain. In reality according to the development of economic crises since June 2009, the unemployment insurance premium was raised to 3 %, and by the end of 2010 it was 2.8 % for the workers and 1.4 % for the employers.

The Employment Contracts Act finally came into force in July 2009, but with the exception that the articles relating to an additional burden on the state budget were not to take effect until the beginning of 2010. The minister of social affairs emphasised that the new act helps "employers to better adjust to the rapidly changing economic circumstances, promotes workers' learning and self-education, and motivates enterprises to train their employees". According to the ministry, the bill had to improve people's security during unemployment by increasing the rate of unemployment insurance benefit and the range of those entitled to receive the benefit (Raun 2009). Furthermore, the Labour Market Board and the Unemployment Insurance Fund were merged into a single public agency—the Estonian Unemployment Insurance Fund—in order to enhance the labour market related activities.

Over time, the economic crisis brought along a number of changes in previous agreements. In 2009, it transpired that there were no plans to enforce the benefits

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achieved by the trade unions within the next few years. In May 2009, the government officially approved the draft that left the benefits paid to the unemployed pursuant to the new Employment Contracts Act at the level of 50 and 40 % of the average wages. According to the new act, these rates should have been 70 and 50 % of the average wages. For the sake of keeping down costs, old employment record books were retained, although there had been plans to abolish them by creating a pension register. The increase in unemployment benefits was delayed until the beginning of 2012. In the context of a changed political situation and the recovery phase of the economy, the minister of social affairs supported the proposition of the coalition in March 2012 to abolish also the option of paying a benefit in the amount of 40 % of the former wage to those workers who leave their jobs voluntarily or by mutual agreement. That provision was supposed to take effect in 2013 pursuant to the Employment Contracts Act and it was agreed on in 2008 with the aim of protecting the employee in cases where the employer pressures him or her to leave the job voluntarily or by mutual agreement due to difficult economic circumstances. The decision to abolish it was justified by claiming that such a benefit would tempt people to remain unemployed for longer.

The minimum wage was also influenced by economic recession. In December 2008, trade unions managed to negotiate a minimum wage despite the economic crisis. A 32 euro rise in the minimum wage was agreed, instead of 58 as agreed previously. The minister of finance found the minimum wage however a very risky instrument—“people will get paid more, but quite a few may lose their jobs” (Pors 2010). The prime minister, too, believed that the economy was not ready for a minimum wage hike, although according to Eurostat, Estonia was sixth from the bottom in the ranking of minimum wages in the EU. The lasting economic crisis meant that an increase in the minimum wage could not even be considered and only in 2011 did the Estonian Trade Union Confederation and the Estonian Employers Confederation sign an agreement, raising the minimum wage in the private sector to 290 euros per month from 1 January 2012. “The added 12 euros are seen as a symbolic change, since it is time to start concluding agreements across the board for a gradual wage increase,” said Trade Union leader Taliga on this occasion (Luts 2011).

6 Income Maintenance

Minimum income in Estonia is guaranteed under the subsistence benefit scheme. The benefit is paid to households/individuals residing in Estonia whose income after the payment of fixed housing expenses (corresponding to the standard living space) is below the subsistence level established by parliament. The subsistence benefit is granted for 1 month at a time. Each month a new means-test is carried out (Trumm and Ainsaar 2009). Aside from income, the subsistence benefit mostly depends on the person’s housing expenses. The disbursement of subsistence benefits in Estonia takes place at local government level but is from the state budget. During the economic crisis and as the unemployment levels rose, people’s

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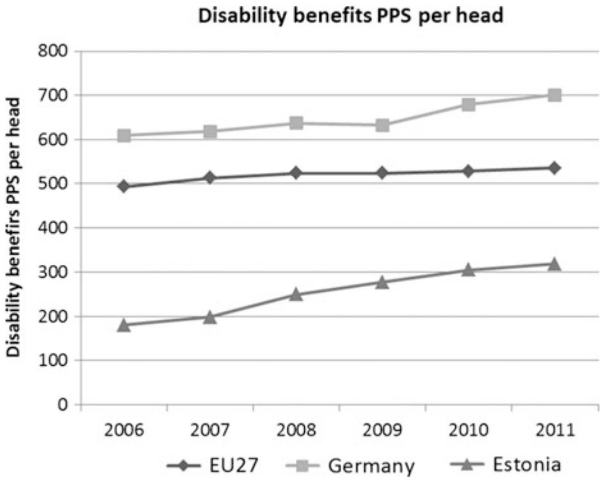

Fig. 6 Disability benefits PPS per head (Eurostat)

need for the subsistence benefit increased. As a result, there was a general concern that the respective resources may be depleted. Indeed, in the period from 2007 to 2010, the expenditure per person doubled on average (Table 1); however, the total percentage of income maintenance expenditure in the social protection related expenditure was still marginal, 0.8 %. Only housing expenditure, at just 0.3 %, made up an even smaller percentage of the social protection expenditure. As the means available to the state were limited, the calculation principles of the subsistence benefits were not altered during the economic crisis, despite numerous propositions, as each such decision increases state expenditure.

In addition, subsistence benefits covertly grow on account of disability benefits (Fig. 6), as many people who were not entitled to the unemployment benefit registered themselves as disabled.

7 Conclusion

The economic recession in Estonia can be demarcated with the years 2008–2011. 2008 was still rather promising in terms of social development—many of the 2007 campaign promises were fulfilled and people's social welfare was yet to be affected by the economic crisis. On the contrary, the effect of the bills aimed at improving the welfare of families that were inspired by the 2007 parliamentary elections was felt. Even the initiation of changes to the Employment Contracts Act was more about the realisation of a long-term plan. 2009 and 2010 can be regarded as the main years of social security cutbacks because of crises. Only the decision to increase the retirement age in the more distant future was made independently of this context.

The social policy decisions during economic recession in Estonia were influenced by a politically difficult situation, the existence of a state reserve, low

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level of public debt, and therefore a greater freedom of the state to consider different measures. All in all, the economic crisis passed quite peaceably in the country although in objective terms Estonia suffered from one of the worst economic downturns and one of the harshest increases in unemployment in Europe and the government followed a rather inflexible budgetary policy. The two main coalition parties during the recession also won elections after the recession in 2011. It might be related to the fact that Estonian managed to use the recession to fulfil the accession criteria to the euro zone—a long-term development goal of the country. After economic downfall, the decrease in revenues and radical budget adjustments it managed to meet the Maastricht criteria for adopting the euro as well as maintaining political stability.

Another surprising fact is that the number of changes and cutbacks in social protection was in fact not that large at all. There were no substantial increases either. The policymakers managed to find some balanced way between cuts and protection, supported by the patience of ordinary citizens for the sake of entering the euro zone.

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The Restructuring of the Spanish Welfare State: One Step Forward, Two Steps Back?

Paloma de Villota and Susana Vázquez-Cupeiro

1 Introduction

After a process full of political interruptions and financial tensions, and coinciding with the unanimous approval of the democratic Constitution of 1978, the welfare state in Spain began to be constructed at the end of the twentieth century (Esping-Andersen and van Kersbergen 1992; Esping-Andersen 1996). In the 1980s, while the crisis of the welfare state was arising internationally, state in Spain the expansion began, leading the application of wide-ranging social reforms. In spite of its limitations in terms of scope and at benefit level, the welfare regime was consolidated and almost simultaneously initiated an ongoing process of reform and restructuration.

Spain forms part of the group of southern European welfare states, which share historic-political roots as well as analogous socioeconomic and demographic trends. These countries have undergone transitions from authoritarian to democratic regimes; suffered late industrialization and delays in the modernization processes; and shared common family solidarity structures as well as the relevance of the Catholic Church (Flaquer 2000; Moreno 2007; Moreno and Mari-Klose 2013). These countries are characterized by having late welfare systems and privatist statism (minimum social cohesion and relevance of the private sector), together with low social expenditure and strong government dependence of social institutions (Sarasa and Moreno 1995; Villota and Vázquez 2009). The

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universalistic nature of healthcare and educational systems, a central role of the family besides fragmented income transfer system and maintenance complements, are also characteristic aspects of the southern countries.

For some, southern welfare states are labelled conservative or corporatist welfare cases, characterized by a low level of social protection and rudimentary institutional development (Esping-Andersen 1990; Katrougalos 1996). Others suggest this constitutes a fourth welfare regime, the Mediterranean or Catholic model (Sarasa and Moreno 1995; Ferrera 1996). Yet Spain seems to constitute a particular case of the Latin social protection model (Esping-Andersen 1989, 2000). The political and social agreement achieved by all the political forces during the democratic transition laid the foundations of the still evolving present-day welfare state (Villota and Vázquez 2009). The system has a hybrid nature, as a middle way between the *Bismarckian* model and the universal coverage characteristic of the *Beveridgean* regimes. It has a limited universal nature, low intensity protection, partial income redistribution and moderate level of decommodification (Sarasa and Moreno 1995; Palier 2013). Likewise it has a high degree of decentralization, the transfer of familiaristic provision of care to social policies (Moreno 2007; Flaquer 2000) and more recently, a privatization trend in the management of social services.

Although reforms began to be implemented in the 1990s (Palier 2010), it was since the year 2008, as a result of the economic and financial crisis, when the welfare states in southern Europe were pressed to implement further reforms. The reduction of the public deficit and the contention of the economic falling-off have been approached in Spain through dramatic cuts of public (social) expenditures as well as increasing taxes. Yet new challenges emerging out of the austerity policies, together with the bill of the so-called *rescate* (public assistance to banking) and the decline of economic activities, are paradoxically calling for further challenges and structural reforms.

In this chapter we discuss the main challenges the Spanish welfare system is facing and has particularly faced since 2007, a moment in time in which the model was incomplete, as we have suggested, still a work in progress (Villota and Vazquez 2008). At that time Spain was debating whether to maintain a model with acceptable standards (yet far from Nordic or even central European models), or rationalize and reduce its size (Villota and Vázquez 2009). Currently, the Spanish welfare regime is mainly concerned with the social consequences of the economic difficulties (rising unemployment and large cuts in public spending) and the demographic challenges (low fertility rates and aging population): the maintenance of the pensions system, an increasing number of people living in poverty, privatization of public transfers and public services, etc. (Cooke 2009; Costa-Font and Gil 2009; Guillén and León 2011). Likewise, there is increasing concern about new challenges arising as a result of the reforms, such as (fiscal, political-administrative and moral) sustainability, the questioning of the territorial decentralization model and government legitimacy (Glennester 2010; King and Ross 2010; López-Santana and Moyer 2012; Calzada and del Pino 2013). Regarding the last issue, Navarro (2012) has suggested that, as a result of the economic and social crisis, Spain is suffering a crisis of democracy.

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With the neoliberal discourse firmly guiding the reforms since late 2011, and the widespread belief that the welfare state is no longer suitable, the academic debate is now focussed on whether Spain will be able to change the direction of the current reforms, pull the handbrake and reinforce the welfare state or, by contrast, demolish an unfinished dream. The aim of this chapter is to discuss the challenges faced, since the beginning of the economic and financial crisis, by the welfare state in Spain. In Sect. 2 we analyse the demographic changes, which can be regarded as one of the biggest (middle-long term) challenges for the welfare system in Spain. The focus will be on the aging of the population, migration and the low fertility rates. The extent to which demographic change is being used as an argument for reforms in the political discourse will be discussed particularly in relation to the sustainability of the pensions system and the healthcare model. Section 3 is dedicated to the fiscal and economic crisis, which can also be regarded as one of the main challenges to the Spanish welfare system, as it is a central political argument for reforms. After reviewing the main challenges, we will briefly describe some of the main reforms in areas such as health, education and the labour market, pensions, family, etc., while emphasizing not only how they indicate new challenges but also show the need to define a long term strategy as many problems remain unsolved.

2 Demographic Change

Spain is undergoing a "new demographic stage", framed within the so-called fifth demographic transition, which is characterized by population decline, low fertility and mortality rates, increasing life expectancy, and lower immigration flows. The population recorded in Spain is 46.5 million people, a 52 % increase over the last half-century (Eurostat 2014g; INE 2014a). In 2013 there was a decline of 90,329 people; in 2014 the decline reached 220,130 people (Eurostat 2014g). This trend will continue in the coming years, and it is expected that in the next decade Spain's population will shrink by a further 2.6 million, or 5.6 %. In fact, from 2017 onwards, less immigration together with more emigration flows and the fact that deaths will begin to outnumber births, will accelerate the lowering number of inhabitants to 42 million in 2051. Further, this will no longer be a problem related to rural or underdeveloped areas, but will manifest itself throughout the country (INE 2013a–c) (Table 1).

2.1 Ageing of the Population

The ageing of the population due to greater longevity is an issue of public interest. The ageing index (the percentage of population over 64 years for those under 16) increased from 36 % in 1975 to 82 % in 1995, reaching 108 % in 2012 (INE 2013a). Since the nineteenth century the average age continued to increase, although

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Table 1 Demographic balance and crude rates—NUTS three regions

	2009	2010	2011	2012	2013
Spain	45,828,172	45,989,016	46,152,926	46,818,219	46,727,890
Galicia	2,738,930	2,738,602	2,736,637	2,771,916	2,761,989
Principado de Asturias	1,058,923	1,058,114	1,055,558	1,074,308	1,067,797
Cantabria	576,418	577,997	578,637	592,383	590,036
País Vasco	2,136,061	2,138,588	2,140,346	2,184,696	2,177,006
Comunidad Foral de Navarra	614,526	619,011	622,121	640,014	638,948
La Rioja	315,718	314,005	313,146	320,951	318,647
Aragón	1,313,735	1,313,017	1,314,904	1,343,807	1,338,316
Comunidad de Madrid	6,295,011	6,335,807	6,369,162	6,425,522	6,414,620
Castilla y León	2,510,545	2,499,155	2,491,409	2,537,685	2,518,560
Castilla-la Mancha	2,022,647	2,035,516	2,046,712	2,105,935	2,094,406
Extremadura	1,080,439	1,082,792	1,083,267	1,104,336	1,100,970
Cataluña	7,290,292	7,301,132	7,333,532	7,514,991	7,480,921
Comunidad Valenciana	4,991,789	4,994,322	5,004,474	5,009,650	4,987,011
Illes Balears	1,070,066	1,079,094	1,088,513	1,100,715	1,110,112
Andalucía	8,150,467	8,206,057	8,256,303	8,377,810	8,393,175
Región de Murcia	1,443,383	1,460,664	1,468,130	1,461,925	1,461,983
Ciudad Autónoma de Ceuta (ES)	72,561	74,403	75,763	83,845	84,539
Ciudad Autónoma de Melilla (ES)	70,076	72,515	74,083	81,792	83,620
Canarias (ES)	2,076,585	2,088,225	2,100,229	2,085,938	2,105,234

Source: Eurostat (2014d)

immigration slowed it temporarily (by contributing to the rejuvenation of the population and the increasing birth rate) (Fernández Suárez 2010). But with the advent of the crisis Spain suffers a double effect which contributes to social aging: the decline in birth rates and immigration.

Life expectancy has dropped slightly compared to 2011, reaching 82.2 years. However forecasts predict an increase in life expectancy of 1.5 years each decade (in 2048, 84.3 years for men and 89.9 for women). Thus, in 2019, 29.8 % of the population will be over 64, almost 5 percentage points above the population under 16 years. At the same time, due to ageing, there will also be a steady increase in the death rate. So, if current trends continue, deaths will begin to outnumber births in 2017, an imbalance that will continue until at least 2023 (INE 2013c).

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2.2 Migratory Trends: Decreasing Immigration and Increasing Emigration

Population decline has been largely due to negative migratory trends. Since the 1990s Spain has become a country of immigration (Fernández Suárez 2010). Migrant settlements of various nationalities (predominantly from Latin American countries, North Africa and Eastern Europe) were consolidated from 2000 to 2010. In January 2000 there were 923,000 residents with foreign nationality, of a total population of 40.4 million. A decade later, in December 2010, the number reached over six million (of a total population of 45 million). Thus, foreign residents went from 2.28 % to constitute 12.17 % of the total population (Moreno and Bruquetas 2011).

Spain opted for the social integration of the foreign population. The Law 2/2009, the State Fund for the Integration of Immigrants and the Strategic Plan for Citizenship and Integration (2007–2010), largely reinforce the reception, educational and employment areas. Likewise, the foreign population has gained political and labour rights (participation in local elections, residence permit for family reunification, etc.). But as a result of the economic crisis, while pushing the return of immigrants to their countries of origin, Spain becomes a less attractive destination. Since 2008 a sharp drop in inflows has occurred. Immigration has dropped by 11 % and emigration has grown by 10.7 %, mostly through increases in the number of Spanish emigrants to the EU (UK, Germany, France and Norway) and Latin America countries (Argentina, Chile, Mexico and Brazil). This provides a negative migration balance: −256,849 inhabitants less, 80.2 % higher than in 2012, and due to a 4.3 % decrease in immigration and a 22.7 % increase in emigration (INE 2014b; Eurostat 2014h).

In the coming decade, it is expected that immigration into Spain will remain stable, while emigration will continue to rise. For every person who comes into the country, two will leave (around 2.6 million). This will be a key equation in terms of population evolution, yet this tendency is not easy to predict as it will depend on the economic circumstances (INE 2013c).

2.3 Fertility Rates: Fewer Children, Fewer Women of Childbearing Age, Increasingly Late Childbearing

The fall in the fertility rate has been more pronounced in Spain than in other advanced countries, and there are no signs of recovery (Esping-Andersen et al. 2013). After the outstanding boom in fertility in the 1960s and 1970s, the birth rates have progressively fallen since the decade of the 1980s. Largely due to the increase in immigration, birth rates picked up again in 1998, maintaining a positive trend for a decade (Eurostat 2013a). With the economic crisis fertility rates

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Table 2 Total fertility rate

	2001	2003	2005	2007	2009	2011	2012
EU (28 countries)	1.46	1.47	1.51	1.56	1.6	1.58	1.58
Euro area (17 countries)	1.45	1.47	1.5	1.54	1.57	1.56	1.56
Spain	1.24	1.3	1.33	1.38	1.38	1.34	1.32

Source: Eurostat (2014f)

have gone back to low levels (*lowest low fertility*), the current rate being 1.32, a trend that it is expected to deepen in the coming years (Eurostat 2014f) (Table 2).

Many of the reasons for the demographic changes that Spain is undergoing have their roots in the socio-political changes and the development of the welfare state after Franco's dictatorship (Moreno 2004; Ayuso 2007; Zasloff Goldberg 2007). Yet the fact that fertility rates have sharply decreased to levels below replacement is a complex issue which requires discussion beyond historical transformations. Among the reasons behind the sharply falling birth rates are: there are fewer numbers of women of fertile age, they are having fewer children, and increasingly later in life (Sánchez Molina 2013; INE 2013a). Those trends are related to marriage shifts, late emancipation (Flaquer 2000; Esping-Andersen et al. 2013; Instituto de la Mujer 2013; Lanzieri 2013), the so-called "familism" (culture of solidarity and dependence among family members), the prevalence of the male breadwinner model, limited development family policies (economic subsides and reconciliation policies), etc. (Esping-Andersen 2000; Moreno 2007). Esping-Andersen (1999) has stated that a prolonged lowest-low fertility rate implies a serious threat to the sustainability of the welfare state in the future. So, if the crisis lasts much longer, the problem may worsen.

3 Fiscal and Economic Crisis

The macroeconomics indicator reflects the great difficulties that Spain had to face as a consequence of the impact of the economic crisis since the year 2008, stagnating economic growth and the increasing unemployment rate. The burst of the ¨housing bubble¨ generates a negative impact in the path of economic growth and on the labour market. The year 2009 registered the worst moment of the recession (−3.8 % of GDP) and after a temporary and almost insignificant recovery in 2011, decreased until 2013; and only during 2014 did signs of economic recovery appear but which were not yet reflected in the labour market. The hardship of the crisis was especially suffered by women and young people, who have to bear one of the highest rates of unemployment in EU. Even though, without convincing explanations, the conservative government has been drastically reducing many activation measures since 2010 (47.4 %) as Table 3 indicates.

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Table 3 Spain: GDP real growth rate and unemployment rate

	2000	2007	2008	2009	2010	2011	2012	2013
GDP real growth rate (%)	5.0	3.5	0.9	−3.8	−0.2	0.1	−1.6	−1.2
Unemployment rate (%)								
Total	11.7	8.3	11.3	18.0	20.1	21.7	25.0	26.4
Female	17.0	10.9	13.0	18.4	20.5	22.2	25.4	27.0
Under 25	22.9	18.2	24.6	37.8	41.6	46.4	53.2	55.7

Source: Eurostat (2014a), last update 07.04.14, extracted on 15.04.14

3.1 From Public Finance Equilibrium and Surplus to Fiscal Deficit

After the Franco dictatorship, and with the aim of ensuring convergence with the rest of the nations of our economic environment, Spain undertook urgent measures for tax reform. The subsequent legislation was to complement this process with the introduction of value added tax (VAT) in January 1986 when Spain entered the EU. Therefore, the evolution since 1977 shows how Spain has made an enormous tax effort to achieve a social model more similar to the prevalent European patterns.

In 2007 the highest ratio of tax burden in relation to GDP corresponds to Denmark with 48.9 % and the lowest to Slovakia with 29.5 %, which indicates a significant dispersion. The Nordic European countries together with Belgium and France show ratios above 45.0 % and at the other end of the scale Romania and Slovakia are both below 30.0 %. Spain had an average ratio of 38.0 % (Eurostat 2014e). However, there was an important reduction in tax revenues in Spain in the years 2008 and 2009, and this ratio fell to 31.6 % of GDP as a consequence of the impact of the economic crisis and the consecutive effects of the economic stabilizers as well as other discretionary fiscal measures implemented by the socialist government. These measures, diminishing the tax burden especially on personal income and on small and medium sized companies among others, follow the Keynesian recipe as many other European countries did at the beginning of the crisis (Colom 2012; Lahey and de Villota 2013).

From the expenditure side of public finances, the tendency towards a general reduction in social protection benefits has been clear since 2010, with the exception of unemployment benefits, as unemployment has been increasing since 2008. Therefore, education, health, family—child benefits and other social protection expenditures stagnated at the beginning of the crisis. However, since 2010, after the Greek bankruptcy, they started to decline, slightly at the beginning and later abruptly as can be observed in the data from the budget of the central government (Table 4), which do not include the figures with the deep cuts made by some Autonomous Communities (ACs).

According to the statistics from the Spanish Ministry of Education (including all Autonomous Communities) it is possible to appreciate a total reduction of 11.8 % in education expenditure from 2009 until 2012 (MECD 2014); and data from the Ministry of Health allow us to perceive a reduction of 5.5 % in total Spanish public

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Table 4 Public expenditure 2009–2014 (million euros)

	2009	2010	2011	2012	2013	2014	2010–2014 (%)
Employment activation	7583.66	7750.67	7329.10	5764.74	3776.14	4073.52	−47.4
Health	4622.32	4634.60	4255.14	3975.62	3855.77	3839.76	−17.2
Education	2987.65	3092.09	2843.43	2270.90	1944.85	2175.00	−29.7
I + D (non-military)	8191.96	8087.98	7577.07	5562.78	5562.45	5633.01	−30.4
Public debt	17,100.00	23,200.00	27,400.00	28,848.00	38,589.55	36,590.00	57.7

Source: Central Budget from 2009 to 2014, Presupuestos Generales del Estado

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health expenditure from the same period. However, it has to be considered that the latest Eurostat data do not take into account the latest education cuts as they fundamentally took place after 2011; the last year of the serial sequence offered in its statistics. On the contrary, for family/child benefits, Eurostat data reveal the expenditure cuts as they started earlier, in 2010, although in 2011 they were deeper (9.2 %) (Eurostat 2013b). It should be added that there was some controversy about the total elimination of the 2500 euros "baby check", which was also aimed at not over-benefiting those with higher incomes, but, by refusing to maintain this measure even for those on the lowest incomes, it does withdraw a significant resource from the most vulnerable sector of the population (PGE 2011; Lahey and de Villota 2013). In relation to unemployment transfers, Eurostat, data show important growth from 27,260.95 million euros in 2008 to 39,162.82 million euros in 2011 (43.7 %) (Eurostat 2013b).

To explain the appearance of a tremendous fiscal deficit in the year 2009, that skyrocketed to 11.2 % of GDP, after a surplus situation held by Spain in previous years (from a surplus of 1.3 in 2005 and 2.4 in 2006 to a deficit of −4.5 in 2008 and −11.1 in 2009) (Eurostat 2013c), one has to take into account: (1) the functioning of automatic stabilizers from the revenue side of the public budget, which gave rise to a significant loss of tax revenues, after the housing *bubble* burst; and (2) the effect of discretional fiscal actions on taxation implemented by the government which contributed to the sharpening of the fiscal deficit (Colom 2012).

The expenditure side of the budget also contributed to the emergence of the fiscal deficit due to cyclical effects caused by a continuous acceleration of unemployment transfers (parallel to the rise in the loss of jobs, which in just 1 year increased by more than a million unemployed (1,300,000) (Álvarez et al. 2013; INE 2013b) and more public investment, especially on a local level, which was supported greatly by transfers from the central government as in the case of *Plan E,* a sort of new deal on a very low level, which in 2009 scarcely reached 1 % of GDP (Uxó 2010).

Regarding the relationship between welfare state and economic crisis, two stages have been identified. From the outset of the economic crisis until 2010, the functioning of the welfare state remained almost unchanged. Although the first package of austerity measures was introduced in 2009 (reductions in the general budget, VAT—general scale—increases from 16 % to 18 % etc.), and social protection was used especially as a tool to mitigate the adverse consequences of the crisis (Laparra et al. 2012). Later in 2011, and still with the Socialist Party in power, the constitution was amended in order to ensure the principle of budgetary stability for all levels of government, while adopting a comprehensive package of austerity measures (progressive increase in income tax, freeze on the minimum wage and salaries of public employees, etc.). At the end of 2011, when the conservative government swept into power, austerity was the European economic tenet and the tendency has been to make rapid and radical cuts to reduce public deficit, adjust pensions, increase taxes such as VAT (from 18 % to 21 %), raise income tax especially for those with higher incomes, implement more flexibility in

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the labour market, etc., while leaving aside social issues, measures to boost growth and change the production model (Villota 2012; CCOO 2013; Cáritas 2013).

3.2 The Crisis of the Financial Sector

In addition, the bailout of some financial institutions such as the savings banks, which were constituted as non-profit institutions, under the supervision of a board of directors with experts and politicians from different parts of the political spectrum, imposed another important burden on public finance. From 2008, Spain had spent almost 11 billion euros (1 % of GDP); and at the end of 2011, the total sum given to recapitalize the financial system ascended to 19.31 billion euros, 1.8 % of GDP but including asset relief plus liquidity measures the sum rose to 9.66 % of GDP. A year later, Spain spent another 40 billion euros from the total 100 billion received from the agreement reached with the European Central Bank (ECB), the European Commission (EC) and the IMF—the Troika—with the intention of rescuing the Spanish financial system. Until July 2013, 65 billion euros had already been spent. The memorandum imposed by the Troika obliged the Spanish government to include this loan in the public accounts, in order to obtain a total guarantee of its return.

After the bailout of some financial institutions, the Spanish public debt burden rose in 2012 to 86 % of GDP (Eurostat 2014a; Álvarez et al. 2013), and the fiscal deficit could not be lowered from −10.6 %. Although, the sum given for the rescue of financial institutions is not considered in its public finances, in these cases Spain has to comply with its obligations and adjustments during the near future, according to the criteria established in the European Adjustment Policy, the Stability and Growth Pact (SGP). In the end, the Spanish situation reminds us of the *Sisyphus* myth, as all the adjustment policies implemented since 2010 and the following years, cutting public social expenditures and increasing taxes, have been completely insufficient.

It has to be added that Spain was not the only country in which the collapse of the financial sector implied the increase of its fiscal deficit and public debt burden. Many others were in the same situation and needed to recapitalize their financial institutions such as the United Kingdom, Germany, Ireland, the Netherlands, France, Denmark, etc., which in the end resulted in a huge total amount of money, given as public aid to the financial system (Álvarez et al. 2013) (see Annex).

In a country like Spain where the loss of tax income has been so acute, it is very difficult to maintain the redistributive function of the public sector, especially when the control of deficit has been recently imposed by the constitution. Consequently, budget stability is creating a continuous dilemma on public choice in order to establish the priorities on expenditure cuts and increases in public revenues. The situation is so delicate that these institutions claim the need to establish priorities—on the basis of a consensual project—which is just as important as it was at the beginning of the Spanish transition to democracy in 1977 (CES 2013).

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3.3 The Increase in the Public Debt Ratio, as a Consequence of the Economic Crisis, and the Persistent Imbalance in the Current Account Until 2013

The public debt ratio in relation to GDP can shed light on the changes which happened suddenly. In 2007, Spanish public debt was one of the lowest of the EU 27 (36.3 % of GDP and 58.9 % respectively) (IMF 2012), but this ratio almost doubled in 2011 (70.5 %) (Eurostat 2013c). Moreover, a higher debt ratio implies, automatically, a greater amount of economic budgetary resources devoted to interests and services payments, which automatically make it difficult to tackle other social functions appropriately, as we have considered previously. On the contrary, the private sector indebtedness of firms and households was alarming as in 2007 the ratio of private debt doubled the GDP as well as in Portugal, and Ireland and since the year 2000 it has increased by 100 effective points, reaching 215.0 % and 223.0 % of GDP respectively. Today, after establishing the surveillance mechanism on the EU in 2012, it is considered alarming to exceed 160 % of GDP but these countries still maintain frightening proportions in 2012 (Eurostat 2013c). As Table 5 shows, the increase of macroeconomic divergence among the eurozone created great asymmetries among countries:

Inflation rose in the eurozone from 2000 to 2007 by 19 % but in Spain 29 % and Germany 14 %, a differential to bear in mind in order to explain the loss of Spanish competitiveness during these years and it is crucial to better understand our current account deficit, which almost tripled during these years. Meanwhile, Germany transformed its initial deficit into surplus and multiplied by 8 this positive result (Álvarez et al. 2013).

Moreover, Spain, Portugal and Greece have sustained their current account deficits thanks to the continuous borrowing from other countries. The significant fall in nominal and real interest and the access to abundant capital inflows facilitated the huge expansion of private (households and firms) credit that more than doubles the Spanish GDP from 2000 to 2007 (Eurostat 2014g), where those borrowings contributed as well to fuel the *bubble* on the building sector.

Table 5 Inflation rate and main balance of payments

	Inflation rate			Current account deficit		
	2000	2007	2013	2000	2007	2013
Germany	1.4	2.3	1.6	−1.7	7.4	7.5
Ireland	5.3	2.9	0.5	−0.4	−5.3	4.4[a]
Greece	2.9	3.0	−0.9	−7.8	−14.6	0.7
Spain	3.5	2.8	1.5	−4.0	−10.0	0.8
Italy	2.6	2.0	1.3	0.2	−1.3	1.0
Portugal	2.8	2.4	0.4	−10.3	−10.1	0.5

Eurostat: HICP Inflation rate (code tec00118) and Main Balance of Payments (code bop q_gdp). Last update 16/04/2014; Extraction 18/04/2014)
[a]2012 data

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Undoubtedly, the EMU uniform monetary policy from the European Central Bank (ECB) has imposed on all countries the rule that "one size fits all" that produced some crucial aspects of the financial crisis, as is stated by Arestis and Sawyer (2012):

> This construction boom no doubt had a range of causes, but low real interest rates were supportive of such a [construction] boom. If the Spanish authorities had wished to dampen down the boom or to have coped with the bust through the use of interest rates, and monetary policy more generally, it was completely powerless to do so. Furthermore, the ECB was charged with maintaining price stability and paid no regard to financial stability nor to dampening credit booms (pp. 9–10).

Moreover, this model of economic growth, based on external debts, could not last and, after the onset of the financial crisis with the abrupt rise in price of credit default swaps over Greece and other Southern European countries, it totally collapsed. It is alarming that during the crisis the private and public level of external debt, which is measured with their Net International Investment in the cases of Spain, Portugal and Greece, has worsened, reaching in 2012 −93 %, −114 % and −116 % of GDP respectively from −78 %, −87 % and −96 % in 2007 (Eurostat 2014c).

4 Challenges, Reforms and New Deficits

In this section, we discuss how the Spanish Welfare State has responded to the challenges and social needs which emerged as a result of the economic and financial crisis. Considering that policies implemented before may have helped to alleviate or magnify its effects, the aim is to explore the nature of the reforms in key areas, which groups have been more favoured/prejudiced and to what extent they are posing new deficits.

4.1 Family Policies

The Spanish "familist" system is characterized by the persistence of traditional structures of intergenerational solidarity and the lack of gender co-responsibility in housework and parenting (Moreno and Acebes 2008; Moreno et al. 2012). However, the increasing needs and a lack of family policies have meant an "overload" of the dependency relationships between family networks.

The welfare state in Spain has been metaphorically described as a 'three-legged stool': health, education and pensions (Navarro 2005). Considering its nature and limited scope, family policies (including family benefits, deductions, tax exemptions and reconciliation measures) would be the "fourth (missing) leg". They are characterized by extended maternity leave available to women and men (16 weeks and 15 days, respectively), low public education coverage for children under 3 years, monetary incentives for families to have a third children, lack of

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infrastructure of public services for families with dependents, and limited family and work reconciliation conciliation policies (Villota and Vázquez 2009).

Only in recent years has Spain begun to develop strategies to promote the outsourcing of some family services, as in the case of the Dependency Law (Law 3/2006) and the Equality Act (Act 3/2007) aimed to financially assist families with dependents while promoting work and family harmonization. The Equality Act involved the implementation of measures in the field of equality and conciliation (more flexible work schedules, expansion of parental leave, etc.). However, due to the lack of funding sources and the impact of the crisis on public budgets, implementation has been stalled (Laparra et al. 2012). In addition, in late 2010 a key measure of the previous socialist government was abolished: the "baby check", a regressive measure which was a unique and equal for all provision but provided support for families in periods of low income.

4.2 Education

The demand for training and the incidence of unemployment among the youth gives education a central place in the context of the current crisis (Laparra et al. 2012). But education is experiencing a deterioration process (losing its social character and becoming permeable to the market needs), inaccessible to large areas of the population (Cruces et al. 2013). The cut in education since 2010 totalled 7298 million, representing a decrease of 16.7 % in education spending during the crisis. Even if by 2014 the largest increase in the budget was for the Ministry of Education, with a rise of 10.5 % (200 million) over the previous year, the balance is not positive (CCOO 2013: 41).

There has been a loss of consolidated labour and social rights (elimination of seniority bonus, increased teaching hours, etc.); the contribution dedicated, the criteria to obtain and renew scholarships for students with low resources has been hardened/reduced (falling by 71 % since 2011, from 67.2 million to 18 in 2014). Coupled with these increases there have been increases in the maximum number of students per classroom, fewer resources devoted to school transportation, infrastructure or extracurricular activities, etc. (Laparra et al. 2012). According to the RD 14/2012, measures were exceptional and justified by the economic situation. However, despite the claims of future economic improvement, they have not yet been revoked. In addition to the urgent measures to rationalize public expenditure in education (DL 14/2012), the Law to Improve Educational Quality (LOMCE) aims to solve the problems of the education system (reduce dropouts, increase the number of students opting for vocational training, overcome deficits in learning foreign languages, etc.). However, there is no specific provision for its execution. In general it is no surprise that these reforms have encountered resistance within a large part of the population, Trade Unions and all Spanish parties (no exception), weakening the legitimacy of the Popular Party's policy.

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4.3 Labour Market Policies

The current circumstances have precipitated processes of the previous decade (loss of jobs, demand for labour flexibility, etc.). This is coupled in Spain with the limited protection capability of unemployment, family and housing policies, so the labour market and the working age population have possibly been the areas that have felt the impact of the crisis (Laparra et al. 2012; Del Pino et al. 2012).

After several attempts of retrenchment reforms (the 1992 Unemployment Protection Reform and the Law 45/2002), from 2003 to 2009, social dialogue was a prominent feature in this policy area. But financial and economic crisis turned everything upside down. The Spanish economic system is characterized by the housing “bubble”, the labour market is segmented, dual and rigid, based on low-skilled sectors, there is an absence of part-time schemes, unstable contractual arrangements (temporary) and employment insecurity (Cousins 1999; Adsera 2004). As a result, more jobs, and more quickly and intensely than in other European economies, have been destroyed during the crisis: from a rate slightly higher than 8 % to nearly 25 % in early 2012 (to the EU average the jump was from 7.2 % to 9.6 %). While the current unemployment rate in the EU overall stands at 10.5 %, in Spain it has reached 26.4 % (Eurostat 2013d).

The Law 3/12 of urgent measures to reform the labour market includes measures to promote employability and labour market efficiency, reduce labour duality and increase internal flexibility. To do so, incorporates measures to clarify the causes of collective dismissal (i.e., the employer is entitled, unilateral power, to implement collective dismissal); reduce the gap between the cost of dismissing permanent and temporary workers; modify the typology of employment contracts (the number has been reduced from 41 to 5), etc. Yet, the budget of the Public Service of Employment was reduced by almost 11 % in 2013 and the budget dedicated to active employment policies by 34 % (CCOO 2013).

The crisis has particularly hit foreign-born workers and youth (Fernandez-García 2012). Regarding the former, restrictive measures such as reducing legal entry for work, increasing the penalty for illegal entry and encouragement of return have been adopted (Laparra et al. 2012). Youth unemployment is at the centre of attention. The unemployment rate among people under 25 has already reached 52 %. But the measures taken, or to be adopted, do not seem to be leading to sustainable and lasting professional integration. For instance, the new regulation of the training and learning formative contract allows companies to make successive training contracts, for different positions, with the same person. Although one of the main problems is the high number of young people with low levels of training and qualifications (42.2 % of young people aged 16–29 years have a low level of education), the 2013–2016 Youth Employment and Entrepreneurship Strategy gives greater weight to the promotion of entrepreneurship and self-employment (45 % budget) and hiring incentives (35 %), than to training (20 %) (CCOO 2013). Considering the lack of real backing and support to the economic activity policies, it is difficult to consider self-employment as an option for a majority of the young unemployed, especially for those with a lower education level.

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The size of the undercover economy is another peculiarity of the Spanish model (Moreno 2001). Data from 2013 estimates the size of undeclared economy ranging from 18.6 % to 20 % of the GDP (a level higher than in countries like Germany, around 13 %, France and the UK, around 10 %). Of the total "black" economy it is estimated that around 8 % of GDP is a result of fraud in the workplace, which in terms of employment is equivalent to at least one million jobs that should arise (Jimenez and Martinez-Pardo 2013). This feature is connected with a high percentage of tax evasion, showing a deficit of "statehood" (*stateness*), reflected in a weak state penetration in welfare institutions (Flaquer 2004). In this sense, the fight against this problem has been intensified (Law 7/2012), with measures such as increasing monitoring to control irregular employment and social security fraud or preventing improper payment of benefits and subsidies. Finally, although social dialogue has been an essential part in the process of consolidation and development of the social and democratic state, since late 2011 historical consensuses have been broken and unilateral governance prevails.

4.4 The Pension System

Previous to the economic crisis, reforms were based on the diagnosis and recommendations established by the *Toledo Agreement*, the discussion of a broad agreement about the continuity of the pay-as-you-go system (Law 24/1997 and Law 40/2007). In spite of its healthy status, the conservative government has used the demographic structure (the increasing dependency ratio) as an excuse to question and implement adjustment measures. The Law 27/2011 postponed the retirement age from 65 to 67 while limiting the conditions for early retirement and increasing from 15 to 25, the number of years considered to calculate the initial pension. Additionally, the recommendations of the European Council for the period 2012–2013 resulted in the Reform of the Requisites of Access to Early and Partial Retirement, which also expanded the possibility to combine work and pension, and the Reform of the Sustainability Factor (RDL 5/2013). Conditions of access to retirement have been toughened, and the corporate costs of collective dismissals and the amount received through the pension reduced (avoiding updating pensions and giving the option to combine wages and pensions). Likewise, a mechanism associated to the automatic adjustment of certain parameters of pensions (retirement age, contribution years or initial amount pension) linked to life expectancy of the population (Del Pino et al. 2012).

The impact of most of these restrictive reforms has not been noticed yet, as implementation expands over time (from 2013 to 2026). But retirees have already felt the effects of the crisis, the pensions have not been updated and many have had to help unemployed family members: pensions are the main source of income for 26.8 % households (although more than 54 % of pensions are lower than the minimum wage set at 645.30 euros per month in 2013 and 2014 (Laparra et al. 2012; Cruces et al. 2013). Thus, by questioning the sustainability and coverage of the public pension system, in a context of economic and social

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recession, the right to a dignified aging and the only livelihood of many families is put at risk.

4.5 The National Health System

The consideration of health as a right of citizenship was enshrined in the 1978 Constitution. Decision-making and management were gradually transferred to the ACs and, by the mid-1980s healthcare was already extended to 99 % of the population, with more than 90 % of funds coming from taxation (Mangen 2001). Yet, as a result of the international economic crisis, the demographic changes and the indebtedness of the healthcare system, several reforms have been implemented.

Since late 2011, the ACs began to cut some services (timetable restrictions, reduction in the number of diagnostic tests and emergency services, etc.), besides worsening the labour conditions of the sanitary personnel (increased working hours, reduction of substitutions, etc.). As a result of the new drastic reduction in the ACs' budgets in 2012, access and coverage of health services have been further depleted (Laparra et al. 2012). The DL 16/2012, of urgent measures to ensure the sustainability of the national health system and improve the quality and safety of its services, includes measures such as rationalizing costs of pharmaceutical care, the reformulation of the so-called "co-payment/repayment" of medicines, the reduction in the number of treatments covered by social security and, among others, the removal of health coverage to immigrants without residence. The result: increasing inequalities among the ACs, the degradation of the healthcare system, an intensification of the privatization process and inequality in the access to health services to the most disadvantaged sections of the population (breaking the principle of universality and threatening public health) (Del Pino et al. 2012; Cruces et al. 2013). Since the end of 2013, special public insurance is offered to undocumented immigrants and uninsured Europeans, a formula for comprehensive health coverage (at the cost of about 700 euros per year, which in the case of those over 65 years it would increase to about 155 euros monthly). Yet, the formula does not seem to have great public acceptance.

4.6 Socio-economic Inequality: From Economic Crisis to Social Hardship

A serious consequence of the economic crisis in Spain is the evolution of economic inequality; while the relationship between the average income of 20 % of the population with the highest and the lowest income has not changed much in EU-27 from 2008 (5.0) to 2012 (5.1), in Spain it has soared from 5.7 to 7.2 (Eurostat 2014b); and the Gini coefficient has also increased from 31.9 to 35.0, the highest in 2012 after Latvia (35.9) (Eurostat 2013e). Moreover, Spain is the EU country where the intensity of poverty has increased the fastest: the crisis leaves 81 million European people below the poverty line, nearly one in eight live in Spain (Eurostat

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2013f; Laparra et al. 2012). Besides the ten million people living in relative poverty and eight million in exclusion (Cáritas 2013), there has been a drop in the poverty line (so poor people are even poorer) (Cruces et al. 2013). Further, the phenomenon of the "working poor" has risen. The erosion of working conditions (salaries have decreased 13.5 % since the beginning of the crisis and there is a higher percentage of low wages, 18.9 % have a salary lower than two thirds of the average wage), the failure of the combination strategy of low-income households and, in particular, the collapse of the lowest incomes, are among the reasons behind the trends (Navarro and Torres 2012; Laparra et al. 2012; Alternativas 2013).

Additionally, a growing unemployment rate (which hinders the chances of facing the crisis) and the prolonged economic downturn has not only furthered inequalities but also transformed the poverty profile: more than one million children are poor and an increasing number of young people are in danger of social exclusion (due partly to the high unemployment rates) (Cáritas 2013; Cruces et al. 2013). Likewise, poverty among immigrants has increased: "the most vulnerable groups in this crisis were already vulnerable before: young people under 25 years, workers with temporary contracts, employed in low-skilled jobs, especially in construction and, in particular, the immigrants" (Fundación Alternativas 2013). A large part of this collective used to work in the field of construction, the most affected by the crisis (INE 2013b), so their unemployment rates and poverty levels are higher than Spaniards (37.8 % and 23.9 % vs. 43.5 % and 21.5 %, respectively). Similarly, immigrants have the lowest unemployment coverage rate protection and a greater relative number of house evictions (Laparra et al. 2012). The lack of job opportunities has meant that many have been forced to return to their countries of origin; a process which has been facilitated as far as new legislation enables immigrants the option to receive in one payment the total capitalization of the unemployment benefit to which they are entitled.

Besides the economic crisis, the strategy used to respond to it since 2007 has contributed to increase inequalities and social exclusion (Navarro 2012; CES 2013; Cruces et al. 2013). Policies aimed at reducing the fiscal deficit, which implies reducing spending (cancellation of subsidies, cuts in benefits and grants, wage cuts, job losses in the public sector, etc.) and raising taxes, are increasing the socioeconomic gap. Additionally, in 2010 special measures to extend coverage protection for the unemployed (a temporary measure to expand subsidies to those workers who have exhausted them) were launched. But the magnitude of the new requirements and protection mechanisms has not been as effective as in other countries either (Laparra et al. 2012). So, even if this programme has been renewed in subsequent years, about 30 % of the unemployed currently lack protection. Similarly the 2012 National Reform Programme (NRP), ignoring the EU recommendations, did not include any explicit reference to poverty and social exclusion; and the 2013 NRP dispatches the fight against poverty with references to the 2013–2016 National Action Plan for Social Inclusion, the Comprehensive Plan to Support Family, the II National Strategic Plan for Children and Adolescents (2013–2016), the PREPARA programme for the protection of long-term unemployed or measures to support those with mortgages but without resources who might lose their household

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(Laparra et al. 2012). As already indicated the problem does not seem to be public spending but an insufficient protection system, together with a segmented labour market (permanent and temporary contracts, and intermittent contributions) (Fernández-Albertos and Manzano 2010). Thus there is a need to reform the precarious labour market and boost social and redistributive policies, otherwise social inequalities are expected to continue rising (Navarro and Torres 2012). Yet, so far, the social protection reform is not on the political agenda.

4.7 Social Expenditure, Tax Burden and Adjustments

Another challenge to the Spanish welfare state is to decide, on a long-term basis, the nature of the equilibrium between economic adjustments, tax reforms and social expenditure. Before the breakout of the crisis, Spain disposed of enough economic resources to finance its social welfare model. Unlike what many frequently have considered during the last years, nationally and internationally, the country was not living beyond its means. Even if national public spending is lower than the OECD countries' average, Spanish social spending, in relation to GDP, has remained unchanged during the last decade. From 2000 to 2007, social protection expenditure (excluding education) remained at around 20 % of GDP and lower than the eurozone average (between 26 % and 27 %). From 2007 to 2010, there was an increase in public spending on social protection (from 20 % to 24.6 % of GDP) largely explained by automatic stabilizers such as unemployment benefit (Eurostat 2013b). Therefore, as Martín (2012a, b) suggests, social spending not only has remained fairly stable but before the crisis it was already lower than expected in accordance with the income level.

To avoid the loss of income as a consequence of the crisis and relying on the argument that indirect tax burden is lower in Spain than in other European countries, some taxes were increased (VAT by two points in 2010 and three in 2012, rising from 16 % to 21 %). Other basic products were also had a higher levy, from 7 to 10 %. The International Monetary Fund (IMF) and a recent Spanish expert report commissioned by the government (2014) are pressing for increased taxation on many essential products (with the general rate of 21 %). This measure will especially affect families with lower incomes as they spend a higher proportion of their income on consumption. Other targeted income tax increases have all been focused on higher income taxpayers: When the government increased the income tax rate on investment income, it went from 18 % to 19 % on the first 6000 euros but to 21 % on the balance. When personal income tax rates were increased, the increases were limited only to the highest incomes, raising the tax rates by 1 % for incomes between 120,000 and 175,000 euros, and by 2 % for incomes above that. And the elimination of tax subsidies for mortgage and rental payments affected only those with taxable incomes over 24,170 euros (CES 2013). In the year 2012 the conservative

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government—against its electoral promises—increased temporarily[1] all marginal rates of the income tax (from 0.75 to 7 percentage points) (Villota 2012).

Considering the possibility of paying less tax or rising contributions to enjoy better public services, the latest Centro de Investigaciones Sociológicas (CIS) survey indicates a majority favourable to pay more taxes if this strengthens the welfare state. Despite the crisis, there are still more Spaniards who accept paying taxes and improving public services than those who reject this measure.[2] Moreover, a proportion of 87 % consider the tax system to be unfair and a sceptical majority, who believe that they are receiving less from the public sector than they have paid in, and it is generally believed that taxation is excessive (68.5 %). Furthermore, there are the effects of tax fraud, which generates social injustice (27.8 %), diminishes public resources to sustain social services and benefits (26.2 %) and, last but not least, made the tax burden heavier for those who comply responsibly (21.7 %) (CIS 2013).

5 Conclusions

Undoubtedly, the economic crisis has been a factor of instability, originated by the appearance of a tremendous fiscal deficit not only by means of the automatic stabilizers, from the revenue side of the public budget, but also by the effect of discretional fiscal actions implemented by the government. The great loss of tax revenue has made it very difficult to maintain the redistributive function of the public sector, especially when the control of deficit has been recently imposed by the constitution. Consequently, the budget stability is creating a continuous dilemma on the establishment of the priorities over expenditure cuts and increases in public revenues.

Moreover, the bailout of several savings banks and the recapitalization of the financial system obliged Spain to spend billions of euros and to ask in 2012 for rescue by the European Central Bank, the European Commission and the International Monetary Fund (the *Troika*), which *suggested* new spending reductions and imposed the inclusion of the total amount of the loan into the public accountability, in order to obtain a total guarantee of its return. As a result, the redistribution of public expenditure has been reduced, which implies more economic inequality and social hardship. At the end, the most vulnerable are paying the price of the European adjustment policies.

The conservative party has systematically utilized the difficult situation to justify further reforms, which have been mainly translated into a deliberate reduction of the public sector as well as increasing inequalities among the population. So, even if demographic changes are one of the main challenges for the welfare system in

[1] For 2012 and 2013 but later extended to 2014.

[2] On a scale from 0 to 10, 32.0 % of respondents choose 5; 36.5 % between 0 and 4; and 23.7 % between 6 and 10; there are 7.8 % who do not know or do not answer.

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Spain, this should be regarded on a mid to long term basis. The progressive increase in life expectancy and the low birth rate (combined with increasingly late child-bearing and fewer children per woman) are used as a powerful argument to question the sustainability of the pension system. No doubt, if the crisis lasts much longer the demographic trends may be aggravating the problem of the dependency ratio and the pension scheme. Yet, even if a long-term strategy must be defined, the demographic threat can be considered more as a future challenge for the Spanish Welfare State.

The main aspects that currently place strain on the welfare state are austerity and, in particular, the unprecedented economic and social adjustments, which are bulldozing the healthcare and the education systems, both essential pillars of the Spanish welfare system. Additionally, the implementation of recent years' reforms is not only pointing out emerging challenges but also the need to agree on a long term strategy in order to redefine the nature of the Welfare State. A precarious labour market, dramatic levels of unemployment and limited social policies, coupled with increasing numbers of people living in poverty, the privatization of public services and the questioning of the territorial and political legitimacy, are some of the main concerns emerging out of the reforms and the economic difficulties.

To conclude, we consider that the sustainability of the Spanish welfare system, according to the previous standards, is under risk. The budget stability is creating a continuous dilemma on the establishment of the priorities over expenditure cuts and increases in public revenues. In the end, although Spain has not yet fully achieved a welfare state comparable to other European countries, and is still a work in progress, the economic and financial crisis has forced a restructuring process; and the situation requires establishing priorities on the basis of a consensual project as was reached during the Spanish transition to democracy in 1977.

Annex: Public Aid to Financial System

	Recapitalisation measures		Guarantees[a]		Asset relief interventions		Liquidity measures other than guarantees[b]		2008–2011	
Member State	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP
Belgium	20.40	5.54	44.23	12.01	7.73	2.10	0	0	72.36	19.65
Germany	63.24	2.46	135.03	5.25	56.17	2.19	4.75	0.18	259.19	10.08
Ireland	62.78	40.13	284.25	181.7	2.60	1.66	0.08	0.05	349.71	223.54
Italy	4.05	0.3	0.00	0.0	10.90	0.7	0.00	0.0	14.95	1.0
Greece	6.30	2.93	56.30	26.17	0.00	0.0	6.90	3.21	69.49	32.31
Spain	19.31	1.80	62.20	5.79	2.86	0.27	19.31	1.80	103.68	9.66
France	22.46	1.12	92.73	4.64	1.20	0.06	0.00	0.0	116.39	5.83
Luxembourg	2.60	6.07	1.65	3.84	0.00	0.0	0.19	0.44	4.43	10.35

(continued)

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Member State	Recapitalisation measures		Guarantees[a]		Asset relief interventions		Liquidity measures other than guarantees[b]		2008–2011	
	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP	In billion euros	As a % of 2011 GDP
Netherlands	18.86	3.1	40.90	6.79	5.00	0.83	30.40	5.05	95.16	15.80
Austria	7.38	2.4	19.33	6.43	0.40	0.13	0.00	0.0	27.11	9.01
Portugal	0.00	0.0	8.54	5.00	0.00	0	2.85	1.67	11.39	6.66
Finland	0.00	0.0	0.00	0.0	0.12	0.1	0.00	0.0	0.12	0.1
Total EU-27	322.18	2.55	1084.83	8.59	116.78	0.92	88.10	0.70	1611.9	12.76

Source: European Commission (2013) scoreboard-data on state aid expenditure
[a]The figures for guarantees represent the maximum outstanding guarantee over all years
[b]The figures for liquidity measures represent the maximum amount of liquidity over all years

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Was It Too Good to Be True? Post-2008 Crisis Welfare State in Finland

Juho Saari

1 Introduction: We Have Been Here Before

Life had never been so good in Finland than it was in 2008. Finland was regularly shortlisted as the best country in the world by various international agencies, numerous comparative and historical studies on the quality of life and life satisfaction scored all time highs and the standard of living was higher than ever. International assessors have had no hesitations in praising the success story of Finland as "the best country in the world" or "the next super model" (Raunio and Saari 2013). Furthermore, the Finnish welfare state (FWS) did well. For decades, it had converged and closed the gap with other Nordic models on its expenditure levels, service structures and compensation rates and was now on a par with them. Previous crises of the 1990s had resulted in major institutional reforms that have boosted growth, employment and other policy objectives and made the institutional framework of FWS easier to politically manage and fiscally adjust both in social and health services and the different parts of social insurance from pensions to sickness insurance (Saari 2013). The annual growth of social expenditure was rather significant and in spite of some academic researchers claiming otherwise, the FWS seemed to be built on solid rock.

Some weaknesses, however, were visible. In fact, already around 2004 the review of Finland's institutional structure and business models clearly identified numerous endogenous weaknesses nationally and forecasted economic (and political) turbulence globally (VNK 2004). Therefore, when the 2008s crisis materialized, there was in principle a shared understanding on necessary new policy guidelines. However, not too many of those recommendations were implemented and Finland's competitiveness started to deteriorate in mid 2000s. Then the exogenous crisis came in late 2008 and became a part of political reality in March 2010.

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It did take Finland by surprise—almost nobody saw it coming from the US and Greece, but most expected some turbulence due to changing world systems and evolving information technologies that were challenging Finland's comparative advantages.

However, it was not the first time that Finland faced an external shock. In fact, Finland has earlier had similar experiences in 1956–1958, 1974–1976 and 1991–1994. History is repeating itself in that respect (while not repeating itself in numerous other respects). More broadly, any public policies that have been implemented since the 2008 crises reflect the following issues:

- Collective learning process of the 1990s recession made it clear that history is to some extent repeating itself and based on the earlier experience, fiscal policies aimed at balancing the public economy may have drastic consequences for income distribution and employment levels, thereby encouraging some stimulus policies in 2009 and 2010 (and less so since then due to the risk of excessive public deficit).
- Relatively speaking at least, Finland's starting position seems to be quite satisfactory as its institutional frameworks based on individualised rights and duties and broad coverage seems to be quite flexible and able to adapt in rapidly changing circumstances very typical for small open economies. Furthermore, many of its institutions were already reformed once in the later 1990s and early 2000s, including pension systems and some aspects of the health care system.
- Bad institutional fit between the institutions of the welfare state and their operating environment results in Concorde effects (sunk costs) that are in the long run harmful for the fiscal sustainability of the welfare state, implying that gradual structural and institutional reforms aimed at re-balancing various governance structures even with some retrenchments are by far a better alternative than "stuck in the mud" policies that in the long run have devastating consequences for growth, employment and well-being.
- Any major policy reform in any major policy fields requires multi-stage bargaining between social partners and the state (more precisely, multi-party government); none of them have sufficient power to successfully implement their policies without some political consensus; or to put it in more positive terms, Finland has the capability to implement reforms successfully when organized interest groups and the government have bargained a mutually satisfactory package. Over the years complex packages for instance over pensions, unemployment insurance, labour market and incomes policies on the one hand, and health care, social services and the structure of municipalities, on the other, have been agreed upon. In August 2013, the government reached a consensus over the general guidelines of reform packages covering pensions, health and social services, the structure of municipalities, active and passive labour market policies, gender equality and several other issues. However, as of September 2014, many key parts of the package remain to be implemented.

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In politics, framing of the issues plays a crucial role. Since the early 1960s, social policy in Finland has been framed as "investment" that promotes growth and jobs in different ways. In the 1960s, the most common frame was that of virtual circles where higher benefits and better services promote more rational behaviour among the poor by encouraging higher expectations. Preferences were largely considered endogenous. In the 1970s and 1980s, main frame underlined equality between socioeconomic groups, genders, and regions, resulting in massive redistribution and low poverty rates (Saari 2001). Since the 1990s, an "employment-is-the-best-form-of-social-security"—frame has shifted attention from rights to incentives, from transfers to employment, and from replacement rates to various incentive traps and supply side politics. While the transformation of actual policies has generally speaking been smaller than the changes in frames would imply—the frames nevertheless have somewhat redesigned the institutional framework.

Against this background, the chapter focuses on three main questions:

1. What are the main demographic and fiscal challenges the Finnish welfare state is currently facing?
2. How different exogenous and endogenous variables impact on reform processes?
3. Which reforms have been or will be conducted in reaction to these challenges and what pathways has the Finnish welfare state followed in recent years?

We shall start with demographic issues and focus on aging, fertility and migration. Then we shall continue with the fiscal and economic crisis. Here the key issue is stimulus packages that have, together with low economic and employment growth, resulted in rapid increases in public debt. Simultaneously, social policies have been used as automatic stabilizers. Then, as the third main theme, the current politics of reform making shall be reviewed. As mentioned above, in Finland decisions on major reforms are made in "packages" covering numerous items simultaneously. The structure of chapter reflects this reality. As of 2014, Finland is in the middle of a reform wave where the decisions have been made but the implementation is still in progress. Conclusions follow, with some discussion on productivity and legitimacy.

2 Demographic Change: Tectonic Impacts

One of the hidden explanations for the success of the Scandinavian model in general and the Finnish model in particular from 1970s to 1990s, has been an excellent demographic structure, with relatively large cohorts in working life and age combined with relatively small cohorts among the children and the aged. This structure promoted employment and allowed the expansion of social transfers and services for the young and the elderly in the 1970s and 1980s: this phase is commonly known as the third boom of FWS expansion (previous ones were during after the WWII and the early 1960s).

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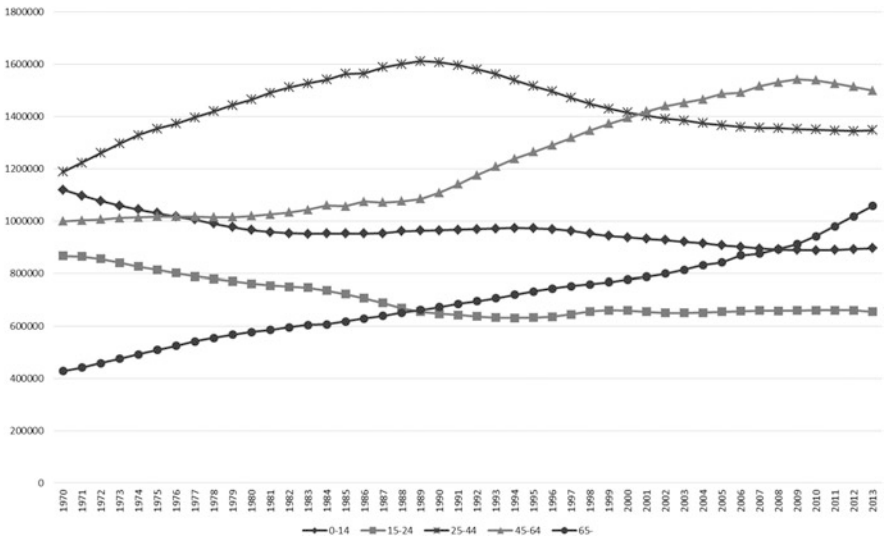

Fig. 1 Demographic change in Finland, 1970–2013, persons. *Source*: Statistics Finland Database

Much of this, however, is now history. Four major demographic changes are currently in progress; of them two are easily identifiable from Fig. 1. Firstly, the number of aging (65+) exceeds the number of children for the first time in the history of Finland—nowadays such a demographic structure is quite unique in advanced post-industrial countries and it is likely to be typical for many countries in the 2020s and 2030s. Secondly, within the population of working age (16–64), the oldest age-group (45–64) is the largest. As the willingness of this group to invest in capabilities of various kinds (such as education) is likely to be lower than the average of the population as a whole, this may have some consequences for productivity—an issue that currently is fiercely debated in Finland (for an overview, Maliranta 2014).

Two other issues are less visible. Lengthening life expectancy has created a new population segment, commonly called 4agers between 60 and 75 years of age, who are in many ways a flourishing group. It also has increased the age of the median voter close to 57: that figure shall even be higher if we take into account actual voting behaviour. As the success in elections is closely connected to the ability to respond to the preferences of the median voters, any reform proposals aimed at lowering their benefits and services are likely to be self-defeating. This has raised the issue of inter-generational solidarity.

Total fertility *rate* in Finland has been relatively high since the early 1990s, which is between 1.7 and 1.8 depending on economic cycles and the availability of social services and transfers for families (in particularly child care and home care allowance) which have some impacts on decisions on reproduction. While well above the EU28 average, it is generally considered too low to increase the population in the long run. The old-age dependency ratio (28.95) of 2013 is a little bit

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Table 1 Projected old-age dependency ratio

	2013	2020	2030	2040	2050	2060	2070	2080
EU (28 countries)	27.48	31.82	39.01	45.91	49.43	50.16	49.35	51.00
Finland	28.95	35.76	41.31	41.15	41.92	44.87	47.17	49.76

Source: Eurostat

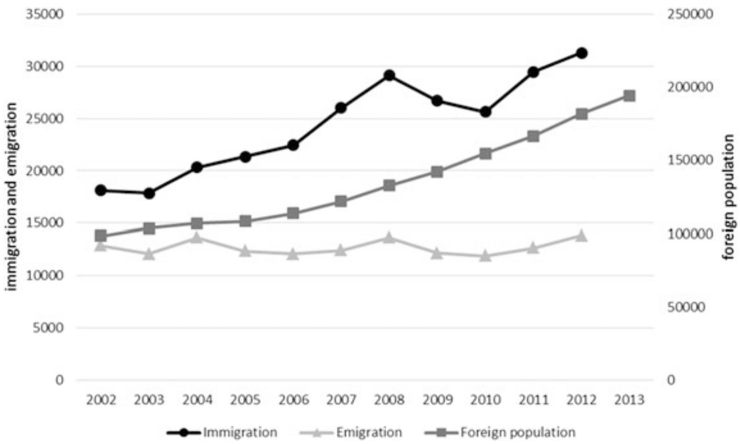

Fig. 2 Immigration, emigration and foreign population in Finland, 2002–2013. *Source*: Eurostat

above the EU28 average. National projections published by Statistics Finland have varied wildly due to different assumptions on fertility, migration and life expectancy but a common observation is that they have generally speaking been too conservative: the actual lengthening of life expectancy has regularly exceeded projections since the mid-1970s and more recently base-line projections made for the 2005 pension reforms have already been shown to be too conservative. Eurostat projections for 2030 forecast that the old-age dependency ratio of Finland is likely to be 41.31 which is well above the EU28 average. On the one hand this reflects the success of the Finnish welfare state in lengthening life expectancy and on the other, puts a rather drastic burden on the public economy (Table 1).

Immigration is generally considered as part of the solution, rather than as a part of the problem for ageing. Until the early 1990s, immigration to Finland was very limited and a foreign population consisted of mainly spouses from Scandinavia, Estonia and the former Soviet Union, and some refugees from Vietnam and Chile. After EU membership, the internet boom and some crises in certain African countries, in particularly in Somalia, Finland witnessed an immigration boom. Annual immigration has clearly exceeded emigration. The total number of immigrants (foreign citizens) increased from 20,000 individuals in 1990 to over 200,000 individuals in 2013. However, by European standards, the proportion of foreign population is still modest (Fig. 2).

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3 Fiscal and Economic Crisis: Not Too Bad, So Far

Finland experienced a double transformation during the 1990s. During its first phase, from 1991 until 1994 Finland experienced a deep recession, resulting in massive lay-offs and public deficits. As regards to reasons behind that colossal transformation, the jury is not out any more. There is a common understanding on the triangle of bad policies, bad governance, and bad luck (Saari 2012). The Great Crisis, which at that point in time was one of the largest ever witnessed in advanced welfare states, was an important learning experience for politicians and civil servants. In the short term, the institutional framework of social policy maintained most of its key institutional elements regardless of numerous "cheese plate" cuts that were made in different benefits and services (Heikkilä and Uusitalo 1997). Most of those cut were justified (or framed) by better incentive structures necessary for promoting employment and growth. In addition, financing structures were clarified in numerous ways. Social insurance reforms increased the relative proportion of the insured in funding vis-à-vis the employers. Furthermore, it was agreed that any increase in social security contribution in earnings-related pensions will be divided equally between the employers and the insured, which make the costs more visible also for the insured (and their representatives). In social and health services, transfers from the state to municipalities, which are responsible for organizing a major bulk of these services, were in two phases (1993 and 1996) made less dependent on earmarked spending and more dependent on population structures, sickness and other similar structural features. Clearly, there was a kind of semi-paradigmatic shift from social rights-centred social policies towards more "employment friendly" policies (Saari 2001; Jäntti et al. 2006).

The 2008 crisis in Finland had both a domestic and an international component, of which the domestic component has been far more important (see Figs. 3 and 4 on economic growth and employment/unemployment ratio). Already around the

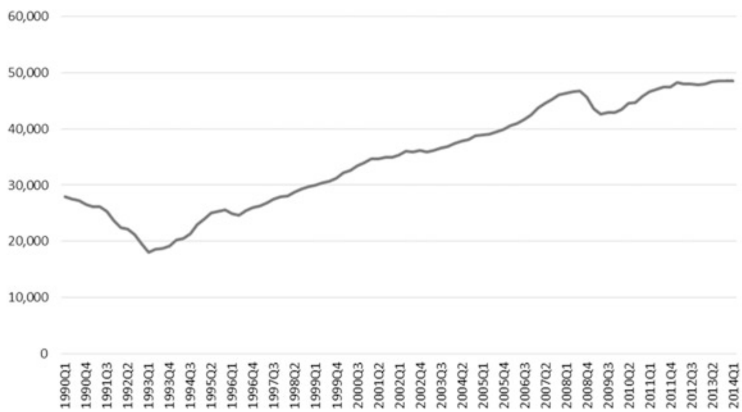

Fig. 3 Gross domestic product at market prices, current prices, seasonally adjusted and adjusted data by working days, 1990–2014. *Source*: Eurostat

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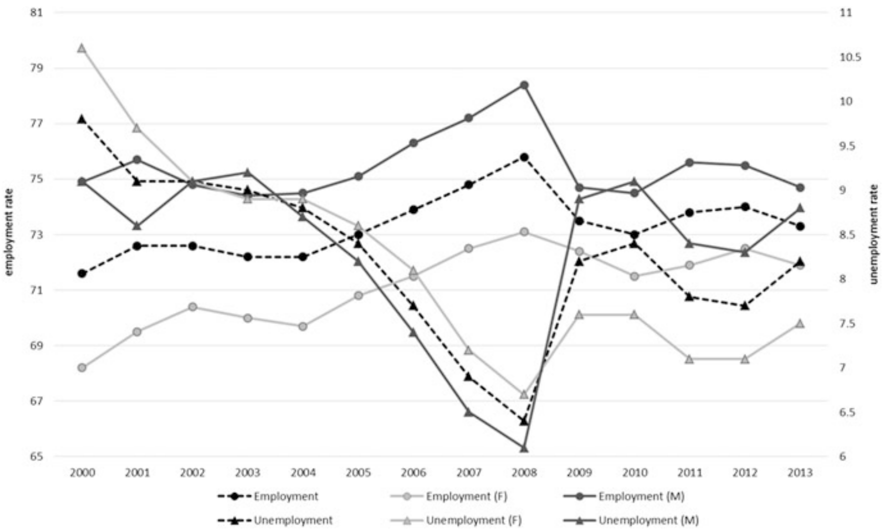

Fig. 4 Employment and unemployment in Finland by gender, 2000–2013. *Source*: Eurostat

middle of the decade (that is, before the crisis) systematic studies on micro and macro-level productivity—which is the key component of economic growth—started to indicate some structural decline compared to the period of 1995–2005. At that point in time, various analysts had diverging opinions on the seriousness of the productivity decline. Some considered it temporary, while others identified structural ingredients. However, as the 2007 general elections were approaching and the public economy had a decent surplus, the government decided to ignore warnings and in fact continued expansionary reforms in particularly in social transfers that resulted in significant increases in the state's public expenditure. Furthermore, as it is quite typical for parliamentary election campaigns in Finland, parties expanded public spending before the elections and made some additional promises during the election process that in Finnish political culture are expected to be implemented after the elections. Consequently, the new Central Party of Finland-led coalition government (2007–2011) agreed on an expansionary reform oriented social policy agenda, including a major committee aimed at making comprehensive reform on social policy, in particularly in "basic security benefits", including national pension, unemployment and housing allowances, social assistance and some other "last resort benefits". While not publicly revealed at that point in time, it also had a satisfactory budget frame (Saari 2011).

That ambitious agenda started to feel the increasing pressure of the global crisis from April 2008 onwards when it was recommended by economic advisers to put a damper on expectations. The government nevertheless followed its programme and continued with a reform agenda until the late 2008 when the Lehmann Brothers crisis materialized. However, keeping in mind the 1990s experiences of regressive fiscal policies, the government decided in January 2009 to continue expansionary

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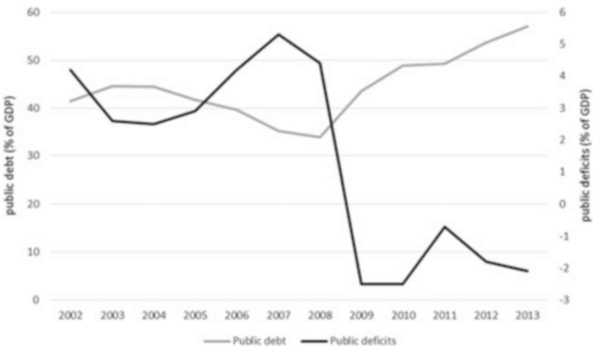

Fig. 5 Public debt and public deficits in Finland, 2002–2013. *Source*: Eurostat

reform agenda that was combined with the stimulus package for some stagnating industries, and some minor structural reforms in labour markets. In addition, there was a shift in the financing of national pension from the social security contributions of employers (including public employers) to the state. Simultaneously, it was agreed to increase some "green taxes paid by the employers" and the difference between the lowered social security contribution and the increased green taxes was funded with some additional borrowing (Saari 2011). This kind of stimulus package made sense because the government's debt had and, as of September 2014, still has the highest possible credit rating (AAA), which with the 2008 very low interest rate level allowed Finland to borrow with low or negative interests rates, thereby funding major reforms. The ability to maintain the AAA-rating has been the key component of national fiscal policy. However, one of credit agencies lowered the rating of Finland in October 2014: contrary to expectations, the decline of rating did not significantly increase the interests of the government's bonds, probably due to the pension reform that was announced simultaneously.

It is self-evident that fiscal stimulus package under the conditions of low economic growth and rising unemployment results in public deficit and correspondingly increases in public debt. However, as illustrated in Fig. 5 the pre-crisis fiscal policy with the high surplus and steadily lowering public debt gave the government some space to manoeuvre that softened the impact of the 2008 shock wave. Since then, following the European agreements, public deficits has remained below the 3 % and public debt below the 60 % thresholds. Forecasts indicate that deficit/GDP ratio is likely to worsen if the employment growth rate remains modest in 2015–2016. If so, necessary adjustments shall be made.

In order to put these policies in context, some background data on social expenditure and their financing are needed. Social expenditure data shows an expected story (Fig. 6). Firstly, both in the early 1990s and late 2000s recession, the proportion of social expenditure out of GDP reacted strongly to the economic downturn—in other words, social policy functioned rather smoothly as an automatic stabilizer (mainly through unemployment security, but also through early retirement and various ways to reconcile work and family life) although it is a matter of debate whether the effect was sufficiently strong. In the former case, the proportion of social expenditure out

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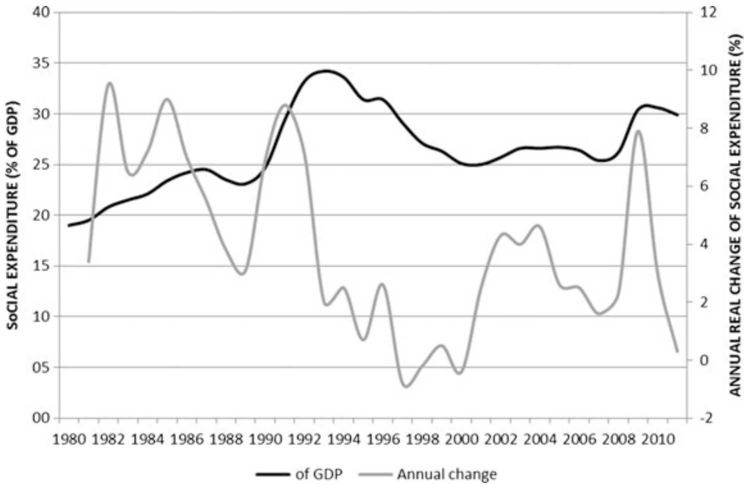

Fig. 6 Social expenditure (of GDP) and annual real change of social expenditure, 1980–2011. *Source*: National Centre for Health and Welfare database (Harmonized with ESSPROS)

of GDP increased from 24 % to 35 %; in the latter, from 25 % to 30 %. In other words, the impact of the latest recession seems to be less than half compared to the previous one. In fact, while the former was considered a national catastrophe, the latter has escaped large public attention (Table 2).

Significant impacts of external shocks on social expenditure can also be illustrated with its financing data (Fig. 7). Here, as a simple illustration with obvious strengths and weaknesses, we have fixed the year 1990 funding structures of social expenditure and imputed it into following years in order to measure the impact of changing financings structures on social expenditure. Instead of absolute levels or proportions, we are interested in absolute values. Figure 7 consists of 2011 constant values. The figure's message is as expected, again: the burden of financing has shifted from the employers (including public employers) to the state as a part of conjuncture policies in the early 1990s and the late 2000s, but also to the insured and municipalities (which have a right to collect some income and other taxes in Finland). Arguably, these policies have strengthened the competitiveness of industries and lowered labour costs. More broadly, it reflects changes in bargaining power between the employees and the confederation of the employers in favour of the latter.

As a short term measure to lower public deficit, the government decided to freeze or only partially compensate numerous indexes that are commonly used to compensate inflation in benefits and social and health services (in the case of subsidies). Exceptions included earnings-related pensions: however, even there some adjustment was made. Under a current inflation regime (usually between 1.7 and 2.1 % annually and deflation in 2010) this may have some impact in the long run. Furthermore, these cuts were supplemented with some targeted increases

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Table 2 Social expenditure by function and per capita 1980–2012, at 2012 prices, € million

Year	Sickness and health	Disability	Old age	Survivors	Family and children	Unemployment	Housing	Other social protection	Administration	Total	Per capita
2000	9479	5544	12,701	1584	4973	4185	580	833	1255	41,135	7947
2001	10,003	5594	13,344	1622	4949	4012	485	876	1280	42,164	8127
2002	10,584	5721	14,057	1654	4969	4183	492	936	1399	43,994	8459
2003	11,104	5871	14,706	1672	5057	4379	508	962	1479	45,737	8774
2004	11,797	6105	15,409	1705	5300	4534	514	956	1514	47,833	9149
2005	12,305	6150	16,008	1718	5499	4406	511	950	1540	49,089	9357
2006	12,794	6167	16,690	1731	5568	4160	504	1091	1605	50,310	9553
2007	13,096	6244	17,320	1736	5718	3845	483	1103	1586	51,132	9668
2008	13,627	6404	17,554	1713	5830	3603	838	1135	1599	52,306	9844
2009	14,083	6724	19,372	1794	6124	4466	918	1329	1648	56,458	10,575
2010	14,329	6830	20,339	1834	6219	4650	982	1384	1575	58,140	10,840
2011	14,554	6743	20,958	1748	6267	3988	1000	1485	1548	58,291	10,818
2012	14,836	6761	22,055	1744	6388	4057	1048	1593	1536	60,017	11,086

Source: ESSPROS standardized database

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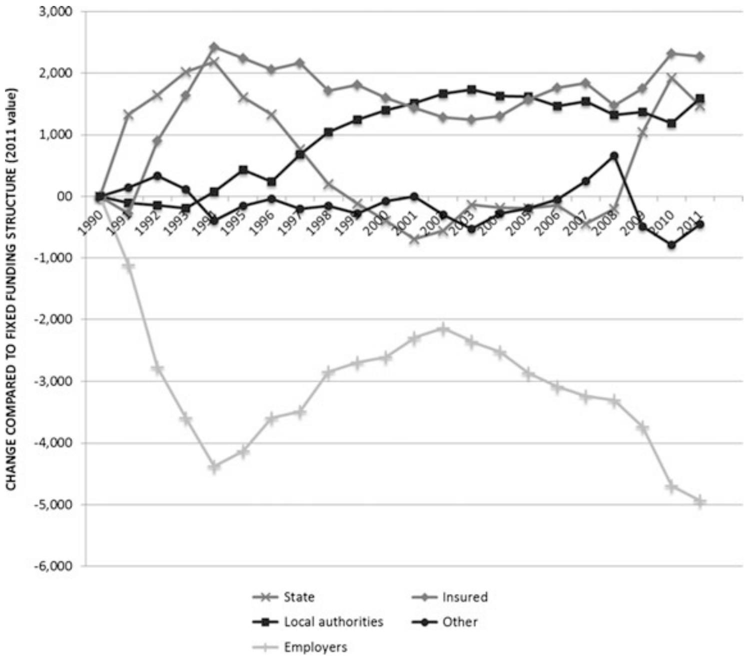

Fig. 7 Cost-shifting in social expenditure, with the 1990 fixed funding structure, 1990–2012. *Source*: National Centre for Health and Welfare database (Harmonized with ESSPROS)

in certain benefits, like unemployment compensation. The principle of individualized social security was further strengthened in unemployment insurance by discontinuing the use of the spouse's income as a measure for a need to basic unemployment benefit. None of these changes had any systemic impact.

4 Risk and Opportunities

The Finnish welfare state has solid foundations based on individualised rights and duties, independence between the generations, residence (rather than work-based) social security system, the governance of numerous social risks, the co-ordination between various transfers and services within risk governance systems, and exceptionally broad coverage combined with decent earning-related, universal and means-tested benefits and health and social services (for details, see Saari and Kangas 2007; Kangas and Saari 2009).

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4.1 The Politics of Reform

The policy conclusions drawn from the Great Crisis were somewhat straightforward ones. After the new so-called rainbow government representing parties from the right to the left was elected in 1995, new policy agendas were rapidly set, focusing exclusively on growth and jobs and a stable public economy, sidelining other policy objectives, including sustainable development and social cohesion. Strongly supported by booming export industries, in particular in metal and electronic industries, the government managed to generate a major process of creative destruction resulting in high employment levels and public surpluses in public economy in its three major components (e.g. the state, municipalities, and the social security funds). Furthermore, the EU-membership from 1995 onwards was clearly beneficial for economy in particular and society in general at least until the turn of the millennium.

While the jury of the policies of the Great Recession has already concluded its task and the number of open issues is limited, the jury of the boom years is still out. There are two competing but mutually excluding truths on that period. On the one hand, the economic growth rates have previously never been so high for so long in the history of Finland. The booming economy generates significant increases in GDP per capita—not to mention the very important fact for the Finns that the average annual growth rate in Finland was higher than in Sweden. Furthermore, all key indicators like export-import balance, the stability of the public economy, employment rate etc. implied at least satisfactory, if not excellent developments. On the other hand, Finland experienced rapid increases in inequalities (Blomgren et al. 2012). In fact, in terms of the Gini-index, both of Finland's social democrat-led governments over the period of 1995–1999 and 1999–2003 resulted in inequalities comparable with those of Margaret Thatcher's conservative government in the late 1970s and early 1980s.

According to opinion polls, citizens strongly support the institutional structure of FWS and are actually willing to pay some additional taxes to maintain and improve it. Furthermore, there are no major parties with anti-welfare state agenda in the Finnish parliament, or for that matter, in the government (Apunen et al. 2013). Some weaknesses were due to the low alignment between the Finnish business and labour market models and social policy. As an example, one may mention high adaptive costs in various processes of creative destruction. To put it bluntly, historically the Finnish model has encouraged innovative solutions—it allocates more on research, development, and innovation (RDI) activities than most member states (MSs)—but instead of active labour market measures and lifelong learning opportunities, various forms of early retirement schemes have actively been used to absorb surplus labour. This policy previously had some benefits but due to its excessive costs it has continuously been reformed in order to lengthen working careers and strengthen the fiscal base of the FWS.

The external component of the 2008 crises and consequent euro crises from December 2009 onwards resulted in a gradual change in the political atmosphere and theoretical models. Of its numerous consequences politically perhaps the most

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important one is the rapid increase in the support of EU-critical ideas that were cleverly channelled by the EU-critical party of True Finns before the 2011 parliamentary elections. A massive unwillingness to show any solidarity to Southern European member states that were generally considered somewhat irresponsible in their fiscal behaviours, general dissatisfaction on current economic and social climate and the charismatic leadership of the True Finns resulted in its landslide victory. Consequently, it rose from a marginal position to a political middle field: after that, the Finns had four major parties instead of three to choose from.

After a complicated bargaining process over the government programme, the conservative Coalition party formed a government with social democrats and some minor parties, leaving the landslide winner in opposition with the former prime minister's party (Centre Party of Finland) which suffered serious losses. The government programme—which is in Finland a detailed, agenda setting document that has a very high implementation rate—reflected new political and fiscal realities. From a fiscal perspective, a major issue was an agreement to balance the public economy by simultaneously increasing taxes and cutting expenditure. For tax increases and expenditure cuts it was agreed to give equal weight. Instead of only lowering benefits and cutting funding for social and health services, also taxes will be increased, thereby allowing some reallocation of the burden between various socio-economic groups. However, from the perspective of distributive policies, this may sound better than it actually is, as politically the most preferred way to increase taxes is indirect taxation (like VAT) as it is less visible than income tax and has regressive qualities. A more progressive income tax would probably result in the better redistribution of the burden and benefits. In addition, it was also agreed that various tax deductions should also be included in the so-called "rolling budgetary frame" that determines budget expenditure a few years on. This closed a loophole that was regularly used for redistributive purposes.

4.2 Reforms in Progress

As of the beginning of 2013 no major changes or retrenchment policies had been implemented in the institutional structure of FWS due to the 2008 recession. However, around the end of that year the tide started to turn and the darker prospects emerged as, contrary to expectation (reflecting the experiences of the 1990s recession), the previously forecasted economic boom did not materialize mainly due to the better competitiveness of Germany and some other European countries in certain key industries and certain shifts in markets, particularly in information technologies. This resulted in the lower-than-expected rates of employment and unemployment, and consequently larger public deficit, particularly in the state's budget. As a kind of domino-effect these factors generated waves through the political system. On the one hand, the poor economic performance that had already lasted 4 years or so re-set the political agenda which now focused on the AAA credit rating in public loans and also created pressure to complete incomes policy agreements with modest wage increases in order to strengthen comparative

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advantages in key industries. It was not insignificant that consumers' confidence declined rapidly, resulting in lowering demand in durable goods and housing. On the other hand, the government rapidly lost its legitimacy as the opposition gained popularity in polls and the government's capability to implement reforms that had been agreed upon was commonly questioned among political elites, mass media and public opinion polls (Saari 2013).

In health and social services, expenditure forecasts have clearly showed that the current quantities of public services per person shall not be available in 2020s due to budgetary limits and personnel constraints combined with demographic change that lower the supply of personnel and increase the demand for services. Especially, in Eastern and Northern Finland, current services structures cannot meet demand in health services and care services for the elderly. Therefore, innovative ways to organise services are in great demand; however, it is also widely considered as an important business opportunity for (semi)private services providers.

In order to get through this blockade, the government agreed in late August 2013 on a massive package of policy reforms that was supported by social partners with incomes policy agreement. Policy-wise, it was an interesting operation where certain slightly reformed policy paradigms were combined with—again—slightly reformed policy frames in order to reach an agreement on numerous policy agendas that were merged into a package with five mutually reinforcing sub-agendas, including reforms in the structure of social and health services, youth policy, wages and related issues, growth policies, and pensions and working life. In short, a necessity was transformed into a virtue with great political success. Technically, the package generated significant expenditure cuts that where combined with structural reforms aimed at promoting fiscal sustainability and more inclusive policies in a longer term.

The government agreed on 29 November 2013 on the implementation of that package. Basically, it shall be a mix of "honest cuts" with various initiatives aimed at increasing productivity, lengthening working careers and strengthening social inclusion. Following traditional good money-bad money politics as a part of a blame avoidance strategy, it starts with direct cuts and payment increases, and then continues without various measures that are considered as investments. In the following years, systematic attention shall be devoted to productivity, enhancing investment in social and health services and certain reforms aimed at lowering labour costs by rescaling professional requirements. In addition, services structures will be thoroughly revised to meet these objectives. In family policy, subjective right to child care (granted since 1995) will be restricted in cases where parents stay at home; simultaneously, the home care allowance will be made more gender neutral, thereby promoting women's employment and men's caring responsibilities. Benefits will not be cut and living costs will be lowered by reforms aimed at lowering housing costs. Finally, a major reform in earnings-related pensions will be implemented in 2017. The details of these reforms will be reviewed below.

The Ministry of Social Affairs and Health (MSAH) and the Ministry of Finance (MF) have regularly made long term forecasts on productivity, employment and

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wage levels, benefit levels and replacement rates, and the quality and quantity of social and health services. Due to comprehensive databases and registers, any minor or major changes can be observed annually. As long as the change is gradual and follows stochastic models, "the future" should not result in major surprises. A number of scenarios are regularly calculated, including some worst case scenarios. There has been no serious debate over their reliability. More controversial is the so called "sustainability deficit" calculation method which is based on the Economic Policy Committee (EPC) of EU models. Various methods with different assumptions on interest rates give somewhat diverging results on the "sustainability deficit gap" varying from 2 % to 6 % of GDP: nobody seriously denies its existence and importance but policy conclusions have varied wildly from post-Keynesian approaches to budgetary cuts.

Over the years, the government and other agencies have set numerous committees and working groups to assess the future of the welfare state. Government committees published their reports in 1994 and 2003 (so called SOMERA) and the Council of the state assessed the economic and social consequences of ageing in 2009 (VNK 2009). The parliament of Finland commissioned a comprehensive report on the future of the welfare state that was published in 2010: that report thoroughly dealt with competitiveness, labour markets, social security reforms, social innovations and social possibilities, objective and subjective well-being and uncertainty and several other, related themes (Saari 2010b). All these themes scan numerous alternative trajectories and recommendations. In addition, Finland annually receives recommendations from the IMF, the OECD and EU (as a part of Annual Growth Strategy) that are occasionally scrutinised.

Without going into detail in this context, the future of the FWS is strongly dependent on the positive development of productivity that in the long run determines the employment rate, and consequently tax and social security contributions available for funding of the welfare state. Recent estimates indicate that productivity growth in private industries remain well below the long term average and particularly in social and health services it is well below the expectations: massive investments in information technology and organizational changes have shown no positive returns, so far. Combined with the demographic transition, low productivity growth results in a significant deficit in funding that requires some adjustment by the years 2015–2019; however, there is no immediate crisis which would require some drastic measures in a very short term (Saari 2013).

4.3 Health and Social Services

Health (and related social services) policies are organised around three major components with different funding structures. Occupational health services funded by employers and employees that cover all employed persons; sickness insurance funded by employees, employers and the state that reimburse services bought from private service providers and cover sickness allowance; and publicly organised health and social services mainly produced by 320 municipalities either by

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themselves or with contracts with private companies. In addition, individuals may have private sickness insurance. Health and social services are universally available: users of services pay relatively modest fees with annual fee-ceilings.

For some 20 years there has been a consensus that health and social services in Finland suffer from structural weaknesses. However, reforms in social and health services have repeatedly faced difficulties due to the unwillingness to make evidence-based decisions on sufficiently large population bases for social and health services when such calculations have been in conflict with local and regional interests and existing institutional framework. Interplay between multi-channel funding and multiple institutional frameworks allow some cost-shifting between key actors and generate inequalities in access to services and health outcomes between population groups. However, due to vested interests and path dependencies, only limited reforms have been implemented. The main lines of policy making have from 2004 onwards been in municipality and health and social service reforms, aimed mainly at increasing the economies of scale in social and health service production and improving co-ordination between basic and specialised services. In addition, the government has heavily invested information technology programmes for health and social services, aimed at providing programmes and national data-bases etc. for hospital, pharmacies, service providers etc.

In social services, childcare is a subjective right, that is, every municipality has a duty to provide services, either private or public, when requested by parents regardless of their employment or social status. These services are heavily subsidised. Some debate has been going on about the subjective right of stay-at-home mothers and fathers to use these services. If parents decide to look after their own children under a certain age (with additional rules for siblings), the home care allowance compensates a significant part of costs and lost incomes. Municipalities can provide additional home-care allowances and regularly do so.

Social services for the elderly are commonly available although for years there has been some debate over the quality, quantity and costs of these services. Consequently, a new law on services for the elderly was gradually implemented in 2013 onwards (until the end of 2015), which in a more detailed way regulated different responsibilities and services structures, and set some limits for personnel-customer/patient ratios. A major reform process aimed at encouraging the de-institutionalization of the service structure by shifting resources (staff and funding) from institutions to homes is also currently in progress. Services for the elderly in their homes are already widely available but the shift in politics is likely to be significant around 2020 when the baby boomers start to use these services. No care insurance is available in Finland, although the issue has been debated since 2004: the main issue here is the way to combine heavily subsidized social and health services that are publicly available with insurance-funded services.

In March 2014, the major parties, both in government and opposition, reached a general agreement that social and health services will be integrated and administratively reorganised into five social and health districts, thereby shifting administrative responsibility away from the 320 municipalities that previously were responsible for these services. This decision will have a tectonic impact on

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administrative structures and the distribution of responsibilities. As of 1 August 2014, however, this decision still remains to be implemented due to numerous devils that reside in the details of multi-channel funding and the delivery of health and social services. Different details are under scrutiny. This reform should gradually result in a more centralised and efficient services structure. However, it is too early to assess its consequences. Occupational health and private health services funded through sickness insurance have not yet been integrated into this policy package. The issue is likely to be on the political agenda after the next government in May or June 2015.

4.4 Labour Markets and Pensions

For better or worse, the governments of the 2000s deserve credit for their capability to implement a reform wave in most key fields of policy making. Their operative capability was strengthened by close co-operation between the social partners on key political issues. While the employers' confederation became increasingly reluctant to complete so called incomes policy agreements, they nevertheless decided to do so in order to maintain their say over some key policy packages, including the membership in the Economic and Monetary Union. For instance, in 1997, they agreed to make an incomes agreement and in return the confederation of trade unions agreed to support the EMU membership that in turn was sweetened up with so called buffer agreements. Similar practices were followed later when certain tax reforms were integrated into incomes policy agreements.

Policy wise, the issue of demographic change is at the top of the policy agenda. Until the late 1990s demographic forecasts implied that the demographic transition of 2010s in Finland was likely to be one of a few tectonic events in Finland's history, with devastating consequences for funding and demand for services for the elderly. Consequently, numerous political agendas have been put forward in order to soften this transition, improve adaptive efficiency and lower adaptive costs. The social partners deserve a credit on numerous pension reforms, including a very comprehensive one that was implemented in 2005, that significantly improved long term fiscal sustainability of the earnings-related pension system while taking into account some major social considerations. The statutory pension security in Finland differs significantly to those of most EU MSs as it consists of a defined benefit earnings-related pension that accrues from work, as well as residence-based national pension and a guarantee pension that ensures minimum security. The significance of pension security supplementing the statutory system (so called second and third pillar) is minor.

The 2005 pension reform allowed people to retire at the age of 63 but also give them the subjective right to continue until the age of 68, with an accrual rate of 4.5 % per annum between the ages of 63–68. It strongly encouraged a longer working life among those in permanent/strong positions in labour markets. In addition, social partners have gradually and with relatively long transition

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arrangements eliminated those early retirement schemes that have significantly lowered the de facto retirement age below the official 63.

In 2013, an independent expert assessment of the earnings-related pension system concluded that its fiscal and institutional structure was sound, although some changes are required in order to match funding with longer life expectancy (Barr 2013). Politically, the issue of the lowest retirement age (63) remained unsolved. Social democrats made it clear before the 2011 parliamentary elections that they would not promote any changes on this issue over the period of 2011–2015, which is of uppermost importance for their ageing constituencies with relatively low education levels and low employment prospects for the over 60s and the trade unions that represent them. As a major alternative for such cuts, they argued in favour of the better quality of working life and higher economic incentives to work longer. In addition, they pointed out the central role of disability pensions as a path to retirement and underlined a need to carefully scrutinize the impacts of the 2005 reform before any new proposals and decisions shall be made. However, the peak of retirement was and is still in that age group of 63. It remains unclear how working careers can significantly be extended without any changes to early retirement schemes. Either way, the social partners agreed that the pension reform be implemented in 2017 (ETK 2013).

As already stated above, immigration is generally considered as a part of the solution, rather than as a part of the problem of the ageing society. There is a general consensus that in order to increase labour supply, immigration is a necessary part of transition management towards an aged society. It remains unclear, whether the expectations in immigration shall be properly met as the qualifications of the immigrating labour force do not necessarily meet the requirements of labour markets. Finland is not necessarily a first option for (health care) professionals from Eastern Europe. Furthermore, promoting brain drainage from poorer European countries is ethically somewhat questionable. The crisis of Europe has generated some immigration from Southern Europe but the absolute numbers are still modest and work contracts are mostly temporary. Currently, following a recent Danish example, numerous studies have been commissioned on the economic and social costs and benefits of immigration.

At the end of September 2014, an agreement between key social partners and the state (so called tripartite negotiations) was reached on the earnings-related pension reform. As an outcome of systematic assessment of forecasts and multi-dimensional political bargaining that lasted several years, the package of interlinked reforms will come into force at the beginning of 2017. It has a few straightforward objectives as it aims at extending working life and reducing the sustainability gap of public finances. Detailed attention was devoted to the gap between the end of working careers and the retirement age.

The package has several interlinked parts, of which six are of uttermost importance. First and most importantly, the earliest eligibility age for the old-age pension will be raised gradually as of 2017. The new eligibility ages will apply to individuals born in 1955 or later thereby protecting the interests of the baby boomers. As of 2017, the earliest eligibility age for old-age pension will be raised by 3

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months per birth-year cohort until it is 65 years. The upper age limit for old-age pension will be 5 years higher than the earliest eligibility age, which raises the upper limit from 68 to 70 as the reform reaches its maturity.

Secondly, in order to design some automatic stabilizers that de-politicize the issue of the retirement age in the future, the eligibility age for retirement will be linked to life expectancy as of 2027. According to this, the time spent working in relation to the time spent in retirement will remain at the 2025 level. To retain the ratio of time spent working to the time spent in retirement, the factors affecting the time spent working and the financial and social sustainability of the earnings-related scheme will be reviewed regularly. In order to be able to politically monitor the transitions, they will be monitored through tripartite negotiations led by the Ministry of Social Affairs and Health at 5-year intervals. The life expectancy coefficient will be retained, but it will be calculated in a more lenient manner than currently as of 2027, at which time the retirement age for all age cohorts will be 65 years. The life expectancy coefficient will also be used when calculating a target retirement age for each age cohort. The life expectancy coefficient will indicate how many additional working years will be required to compensate the monthly reduction in the pension caused by the life expectancy coefficient.

Thirdly, a special arrangement for those with a strenuous and extensive working life will be created so that they have the possibility to retire already at 63. Alongside the disability pension there will be a years-of-service pension for those whose work is either physically or mentally wearing, which can be applied for after a working life spanning 38 years. The list of the professions or tasks will be agreed later but the social partners have paid detailed attention to the needs of exceptional jobs in construction, fire departments and so on.

Fourthly, the current part-time pension will be abolished and replaced by a partial early old-age retirement. An individual can draw either 25 or 50 % of the accrued old-age pension already at 61 years. If the old-age pension is drawn before the earliest statutory pensionable age, the pension will be reduced by 0.4 % each month. In addition, the pension will be adjusted with the life expectancy coefficient at the time of drawing the pension. In 2025, the eligibility age for the partial early old-age pension will rise to 62 years.

Fifthly, the accrual rates of the earnings-related pension will change so that the annual pension accrual rate of individuals of all ages will be 1.5 % of wages. Working longer than the earliest statutory pensionable age will be rewarded with a monthly increment for deferred retirement. The increment will amount to 0.4 % per month of the already accrued pension. A transition period for the changes in accrual rates will be regulated. During the transition period, individuals aged between 53 and 62 years will accrue a pension at a rate of 1.7 % per year. The transition period will span until 2025, after which the same accrual rate of 1.5 % will be applied to individuals of all ages. During the transition period, the employee's contribution paid by individuals aged between 53 and 62 years will be increased by 1.5 percentage points.

Finally, pension will accrue from the full wage, that is the wage-earners' earnings-related pension contribution will no longer be deducted from the

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pensionable wage. In 2016–2019, the combined earnings-related pension contribution for wage-earners and employers will be 24.4 %. In 2016, as a way to promote growth and employment the contribution will be temporarily reduced, however, by 0.4 %. The reduction will be allocated equally between the employees and small-scale employers. At the same time, a rise in the contribution burden of large-scale employers will be prevented.

There are many angels and devils living in the details of the package. On the positive side, the package provides predictability necessary for investment decisions and long-term planning. In many ways, it finalised the transition that started in 1992 aimed at improving the long term sustainability. Furthermore, there is now a politically recognised strong linkage between earnings-related pensions and the public economy, allowing more comprehensive policies. On the negative side, for some observers, this decision cemented the role of social partners as *de facto* decision makers over pensions, which may result in some democratic deficit. Furthermore, one of major players in the game, a trade union confederation of affiliates for highly educated people (AKAVA) refused to sign an agreement alongside other social partners as they were unhappy with the life cycle model that was a relatively bad deal for highly educated people who graduate late but have relatively high salaries. It is likely that they will search for compensation through sectoral incomes policy negotiations in the future.

5 Conclusion: Still Too Good to Be True

To summarise, compared to the 1990s crisis, as of 2014 the New Crisis has been a smaller incident in terms of employment/unemployment change and public deficit/debt ratios (Saari 2013). In fact, Finland has kept some distance from austerity policies and rather generously increased social expenditure particularly in unemployment benefits and care services for the elderly. Both in January 2009 (Saari 2010a, 2011) and June 2011 (Government Programme 2011), the decisions of the government on significantly expansionary reforms were made that were implemented rather extensively in the following years. Furthermore, it has strongly promoted policies aimed at activating in various ways unemployed young persons without sufficient educational qualifications and invested heavily in housing policies aimed at halving homelessness. So far (as of the end of 2014), the basic institutional structure has remained unchanged. However, because of its European scale and global magnitude, the 2008 crisis may have some long lasting consequences for the institutional fabric of Finnish welfare state and society.

Currently all main "gravediggers" of the welfare state are endogenous. There is no exogenous organized force that would have sufficiently strong competence necessary to redesign the Finnish welfare state, or disintegrate its institutional fabric. The main risk in the short term is the inability of government and social partners to agree and implement necessary reforms that would improve the alignment between the institutional framework of the welfare state and its environment. If they fail, self-fulfilling prophecies and unintended consequences of other reforms

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may have devastating consequences for the welfare state. Of course, there are some external issues that may prove that statement wrong.

An interesting issue is whether the general public finds various policies legitimate. One answer, according to opinion polls, is that they find some policies illegitimate and strongly resist others, but nevertheless trust civil servants. Illegitimate policies include any policies that generate inequalities and require some European solidarity. Most socio-economic classes in Finland consider social and economic inequalities too large and consider narrowing them down as a major duty of the government (Saari 2013). However, at a more detailed level different socio-economic groups (results do not differ much with socio-economic data) have diverging opinions on this. The lower the position in a class hierarchy, the greater the perceived inequality. Middle and upper middle classes perceive less inequality than other classes. Furthermore, there is ample evidence indicating that the Finns have a "passion for equality"; that is, in their list of preferences equality carries a higher weight than in many other countries.

More broadly, there are two Mertonian issues—the unintended consequences of social action and self-fulfilling prophecies (see Merton 1936, 1948)—that may jeopardise the current legitimacy of the welfare state. First, if implemented as planned, growth and job policies may as an unintended consequence result in crowding out effects. Here, two policy objectives—lowering public expenditure/GDP ratio and the primacy of the private sector's labour demand—may play a crucial role. The government has made a commitment to maintain public expenditure at its current level and to simultaneously promote policies aimed at supporting growth and jobs, including RDI, industrial subsidies and education. However, as the proportion of social expenditure of public expenditure tends to be roughly 50 % and due to a demographic change it is likely increase, it is clear that this equation may have unintended consequences for social expenditure. Likewise, the government commitment to prioritise private (non-governmental, non-subsidized) labour demand over the demand for health and social services results in crowding out and consequently a shortage of personnel in health and social services.

Secondly, self-fulfilling prophecy may play an important role. To put it very briefly, as the institutions of the Finnish welfare state do not appropriately meet the various demands that citizens have, they start to invest in private insurance and occupational security, and the core institutions may become more fragile. Through various logics of collective action, this results in a strengthening belief that the FWS is not to be trusted to provide sufficiently high protection—although this belief is not supported by systematic empirical evidence.

In addition, new policy fields are emerging. Firstly, more systematic attention has already been paid for the working opportunities and capabilities of already retired 4agers. Currently, several studies on post-retirement labour markets have been commissioned by various pension funds and other agencies that focus on incentives in particularly in taxation and labour law (on temporary and part-time contracts), cultural issues and motives. Secondly, debate on care insurance is still going on. The 2011 government rejected that option and invested in the quality of public care and subjective rights to services. However, insurance industries have

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some interests here and political understanding on its implementation is likely to be reached later. Thirdly, various ways to use the private property of ageing individuals to cover their costs and improve their quality of life have been investigated; of them, the so called "reversed mortgage" model has already been implemented. All of these policies have only a limited impact on institutional structures and social expenditure. Finally, poverty and "social exclusion" are becoming a growing problem in Finland. Breadlines have embedded themselves in most communities and clearly some benefits are too low compared to living costs.

So far (as of 2014), the European crisis has had limited direct impact on the institutional framework of the Finnish welfare state and social policy. The same applies to various policy processes as its rather solid funding position and clear commitments to reform have maintained its creditability vis-à-vis creditors and the Commission. As it happens, however, Finland's economic and fiscal recovery from the crises has been well below the average of its conventional peer group (Germany, Sweden, Denmark, the Netherlands) and its public debt/GDP ratio is likely to exceed the 60 % limit before the end of 2010s (as defined in Growth and Stability Pact and its recent revisions). The reform package of August 2013 and pension reform of October 2014 are intended to respond to this challenge. However, its impact remains to be seen. In all cases, it is unlikely that any recommendation made the Commission and the Council would significantly differ from current policies: rather, they simply generate some additional political pressure to implement certain reforms.

A final issue here is a conflict between ecologically sustainable development and welfare state. Until recently, it was commonly assumed that sustainable development and welfare state were mutually reinforcing in Finland. Numerous comparative studies pointed out that both environmentally sustainable development and welfare state require good governance and some transition management and Finland had decent capabilities here. However, a recent study on the sustainable society index seems to imply otherwise and studies in carbon dioxide (CO_2) emission are quite devastating as the current emission level is above 8000 tons per capita while acceptable levels are around 2000 tons. From both a scientific and political perspective, there is no acceptable scenario on how to adjust CO_2 emissions while maintaining the welfare state whose existence is closely linked to high levels of energy consumption (and related emissions). If such an adjustment is required, that will be the end of the story of the welfare state as we know it.

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Muddling Through the Crisis: The French Welfare State Under Financial Stress

Patrick Hassenteufel

1 Introduction

As in most European countries the French Welfare State has "undergone substantial changes, in terms of objectives, areas of intervention, instruments" (Bonoli and Natali 2011: 3) since the early 1990s. First, new targeted and tax-financed benefits were created (a minimum income: the *Revenu Minimum d'Insertion*—RMI—in 1988 and a health coverage for non-insured persons: the *Couverture Maladie Universelle*—CMU—in 2000). In 1991 a new mode of financing was introduced with the *Contribution Sociale Généralisée*-CSG-, a new tax for social expenditures. In 1993 the first step of retrenchment in the pension system was decided for the private sector employees' scheme, followed by a second step focused on the civil servants' scheme in 2003. A major institutional reform was undertaken in 1996 (the *Plan Juppé*): the Constitution was changed in order to oblige the Parliament to vote a Social Security Finance Law (*Loi de Financement de la Sécurité sociale*-LFSS-) every year (Gallouj and Gallouj 2009). With this main reform the role of the State in the Social Security system was strengthened, especially in the health insurance sector where cost containment was also tightened. At the same time a dependency allowance was also created, replaced by a personalized autonomy allowance (*Allocation personalisée d'autonomie*-APA-) in 2000. Finally, a "making work pay" strategy was adopted at the end of the 1990s based on different activation measures, progressively adopted since then.

These profound and substantial changes have "resulted in multiple dualizations in the French welfare system: the development of two worlds of welfare within the public system; the addition of a private component to the public one; and the division of the population between the insured insiders and the assisted or activate outsiders" (Palier 2010: 96). This reform path was pursued by Nicolas Sarkozy after

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his election as president in 2007. Just before the 2008 global financial crisis two main kinds of measures had been adopted by his government: the reinforcement of activation by the transformation of the RMI into an “active” income (*Revenu de solidarité active*-RSA-) and new retrenchment measures in the pension and the health insurance sectors (Hassenteufel 2012a).

In a first period France was relatively less affected than other member states by the economic and financial crisis, with a decline of 2.5 % in GDP in 2009, partly due to sizeable economic stabilizers and the resilience of household consumption. In 2010, the economy recovered and, overall, GDP growth came out at 1.5 %. However, the economic crisis has substantially impacted France’s public finances. Due to the automatic stabilizers and discretionary fiscal stimulus, the public deficit rose from 3.4 % of GDP in 2008 to 7.5 % in 2009 and 7.1 % in 2010. Meanwhile the deficit of the French Social security general regime grew strongly from a 10.2 billion euros deficit in 2008 to 23.9 billion euros in 2010. Therefore the French government had to negotiate with the European Commission a stability programme with the goal of a 3 % deficit in 2013 and the return to an equilibrated budget in 2017 (Clift 2012). One of the pillars of this strategy is the reduction of the social security deficit. This reinforcement of the financial constraint on the French welfare state had a strong impact on the pension sector with two reforms (in 2010 and 2013) in line with the European Commission’s recommendations and, more recently, on cost containment in health care. However, it does not mean a radical shift: the measures adopted since 2010 are rooted in long-term reform paths, starting in the 1990s for pensions and in the 2000s for health insurance. The crisis has also exacerbated the insufficient utilization of labour and the structural weaknesses of the French labour market. The level of unemployment, already high in 2008, rose from 7.8 % that year to 9.7 % in 2010 (Eurostat). The issue of unemployment is closely related to the debate on the lack of competitiveness of the French economy, fostered by the European Commission. The clear priority given to the reduction of labour costs is in line with the policy strategy which also started in the 1990s, when France made lowering “social charges” a primary objective of its employment policies.

If the crisis reinforced the pressure to reform the French welfare state under the scrutiny of the European Commission (Sect. 1), these reforms are difficult to decide (and to implement) because of their political costs and more generally the low legitimacy of political actors (especially the current socialist government and the President François Hollande). The political dimensions of French welfare state reforms are analysed in Sect. 2. The legitimacy issue is crucial because since the institutional reform of 1996 (plan Juppé) the state is more directly accountable for welfare reforms in health care and unemployment, where traditionally non-state actors (social partners, doctors . . .) played a key role. In the context of the crisis, the French authorities tried to negotiate reforms with non-state actors in these two sectors in order to avoid the political blame. In our third section we focus on the demographic challenges addressing the French welfare state. Although France has a rather high level of fertility, ageing affects the population as in other European

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countries. However, the impact of demographic evolution seems less than the financial impact of the crisis.

2 The Impact of the Crisis on the French Welfare State: Reforming Under European Scrutiny

Table 1 below shows that France has long been under EU scrutiny mostly because deficits have almost always been higher than the 3 % public deficit criterion. Even if the formal 60 % for public debt had been over passed in 2003, it is mainly since 2009 that the debt ratio has also gone far beyond the GSP rules, which were tightened with the measures adopted since 2010 (development of the European Semester, Fiscal Compact, Six Pack) leading to growing intrusiveness of the EU (Commission and Council) on national welfare policies (De la Porte and Heins 2014).

Since 2009, France has clearly operated without meeting the European criteria and the EU has replied with multiplied warnings and actions. On 27 April 2009, the European Council published a “recommendation to France with a view to bringing an end to this situation of an excessive government deficit”. The Council recognized the existence of special circumstances and therefore allowed the correction of the excessive deficit to be set in a medium-term framework. The Council placed France under enhanced surveillance and required it to explain every 6 months the type of decisions it has taken to reduce the excessive deficit. On the 11 November 2009, the Commission reported that France needed to make further policy changes to end its excessive deficits. More precision about the content of the reforms were proposed since the Commission suggested that the Council recommend that “France should improve the overall competition framework, with particular emphasis on the network industries, further reform the pension system, modernize employment protection and enhance life-long learning to enhance potential GDP growth”. In December 2009, after President Sarkozy communicated to the Council that France planned policy changes in the regulation of the labour market and a pension reform for 2010, the Council adopted a text that soft pedalled these issues. However, the recommendation still mentioned welfare state reforms: “France should further reform the pension system as planned which would contribute to long-term fiscal sustainability.” Under this European pressure priority was given to pension reform in order to reduce the amount of the public deficit.

2.1 The Priority to Pension Reform in the Public Deficit Reduction Strategy

In his electoral programme for the 2007 presidential election concerning pensions, Nicolas Sarkozy only put forward the reform of the “special pension regimes” for employees in public companies (especially in the transport sector) (Hassenteufel 2012a: 342). This reform was postponed in 1996 and then in 2003 because of strong

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Table 1 French public deficit and debt as calculated by the EU

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public deficit (as a percentage of GDP)	−1.5	−3.1	−4.1	−3.6	−2.9	−2.3	−2.7	−3.3	−7.5	−7.1	−5.3	−4.8	−4.3
Public debt (as a percentage of GDP)	56.9	58.8	62.9	64.9	66.4	63.7	64.2	68.2	79.2	82.4	85.8	90.2	93.5

Source: Eurostat

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trade-union resistance. The two main pension reforms since the early 1990s concerned employees of the private sector (in 1993) and civil servants (in 2003) but not these specific categories of workers, with a high unionization rate.[1] However a general reform of the compulsory pension schemes was not proposed by the new president in his political programme, or by his party. But the persistence of the pension's system deficit (4.6 billion euros in 2007) despite the 2003 reform which promised the end of the deficit for that year, and then its growth due to the global financial crisis (5.6 billion euros deficit in 2008 and 7.2 billion euros in 2009) gave rise to a public and political debate. Already in June 2009 Nicolas Sarkozy announced that the government would reform the statutory pension system in 2010. His government emphasized that the aim of the reform would be to deal with these deficits, in order to demonstrate to the European Union France's commitment to reduce its budget deficit and to improve France's credibility on financial markets (Palier et al. 2011).

The main measures of this reform, passed in parliament during the autumn 2010, were:

– the increase of the minimum statutory retirement age from 60 to 62 years by 2018;
– the increase in the minimum age to get a full pension without a penalty from 65 to 67 years by 2023[2];
– the immediate increase of the contribution period for a full pension to 41.5 years;
– the harmonization of contribution rates between public-sector and private-sector statutory schemes within 10 years;
– additional resources of 3.7 billion euros through an increase in the highest income tax bracket from 40 % to 41 % and increased taxes on dividends, stock options and final-salary supplementary pensions offered mostly to senior executives in private companies;
– the introduction of a right to retire at the age of 60 instead of the age of 62 for workers employed in "hard working conditions" with a "rate of incapacity to work" of 10 %.

The 2010 pension reform cannot be analysed as a path breaking reform because it is based on the same kind of parametric measures than the 2003 reform (which already aimed at bringing into line public sector pensions with those of the private sector that had previously been reformed in 1993) which was negotiated with the trade-unions (Natali and Rhodes 2004). In 2003 the government decided that public sector employees, like their private sector counterparts, would have to contribute for 40 years in order to qualify for a full pension. The 2003 reform aimed at

[1] This reform was achieved during autumn 2007, despite long strikes in the transport sector. It was politically used by the new elected president to show the strength of his political will and his ability to realize what his predecessors feared to do.

[2] An exception was made for mothers born before 1956.

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extending progressively the length of contributions in order to qualify for a full pension: the period of contributions was increased for everybody (public and private sector) to 41 years in 2008. It was also decided that the indexing of public pensions would be based on the evolution of prices (rather than on wages, as was then the case for civil servants). Finally, a new system of incentives for people to retire as late as possible was created: a bonus ("*surcote*") is given if people retire after the legal age (60 years) and a penalty ('*décote*') in case of retirement before this age and in case of missing years of contributions. It was reinforced by the 2010 reform.

Its implementation was accelerated during the autumn 2011 in the context of growing deficit for the pension schemes (8.9 billion euros in 2010) and the threat of the downgrading of France's credit rating (Palier et al. 2012). In the social security finance law for 2012, passed during autumn 2011, the minimum retirement age was increased to 62 years by 2017 instead of 2018, as planned by the 2010 reform. The government's decision to accelerate the increase in the retirement age was thus clearly a reaction to this context, although it did not prevent the Standard and Poor's agency to cut France's rating beginning of January 2012. More generally the pension reform is related to an emphasis of the necessity for France to be in phase with its European partners (ibid.). In January 2011, Prime Minister François Fillon declared that EU countries should ultimately aim to harmonize statutory retirement ages. Beginning of February, the French and the German governments signalled their willingness to go in that direction, when they announced a "pact for the competitiveness of Europe".

The 2010 reform of statutory pension schemes had also implications for the AGIRC and ARRCO schemes, i.e. the supplementary pay as you go schemes managed by the social partners. They negotiated a new agreement in spring 2011 in order to align the retirement age in the supplementary schemes with that of statutory schemes.

The trade-unions and the left-wing parties fought against the 2010 reform and the withdrawal of the increase of the minimum statutory retirement age was part of François Hollande's programme for the 2012 presidential election. Already in July 2012 the new socialist government enacted the possibility for workers who have started to work before the age of 20 to retire at 60 (and not 62) if they have contributed at least 41 years. But the slowing of economic growth and the forecasts made by the Pension orientation Council (*Comité d'orientation des retraites-COR*) in December 2012 have again put the pension reform at the top of the political agenda. The COR announced that the deficit will grow up to more than 18 billion euros in 2017 and more than 20 billion euros in 2020, if no new measures are taken. The objectives of the 2010 reform will not be reached because they are based on much too optimistic forecasts concerning economic growth and unemployment.

In February 2013, the Commission, after analysing the French budgetary situation, declared that "France is not expected to correct its excessive deficit by the deadline established in the Council recommendation of 2 December 2009". Consequently, it recommended a new procedure for France to end its excessive government expenditure deficit. The French government asked for an extended deadline to

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reach the defined goal without threatening the beginning of the economic recovery. At the end of May 2013, the Commission granted France "2 additional years for correcting its excessive deficit" because of the negative impact on the EU of a long-lasting economic recession in France. In the recommendation that followed the negotiation with the French government,[3] published on 18 June 2013, the Council decided to put France again under a procedure to end its excessive government deficit but with a 2 year extended deadline. In exchange for this extension, the Council recommended that the budgetary measures the French government announced must be effectively implemented. The Council concluded in very explicit and detailed points that the French government's announced pension reform was necessary to obtain the extended deadline: "The French authorities should strengthen the long-term sustainability of the pension system by further adjusting all relevant parameters. In particular, the planned reform, as currently envisaged, should be adopted by the end of this year, and bring the system into balance in a sustainable manner no later than 2020 while avoiding any further increase in the cost of labour."

The main aspects of the reform presented by the French government in spring 2013 were the increase of contributions (+0.3 percentage point for employee and employers from 2014 to 2017), of the length of contribution (one trimester more every 3 years up from 2020, from 41.5 years for people born in 1955 to 43 years for people born in 1973) and the decision to postpone by 6 months the revalorization of pensions. It also created a "hard working conditions account" ("compte pénibilité") for workers with difficult working conditions and included measures aimed at improving pension adequacy for women, youths and workers employed in non-standard forms of employment. In November 2013 the European Commission criticized this reform for not being ambitious enough. The EC argued this was the case because the reforms maintained the legal retirement age and lacked measures harmonizing the different pensions systems, especially the "special regimes" for public service employees. The reforms have however been adopted in Parliament on the 18 December 2013, with the content planned by the government and some adjustments made to obtain the votes of the more left-leaning MPs (hence going in the other direction than the one supported by the EC).

The other social protection sector highly concerned by the struggle against the public deficit is healthcare, where the impact of European constraints is obvious since the Maastricht treaty.

2.2 Containing Healthcare Costs to Reach European Goals

Even if French cost containment policies started in the 1980s, especially the introduction of a global budget for hospitals in 1983, the Maastricht criteria had a

[3] The French position was sustained by the IMF, "Déficits: les coulisses de l'accord Paris-Bruxelles", *Le Monde*, 16/05/2013.

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direct impact on the agenda-setting of new cost containment policies in 1996 and 2004. The 1996 reform (Juppé plan) aimed to curb growth in health spending to tackle the social security system's large deficit (6.05 billion FF deficit for health insurance in 1995), which was threatening the adoption of the Euro in France.[4] It introduced capped budgets for all health insurance expenditures based on National Health Insurance Spending Objectives (ONDAM—*Objectif National de Dépenses d'Assurances Maladie*) for ambulatory and hospital care, voted every year by the parliament. With this reform, the government can more easily adopt yearly cost containment measures since this budgetary vote is now a constitutional obligation. The use of the new parliamentary competence helps the executive to control the health insurance policy agenda. Nevertheless, health expenditures continued to grow very fast and the deficit still deepened. The target of the National Health Insurance Spending Objective (ONDAM) was temporarily reached in 1997 but never again in subsequent years (until 2010). These budgets were ineffective because of insufficient sanction mechanisms (Hassenteufel 2003). Doctors led a successful legal battle against penalties, which were finally abandoned.

In 2003 the deteriorating finances of the health branch of the social security system (which posted a 10.6 billion euros deficit in 2003) contributed to the fact that the Growth and Stability Pact Criteria was not respected (4.1 % of GDP public deficit and 62.9 % debt ratio) and led to the drafting of a new health insurance legislation adopted by the French parliament in August 2004. This reform marked a clear shift in cost-containment policies, favouring industry over consumers (Hassenteufel 2008). The policy of capping health budgets, introduced by the Juppé plan in 1996, was *de facto* withdrawn because the law made no mention of penalties on doctors if they exceeded expenditure objectives. At the same time, the law required patients to increase their own financial contribution to their health care costs. The law increased the hospital co-payment paid by patients, and discontinued reimbursing consumers for a number of expensive drugs. Medical visits would cost 30 % more, approved charges on drugs were increased by 40 %, and there was even an increase of 20 % for hospital costs (though acute care remains almost fully covered). This trend was followed in 2005 with the introduction of a payment of 18 euros for important medical procedures (*actes lourds*) and a further increase in the hospital co-payment. During his election campaign, Nicolas Sarkozy announced his intention to introduce prescription charges (*franchises médicales*), a measure included in the 2008 social security finance law. The measure affected drugs, ambulance costs and various medical professional assistance. Until 2008 the health insurance deficit decreased to 4.4 billion euros. The other consequence was that health coverage by the public health insurance system has decreased from 77 % in 2004 to 75.5 % in 2008. If chronic diseases and hospital care are still well-covered, non-acute care coverage has been reduced to 55 % (Tabuteau 2010: 88).

The health care cost containment policy adopted since 2004, also based on the introduction of a new hospital payment system based on activity ("tarification à

[4] The goal was to have a balanced budget within 2 years (Hassenteufel 2003: 125).

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Table 2 Health insurance budget and spending (*Source*: Commission des Comptes de la Sécurité sociale 2014)

	2009	2010	2011	2012	2013
Health Insurance deficit (billion euros)	−10.6	−11.4	−8.6	−5.9	−6.8
Evolution of Health insurance spendings (%)	+3.6	+2.6	+2.7	+2.3	+2.4

l'activité"), inspired by the American diagnosis related groups (Hassenteufel 2012b), was not able to prevent the rise of the health insurance deficit from 4.4 billion euros in 2008 to 10.6 billion euros in 2009. This deep deficit (see Table 2), contributing to the general deterioration of French public finances and to closer European scrutiny as we have seen, led to the adoption of new measures in the Social Security Financial Laws since 2010: mainly price reduction for drugs, biology and technical medical acts (especially radiology), the standing rise in the proportion of generic prescription and efficiency gains in hospitals and sickness funds. The amount of the annual evolution of the National Health Insurance Spending Objective (ONDAM) has been progressively trimmed from 3.6 % in 2009 to 2.4 % in 2013 and respected since 2010.[5] The importance given to cost containment in healthcare is shown by the 50 billion euros reduction of public spending planned for the 2015–2017 period, adopted in June 2014 by the French Parliament: 10 billion euros concern health insurance and 11 billion euros other social policies (mainly based on the freeze of the amount of social allocations and of pension beyond 1200 euros monthly).

The financial debate, fostered by European recommendations, not only concerns welfare spending but also its financing.

2.3 Boosting Competitiveness by Lowering Labour Costs: Another Financial Constraint on the French Welfare State

French authorities have been more constrained in a second way since 2009. The Great Recession has revealed the alarming erosion of France's competitiveness, especially in manufacturing. Consequently, French governments, of left and right alike, are convinced that they must provide more support for business. Doing so intensifies the squeeze on France's welfare state, however, as more money for business means less money for social programmes or deficit reduction. The French government is under heightened "surveillance" not only from the Commission and bond markets, but also from French employers, and both sets of actors are making demands that threaten or crowd out French social protection.

[5] This evolution cannot only be related to these measures: the decrease in the number of doctors and the absence of new pharmaceutical "blockbusters" are two main factors to take into account (Tabuteau 2013: 195).

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Already in the 1990s, France made lowering “social charges” a primary objective of its employment policies. Originally, this objective was clearly and explicitly associated with the “imperatives” of the single market since French employers have claimed throughout the late 1980s and early 1990s that labour costs were too high in France for French firms to be able to compete with their European counterparts (Palier 2005, Chap. 7). Policies to lower “social charges” were at first very specifically targeted, and then later applied to all lower wages. Despite the lack of an explicit reference, one cannot help but notice that this change echoed the Commission’s *White Paper on Growth, Competitiveness and Employment*, which promoted the “reduction of employers’ social security contributions and increased revenue through other means so as to neutralize the effects on the social protection of workers”, as well as the criteria set in Maastricht.

In France, until 1996, 80 of social protection was financed through employment related contributions, corresponding to the Bismarckian welfare state logic. But, since the late 1980s, French governments have adopted contribution-exemptions for employers in order to encourage job creation. These measures are usually targeted at some particularly disadvantaged groups, such as the long-term and young unemployed, or on small companies, which are considered to be the most affected by the relatively high cost of unskilled labour. In order to generalize this movement of lowering labour cost by reducing the level of social insurance contributions paid by the employers, governments have progressively replaced some contributions by taxation (Palier 2005). A new tax was created in December 1990: the *Contribution Sociale Généralisée* (CSG) originally aimed at replacing non-contributory benefits that were financed from the social contribution system. Unlike insurance contributions, the CSG is levied on all types of personal incomes. When it was introduced, the CSG appeared to play a marginal role in the system and was levied at 1.1 % of all incomes. In 1996, the Juppé Plan set it at 3.4 % of all income and it has been rising steadily ever since.

These two trends were clearly followed after 2002. Employers were exempted a number of new contributions. On the other hand, the 2004 health insurance law increased the rate of the CSG again, especially for welfare benefits. As a consequence the CSG now represents 59 % of the financing of social protection and traditional social contributions only 21 % (taxes 12 %). In January 2006 President Jacques Chirac announced the creation of a contribution on added value (*cotisation sur la valeur ajoutée*) in order to take the place of a part of the employers’ contribution but it was not implemented during his mandate. In 2007 Nicolas Sarkozy suggested an increase in VAT in order to be able to lower the employers’ contributions. This proposal, inspired by the German example of a “social VAT” (*TVA sociale*), is very controversial. Raised inadvertently just before the second round of the June 2007 parliamentary election, the measure was postponed once it became clear that it would not be popular. In the context of the global financial crisis it was again put on the agenda and a “Social VAT” (an increase of 1.6 point for VAT in exchange of a decrease in the social contribution paid by the employers) was adopted in late February 2012 in the context of the presidential election campaign. Contested by the left it was not implemented and withdrawn by the

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new socialist majority. However, a few months later in the Finance Law of 2012, the Ayrault government created a tax credit for competitiveness and employment (*Crédit impôt compétivité emploi*-CICE-) corresponding to a lowering of social contributions paid by all companies. It is mostly financed by an increase of the VAT level (+0.4 points for the normal rate, +3 points for the intermediary rate). In the social security finance law discussed in parliament in July 2014 new measures lowering employers social contributions were adopted: especially the decrease of social contributions and of family allowance contributions paid by employers for low paid employees (from the level of the minimum wage up to 1.6 times the minimum wage).

If concerns about sovereign debt have made the French governments prioritize deficit reduction since 2010, concerns about competitiveness push in the opposite direction. Perhaps the biggest reason why the current government is having so much trouble bringing down France's budget deficit is that the government is simultaneously providing 30 billion euros in tax breaks to French corporations in the hope of improving competitiveness and hiring. If you take away the 30 billion euros in tax breaks for business, the government would need to cut "only" 20 billion euros in spending, rather than 50 billion euros currently planned for the 2015–2017 period in the "responsibility pact". Moreover, the spending cuts would appear far more legitimate to the public, especially to leftists who voted for Hollande in 2012, if the sacrifices were shared by all, rather than used to finance "gifts for employers". Legitimacy is a crucial issue for French welfare state reforms for many reasons.

3 The Political Dimensions of Welfare State Reforms in France: Accountability and Legitimacy

The crisis has not only had a financial impact, it has also intensified social problems (unemployment, poverty, access to healthcare) which challenge the political sustainability of the French welfare state. These problems are highly politicized as the last presidential campaign in 2012 showed: unemployment was one of the main issues for voters (Sauger 2013: 1037) and in a yearly survey[6] published in January 2014 (as in the year before) unemployment is the first worry for the people questioned.[7] Another illustration is the strong attention given by political actors and the media to the unemployment numbers published every month. The political pressure on reform is strengthened by the growing accountability of the state in welfare issues because of institutional reforms adopted since the mid-1990s putting governmental actors in the frontline, especially in two sectors historically regulated

[6] Operated by Ipsos-Steria for *Le Monde*, France-Inter, the Jean-Jaurès Foundation and the research center of Sciences Po (Cevipof). Sample: 1005 people.

[7] As in 2013 56 % of the people interviewed answered that unemployment is a great worry for them. Even before the crisis, in the 2008 European Social Survey Round, the item rated lowest satisfaction with welfare state performance in France is "opportunities for young people to find a job" (with a rate of 3.5 on a 0–10 scale).

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by non-state actors: healthcare and employment. If French governmental actors have more institutional tools to reform, they are weakened by a structural de-legitimization process leading to a political dilemma: how to reform the welfare state without a strong legitimacy? The main answer since François Hollande's election in 2012 is to try to negotiate reforms with social partners.

3.1 The Social Consequences of the Crisis

The main social consequence of the crisis is the rise of unemployment. France is often characterized as a country with a rather high structural level of unemployment (higher than the EU average), but when the crisis hit France the unemployment rate had been decreasing since 2005 from 8.9 % to 7.4 % in 2008 (see Table 3). The increase in unemployment was comparatively less than in most EU countries so that the current French unemployment rate (10.4 % in April 2014, Eurostat) is under the EU average (10.6 % in April 2014, Eurostat) and the Euro area average (11.8 % in April 2014, Eurostat), however below 10 %.

In the same time period, the poverty rate grew from 13 % in 2005 to 14.1 % in 2012 (8.6 million people are considered as poor), stronger than the average rate in the EU (even if the French level remains lower than the EU average rate) (Table 4).

In 2008 a new type of minimum income was created: the Active Solidarity Income (*revenu de solidarité active*-RSA-). The purpose of this measure was to encourage those on minimal benefits to work by giving them an extra income so that in all cases they earn more than their previous allowance (this has not necessarily been the case up to then, especially for part-time workers), in line with the turn to

Table 3 Unemployment rate (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
France	8.9	8.8	8.0	7.4	9.1	9.3	9.2	9.8	10.3
EU-27	9.0	8.3	7.2	7.1	9.0	9.7	9.7	10.5	10.6
Aged under 25 (FRA)	21.0	22.0	19.5	19.0	23.6	23.3	22.6	24.4	24.8
Aged 25–74 (FRA)	7.5	7.3	6.7	6.1	7.4	7.7	7.7	8.2	8.7
Men (FRA)	8.2	8.2	7.6	7.1	9.0	9.1	8.8	9.8	10.3
Women (FRA)	9.7	9.5	8.5	7.9	9.2	9.5	9.5	9.8	10.2

Source: Eurostat

Table 4 At risk of poverty rate (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
France	13.0	13.2	13.1	12.5	12.9	13.3	14.0	14.1	n.a.
EU-27	16.4	16.5	16.5	16.5	16.4	16.4	16.9	16.9	n.a.

Source: Eurostat (cut-off point: 60 % of median equivalised income after social transfers)

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activation policies which started in France at the end of the 1990s (Clegg 2007). But its effects were rather limited because of the strong rise of unemployment (Hassenteufel 2012a: 355) due to the crisis. The number of households receiving the minimum allowance grew from 1.48 million in June 2009 to 2.22 million in June 2013 (i.e. a 50 % growth rate in 4 years) and the return to work for its beneficiaries is rare: less than 500,000 of them are working.

The growing social inequalities also concern health care. Inequalities in access to health care are the consequence of two main dynamics. The first one is the reduction of coverage due to the new orientation of cost containment policies (see above). As we have seen above the health coverage by the health insurance system has decreased from 77 % in 2004 to 75.5 % in 2008. If chronic diseases and hospital care are still well covered, current care coverage has been reduced to 55 % (Tabuteau 2010: 88). It increases the role of complementary health insurances, more unequal than the statutory system. The second one is the number of specialized physicians in the second sector (where they can ask for higher fees than the level reimbursed by the health insurance). A study made in 2013 by a consumer association (UFC-Que choisir), based on sickness fund data, showed that the practice of overbilling has led to growing inequalities: for 80 % of the population it is difficult to find a local gynaecologist or an ophthalmologist who does not ask for an extra fee.

The high level of unemployment, associated with a growing number of poor people, is challenging not only the social but also the political sustainability and the legitimacy of the French welfare state.

3.2 The State in the Frontline

Confronted with growing inequalities, the French state is increasingly on the frontline of welfare policies. This is not a new trend as already the introduction of the vote of a finance law for social security in 1996 shows.[8] For the first time in France, parliament is taking part in the debate on the social security budget, which before was seen as not being part of the state budget. This strengthening of the state is the most obvious in relation to the health insurance system. The 1996 reform gave new institutional tools to the state in order to increase its control over the health insurance system. In the hospital sector the new regional state agencies (*agences ré gionales d'hospitalisation*) have taken on the powers previously held by the sickness fund on private hospitals. In the ambulatory sector the scope of collective bargaining between sickness funds and doctors' organisations has been reduced, and the state is allowed to supplant the social partners when the latter are not able to reach an agreement. The 1996 reform also obliged parliament to annually vote a

[8] It is also worth noticing that the social investment policy for the work-family conciliation historically relies on the state with near universal access to *écoles maternelles* for children under 6 years old (Morgan 2011: 164).

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national ceiling for health expenditures (ONDAM). With this reform the government can more easily adopt yearly cost containment measures, since this budgetary vote is now a constitutional obligation (French parliament being strongly controlled by the government). The use of the new parliamentary competence helps the government to control the healthcare policy agenda. Instead of having always to legitimise its intervention in a field originally belonging to the realm of labour and employers, with the institutionalisation of a parliamentary vote, the government is now able to plan adaptation measures regularly, especially cost-containment ones as we have seen above.

The 2004 health insurance law furthered this trend by creating a national union of sickness funds (UNCAM) directed by a senior civil-servant, nominated by the government. This 'general director' has the power to nominate the directors of local sickness funds and heads negotiations with the different medical professions—hitherto the role of the chair of the now disbanded administrative board of the fund, as representative of the social partners. Indeed, the law has replaced this administrative board of the social partners by advisory boards on which both users and parliament have representatives. There is clearly a shift of power from the board to the general director.

A new step was the creation of regional health agencies (*Agences régionales de santé*) by the 2009 "Hospital, patient, health and territories" law. They merge, into one entity, all public-sector actors (including public health insurance funds) that were responsible for organizing and financing health care at the regional level. They have the mission to establish regional level objectives to assure fair access to care, improve coordination between hospitals and ambulatory care providers, and enhance quality and prevention.

A similar evolution occurred for unemployment. The main institutional reform, the creation of *Pôle emploi* was adopted just before the crisis in 2008. This new institution merged the institutions helping people to find a job (ANPE) and those delivering the unemployment benefits and collecting the unemployment contributions (UNEDIC-ASSEDIC). The ASSEDIC were paritarian institutions managed by trade-unions and business associations. The State was only represented in the tripartite board of the ANPE. The new *Pôle emploi* is a tripartite institution, but if the state has the same number of representatives in the administrative board (five) than the trade unions and business associations, it has also the power to nominate two qualified persons to sit on the board. Moreover, the executive director is nominated by the government and the strategic orientations of *Pôle emploi* are negotiated between him/her and the government, not with the social partners. These changes have entailed a desequilibrated governance of unemployment insurance in favour of the state, progressively evicting the social partners (Hervier 2012).

3.3 The Political Dilemma: How to Reform Without Legitimacy?

As the state is more on the frontline regarding welfare policies than in the past, its legitimacy has been eroded since the crisis. In the yearly "barometer of political

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trust" (*baromètre de la confiance politique*)[9] the negative perception of the way democracy works in France has steadily risen from 48 % in December 2009 up to 69 % in December 2013. The level of trust is particularly low for the government (32 % in December 2009, 25 % in December 2013) and for political parties (14 % in December 2009, 11 % in December 2013). Current French public opinion makes it even harder than in the past to reform the welfare state. The agenda setting of welfare reforms since the 1990s has often given rise to conflicts, especially for pensions with the strong mobilizations against the Plan Juppé in 1995, the 2003 Fillon reform and in 2007 against the special regime reform. From this point of view, the 2010 pension reform did not differ. Most unions as well as the left-wing opposition were opposed to an increase in the retirement age, arguing that it would not solve the problem of a low employment rate of older workers. Unions also strongly criticized the increase in the minimum age for a full pension without a penalty, arguing that it would most strongly harm women, whose pensions are usually lower because of broken career records. Because of their opposition to the reform, unions organized demonstrations in the spring and the summer of 2010. Strikes continued through the autumn while parliament debated the bill. Because of the union mobilization, the government made some concessions at the beginning of September 2010. It agreed to decrease from 20 % to 10 % the "rate of incapacity to work" that would allow workers employed in "hard working conditions" to retire from the age of 60 instead of the age of 62. Before the reform bill progressed to the senate, the government announced another concession, agreeing to maintain the right to a full pension without penalty at the age of 65 for around 130,000 mothers born before 1956. However, no concession was made on the flagship measure of the increase in the statutory minimum retirement age.

The political strategy of Nicolas Sarkozy was to take the blame in order to show his capacity to reform. But it did not avoid his electoral defeat in 2012. François Hollande adopted a different strategy framed as "social-democrat": the negotiation of reforms with social partners.[10] It started with the orientation towards a better combination of flexibility and new kind of protection in line with European orientations. This turn to flexicurity was first tried before the crisis, under Nicolas Sarkozy's presidential mandate with the agreement on securing professional career paths (*sécurisation des parcours professionnels*), which was negotiated by the social partners (but not signed by the main workers trade-union: the CGT) and then enacted by law in 2008. During the parliamentary debates the government and the MPs from the right-wing majority frequently used the expression "flexicurité à la française" in order to stress the translation of the Scandinavian model by the French policy actors (Caune 2013: 454–456). However it had limited effects because it concerned mostly qualified workers (Cahuc and Zylberberg 2010: 58).

[9] Based on a representative sample of 1803 citizen (with the right to vote) operated by the OpinionWay Institute for the CEVIPOF and the Economic, Social and Environmental Council.

[10] In the "barometer of political trust" the level of trust in trade-unions is higher than for political parties (24 % in December 2009, 23 % in December 2013).

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A new negotiation, launched by the new socialist government, took place during fall 2012. The national agreement (*Accord National Interprofessionnel*-ANI) signed between the social partners (but not by the CGT) in January 2013 is clearly a deal brokering more flexibility (companies can more easily sign an agreement with salary or working time decreases in order to protect jobs and force their employees to change jobs in the same company, laying-off workers is also facilitated) and new securities (complementary health insurance for all employees in the private sector, reloadable rights to unemployment benefits,[11] higher taxation of short time contracts, bottom level of weekly working hours for part-time contracts, personal accounts for training). As in 2008 the social partners and political actors supporting the agreement used the expression "flexicurité à la française" and mentioned the "German model" to legitimize it (Caune 2013: 475–479). Parliament passed the law enacting this agreement a few weeks later, despite strong opposition from the Communist Party and the Left Party, supported by the two trade-unions who did not sign the agreement: CGT and FO. At the end of 2013, it was followed by a new negotiation on professional training concluded by a national agreement between business associations and trade-unions, creating the "individual training account" (*compte personnel de formation*) for the whole professional career (including unemployment periods) and reforming the complex training financing system.

The negotiation of the pension reform was also strongly put forward by the new government in line with the "social-democratic" line favoured by the newly-elected President, François Hollande. At the beginning of 2013, the government put pressure on France's social partners to negotiate a stop in the index-linking between pensions and inflation for the supplementary PAYG schemes, ARRCO and AGIRC. And the reform of the general regime was announced at the end of August 2013 after 2 days of consultations with all the social partners.

A recent illustration of the political priority given to national negotiations is the one concerning the "responsibility pact" announced by François Hollande in January 2014, based on the reduction of labour costs for companies (by reducing social contributions, especially for family allowances), in order to boost competitiveness, in exchange for job creation, and financed by a 50 billion euros cut in the public spending plan. In March 2014 three trade-unions and the two business associations agreed to open negotiations in every branch for purpose of job creation and to participate in a tripartite Observation of the Implementation of the Pact, which is the core element of the economic policy and public finance strategy presented to the European Commission by the new Prime Minister Manuel Valls in April 2014.

This highlights the importance given to the negotiation process in welfare politics, not only for pensions and employment. In the field of health care too, negotiations between the national sickness fund organization (UNCAM, created by

[11] In the agreement signed between three trade-unions and the main business association in March 2014 unemployed people finding a new job earn new rights to unemployment benefits after 150 hours of work, without losing their previous rights. It also facilitates the combination of unemployment benefits and part-time jobs.

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the 2004 reform and tightly controlled by the government as analyzed above) and the organizations representing doctors in the ambulatory sector have taken place since the crisis. Firstly they concerned the creation of a new payment system inspired by the British payment for performance system (Hassenteufel 2012b). In 2009, "contracts for enhancing doctors' individual practice" (Contrats d'amélioration des pratiques individuelles, CAPI) were introduced on a voluntary basis. Doctors are paid 7 euros per patient for completing 16 health objectives (among them: vaccination against influenza for persons of more than 65 years, screening breast cancer for women over 50 years, increased generic prescriptions and better monitoring of chronic diseases). In the national agreement (*convention médicale*) signed in July 2011 between the UNCAM and the main doctors organizations, this payment-for-performance system was extended and its remuneration increased. Then, after the presidential election, the new socialist government put pressure on the UNCAM to negotiate with doctors' organizations in order to regulate overbilling. The agreement signed in October 2012 creates a new contract (*contrat d'accès aux soins*) limiting the amount and proportion of overbilling for doctors (in exchange of lower social contributions). It is a voluntary contract, like the "Territory Health Pact" (*Pacte santé territoire*) proposed by the new health minister to attract doctors in under-serviced areas. Thus the effectiveness of these new policy tools depends of the good will of doctors: the successive health ministers, since the failure of the implementation of the Juppé Plan at the end of the 1990s, have been reluctant to confront directly with doctors' organizations and therefore to avoid using more constraining policy tools. This contract tries to tackle the issue of the lack of doctors in under-serviced areas related to demographic evolutions also challenging the French welfare state.

4 Demographic Challenges for the French Welfare State

From a demographic perspective the French welfare state is mainly challenged by the ageing of the population. The French fertility rate is among the highest in the EU (1.99 children per women in 2013) and has only been slightly affected by the crisis (see Table 5): the number of births has been decreasing since 2010 (1.34 % decrease between 2012 and 2013).

Therefore the growth of the French population (5.7 % between 2004 and 2013; 0.4 % between 2012 and 2013 above the EU average of 0.2 %) is mostly a natural change (see Table 6).

This rather favourable demographic situation can be related to the French family policy based on maternity and parental leave following childbirth, care-support for young children[12] (Morgan 2011) and the universality of several family benefits,

[12] The share of national wealth invested in childcare/preschool in France (1.12 % of GDP) is much higher than the OECD average (0.96 %). It has remained stable since the early 2000s and represents one-third of all per capita spending on children throughout childhood (Thévenon et al. 2014).

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Table 5 Fertility rate in France

2005	2006	2007	2008	2009	2010	2011	2012	2013
1.94	2.00	1.98	2.01	2.00	2.03	2.01	2.01	1.99

Source: Eurostat for 2005–2012, INSEE for 2013

Table 6 Crude rate of population change (per 1000 inhabitants)

	2009	2011	2013
Total change	5.3	5.4	4.4
Natural change	4.3	4.2	3.8
Net migration and adjustment	1.0	1.2	0.6

Source: INSEE (2014)

especially the family allowance linked only to the number of children (from two children).

Because of the occurrence of a deficit in the family sector of the social security system in 2008 (300 million euros) and its increase (1.8 billion euros in 2009, 2.7 billion euros in 2010, 2.6 billion euros in 2011, 2.5 billion euros in 2012, 3.2 billion euros in 2013) there is a growing debate on the linking of this emblematic allowance for French family policy with family income. The Family High Council (*Haut Conseil de la Famille)* again made this controversial proposal in 2013. However it was contested by family associations and right-wing politicians fearing a negative effect on births and therefore abandoned again. In the first period after the beginning of the crisis, measures were implemented to cushion its effects by offering tax breaks to low-incomes families and a cash payment of 150 euros for families with school-age children (Thévenon et al. 2014). Then, since 2012, priority has been given to spending cutbacks based on the freezing of family allowances, the reduction of early childhood benefits, birth grants and parental leave, the ceiling of tax deductions for high income earners, linked to the number of dependent children or to hire child-carers. However low-income families are spared. This strategy is broadened in the 50 billion euros reduction of public spending planned for the 2015–2017 period: the "responsibility pact" adopted by parliament in July 2014. The 11 billion euros saving on social policies are based on the freezing of the amount of social benefits (pensions, family benefits, housing benefits and benefits for disabled persons). Only the social minima will still be indexed to inflation.

However the main demographic challenge for the welfare state is the ageing of the French population. The number of people over 65 years has grown from 13.9 % of the whole population in 1990 to 16.8 % in 2010. It is expected to increase faster in the next years (see Table 7).

This trend has not only an impact on the pension system (the demographic dependency rate, i.e. the number of people over 60 per 100 people aged between 20 and 60, has grown from 38 in 2000 to 43 in 2010 and is expected to grow to 53 in 2020 and 62 in 2030) but also on care for elderly dependent persons (according to Eurostat forecasts the percentage of the population aged 80 and over will grow from 5.2 % in 2010 to 6.0 % in 2020 and 9.4 % in 2040). For them a Dependency Allowance (*prestation sociale dépendance*-PSD) was created in 1996. It was

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Table 7 Percentage of population aged 65 and over

1990	2000	2010	2020	2030	2040
13.9	15.8	16.6	20.2	23.2	25.6

Source: Eurostat

replaced by a "Personalised Autonomy Allowance" (*Allocation Personalisé e d'Autonomie-APA*), in 2002 to remedy some of the main problems identified with the PSD. Dependency criteria have been extended, which has considerably increased the number of people eligible for this benefit. The benefit is no longer means-tested but the amount is reduced progressively for beneficiaries whose resources are above a certain ceiling (949 euros/month in 2002). As with the PSD, the benefit can be used to remunerate an unemployed relative who provides care. This new measure has proven very successful and the number of recipients increased rapidly, leading to higher than expected costs. This prompted the right-wing government to introduce new reforms in 2003 to reduce the cost of the benefit, mostly by lowering the income ceiling to 623 euros below which one is entitled to full benefits. But, after the dramatic summer 2003 heat wave, the Raffarin government, who was accused of a delayed reaction, proposed in November 2003 the Ageing and Solidarity plan, aimed to facilitate the maintenance of the elderly in their own residence, as well as to reinforce the provision of care in institutions (by improving the health care supply in nursing homes, and creating new places in health units). A new law, voted in June 2004, defined the rules for financing this plan, by creating an extra day of work "for solidarity". This extra day of work is meant to collect two billion euros, with 800 million euros destined for retirement places, 800 million euros for the handicapped and 400 million euros to support the elderly in their own homes. It also created a "National solidarity fund for autonomy" (CNSA). This new institution has three missions: to finance "support services" for the dependent elderly and handicapped; ensure the equal treatment for all people with problems of autonomy on French territory; provide information and analysis concerning the service needs of dependent people.

This plan was not sufficient to face the fast increase in the number of APA recipients (they grew from 470,000 in 2002 to 628,000 in 2008 and 696,000 in 2011, i.e. an 11 % increase from 2007 to 2011; source: DREES 2013) and its rising costs (300 % growth in 10 years), the lack of institutional care provision and the poor quality of domiciliary care. Therefore in his presidential programme, Nicolas Sarkozy promised the creation of a fifth social insurance branch aimed at covering the loss of autonomy for elderly and disabled persons. Several commissions worked on it and even a national debate was organized in 2011; but the adoption of a bill creating this fifth branch, announced by President Sarkozy at the end of 2007 for 2008 (Palier et al. 2012: 21), was postponed several times because of his costs in the context of growing public deficits. The financial sustainability of the welfare state has the priority over the long-term care reform, which is still on the government's agenda: in June 2014 the government drafted an "adaptation of the society to ageing" bill planned to be passed in parliament before the end of the year. The

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main aspects are an increase in the amount of the APA and of the hours of help, the possibility to have a rest period for family members helping dependent persons and better access to technical help and prevention programmes. It will be financed by the additional solidarity contribution for autonomy (*contribution additionnelle de solidarité pour l'autonomie*) created in 2013, at a cost of 650 million euros a year.

The third demographic challenge concerns more specifically doctors. Two trends can be pinpointed: the beginning of the decline in the number of doctors and territorial disparities. The number of doctors is expected to decrease from 208,000 to less than 200,000 in 2020, a decrease of at least 10 % in the next 10 years (DREES 2009). It concerns especially general practitioners: a 6.5 % decrease in their number between 2007 and 2014 has been observed (CNOM 2014). The main consequence of this (expected) evolution is the decrease in doctors' density (from 327 doctors for 100,000 inhabitants to less than 300 in the next 20 years). Territorial differences are high between the South of France and the Paris region (having around 400 doctors per 100,000 inhabitants) and the north or the centre of France (having around 250 doctors per 100,000 inhabitants). According to the Health Ministry, around 2.5 million persons live in "medical deserts" and 20 % of the French population live in under-serviced territories. This explains why the Fillon government tried to introduce restrictions to the liberty of establishment for doctors, in order to improve the possibility of access to health care for patients in "medical deserts". A first attempt failed in 2007 because of the opposition of doctors in training. The 2009 "Hospital, Patients, Health and Territory" law obliged doctors in over-serviced territories to carry out a part of their activity in under-serviced territories (and to pay a penalty if they do not). This measure was strongly contested by the main physicians' trade union and finally withdrawn by a new law in 2011. Those issues were discussed and put on the agenda during the electoral campaigns in 2012. A "Territory Health Pact" (*Pacte santé territoire*) was proposed to doctors by the new health minister to attract them in under-serviced areas.

5 Conclusion

The main conclusion which can be drawn from this analysis of welfare policies in France since the crisis is the fact that it has not entailed a major shift. Table 8 shows that social protection expenditure continued to grow during the crisis and that its structure has not significantly changed.

Two main reasons can be put forward to explain why no major change occurred during the crisis (which is still lasting in France). The first one is that the major shifts already happened before the crisis (activation in employment policies, strengthening of the state at the institutional level, cost containment in healthcare, adaptation of the pension system to demographic evolutions, new benefits for dependent, disabled and poor persons, more financing by taxes…) and created a separation of two 'worlds of welfare' (Palier 2010) within the French social protection system. In the world of social insurance (mainly old age and

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Table 8 Social protection expenditure by function 2005–2011 (amounts given in euros per inhabitant)

	2005	2006	2007	2008	2009	2010	2011
Social protection expenditure	8082.68	8386.80	8668.10	8938.60	9322.37	9571.87	9808.14
Sickness/health care	2412.57	2463.49	2538.71	2604.88	2692.09	2756.54	2797.20
Disability	477.60	530.47	543.68	555.72	568.33	586.31	610.40
Old age	3019.95	3137.58	3314.30	3475.93	3615.62	3728.53	3872.78
Survivors	530.01	536.64	542.99	552.68	559.82	572.85	584.36
Family/children	688.62	746.49	763.61	776.85	796.28	795.96	804.86
Unemployment	606.96	582.88	566.90	559.44	627.96	656.45	646.77
Housing	221.46	221.30	224.65	239.38	244.53	246.41	253.82
Social exclusion	125.52	167.95	173.26	173.73	217.74	228.82	237.95

Source: Eurostat

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unemployment insurance), professional solidarity is central and benefits are still acquired through work. However, employees are being asked to pay higher levels of contribution than before to obtain benefits. The second world of welfare is the one of national solidarity. It entails health care, family benefits and policies aimed at fighting social exclusion. Here, the benefits can be either universal or means tested, but they are financed out of taxation and the state plays a more important role than before.

The second reason is that there is no real discussion of a paradigm shift or of structural reorientation of the French welfare state happening. Governmental actors are muddling through the crisis, under strong financial constraints[13] and European scrutiny. The Finance Ministry has become a stronger actor in the welfare policy design (even before the crisis: see Hassenteufel 2012a), and is on the frontline in the negotiations with the European Commission. However reforms need to be negotiated with a lot of other actors, especially in the context of a strong decrease in the legitimacy of political actors and institutions.

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[13] In 2011 the percentage of GDP expenditure on social protection was 33.6 %, far above the EU average (29 %) (Eurostat). In 2013 the deficit of the social security was still 12.5 billion euros but has decreased since 2010 (23.9 billion euros).

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Dismantling the Feeble Social Protection System of Greece: Consequences of the Crisis and Austerity Measures

Sofia Adam and Christos Papatheodorou

1 Introduction

1.1 Major Challenge of the Economic Crisis

The social protection system in Greece is under serious strain given the scale of the economic crisis and its particular management within the framework of the Memoranda signed with Troika (European Union, European Central Bank and International Monetary Fund). Before, we explore in detail changes in specific policy fields, we deem it necessary to provide an overview of the general context.

The economic crisis was expressed in Greece as predominantly a public debt crisis. Figure 1 is indicative of the escalating trajectory of public debt before and after the eruption of the crisis as a percentage of GDP in comparison with the average figures for EU-28.

The effects of the economic crisis first became evident in the drastic decline of GDP in the third quarter of 2008, as indicated by Fig. 2. The introduction of the austerity measures not only failed to reverse this trend, but it actually aggravated GDP levels. As a result, GDP contraction in Greece is considered worse than the Great Depression era of the US (Papadimitriou et al. 2013).

The economic crisis and its particular neo-liberal management gave the final blow to an already inadequate social protection system. The dominant rhetoric after the eruption of the crisis portrayed the Greeks as lazy, enjoying generous benefits, living well beyond their means and productivity, thanks to the availability of EU

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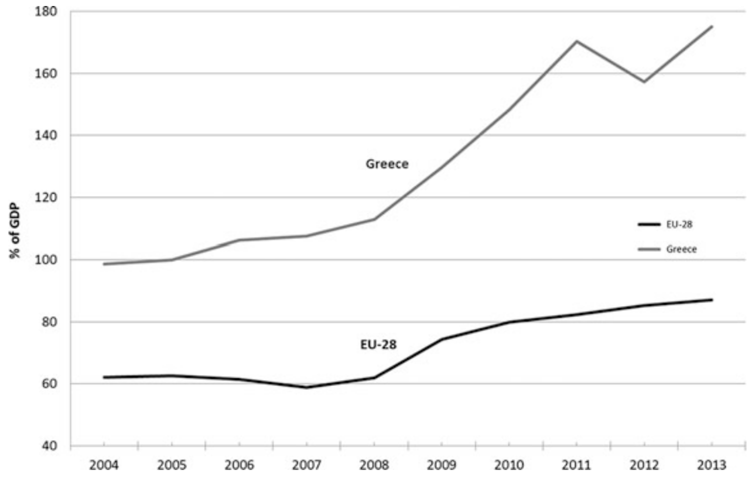

Fig. 1 General government gross debt (% of GDP), Greece and EU-28. *Source*: Eurostat

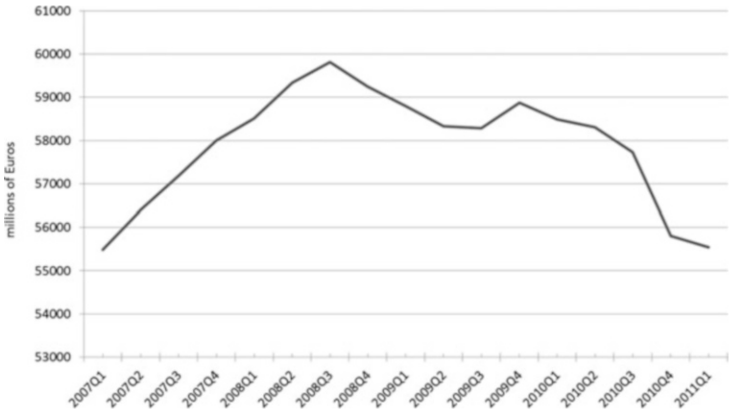

Fig. 2 Quarterly national accounts 2007–2011, GDP in Greece, current prices in millions of euros (*seasonally adjusted and adjusted data by working days*). *Source*: Eurostat

funds, to a strong currency (euro) and a generous social protection system financed by heavy public borrowing. These allegations are not empirically sound especially in comparison with the EU (Papatheodorou 2014): Greece suffered from high poverty rates and inequality prior to the crisis despite high growth rates. Social protection expenditure as a percentage of GDP and more importantly in euros per inhabitant was significantly lower than the EU-15 and EU-28, with old age and survivors pensions accounting for the largest share of total benefits (Fig. 3). In addition, Greeks worked on average more hours per week than their European counterparts. Despite empirical findings, the Memorandum enforced the retrenchment of the Greek social protection system in the context of significant cuts of

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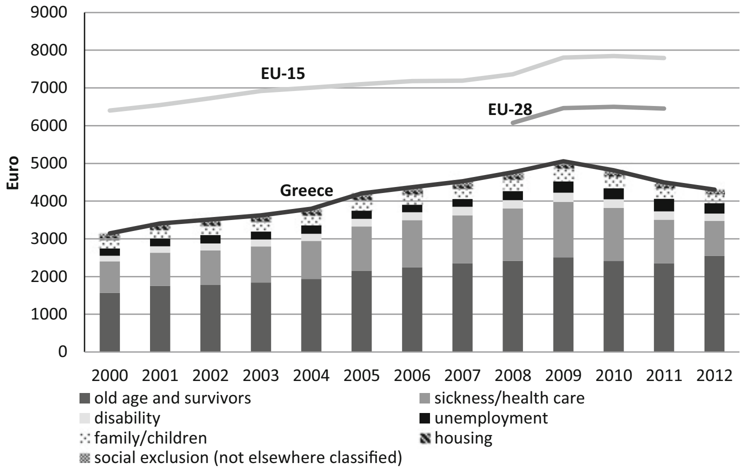

Fig. 3 Social benefits (total and by function), Greece and EU, 2000–2012, euros per inhabitant at constant 2005 prices. *Source*: Eurostat

social expenditure, staff reduction in the wider public sector and freezing of hiring levels.

1.2 The Greek Welfare State: Past Deficiencies Aggravated by the Economic Crisis

The Greek welfare state has historically suffered from a number of deficiencies namely fragmentation, polarization and particularism (Petmesidou 1996). These deficiencies run in parallel with the reality in other Southern European countries, leading scholars to debate over the existence of a Southern European welfare model (Leibfried 1992; Ferrera 1996; Gough 1996; Katrougalos 1996). We will not deal with the causes of the distinctiveness of certain features of the Greek welfare state (for a thorough synopsis, Papatheodorou 2009). We will simply highlight the following structural aspects of social protection in Greece: a) statism-clientelism-familialism, b) predominance of pensions, c) quasi-public hospital care d) rudimentary social assistance e) ineffectiveness in reducing inequality and poverty f) underdeveloped third sector welfare provision and g) lack of legitimacy.

The development pathway in Greece shares common characteristics with other southern European countries in the way political means are used for the appropriation of resources from the state (Petmesidou 1996). These state-social cleavages lead to vertical state-society relations based on personal affiliations. In turn, these cleavages affect welfare state development as significant differences with regard to welfare protection entitlements are observed even within the same socio-professional groups. These state-society relations are shaped by and at the same

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time shape a strong dependence on family ties as the strategic unit for welfare provision through the joint production and distribution of resources.

Expenditure on pensions amounted on average to 50 % of social protection expenditure in Greece in the period 1995–2008 (Eurostat). This finding is not particularly illustrating given that pensions accounted for approximately 44 % of total social protection expenditure in EU-15 for the same period.[1] However, taking into account that pensions follow strictly occupational lines and that until the recent reforms, there were approximately 130 social insurance funds, we can estimate the fragmented and differentiated levels of coverage (Petmesidou 2013a).

In terms of the health care system, it did not materialize in a fully-fledged public universal system because of the lack of primary health care provision, high shares of private expenditure, a mixed finance system with a high participation of social security funds and high out of pocket payments (WHO 2013).

Greece was the most rudimentary of the Southern European social assistance regime (Gough et al. 1997). This rudimentary character is expressed in the marginal role of social assistance benefits in total social protection expenditure, their low level of compensation, the low income thresholds imposed for means-testing, their lack of adjustment to inflation rates and their "take it or leave it" character, since in most cases they do not foresee transition phases as family incomes increase (Matsaganis 2000).

Despite the significant growth of social protection expenditure in 1995–2008 (from 22.3 to 26.2 % of GDP, Eurostat), the average poverty rate was the highest in EU-15 (Dafermos and Papatheodorou 2011). This structural inefficiency can be attributed to the above mentioned characteristics associated with the Southern European welfare model in conjunction with high levels of tax evasion and the high share of differentiated pensions in social protection expenditure (Papatheodorou and Dafermos 2010).

Until recently, the ineffectiveness of public interventions to tackle poverty and inequality has not been counter-balanced by the strong presence of third sector organizations (Petmesidou 2013a). This may partly reflect the intermeshed position of the Greek Orthodox Church within the state apparatus to the detriment of an autonomous development along solidarity and subsidiarity lines as in other Catholic Christian Southern European countries (Petmesidou and Polyzoidis 2013).

The condensed character of welfare state development in Greece which coincided with the retrenchment era of the other welfare states in North-West Europe (Petmesidou 2006) did not allow for the consolidation of its legitimacy along social rights and citizenship. This created a vicious cycle of perpetuation of structural inefficiencies.

This chapter is structured as follows. In the next section (Sect. 2), we describe the main demographic challenges affecting the social protection system in Greece. Given the severe character of the economic crisis and its particular neo-liberal

[1] In comparing Greece with the EU we often use estimates for the EU-15 since comparable figures are available for a longer period.

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management, we unfold the drastic changes and their impact on the following fields: labour market (Sect. 3), pensions (Sect. 4), health care (Sect. 5), housing (Sect. 6), family and child policy (Sect. 7) and long-term care (Sect. 8). The effects of these changes on poverty and deprivation are described in Sect. 9. In the concluding section (Sect. 10), we will attempt to estimate the overall impact of these changes on the legitimacy of the Greek welfare state.

2 Demographic Changes and Challenges

The population in Greece has slightly grown in 2001–2009 while a minor decrease was observed in 2010–2013 as indicated by Fig. 4. Female population remained slightly higher throughout this period. According to the provisional data of the 2011 Census, the population in Greece has shrunk by 146,000 persons since 2001 (Duquenne and Kotzamanis 2012).

If we further examine the population by age group (Fig. 5), we observe that the age group below 15 years faces a decline almost throughout the period 2001–2013, the age group 15–64 displays a slight constant increase up to 2008 when a decline is observed, whereas the age group above 65 years is constantly rising.

Life expectancy at birth in Greece was particularly high in 1991. Especially the male population had the second highest rate in EU-15 following Sweden.[2] The lower than EU-28 fertility rate in Greece is graphically illustrated in Fig. 6 which further shows a drastic decline after 2010. Mortality rates in Greece fell in 1991–2006. In 2001–2006, there was an increased fall in mortality rates for the

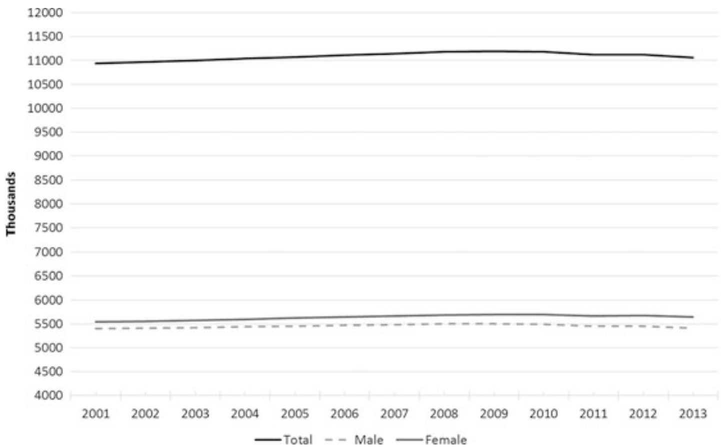

Fig. 4 Population in Greece (in thousands). *Source*: Eurostat

[2] Life expectancy at birth for the female population was not that favourable being the seventh highest in EU-15.

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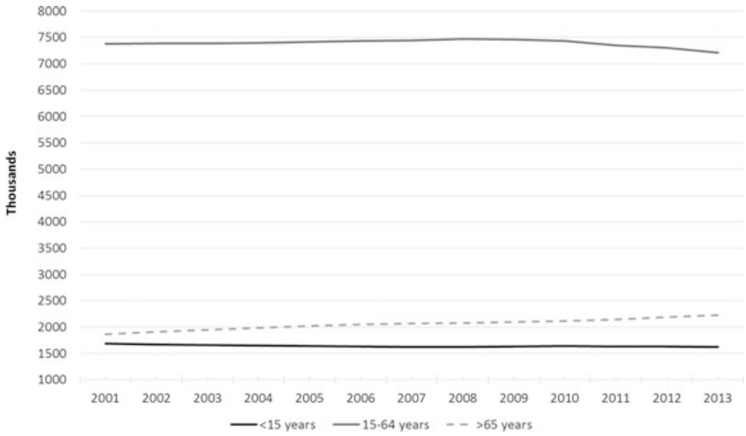

Fig. 5 Population in Greece by broad age groups (in thousands). *Source*: Eurostat

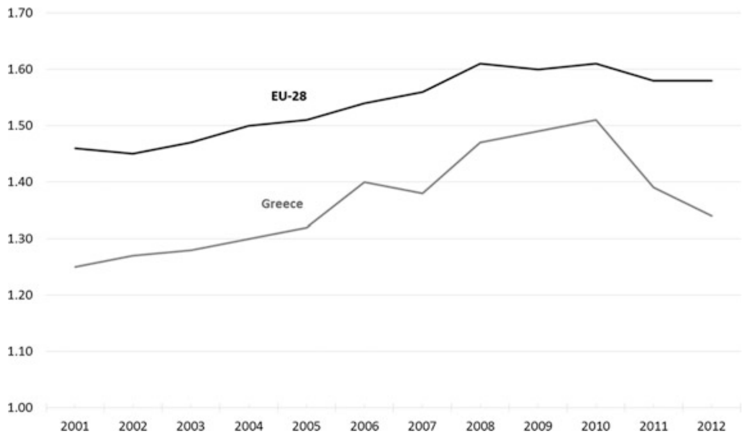

Fig. 6 Total fertility rate, Greece and EU-28, 2001–2012. *Source*: Eurostat

group 75–84. This trend is present in other EU-15 countries and can be explained by the fact that the limits for the reduction in infant mortality rates have been largely exhausted while significant gains are still realized in older age groups (Agorastakis 2009). The increased life expectancy at birth together with low fertility rate led to an increase in the old age dependency ratio[3] from 22.8 % in 1996 to 27.7 % in 2007. It is important to note that the 2007 dependency ratio in Greece is higher than the average EU-25 for the same year (Peristera 2010).

[3] This ratio estimates the number of persons above 65 years per 100 persons of productive age.

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These developments coincide with changes in family structures. Greeks tend to get married later in life, marriages are comparatively less stable and women tend to give birth when they are older. Even though divorces in Greece were the lowest in the EU in 2007, there is lately a greater tendency towards marriage dissolution. However, in general, Greece is characterized by relatively stable family structures with the lowest rates of single parent households and out of wedlock child births in the EU in 2007 (Peristera 2010).

The contribution of immigrants to net population increase is crucial. Migration inflows since 1990 have improved both fertility and mortality rates given that the vast majority (65 %) involves persons belonging to the age group 20–45 with a large part consisting of women at reproductive age (Kotzamanis and Duquenne 2012). More specifically, in 2004–2009, births by mothers of foreign origin accounted for 17.6 % of total births while foreigners' deaths accounted for only 1.7 % of total deaths. This difference indicates a significant positive net migration balance of 108,000 in contrast with a negative balance of the Greek population of 76,000 in absolute values. The main explanation is the differentiated age structure of the two populations with Greeks being older than the young population of foreign origin and the lower age of first birth for foreign women (Kotzamanis and Sofianopoulou 2008).

Despite the contribution of migrants, recent trends verify the so-called ageing society. In particular, population projections indicate an alarming increase in the population belonging to the age group above 65 years in comparison with the declining age group of 15–64 years (Fig. 7). These negative developments are also manifested in the increasing trend of old dependency ratio which after 2045 is expected to be above 60 %. These projections imply significant risks for the Greek social protection system (especially for the functions associated with pensions and health care) while opening the floor for discussions on the policies to benefit from the untapped potential of older age groups.

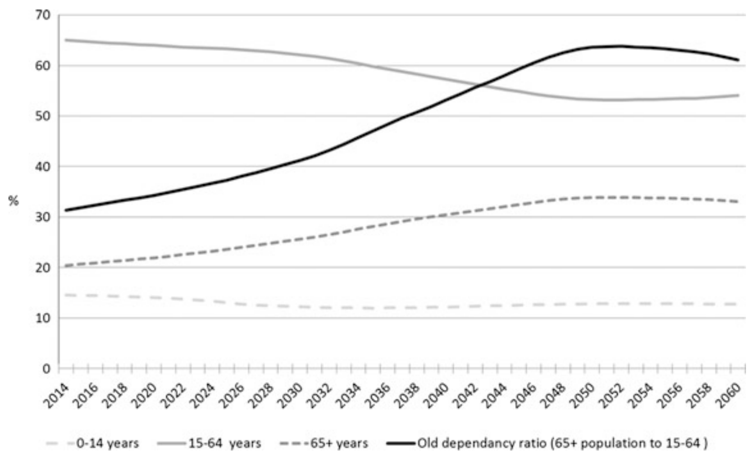

Fig. 7 Projected demographic balances and indicators, Greece, 2014–2060. *Source*: Eurostat

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3 Labour Market Policy

3.1 The Situation in the Labour Market

The Greek labour market has historically displayed certain similarities with other Southern European countries (Karamessini 2008):

- A rather significant share of employment in agriculture.
- Above EU-15 average self-employment rates.
- Below EU-15 average female employment rates.
- Below EU-15 part-time employment rates.
- Increased persistence of informal work.
- Increased exposure of young people and women to unemployment in comparison with prime-age and older men.
- A segmented labour market along with a number of divisions such as working in the public/private sector, in the formal/informal economy as well as along age/sex/ethnic origin divisions.

The situation in terms of employment is illustrated in Fig. 8. The total employment rate was below the EU-15 average throughout 1995–2008 mainly due to the lower employment rate of women. However, there is a large widening gap after 2008 clearly indicating the aggravating conditions after the crisis and the austerity measures.

In addition, Greece did not witness significant shares of part-time employment in comparison with other EU-15 countries up to 2008. This situation started to reverse following the accelerating flexibilisation of the labour market.

In terms of unemployment, Greece demonstrated a reduction of total, male and female unemployment from 2000 until 2008. Since 2008, the situation has

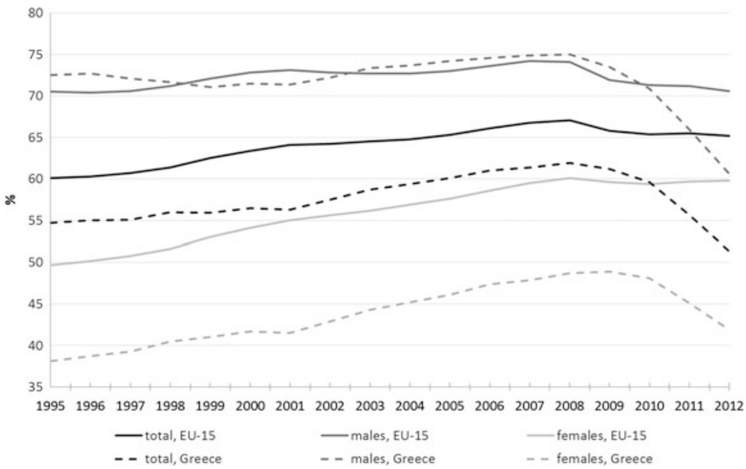

Fig. 8 Employment rates, Greece, 1995–2012. *Source*: Eurostat

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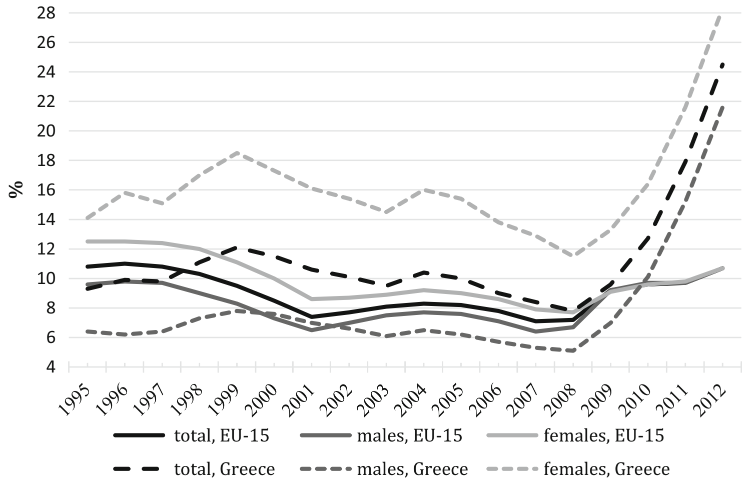

Fig. 9 Unemployment rates aged 15–64, Greece and EU-15. *Source*: Eurostat

worsened for all EU-15 countries, but the unemployment levels in Greece have sky-rocketed well above EU-15 (see Fig. 9) and EU-28 averages (Eurostat). The situation is even worse for the young (youth unemployment reached 63.2 % for females and 48.4 % for males in 2012). Even worse, there is a high share of long-term (>12 months) unemployment which is higher than the respective EU-15 and EU-28 figures, especially since 2008 (Eurostat).

3.2 Changes in Labour Market Policies

According to international organizations (i.e. OECD, European Commission, IMF), the Greek labour market has always had a number of rigidities which did not allow adjustment to productivity levels. This description can be contested both on its validity and rationale. OECD data clearly show that at least regarding strictness of regulations for individual and collective dismissals, Greece was comparable to the EU-15 average before the adoption of the structural adjustment measures. In terms of minimum wage legislation, Greece used to follow a system of collective bargaining leading to the National General Collective Agreement (NGCA) which dictated the level of the minimum wage and was ratified by law (Gavroglou 2013). According to Eurostat data, this minimum wage was not particularly lucrative even before the crisis, being below the respective one in most EU-15 countries with a statutory minimum wage.

A number of drastic reforms targeted employment protection in Greece in five respective phases (Dedoussopoulos et al. 2013):

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(a) Pre-memorandum phase with changes addressing public sector employment in the form of reduced earnings and allowances, prohibition of salary increases, reduction of overtime hours and freezing of new hiring levels.
(b) Memorandum I phase with further reduction in public sector earnings and allowances, the introduction of stage agreements for young unemployed persons with earnings lower than the unskilled worker's minimum wage, relaxation of the legal protection against collective dismissals and introduction of a new type of company-level collective agreements, which allows for less favourable remuneration and working conditions than the ones envisaged by the respective sectoral agreements.
(c) Medium-term fiscal strategy phase with changes in the wider public sector such as further suspension of new employment creation, prolongation of the right to use fixed-term contracts, reduction in seniority and remuneration systems and further flexibilization in the private sector, such as recognition of company-level workers' associations as bargaining partners.
(d) Dismantling of employment protection phase with 22 % reduction in the minimum wage for all employees and 32 % reduction of minimum wage for employees below the age of 25 years without prior consent of workers' representatives, drastic change in the after-effect principle of collective agreements, freezing of seniority increases, restriction of arbitration to issues related only to wage levels, transformation of permanent public sector employment contracts into ones with less protection against dismissal.
(e) Implementation of the Fiscal Strategy phase with the abolition of Christmas, Easter and leave allowances in the public sector, further reduction of seniority pay increases in the private sector, termination of collective bargaining for setting the minimum wage, restriction of the binding force of NGCA only to employers participating in representative organizations, reduction of notification periods for dismissal in indefinite employment contracts and expansion of flexible work schedules in the private sector.

In terms of the generosity of the social protection system against the risk of unemployment, unemployment benefits were mediocre throughout 2001–2011 with Greece offering the second lowest replacement rate after Italy among all EU-15 countries. Since the unemployment benefit is calculated on the basis of the minimum wage, the reductions in minimum wage reduced the level of the benefit.

Besides low replacement rates, the system of unemployment benefits in Greece is fragmented, leaving many sub-groups totally neglected or partially covered. In particular, the ratio of subsidized to registered unemployed at the OAED-Manpower Employment Organization[4] was 12.3 % in October 2013. Gaps in the

[4] The Manpower Employment Organization is the respective Public Employment Service in Greece.

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system of social protection against unemployment affect mainly the following sub-groups of unemployed (The Greek Ombudsman 2007; Matsaganis and Leventi 2011):

- Former employees with disrupted employment records.
- Young, new-entrants in the labour market.
- Long-term unemployed after the expiration of benefit eligibility period.
- Self- or independently employed persons who terminated their professional activity (including those in disguised dependent employment contracts).

The low levels of social protection against unemployment were not counterbalanced by extended Active Labour Market Policies (ALMP). Greece mainly introduced ALMP measures after 1980 thanks to the availability of EU funds. The urgent need to absorb these funds has led to the proliferation of ALMP measures in a rudimentary way with little evidence-based results on their presumed efficacy (Petmesidou 1996; the Greek Ombudsman 2007; Ioannidis 2013). The main innovation during the crisis period was the direct job creation programmes which were not able to reverse the tremendous increase in unemployment levels, indicated by the increased interest in participation not satisfied within the framework of the programme (Antonopoulos et al. 2015).

4 Pensions

4.1 The Pension System

Pensions have historically played a principal role in the Greek social protection system (Fig. 3). As portrayed in Fig. 10, since the mid 1990s old age and survival benefits have accounted for more than half of all social benefits in the country. This is higher than the corresponding average figures for EU-15 and EU-28, although during the same period, old age and survivors' benefits as a percentage of GDP in Greece do not differentiate from the relevant aggregate figures for total EU. This is partly explained by the fact that old-aged people have represented a higher proportion in the Greek population than in the EU (Eurostat). Pensions in Greece are mainly provided through a public (first pillar) pay-as-you-go system that grants primary and auxiliary pensions. So far, voluntary occupational and private pension schemes are very limited despite the fact that in 2002 a second pillar that constitutes occupational pensions was introduced (Petmesidou 2013a).

The pension system in Greece is deeply fragmented and highly polarized. Huge inequalities exist in the replacement rates, the level of benefits, the reference earning, the statutory and actual retirement age and the contributory framework (Matsaganis 2011; Papatheodorou 2009). More than 170 social insurance funds existed in 2008, covering different occupational groups, and more than 60 provided basic and supplementary pension schemes (Ministry of Employment and Social Protection 2008). However, four major insurance funds were covering the vast

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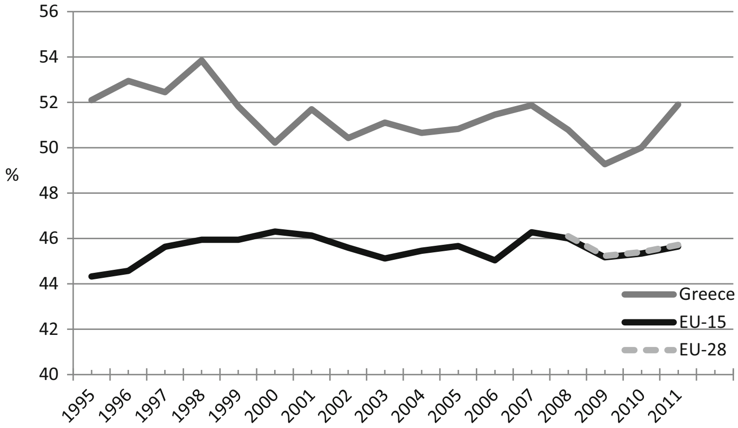

Fig. 10 Old age and survivors benefits as a percentage of total social benefits, Greece, EU-15 and EU-28. *Source*: Eurostat

majority of pensioners at the time: IKA (private sector workers), OGA (farmers), OAEE (self-employed workers) and the fund for civil servants. There were also insurance funds covering those working in the banking sector and liberal professionals including doctors, lawyers and engineers. The latter were considered among the most privileged insurance funds.

The above funds were mainly contributory, financed by contributions paid by employers, employees, and the state. OGA provided non-contributory but quite low benefits through a flat rate and non-income-tested monthly pensions to farmers aged over 65. However, since 1997 OGA has become a contributory social insurance fund. Non-contributory and equal to farmer's basic pension, but means-tested, was also the social pension for non-insured aged people. In the mid 1990s, the Social Solidarity Benefit (EKAS) was introduced, as a non-contributory but means-tested supplement for old-aged on low pensions.

An attempt to harmonize the imbalances of the system concerning contribution and retirement age and to improve administrative efficiency was made with the mini-reform of 2008. Among others, this reform has significantly reduced the number of the insurance funds to 13. However, due to strong opposition, it was not fully implemented, and differences in the regulation and the characteristics concerning the schemes of the various occupational groups have more or less remained the same within the new merged funds.

Restrictions concerning the financial management of pension funds were imposed until the mid 1990s.These did not allow them to administer their reserves in a profitable manner, contributing to the enlargement of their deficits (Petmesidou 2000). Restrictions have been relaxed since 1994, allowing funds to manage their reserves more profitably.

The above deficiencies along with the rapid population ageing have raised serious concerns about the financial sustainability of the system and a strong debate

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among involved stakeholders. Due to population ageing, pension expenditure is projected to rise from 13 % of GDP in 2011 to 24 % in 2050, putting the system under severe stress (OECD 2013).

4.2 Policy Changes in the Pension System

The austerity measures imposed by the first Memorandum in 2010 prioritized the reform of the pension system. The new legislation has significantly changed the structure of the whole system since it has caused a shift from a mainly first pillar to a multi-tier pension system (Petmesidou 2013a). It consists of a non-contributory basic pension and of a contributory one which could be accompanied by other occupational and private insurance schemes. The basic pension is set at 360 euros. Entitled to this—fulfilling certain criteria—are also uninsured old-aged persons or those with less than 15 years contribution records. By 2015 public finance will cover only the basic pension and no public support will be allowed to contributory and auxiliary schemes. The retirement age has been increased to 67 years from 65 and to 62 from 60 for those with 40 years of work or more. Also, since 2011 the amount of pension is calculated by taking into consideration the total income received during the whole working life instead of the last 5 years.

The 13 major social insurance funds from the 2008 reform were merged into the following 4 funds:

- IKA: Private sector workers and the new (since 2011) employees in the public sector.
- OAEE: Self-employed except liberal professionals (e.g. doctors, lawyers and engineers).
- OGA: Farmers.
- ETAA: Liberal professionals (e.g. doctors, lawyers and engineers).

A new single auxiliary pension fund (ETEA) has also been introduced though a large number of auxiliary funds still operate.

Since 2010, significant cuts in pension income have taken place affecting the living standards of the old-aged. For instance, the basic pensions were initially reduced by 20 % for monthly amounts over 1200 euros, followed by further drastic reductions in 2012 for incomes above 1000 euros. A special levy was initiated (up to 14 % of basic pension) for intergenerational solidarity that further reduced pension income. Christmas, Easter and summer bonuses for pensioners were first reduced and then abolished in 2012. Auxiliary funds also faced significant cuts.

The effectiveness of the recent pension reform can be seriously questioned. It is evident that there is a dramatic decrease in people's income, affecting poverty and deprivation of the elderly. Furthermore, the basic pension of 360 euros, which could further decrease if necessary, is set at a level well below the corresponding poverty line for a single adult in 2011. What about the primary goal of these measures, that is to maintain the viability of the pension system? The huge increase in

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unemployment rates since the implementation of austerity measures has had serious consequences on the financial sustainability of the system through the reduction of paid social contributions. In addition, in order to reduce the labour cost and increase competitiveness, employers' (but also employees') contributions were reduced with a negative impact on the resources of pension funds. Also, due to income shortages, a large number of self-employed are unable to pay contributions, with a significant effect on the deficit of their insurance fund (OAEE). Moreover, the 50 % cut of the insurance fund's bonds in 2012 contributed further to the increase of their deficit. No room for optimism is left concerning the consequences of the pension reforms initiated during the austerity measures period for either their distributional impact or their financial sustainability.

5 Health Care

5.1 The Situation in the Health Care Sector

The National Health Service (NHS) was established in 1983. The main intention was the universal health coverage of the Greek population through extensive public provision of health services and the limitation of private sector health expenditure. In terms of financing, a mixed system was introduced based both on social insurance contributions (Bismarck type) and general government expenditure (Beveridge type). Public health expenditure rose in 2000–2011 (except for 2004) as indicated in Fig. 11.

The Greek health system has historically manifested a number of shortcomings on both the supply and demand side. On the supply side, we observe: underinvestment in public infrastructure (Siskou et al. 2008), a skewed manpower in public hospitals leading to a lack of nursing staff, centralization and hospital-centred provision to the detriment of primary health care and significant regional

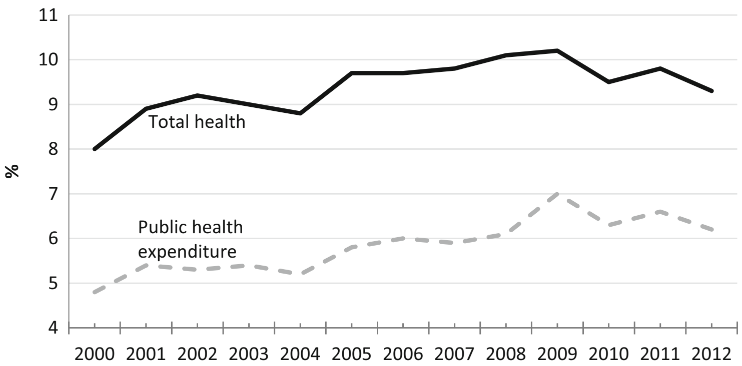

Fig. 11 Health expenditures in Greece 2000–2011, as percentage of GDP. *Source*: OECD data on health expenditure

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inequalities (in favour of large urban centres). In addition, early efforts to contain private sector involvement were not carefully designed nor consistently pursued. For example, when hospital treatment costs were held low in order to deter private sector invasion, the latter moved to other profitable areas which were unregulated (mostly diagnostic centres, Mossialos et al. 2005).

On the demand side, the various social security funds created serious imbalances in access to health (Mossialos et al. 2005). Retrenched interests of privileged professional associations did not allow for the unification of health insurance funds into one body with significant purchasing power. Fragmentation was also apparent especially in primary health care with the uncoordinated involvement of private and public providers and the lack of integrated referral and gate-keeping systems (Economou 2010).

In addition, the containment of public hospital care fees in conjunction with the inability to exert financial control on public procurement and operating costs led to augmenting deficits being systematically covered by general government subsidies. When these fees were increased, the deficits started to gather on the side of the social security funds, while the amounts paid to private diagnostic centres on behalf of their insured members also mounted.

As a result, the share of private to total health expenditure remained high. Private expenditure refers mostly to out-of-pocket-payments as private health insurance accounted to less than 3 % in 2008–2011. These out-of-pocket-payments include formal cost-sharing arrangements, direct payments and informal payments with the latter two being the highest in the EU.

Greece chronically suffered from increased pharmaceutical expenditure compared with other EU countries (Mossialos et al. 2005). Reasons are the uncoordinated involvement of various ministries in pharmaceutical policy, the underdeveloped primary health care system restricted mostly to drug prescription and referrals (Dimoulas 2011), doctor discretion in prescribing more expensive products, the highest per capita demand for drugs in OECD countries, and the large share of imports to domestic production (Economou 2010).

Deterioration in the overall health of the population has been observed in Greece, the hardest hit country by the economic crisis. In particular, scholars indicate an expected decrease of life-expectancy at birth of 3 years during this decade, an increasing number of unvaccinated children (Petmesidou et al. 2014), decreased self-perceived health (Zavras et al. 2012), deterioration of mental health (Ifanti et al. 2013), significant increase in the number of people reporting lack of access to health care while in need, increased number of HIV infections among drug-users possibly attributed to downsized treatment programmes, increased prostitution and associated unsafe sex (Kentikelenis et al. 2011; Ifanti et al. 2013).

An increased suicide rate has been observed in Greece from 2009 to 2011 (i.e. 40 % increase from 2010 to 2011) (Kentikelenis et al. 2011). However, the exact causality between the economic crisis and suicides is empirically contested given the short time lag and the lack of available data (Fountoulakis et al. 2012).

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5.2 Policy Changes in the Health Care Sector

Despite increasing health risks directly or indirectly linked to the crisis, the austerity orthodoxy did not leave health care unaffected. The Greek government opted mostly for immediate cuts in public health expenditure (Kentikelenis et al. 2014), which amounted to an average annual contraction of 11.8 % for 2009–2012 (Petmesidou et al. 2014). The decrease of public health expenditure was not offset by an increase in private expenditure. In particular, out-of-pocket per capital expenditure was significantly reduced while private health expenditure was halved among households in the bottom and middle of the income distribution from 2008 to 2012 (Petmesidou et al. 2014).

It is important to highlight some of the implemented reforms. Policy changes targeted the reorganization of the public health system. The four largest social security organizations have been merged into the National Organization for Provision of Health Care Services (EOPYY in Greek). Latest legislation (February 2014) dictates the separation of purchasing function (remaining within the jurisdiction of EOPYY) and primary health care provision assigned to the newly-formed National Primary Healthcare Network (PEDY). However, this re-organization led to the retrenchment of former EOPYY health centres without an equivalent coverage by PEDY, since only half of former EOPYY practitioners signed full-time contracts with the newly-formed organization (Petmesidou et al. 2014). In addition, a monthly data collection system was established for the monitoring of public hospitals' activity and expenditure and a Diagnosis Related Group (DRG) payment system replaced the pre-existing per day payment system (Polyzos et al. 2013).

Despite the official modernization rhetoric, the budget of public hospitals witnessed a 40 % reduction in a context of a reported 30 % increase in admissions as more people turn to public health care when incomes shrink (Ifanti et al. 2013). The public health system is left to operate with fewer health workers whose salary has been decreased by 40 % (Simou and Koutsogeorgou 2014). Several health care units have been closed down while surgeons express concerns about the lack of surgical equipment and supplies and the overall decrease of updated surgical practice because of budget cuts (Karidis et al. 2011). Drug prevention and treatment programmes have also been reduced with a documented loss of one third of street work programmes (Simou and Koutsogeorgou 2014). Cuts were also observed in health-related and disability benefits in parallel with the application of stricter eligibility rules and long waiting times for their approval.

On the revenue side, user fees for visits to outpatient clinics were introduced in 2010 and raised in 2011 (Karanikolos et al. 2013), co-payments were introduced for clinical tests and an additional charge was imposed for treatment in private clinics (Petmesidou et al. 2014). The Ministry of Health has also enforced a ceiling for visits per month to doctors contracted by EOPYY which if surpassed entails an additional charge claimable by the patient.

Regarding the level of pharmaceutical expenditure, a Health Procurement Committee—EPY has been established to supervise public procurement. Even though the unified negotiation with pharmaceutical companies yielded price reductions for

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many generic drugs, drug shortages in pharmacies were also documented as wholesalers moved to more profitable markets while social security funds kept delaying reimbursement to pharmacies.

These developments, together with the escalating unemployment rates leaving approximately 2.5 million Greeks without health insurance according to EOPYY (Petmesidou et al. 2014) urged the development of street clinics and social medical centres addressing the primary health needs of the excluded population.

6 Housing

6.1 The Situation in the Housing Sector

Greece has historically displayed an underdeveloped social housing policy (Kemeny and Lowe 1998; Gibb 2002; Priemus and Dieleman 2002; Elsinga and Hoekstra 2005). The housing needs were largely covered through extensive homeownership with comparatively limited reliance on private rental market and a virtually non-existent social housing sector. Indicatively, the situation in terms of population distribution by tenure status in 1995–2012 and for the years for which data are available is shown in Fig. 12.

Another interesting feature is the relative mortgage-free home-ownership thanks to extended family savings, inter-generational property transfers, self-construction and loose controls on dwellings construction (Symeonidou 1996; Allen 2006). Indicatively in 2007, 11.8 % of the population were homeowners with a mortgage or loan in comparison to 32.3 % of EU-15. In the opposite direction, tenants

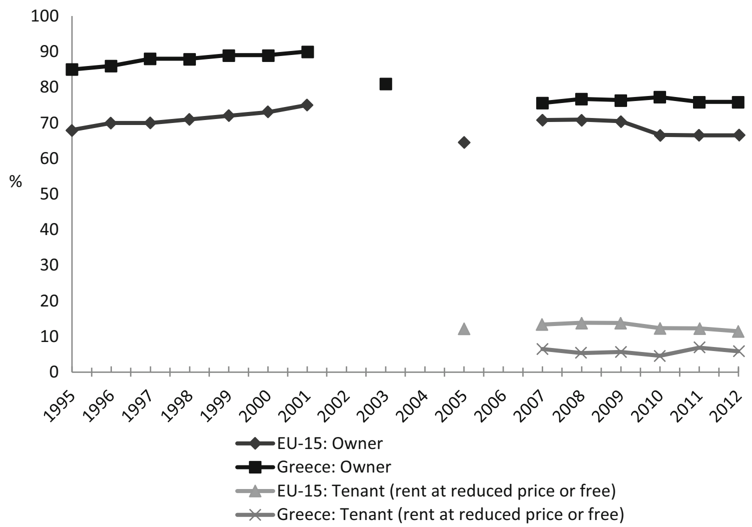

Fig. 12 Population by tenure status, Greece, 1995–2012. *Source*: Eurostat

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benefiting from reduced rent rate or free accommodation accounted for 5.8 % in comparison to 12.9 % of the EU-15 in 2007–2012. The lack of social protection in general and social housing in particular, transformed family homeownership into a safety net for low and middle-income groups. However, this situation started to change in the late 1990s given the increasing marketization of the housing sector and growing dependence on the banking sector.

Public intervention was mostly indirect through tax exemptions for primary housing purchase and parental transfer, mortgage interest tax relief, loose controls of land use and of urban planning. According to Matsaganis and Flevotomou (2007), mortgage interest tax reliefs are regressive in Greece and favour mostly middle and higher income strata. The main organization responsible for housing policy was the Workers' Housing Association (OEK in Greek) funded by social insurance contributions and benefiting private sector workers. Its main areas of intervention included initially the construction of social housing to be sold at below market prices and later the subsidization of loans and rents. Interest subsidies were also provided to other eligible beneficiaries only for the purchase of primary residence. Other state interventions included emergency housing measures in the cases of victims of natural disasters and vulnerable social groups. The issue of homelessness has not been high on the political agenda with most interventions stemming from the Church, and the non-profit sector given the availability of EU funds (Arapoglou 2004).

In Greece, the crisis was not triggered by a bubble in the real estate sector as was the case in Spain, but its impact was severe on the housing sector. The crisis was immediately felt in the construction sector leading to an impasse in building activity and real estate transactions. Newly constructed housing property was left unsold given the shrinking of incomes and the withdrawal of the banking sector from loan activities. Rental prices were also reduced. According to EU-SILC data, there is an upward trend in households facing housing cost overburden and living in overcrowded housing while a significant share of the population below the poverty threshold finds it difficult to pay bills on time such as rent, electricity, water etc. This situation is also manifested in the dramatic increase in over indebtedness and non-performing loans, and in the number of evictions due to belated rent payments (Siatitsa, forthcoming).

Taken together, these factors have led to a significant increase in the number of homeless. Note that the latest data produced in 2009 by the Ministry of Labour, Social Security and Welfare underestimated the phenomenon to around 20,000, given the exclusion of many particularly vulnerable social groups such as undocumented immigrants (Siatitsa, forthcoming).

6.2 Changes in Housing Policy

Despite the severity of the crisis, a number of austerity measures targeted the ability of the low and middle-income households to afford decent housing. The focus on immediate public revenue increase entailed a series of horizontal taxes with most

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prominent the emergency tax on surfaces connected to electricity. This tax is based on pre-crisis nominal values which are now above real market values. Until recently, collection through the electricity bill raised legitimate objections since inability to pay resulted in electricity disconnections in some cases. In 2013, a new flat tax was introduced for income from rent affecting disproportionately small housing property holders.

Another hot debate regarded the treatment of private debt of indebted households and the suspension of auctions. Until now, the legal framework for the protection of first residence in case of private debt envisages the fulfilment of cumulative conditions which leave many households endangered.

7 Family and Children

7.1 Family and Children Support

Despite the fact that the Greek social protection system is strongly familialistic, it is not characterized by coherent family and child policies (Symeonidou 1996). The state plays a subsidiary role since it does not support families in their caring functions towards children, let alone de-familialise these caring functions (Leitner 2003). In particular, social protection benefits (both in cash and in kind) are below EU-15 average as a percentage of GDP.

In general, cash transfers are more prevalent than both benefits in kind and tax reliefs. Child benefits used to mainly address large families and family allowances core workers; the majority of families with children receive no public assistance including those below poverty thresholds (Matsaganis 2012). Occupational family allowances further enforce differentiation between core public sector employees and private sector workers with the latter benefiting the less. Thus family transfers in Greece are regressive even in comparison with other Southern European countries.

As far as early childhood care services are concerned, since 1996 the responsibility has been transferred from central to local governments. Early childhood care involves only day care centres to the exclusion of other group-organized services existing in other European countries. However, the demand for these services far exceeds supply since in 2006 0–3 year olds receiving formal care services represented 10 % in comparison with 26 % for the EU (Peristera 2010). In addition, the few existing studies on the quality of publicly provided services reflect a lower teacher-child ratio and a minimal focus on the educational component of child-minding activities (Petrogiannis 2010).

Reconciliation of work and family is mainly restricted to the public sector where maternal leave and early retirement for mothers with underage children were enforced in contrast with small private sector firms (Lyberaki 2010). Women are entitled to paid maternity leave before and/or after birth, but the duration is much smaller in the private than in the public sector. Only for companies with 50 employees or more, is a parental leave instituted, but the take-up rate is small

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due to lack of financial motives and legal enforcement (Kyriazis 1999). Parents have traditionally resorted to their relatives or informal employment for child bearing services, as insufficient public day care centres did not cover operating schedules in the private labour market (Kyriazis 1999).

Given the austerity measures, women are forced to seek employment in order to sustain shrinking family income. The increasing flexibilization of work-time arrangements, especially in the commercial retail sector where women are most commonly found, raises the toll mostly on women's ability to reconcile work and family obligations.

7.2 Changes in Family and Child Policies

Family and child support is undermined by the reduction of municipal budgets responsible for the operation of early childhood day centres. Responses to lack of funding involve greater dependence on discontinuous EU funds. Latest developments involve the outsourcing of early childhood care services to newly-formed social cooperative enterprises, with objections raised on the legality of this commissioning, and their ability to respect decent working conditions.

In terms of maternal leave, new positive changes involve an additional paid leave period of 6 months in the public sector in the case of twin births or more for each additional child, while the right to paid parental leave is extended to fathers for the remaining period not exercised by their spouses. Unpaid parental leave is also extended to fathers in the private sector. With regard to child allowances, a number of changes have taken place such as the virtual abolition of allowances granted for marital status and children in the private sector,[5] the introduction of a means-tested monthly 40 € child benefit for all families with children, and a special means-tested lump-sum 500 € benefit for more than three children replacing former benefits and mother pensions for families with more than three children. Even though these changes expand allowances to all families with children, the level of means-tested benefits is quite low to effect significant distributional impacts.

8 Long-Term Care

8.1 Long-Term Care Services

Long-term care services are limited and insufficient in Greece, lacking comprehensive services and universal coverage. Lack of appropriate data concerning population needs for long-term care has hindered identifying the country's requirements

[5] More specifically, the discretion of the employer in granting marital status and child allowances is enlarged given that collective agreements granting these allowances have to be in place and binding for the particular employer. Otherwise, the allowances are not considered binding.

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and assessing the provided services. The vast majority of those in need due to age, chronic illness or disability are provided care either informally within the family or by private institutions (Petmesidou 2013a).

Disability pensions and benefits are provided by social insurance funds. In addition, there are non-contributory benefits to the disabled or chronically ill by social welfare institutions. Provisions vary according to the type of invalidity or chronic illness. Elderly chronically ill-entitled insurance are provided with long term care by public nursing homes that are financed by the state and by social insurance organizations. Additionally, a number of beds are provided by public hospitals, mainly psychiatric. However, up to the 80 % of the pension income of the chronically ill is withheld by social insurance organizations in order to fund the relevant nursing expenses. Long-term care to the elderly ill is also provided by private institutions such as clinics contracted with EOPYY. In addition, there are approximately 100 non-profit residential elderly care homes, most of which are operated by the Greek Church. Also, there are privately operated for-profit elderly residential homes. Non-profit and profit institutions for elderly care are subsidized by the state, by social insurance organizations for the eligible cases, as well as from donations.

Care services to the elderly are also provided by the "Home Help" programme and the Day Care Centres (KIFI) operated mainly by municipalities. Both developed in the mid-late 1990s due to availability of EU funds (Bettio and Vershchagina 2010). These services aim to promote the independent living of elderly in need.

The low levels of formal long-term care are historically compensated by high involvement of families and kin networks. This care has traditionally been provided by women greatly affecting among other their participation in the labour market. Due to a massive migration inflow since the early 1990s, a large part of the family's share to long-term care has been shifted to migrant workers, particularly women (Petmesidou 2013a; Bettio and Vershchagina 2010).

8.2 Recent Trends in Long-Term Care

Economic crisis and austerity measures have further weakened the already feeble long-term care provisions. Taking into consideration the shortage of adequate public institutions, cuts in pensions and benefits have placed the low-income population under severe stress. Also, since 2010 social care responsibilities were shifted to local authorities who were unable to undertake these responsibilities due to lack of resources. Large projects of long-term care, such as "Home Help" (particular to the elderly) and Day Care Centres supported by EU funding, were suspended for a period of time due to lack of resources. Strict means-tested and other eligibility criteria were introduced in order for the "Home Help" programme to operate. A quasi market system has been introduced that allows providers (for- and not-for-profit) to compete in undertaking the relevant provisions. However, this regulation has faced strong opposition from mainly the local authorities and the social workers' association leading to the postponement of its full implementation

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(Petmesidou 2013b). Strict eligibility criteria have also been applied for most of the relevant provisions. Thus, a larger number of those in need are excluded and increasingly rely on families or private institutions for care provision.

Additionally, the economic crisis has significantly reduced families' income and ability to provide long-term care in order to effectively substitute inadequate public services. Taking into consideration that the proportion of aged population in Greece is larger than the average figure for total EU-28, and that this proportion is going to rapidly increase in the following years, it is likely that long-term care of those in need will further worsen.

9 Poverty and Deprivation

9.1 The Pre-crisis Portrait of Poverty in Greece

Poverty, deprivation and, generally, social inequality are key figures in assessing a country's welfare system. Early comparable estimates since the mid 1980s have shown that the Greek population faces a particularly high poverty risk and income inequality compared to other EU countries (see Deleeck et al. 1991; Papatheodorou and Petmesidou 2004, 2005).

In the present discussion, the adopted definition of relative poverty is the one proposed by Eurostat.[6] According to this definition, the poverty threshold is set at the 60 % of each country's median equivalized disposable income. The disposable income refers to the total household income after the deduction of income taxes and social security contributions. Also, in order to make individuals living in households of different size and composition comparable, the modified OECD equivalence scale is used.

As illustrated in Fig. 13, since the mid 1990s, Greece has shown considerably higher poverty rates compared to the corresponding average figures for EU-15 and EU-27. In this period and before the outbreak of the economic crisis, poverty rates in Greece were at 20–22 %, with small fluctuations over time. The corresponding average figures for EU-15 and EU-27 were significantly lower at 15–17 %. Even more, as shown in Papatheodorou (2014), the average poverty rate in Greece in the period 1994–2011 (referring to 1995–2012 surveys) was 20.7 % which is the highest among all EU-15 countries. These estimates are based on poverty thresholds defined at a national level; each country uses its own poverty line in estimating the poverty risk. It is known that EU countries vary considerably concerning income levels and their distribution. Based on estimates using the same poverty threshold for all EU countries and adjusting for differences in

[6] This poverty index was not chosen because of superiority against a plethora of others, but because: (a) it can be easily estimated with available data and (b) it is broadly used by relevant studies improving comparability of results. The index has been strongly criticised as arbitrary and lacking theoretical foundation (Papatheodorou 2008; Papatheodorou and Dafermos 2010).

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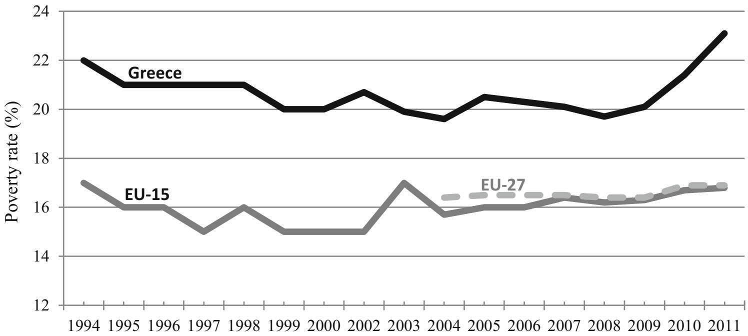

Fig. 13 Poverty rates (%) in Greece and the EU, 1994–2011. *Source*: Eurostat

purchasing power, the magnitude of country differences concerning the standard of living and poverty risks appears considerably higher (Papatheodorou 2014; Papatheodorou and Dafermos 2010). Thus, 38.5 % of the population in Greece in 2009 had a similar low level of living to the poorest 13.3 % of the Danish or the respective 10.5 % of the Dutch population (Papatheodorou 2014). Concerning the employment status, the highest poverty risks are faced by the employees and the self-employed in the agricultural sector, the unemployed and the part-time employees.

High poverty rates in Greece are mainly attributed to the weak distributional impact of the social protection system. As empirical studies have shown, even before 2010, the year when the economic crisis and austerity measures had a profound effect on people's income, differences in relative poverty rates between EU countries were largely attributed to the impact of social transfers in cash (see Papatheodorou 2014; Dafermos and Papatheodorou 2012, 2013; Eurostat 2010). For income before social transfers, poverty rates in Greece were not among the highest in the EU-15. Even more, for incomes after pensions but before the other social transfers (i.e. various social benefits in cash) poverty rates were among the lowest in the EU. It is the feeble distributional impact of other social transfers (except pensions) that is responsible for the country's high poverty risk. Indeed, in 1994–2009 (1995–2010 surveys) other social transfers except pensions had the weakest distributional impact on reducing poverty among all EU-15 countries.

This weak distributional impact of social transfers also serves as an explanation to what Dafermos and Papatheodorou (2011) call "the paradox of social policy in Greece"; the increase of social protection expenditures since the early 1990s has not reduced the poverty risk. This increase in social protection expenditure is mainly attributed to pensions. Thus in 2008 the share of the other social transfers to total social expenditures has become even smaller. The other explanation of this "paradox" is the inefficiency of a deeply fragmented social protection system in utilizing available resources towards distributional goals. Despite the increase of social expenditures (as per cent of GDP) in this pre crisis period, resources had remained significantly lower than the corresponding average figures for EU-15 and EU-28.

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Poverty alleviation is therefore one of the weakest parts of the Greek social protection system.

9.2 The Impact of Economic Crisis and Austerity Measures on Poverty and Deprivation

In assessing the impact of the economic crisis and austerity measures on poverty and deprivation, restrictions are imposed by the existing data. The most recent data available by Eurostat and the Hellenic Statistical Authority are those collected by 2012 surveys referring to 2011 incomes. We should bear in mind that the impact of the economic crisis on employment and on people's income has become more severe since 2010. In that year, austerity measures were implemented in the framework of the Memorandum.

As portrayed in Fig. 14, economic crisis and austerity policies have a catastrophic impact on peoples' income and on poverty. Poverty risk has climbed to 23.1 % in 2011 from 19.7 % in 2008. In just 1 year (2010–2011), when the austerity measures were introduced, relative poverty risk increased by 2 percentage units. Since this poverty index is affected by changes in the middle of the income distribution, it is not the most appropriate for capturing the magnitude of the impact on people's standard of living. Thus, this increase in poverty rates between 2010 and 2011 has taken place even though the poverty threshold was significantly reduced from 549 € in 2010 to 476 € in 2011 (Papatheodorou 2014). The deterioration of poverty is portrayed more clearly when estimates based on a poverty threshold anchored at a fixed moment in time are used. Thus, the estimates of poverty risk based on the 2007 threshold show that poverty rates increased from 18.9 % in 2008 to 35.8 % in 2011. More than a third of the Greek population was below the poverty line in 2011 according to the 2007 poverty threshold. In just 1 year (2010–2011), those in poverty increased by 11 percentage units. Also, a

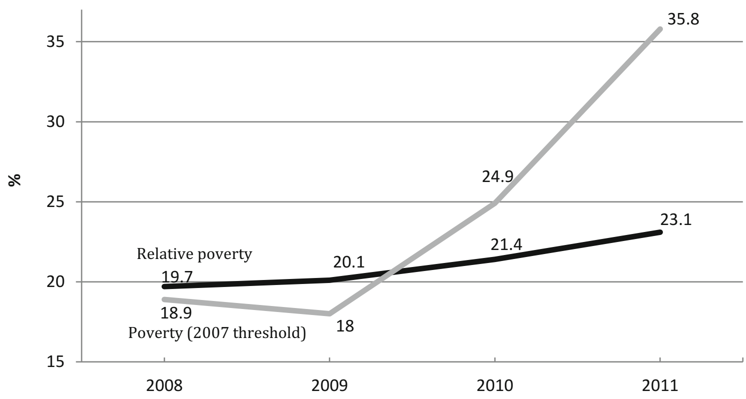

Fig. 14 Poverty rates in Greece, 2008–2011 (2009–2012 surveys). *Source*: www.ineobservatory.gr (based on Eurostat's data)

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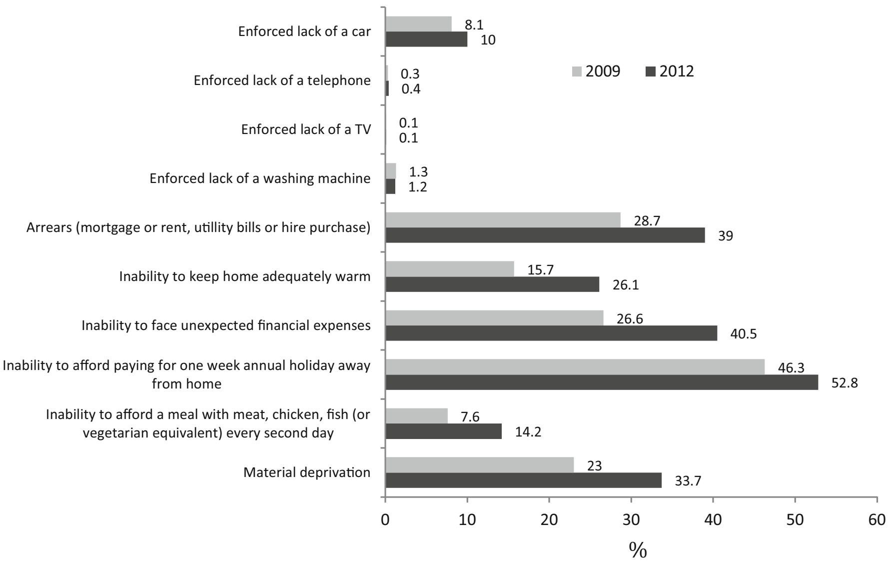

Fig. 15 Material deprivation in Greece, 2009–2012. *Source*: Papatheodorou (2014) (based on Eurostat estimates)

noticeable increase in income inequality took place between 2010 and 2011, indicating the unequal distribution of the crisis and austerity measures burden affecting mostly low and middle income strata (Papatheodorou 2014).

Another index of interest is the material deprivation. Materially deprived are those who cannot afford at least three of the nine items and expenses presented in Fig. 15. In 2012, the materially deprived increased to 33.7 % of the population from 23 % in 2009. One week's holiday away from home ceased to be affordable for the majority, while two out of five people have difficulties in dealing with unexpected financial expenses in paying mortgages, rent payments, utility bills and so on. The number of those unable to keep their home adequately warm has also largely increased.

It is evident that the rapid rise of unemployment rates since 2009 has had a devastating effect on people's income and thus on poverty and deprivation. However, the impact of the economic crisis on peoples' income is not limited to that of unemployment. Even before the crisis, the working poor in Greece constituted a serious issue with the largest part of the poor population living in a household headed by an employed person (Dafermos and Papatheodorou 2012; Ioannidis et al. 2012).[7] The austerity policies proved to be more devastating. Promoting fiscal

[7] Thus in 2008, before the impact of the economic crisis, almost six out of ten poor in Greece were living in households headed by an employed person (Papatheodorou and Dafermos 2010).

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discipline, reduction of public spending and labour market deregulation has further increased poverty and deprivation. The raise of in-work poverty from 11.9 % in 2010 to 15.1 % in 2011 is mainly attributed to austerity measures such as the deregulation of the labour market, the abandonment of collective bargains, the reduction of minimum wages and salaries, the increase in part-time contracts, and of labour flexibility. Cuts in social expenditure have further weakened the already feeble distributional role of the social protection system. Since 2011, the economic crisis and the austerity measures have had an even more devastating effect on people's income.

10 Concluding Remarks

The historical inefficiency of the Greek social protection system in addressing the social reproduction needs of its constituents has not improved in the face of the risks posed by negative demographic changes and the severity of the economic crisis. The neo-liberal management of the economic crisis condensed the historic time, shrinking the potential to exploit this momentum for drastic reforms in the direction of distributional equity and effectiveness. Most reforms implemented are guided by a focus on spending cuts and revenue increases without a theoretically or empirically grounded vision for a new and efficient social protection system.

In this framework, the dismantling of employment protection with the drastic decline of minimum wage and labour market flexibilization aggravated unemployment levels subtracting valuable resources from already debt-burdened social security funds. Instead of reducing pre-existing gaps between the public and private sector by upgrading working conditions in the latter, these reforms have enforced equalization to the bottom. The reduction of social security contributions further threatens the financial viability of social security funds while drastic cuts in pension levels increase the vulnerability of the elderly in addressing basic needs. Taking into account that pensions comprise the vast majority of social protection expenditure and that families are the only existing safety net, it follows that these changes indicate negative consequences for social cohesion.

Moreover, labour market and pension reforms were not counterbalanced by positive developments in other social protection fields. Public health care follows the same deteriorating standards given budget cuts, increased demand for services and an expanding part of the population left uninsured. The situation in the housing sector is worsening as owner-occupation and income from rents are threatened with the introduction of flat rate taxes. Former decentralization of family and child social services does not imply greater response to local needs given the drastic decrease of available municipal budgets. The inadequate family transfers do not suffice to motivate marriage and birth decisions or to reverse the trend towards an ageing society. Other rudimentary social protection fields such as long-term care remain unaltered despite growing evidence of families' inability to care for their vulnerable members.

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All these developments increased poverty and deprivation while the availability of data does not allow the effects of the economic crisis and the austerity measures to be fully grasped. Given the lack of recent surveys on the legitimacy of the Greek welfare state, we can only conclude with crude hypotheses. Unfortunately, we expect that the mentioned reforms will further undermine people's perceptions and consensus building along solidarity lines for the development of a genuine welfare state in Greece.

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Crisis and Croatian Welfare State: A New Opportunity for Welfare State Retrenchment?

Ivana Dobrotić

1 Introduction

The welfare states are systematically confronted with new challenges, which call for the restructuring and adjustment of existing social systems.[1] The character of reforms across Europe and different policy areas have been rather complex (Ferrera 2007), depending on various interactions of historical, socio-economic, political and cultural factors. External shocks such as recent economic and financial crisis may put new pressures on existing social systems and additionally question the sustainability of the welfare state, providing policy-makers with the legitimacy for the diminished role of the state. However, initial comparative works on the effects of the crisis on the welfare state (e.g. Greve 2011; Starke et al. 2011) indicated that crisis-related reforms were not unidirectional and they ranged from retrenchment through non-response to welfare state expansion, depending on the size and the character of particular welfare state. First insights into the earliest crisis-related reforms in Croatia showed that most of them were of a fiscal and economic character, and there were only few sporadic, short-term measures aimed at social systems (see Franičević 2011; Franičević and Matković 2012). They were not all necessarily connected with the crisis, but notably with the long-term problems of Croatian welfare state related to the transition, changing socio-demographic and socio-economic trends, and "side-effects" of previous reforms (see e.g. Puljiz 2012).

Croatian welfare state best fits the definition of hybrid welfare regime, comprising attributes of the continental model of social insurance, the communist legacy

[1] I would like to thank Vlado Puljiz for valuable comments on this paper.

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and recent processes of privatization, individualization and clientelism.[2] Namely, the earliest schemes of Bismarckian provenance and limited scope gradually extended to different social risks and categories of workers in the socialist period, when also some universal rights were introduced (e.g. in education, healthcare), a social infrastructure was built (e.g. establishment of centres for social work, employment offices) and for that time progressive and rather liberal reproductive rights and family policy instruments were developed (Puljiz 2008a). This legacy served as an important basis for the development of the welfare state in a post-socialist period marked by frequent and non-consistent reforms guided by a complex range of processes related to economic, political and social transformation, and other factors specific for Croatia such as 1991–1995 war circumstances, national and state building processes and late Europeanization (Stubbs and Zrinščak 2007, 2011). Faced with a wide range of social problems and limited state capacity to address them, the social policy sphere became highly divided by particular interests where some social groups were able to mobilize and influence the public agenda and redistribution of social resources (e.g. war veterans, pensioners), while the problems of others (e.g. unemployed, citizens at risk of poverty) hardly entered the political agenda and remained mostly neglected. Moreover, the high politicization of social issues, uncoordinated and "ill-advised" reforms brought a parallelism of welfare actors and programs at the central and the local level, including regional differences in social rights which do not necessarily fit their particularities (Puljiz 2008a; Stubbs and Zrinščak 2011).

The fact that many problems were not addressed adequately in the pre-crisis period, may put additional pressure on the welfare state. As Andersen (2012) stated, the reforms to cope with changing socio-demographic trends and consolidation of public finances, were not sufficient in European countries in the pre-crisis period and the crisis only aggravated these trends and put them on the public agenda. Indeed, with the crisis some of the difficulties Croatia was already facing will become more visible, such as sustainability of the pension and the health-care system. Still, the question remains whether the crisis brought them on the political agenda and what was the reaction of the policy-makers.

This chapter is therefore going to identify the main challenges of the Croatian welfare state related to changing socio-demographic trends, low employment and activity rates, high poverty rates and scarce public resources, as well as the reforms aimed at addressing them in the crisis period. Many reforms in the last decade, especially in the main social security systems, aimed at social expenditure rationalisation and decreased state responsibility (Puljiz 2008a, b). It can be expected that with the severity of the crisis and increased problems with the public budget a new window of opportunity opened up for policy-makers to continue along this path in the crisis years. Nevertheless, the question remains whether the policy reforms were of the same character in all the policy areas or whether it is possible to identify a reorientation of traditional "risks policies", and consequently

[2] See more on clientelism in Stubbs and Zrinščak (2011).

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a paradigmatic shift in some policy areas i.e. a reorientation of policy answers towards new ideas such as those promoted by the social investment approach (see e.g. Morel et al. 2012).

To address these questions the chapter starts with a short overview of recent socio-demographic trends and the challenges they put at the forefront of the Croatian welfare state. Thereafter, the severity of the crisis and main crisis-related reforms are addressed. The reforms in the main social policy areas (labour market, pensions, healthcare, family policy, social assistance and care of the elderly) are explored in more details afterwards, putting an additional focus on arguments behind the reforms and the way the welfare programs were (re)balanced and (re) orientated in the crisis period. The chapter focuses mainly on the developments between 2008 and 2013. However, in order to better capture ongoing trends and understand the reforms, where necessary previous developments are briefly discussed. Finally, the main findings are summarised.

2 Socio-demographic Challenges and Social Policy

2.1 Socio-demographic Trends in Croatia

The main socio-demographic trends the welfare state is faced with are briefly discussed, notably the trends related to fertility behaviour, population ageing and migration. Croatia is one of the EU countries faced with quite serious difficulties in respect to negative socio-demographic trends. The fertility rate started to decrease in the late 1960s when it fell below the replacement rate (Council of Europe 2005), and this trend has continued until today. In the last decade the total fertility rates varied between 1.41 and 1.58 children per woman, amounting 1.51 in 2012 (Eurostat 2014). This trend is closely related to changes in other fertility related indicators such as the postponement of parenthood and growing childlessness (DZS 2012). Also, Čipin (2011) found a significant gap between the actual and desirable number of children in Croatia, of one child on average. Although new family forms are increasingly evident (Dobrotić 2012), they are less conspicuous than in other European countries which can be best illustrated with the indicator showing that there were 14 % of births outside marriage in 2011 in Croatia (39.3 % in EU28) (Eurostat 2014).

The aging of the population is also evident. The share of the population of 65+ reached the level of 18 % in 2012 (11.3 % in 1990), and it is exceeding the number of young people 0–14 (DZS 2013). The life expectancy at birth is rising, although it is below the average of EU28 for both men (73.9 years in 2012) and women (80.6 in 2012), placing Croatia among other post-communist countries. The gender gap is becoming smaller when it comes to the expected healthy life years: 62 years for men and 64.5 years for women in 2012 (Eurostat 2014), and an important gap between the expected healthy life years and the life expectancy at birth is evident which can have serious implications for social systems, particularly the healthcare and eldercare.

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External migration[3] in Croatia was not particularly high in the last decade. The basic rate of net migration varied between 0.2 and 4.3 in the 2000s, i.e. more people were entering the country than leaving it, while the crisis brought the opposite trend (since 2010 the basic rate of net migration was between −1 and −0.9). However, migration remained low level since the total number of immigrants varied between 5000 and 9000 and the total number of emigrants between 10,000 and 13,000 in the last 3 years (DZS 2013; Eurostat 2014). These trends combined with negative natural population change and sub-replacement fertility brought a population decline (DZS 2013), which will continue according to population projections.

The population forecast published in 2011 (DZS 2011) provides three variants of population projections, based on different expectations regarding fertility, life expectancy and migration. It is important to notice that the population size for 2010, an initial year of these projections, was calculated based on the 2001 census which included in the total population size also persons absent for longer than a year, who returned to their residence on a seasonal or monthly basis. Consequently, the starting population size the projection was based on was for about 150,000 people higher. Namely, according to the 2011 census 4.28 million people lived in Croatia, and the population forecast started with 4.43 million (DZS 2011, 2012). Still, it can be expected that forecasted trends in the population size and age structure will remain of similar character[4] and they can be presented here. The population decline and changed structure of the age pyramid can be expected according to all three variants of population projection (Fig. 1). According to the middle variant, based on present fertility rates and migration trends, the population size will decrease by 13 % until 2061 (referent year 2010). The population 65+ will reach the level of 29.4 %, while the share of persons 0–14 will continue to fall at 13.5 % in 2061 (DZS 2011).

2.2 Socio-demographic Trends and Croatian Welfare State

Under the transition and war circumstances demographic trends abruptly deteriorated (Puljiz 2008a) and they started to gain significance on the political agenda. However, some inconsistencies must be noted as the concern of policy-makers with ongoing socio-demographic trends was rather sporadic than systematic, and varied among different policy fields and in relation to different socio-demographic changes. For example while there were attempts to address a falling fertility rate, that was not a case with risks connected with family pluralisation; while certain socio-demographic trends were in the focus of family policy, serious public discussions on their effects in areas such as the pension system or eldercare was absent. Hence, the question how described socio-demographic trends are

[3] Migration data are not fully reliable as only registered emigrations are reported (persons are not obliged to report migration to other countries).

[4] I am grateful to Ivan Čipin for clarifications regarding this data.

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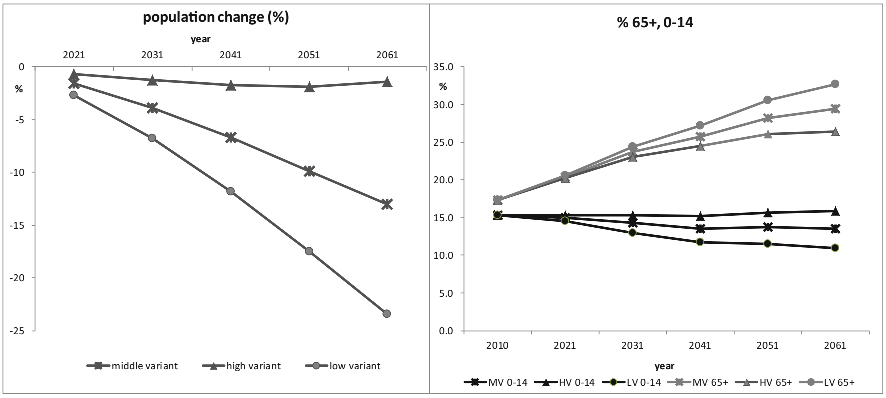

Fig. 1 Population change and age structure based on population forecast. *Note*: A referent year for calculation of population change was 2010. *Source*: DZS (2011)

reflected in particular social policy areas will be briefly addressed shortly, while the reforms implemented in reaction to these trends will be presented in the next section assessing the reforms in different social systems in more details.

Socio-demographic trends have been a prevailing driver of family policy reforms since 1990. Adverse socio-demographic trends further deteriorated by the 1991–1995 war circumstances (Puljiz 2008a) and growing national ideology brought a pro-natalist discourse and conservatism, assigning women to the reproductive function as their primary one.[5] Reforms become dominantly driven by the idea of "demographic renewal", bringing the discourse of the re-domestification of women into the political arena. Although these ideas were not fully realised in concrete policy measures and Croatia did not experienced a reorientation of family policy inherent to some other post-communist countries, a pro-natalist discourse initiated and maintained by right-wing political parties left a "trace" and family policy became instrumental, i.e. it was primarily seen as an instrument which would increase the fertility rate (Dobrotić 2012). That was applied also during the EU negotiations when at least at cognitive level the focus was put also on aspects such as work-family balance or gender equality (see Dobrotić 2012; Dobrotić et al. 2013). Adversely, other important aspects remained ignored, such as the increased poverty of some families, specific problems of single parents and gendered division of care (Zrinščak 2008a).

The pension system is notably affected by ongoing socio-demographic trends, but this is just one of the many factors which contributed to the crisis of the Croatian pension system and must be discussed in the wider context. Namely, in the 1990s the pension system was faced with a "huge fall in GDP, a sharp rise in unemployment and the government's explicit use of early retirement as a strategy to avoid

[5] National ideology and pronatalist discourses were closely connected to ethnicized nationalism (see Topić 2009; Dobrotić et al. 2013).

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ever greater social problems caused by the bankruptcy of a large number of firms" (Stubbs and Zrinščak 2007: 91). On top of that other challenges can be added such as low activity and employment rates, retirement of baby-boomers, adverse structure of pensioners, low value of pensions and negative consequences of previous reforms (Nestić et al. 2011; Puljiz 2012). Under these circumstances a financial stabilisation and sustainability arguments become the prevailing ones (discussed in more detail later), while the demographic challenges did not gain the deserved political attention. Although they have been mentioned sporadically as one of the factors which negatively contribute to the sustainability of the pension system, particularly in the course of the recent crisis, there were no serious considerations to future challenges they may cause.

Hence, the socio-demographic trends were mainly discussed in relation to family policy, only rarely and sporadically coming to the surface in other areas. There were no serious public debates about possible labour force and skills shortages or other challenges addressed in the previous section related to population ageing, such as the growing need for eldercare (especially long-term care) and healthcare. Particularly, the need for eldercare is constantly growing and has already considerably exceeded existing capacities.[6] But, at the political level, these growing demands were not recognised as a serious (future) challenge for the welfare state and reforms failed to adequately address them (see Dobrotić and Plasová 2013). Moreover, a growing need for eldercare failed to be addressed in relation to reforms in the pension system that aim at stimulation of longer working life (VRH 2013a), meaning that informal sources of care are going to decrease.

The fact that there is a notable squeeze of workforce paying contributions for healthcare has not been publicly discussed as well, although that may additionally challenge the already eroded financial sustainability of the insurance-based healthcare system. It is interesting to notice that migration policy did not play an important role in discussions on potential policy answers to ongoing socio-demographic trends. Moreover, it was discussed in more negative terms, justifying different population policy measures (VRH 2013a).

3 What Happened with the Crisis?

The crisis hit Croatia somewhat later, though quite deeply as unfavourable economic trends have marked the entire period since the end of 2008 onwards. After a sharp decline of the GDP in the first quarter of 2009, there were no clear signs of recovery (Fig. 2) and the GDP growth rate continued to be negative (−1.9 % in 2012, −1 % in 2013; Eurostat 2014). This had an adverse effect on the labour

[6] In 2012 15,688 of elderly were placed in residential care and 31,259 were on the waiting lists (although this data must be read carefully as there is no central waiting list and usually one person applies to more facilities), with an underdeveloped network of non-residential forms of care (MSPY 2013a; Dobrotić and Prpić 2013).

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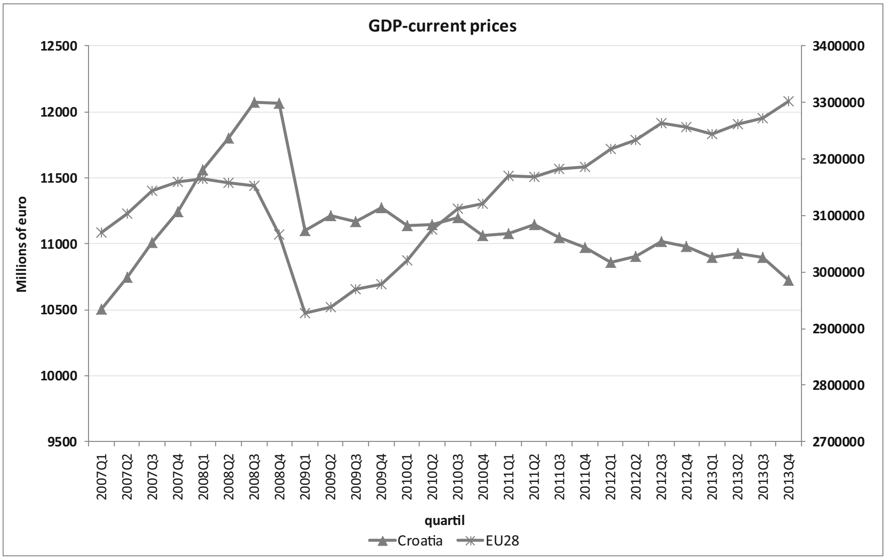

Fig. 2 GDP-current prices (in millions of euros, adjusted seasonally and by working days). *Source*: Eurostat (2014)

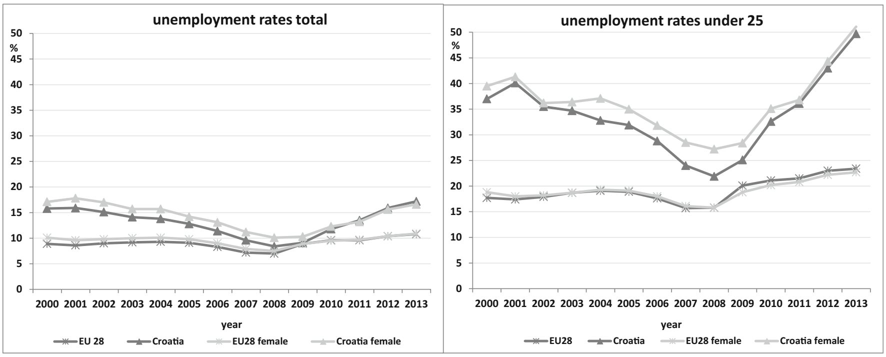

Fig. 3 Unemployment rates (%). *Source*: Eurostat (2014)

market where a remarkable loss of workplaces can be noted, reflected in the additional decline of the already low employment rate (from 62.9 % in 2008 to 53.9 % in 2013). The crisis particularly hit industry, construction, trade, hotels and restaurants, and transportation (Franičević 2011). The Croatian unemployment rate is among the highest in the EU (17.2 % in 2013) without clear signs of improvement (Fig. 3). It is not astonishing that some groups such as young people and the elderly are in a particularly difficult situation as they have been constantly facing difficulties while entering (or remaining on) the labour market. Matković (2008a) showed that the youth unemployment rate in Croatia is typically 2.5–2.8 times

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higher than general unemployment rate, and the elderly are particularly affected in the crisis periods, e.g. in a transition period they were at greater risk of being laid off when companies started to reduce their labour force, especially if they were of poor health, skills and qualifications. Additionally, the gender gap in unemployment rates was most intensive during the years of economic growth, i.e. the female disadvantage has steadily declined since the crisis emerged (Fig. 3).

Other components of the GDP were also affected by the crisis. In 2008 public debt amounted 29.3 % and it reached 67.1 % of the GDP in 2013. The deficit reached the level of −7.8 % of the GDP in 2011, remaining at −4.9 % in 2013 (Eurostat 2014). That put serious problems ahead of the public budget and resulted in a series of budget revisions and numerous reforms that said more about policy confusion than about clear "anti-crisis" strategy, and eventually Croatia was placed under the EU excessive deficit procedure.

The government's crisis-related responses were not a result of a well-premeditated strategy, and were predominantly directed towards the stability of public finances favouring different measures which either aimed to increase the revenue side of the public budget or to reduce expenditures. The first anti-recession package in February 2009 brought a mild government reaction proposing measures mainly aimed at small-scale savings in the public budget and maintaining the solvency of public companies and the construction industry (VRH 2009). In Autumn 2009 unpopular measures started to emerge, e.g. introduction of "solidarity tax" on wages and pensions (2 and 4 % depending on the income level; withdrawn in July/November 2010), VAT increase (first from 22 to 23, and then to 25 % in 2012), wage cuts and reductions of other benefits (e.g. Christmas supplement, travel allowances), tax reform (new tax rates and withdrawal of some income deductions) etc. (for detailed review see Franičević 2011; Franičević and Matković 2012).

In these first reactions the future of the welfare state reforms was indeterminate and absent from the public agenda. However, with the announcement of the Programme of Economic Recovery in April 2010 (VRH 2010) several uncertain reforms mainly addressing the financial sustainability of the welfare state were foreseen. In line with that several sporadic, mainly short-term measures were introduced aimed at reducing state social expenditures (mainly in the pension system, to a lesser extent in healthcare). Measures such as freezing and downsizing of employment in the public sector were implemented, restrictions on overtime and cuts in temporary service and fixed-time contracts mainly affecting younger employees (Franičević and Matković 2012). Additional focus was put on the ALMPs (VRH 2010), however, the negative trends on the labour market were not mitigated.

At the end of 2011 the centre-left government came into power, continuing an already ongoing reform path. Moreover, rhetoric about high social spending have become accentuated, while available data show that social expenditures fall far below the EU28 average, and have varied between 20.6 and 21 % of the GDP in the last 3 years, with stable structure (Eurostat 2014; Fig. 4). That was followed by rhetoric on the misuse of social rights and a need for further rationalisation of social benefits. Therefore, the Economic Programme (MF 2013) envisaged further

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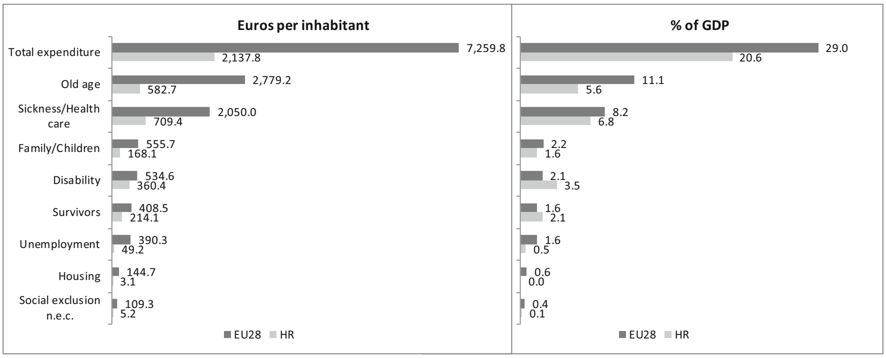

Fig. 4 Social expenditures by function 2011. *Source*: Eurostat (2014)

measures mostly aimed at the rationalisation of public expenditures and fiscal sustainability. Measures such as the modernization of public services, stimulation of longer working life,[7] cuts in rights immanent to collective agreements, sustainability and efficiency of pension and healthcare systems, stricter eligibility criteria for social assistance, ALMPs and the improvement of the educational system were considered the most important ones. Similar goals were set up in a reform proposal introduced in September 2013 aimed at the reduction of budget deficit and public debt (VRH 2013c), anticipating additional savings in social areas as will be discussed in the next paragraph.

4 Between Risks and Opportunities: Still Stumbling with Old "Protective" Policies?

Policy-makers in Croatia mostly ignored a "productivist" function of the welfare state which resulted in low employment rates, underdeveloped ALMPs and social inclusion measures. The reforms mostly addressed a "protective dimension" bringing numerous pensioners' population and comprehensive war veterans' rights (Puljiz 2008a). As discussed hereafter, existing social systems are increasingly facing problems with sustainability and efficiency, while the welfare state was not adequately redesigned to cope successfully with changing social risks (e.g. indebtedness, atypical working courses, long-term unemployment, work-family balance, long-term care). A social investment dimension has not entered the political agenda, not even Early Childhood Education and Care (ECEC) or other work-family policy instruments (Dobrotić 2012), which were placed at the core of the social investment strategy in some European countries (see Morel et al. 2012).

[7] The current government is sending ambivalent messages as increased retirement age and stimulation of later retirement were followed by the proposal to retire persons employed in the public sector, who meet the retirement criteria (MF 2013).

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4.1 Labour Market

Besides the labour market rigidity, the socialist legacy brought the functional institutional structure acting in the area of unemployment protection (Matković 2008b).[8] Reforms related to the labour market flexibilization have always been a stumbling block among social partners, resulting in slow reforms. With reforms in 2002/2003 the labour market protection weakened to some extent, particularly in relation to reduced advance notice periods, severances for regular layoffs, obstacles for collective dismissals and slight deregulation of temporary employment (Matković and Biondić 2003; Matković 2013). Thereafter several adjustments ensued to harmonize with the EU directives, e.g. antidiscrimination, working time and conditions provisions (VRH 2009). A regulation of minimum wage solely through collective agreement was abandoned in 2008 when the legislation defining the minimum wage was introduced. For the first time the supervisory mechanism and sanctions were defined for employers who do not respect the regulated minimum wage set at 39 % of average gross salary (including indexing mechanism dependant on the GDP growth) (VRH 2013a).

Franičević (2011: 145) described the situation on Croatian labour market as a "flexibilization at the margin with a protected core of workers on permanent contracts and those at the margin relegated to the unofficial economy or temporary employment and vulnerable to numerous risks". The labour market can be briefly described as segmented, characterised by high protection of employment, rather low protection in times of unemployment and modest ALMPs (Matković 2008b). Additional features are reflected in high inactivity and weak employment opportunities (Obadić 2009),[9] small share of workers with flexitime arrangements and widespread work with atypical hours, including overtime (Franičević 2011).

As shown, the situation on the labour market seriously deteriorated with the crisis. At first, the crisis notably affected employees with temporary contracts (often young people) and older workers (especially men) who were more exposed to collective dismissals and workforce restructuring. As the crisis intensified also persons with permanent positions became affected (including the "core workforce"), working conditions deteriorated and difficulties in finding new jobs became pronounced. Moreover, new employment became increasingly of a temporary character and many workers were faced with non-payment or delayed payments (Franičević 2011).

The first crisis-related measures targeted wages, directly through wage cuts in the public sector and for state officials, and indirectly through tax reform and the introduction of "solidarity tax". That was followed by an ad-hoc programme of

[8] That is one of the features distinguishing Croatia from many others post-communist countries.

[9] That is mainly assigned to the problems related to transition, ineffective policy of restructuring, early retirement policy, slow reforms in the education system and the unofficial economy (Obadić 2009).

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subsidized short-time,[10] freezing and downsizing of employment in the public sector, restrictions on overtime and cuts in temporary service and fixed-time contracts in the public sector (Franičević 2011; Franičević and Matković 2012). Unemployment benefits remained a main policy instrument. However, the coverage rate (also for short-term unemployed) and the replacement rate were quite low, which was addressed by the reform in 2010 bringing some improvements in this regard (Franičević 2011), strengthening a protective function of the welfare state to some extent. With changes in 2013 a new system of minimum wage regulation brought the exact set of indicators (e.g. poverty threshold, (active) population size, consumer price indices) which should serve as a basis for the government's calculation of the minimum wage (VRH 2013a).

An activation dimension was addressed as well through the development of a new legislative framework aimed at job retention subsidies and the promotion of employment, and new investments in ALMPs (e.g. wage subsidies, self-employment support, public works, re-training, on-the-job training without employment for youths without previous experience). A noticeable increase of persons covered by the ALMPs is evident, from 13,088 in 2010 to 53,656 in 2013, which is mostly a result of increased investments in public works (mainly covering long-term unemployed and others at risk of social exclusion) and on-the-job training without employment aimed at young people. Still, these measures only partially alleviate growing unemployment (HZZ 2010, 2014; Fig. 3).

Labour market reforms frequently come across negative public reaction and often protests, making more comprehensive changes difficult. Accordingly, the reform proposal in late 2013 which should bring higher flexibility to the labour market was withdrawn as the government did not reach a consensus with trade unions. With the crisis the rights guaranteed by collective agreements also came onto the public agenda and the previous, right-wing government made a proposal that would allow their easier cancellation (VRH 2013a). That resulted in strong public protests and a referendum initiative, and although the proposal was withdrawn, the current centre-left government brought in new legislation that allows unilaterally termination of collective agreements. Collective agreements became a subject of constant revisions and negotiations in the crisis period, often resulting in conflicts with the government and in trade union fragmentation.

Reforms on the labour market have become increasingly discussed in combination with the "skills mismatch" and a need to improve the education system to better fit the labour market needs. With the aim to address this problem the Croatian Qualifications Framework was enacted in 2013 serving as a basis for future reforms which should put more focus on learning outcomes and their assessment, quality assurance and lifelong learning[11] (VRH 2013a). As the crisis prolonged and a need

[10] Implementation failed due to its restricted eligibility, administrative requirements, and low financial initiatives (Franičević 2011).

[11] Only 2.4 % of persons participated in lifelong learning in 2013 in Croatia (10.4 % in EU28; Eurostat 2014).

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for consolidation of public finances grew, several unpopular reforms in the education system came onto the agenda aimed at the rationalisation of public schools, staff rationalisation and reductions in non-education personnel (including outsourcing), freezing and downsizing of employment (VRH 2010), and termination of collective agreements which was frequently followed by conflict with trade unions.

4.2 Pension System

The pension system of Bismarckian provenance became quite comprehensive in socialism (also covering farmers and craftsmen) and with the growing number of pensioners followed by the employment crisis in late socialism it started to face financial problems which only aggravated with the transition (Puljiz 2012). Influenced by neo-liberal endeavours of the International Financial Institutions (IFIs) (see Stubbs and Zrinščak 2007) the pension system was reformed through two phases in the late 1990s and the early 2000s: the parametric phase (e.g. increased retirement age, new indexation mechanisms, stricter criteria for disability retirement) and the radical phase (Bismarckian, PAYGO system, was transformed into a mixed one where alongside the first public PAYGO pillar, a second mandatory and third voluntary pillars based on capitalised saving were introduced). The pension system continued to face problems caused by "fallacies" resulting from mentioned reforms (e.g. "pensioners' debt", low level of new pensions, transitional costs),[12] negative socio-economic and socio-demographic trends, unfavourable pensioners' structure and the ratio of insured to retired persons (Puljiz 2012). The unfavourable pensioners' structure is a result of the early retirement policy in the 1990s, and other retirement practices, as a large number of pensioners retired under special conditions (having a so-called "privileged pension")[13] and there is a large number of disability pensions, notably among war veterans (Dobrotić 2008; Nestić et al. 2011).[14]

Several small-scale reforms in the 2003–2008 period brought small adjustments and failed to address the described problems, and with the crisis and notable loss of workplaces the financial sustainability of the pension system become more critical. As the labour market was particularly hit by the crisis and a large number of people withdrew from the labour market, the ratio of insured to retired persons became the

[12] The government's unconstitutional decision to restrict the rise in pensions in the 1990s brought a "pensioners' debt", and a new pension formula introduced in 1999 created a low level of new pensions. As the pensioners' debt must be paid back and new pensions were increased by the introduction of pension supplements, the financial sustainability of the system worsened even more (Puljiz 2012).

[13] E.g. members of parliament, of government, and of the constitutional court.

[14] There are 55 % old-age pensions, 22.8 % disability pensions and 21.4 % survivors' pensions, while 15.1 % of pensioners have considerably higher pensions gained under special conditions (Puljiz 2012).

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lowest ever, reaching 1.18:1 in February 2013; with the pension replacement rate of 39.39 % (HZMO 2013a). Therefore, a consolidation of public finances and financial sustainability of the pension system became the main arguments behind the crisis-related reforms (VRH 2013a).

The first and the most controversial crisis-related changes brought the "solidarity tax" and freeze on pensions, both decisions withdrawn until now. Thereafter, the Programme of Economic Recovery foresaw a revision of pensions' entitlement based on special conditions and a decrease in their amount (e.g. state officials, war veterans), increased retirement age and contributions in the second pillar (VRH 2010). Only the first two aims were realised with the 2010 reform when the increased retirement age for women (65 years until 2030) was introduced, as well as higher penalties for early retirement, by 10 % decrease of "privileged" pensions and the possibility to return to solely public PAYGO pillar for those pensioners who during the reform process voluntary opted for the mixed system[15] (VRH 2013a; Puljiz 2012). The introduction of stricter formula for early retirement encouraged early retirement practice because a noticeable number of people had withdrawn from the labour market before this reform came into force.

With the new centre-left government, reform efforts in 2012 become directed towards the "misuse" of pension rights. They introduced a more centralised system of medical reporting in the case of disability pensions and a stricter system of surveillance and control of existing pension rights, including the revision of existing pensions (particularly disability pensions) (VRH 2013a). As a consequence, in November 2013 a payment of pensions was suspended to 49,586 pensioners (94.3 % of them with foreign residence) who did not deliver their personal identification number to the pension insurance (HZMO 2013b).

At the end of 2013 a new set of adjustments ensued. Although followed by the crisis-related discourse, they mostly addressed well-known problems of the pension system. First, an already existing practice of purchase of supplementary pension was enacted arguing that this will "mitigate consequences of inevitably early retirement of those who create conditions for new employment by retiring" (VRH 2013a). Second, the government intention to improve a financial sustainability of the pension system brought increased retirement age (67 years until 2038) and higher penalties for early retirement, as well as new "activation" elements such as stimulation of later retirement and possibility to simultaneously work part-time and receive old-age pension. These "activation" elements and the introduction of new pension formula were also presented as a contribution to the social situation of pensioners. Third, under the crisis-related arguments an additional 10 % decrease of "privileged" pensions was enacted (VRH 2013a). As the pensioners with 41 years employment and older workers registered at the employment office for more than 2 years because of the bankruptcy of their company become exempt from "penalization" in the case of early retirement, that may result in a new early retirement practice.

[15] That was an option for those aged 40–50 in the time of the reform.

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Hence, the pension system is under permanent adjustments predominantly aimed at savings, financial sustainability and the correction of “fallacies” of previous reforms (e.g. low pensions of new pensioners). However, a comprehensive reform strategy is still lacking, while the pension system is constantly facing deficit.[16] Problems of small replacement rates of pensions still remains as well as high poverty rates of the elderly.[17] There were several proposals to introduce a so-called “social pensions” to tackle an issue of poverty in old age, however, the government assessed the proposal as unfeasible (MSPY 2013b). Recently the crisis-related reforms indicate a certain ambivalence about early retirement, namely, on the one hand reforms brought an increase in the retirement age, higher penalties for early retirement and the stimulation of later retirement, while on the other hand they actually encouraged early retirement, particularly of some groups of elderly workers. The effects of the introduction of the mixed pension system have not been seriously evaluated. Nevertheless, the government decided to proceed with a proposal to reform the second pillar of the pension system allowing greater liberalization of investments. The pension funds should be categorised according to their investment strategy and risk level, and individuals should choose among them (VRH 2013a). This reform proposal placed additional responsibility for future pensions on individuals, although it has not been a subject of serious public discussions and citizens have not been informed or educated about the meanings and consequences of this reform and the investments risks.

4.3 Health-Care System

In 1990 Croatia inherited a hybrid health-care system combining the elements of both, the social insurance and the national insurance, which was quite expensive and poorly organised (Zrinščak 2007). “Ill-advised” reforms gradually brought considerable changes in the functioning of the health-care system. Reforms in the 1990s went in the direction of centralised financing, gradual privatization and an increased individual responsibility (e.g. medical doctors were allowed to provide their private services in public health institutions, general practitioners were forced to become private practitioners, the users’ participation fee was introduced as well as a supplementary healthcare insurance alongside already existent contributions in the early 2000s). These reforms brought an unregulated public-private mix in healthcare, higher out-of-pocket costs, problems with and social differences in accessibility of healthcare (e.g. long waiting lists, treatment costs due to increased users’ co-payments, a limited list of approved drugs), and low trust in the system,

[16] Contributions solely covered 54 % expenditures of the pension system in 2012 and the remaining 46 % were financed from the public budget (VRH 2013a), an additional cost of around 4.8 % of the GDP.

[17] The at-risk-of-poverty rate in Croatia was 20.5 % in 2012. The poverty rate of the elderly was 26.5 % with a gender difference of 9.3 percentage points in favour of women (Eurostat 2014).

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while at the end they did not result in enhanced financial sustainability (Zrinščak 2007, 2008b). Reforms were quite unpopular among the users who perceived that their position worsened and that increased healthcare costs were accompanied by lowered service quality (Mastilica and Babić-Bosanac 2002; Mastilica and Kubec 2005).

With financial and expertise assistance of the World Bank (WB) a new reform was announced in 2006[18] aimed at financial sustainability and the improvement of healthcare, including a strengthened role of primary care (Zrinščak 2008b). As this reform coincided with the crisis and the increased need to stabilise public finances, a financial sustainability (including savings) attained even higher priority. As Franičević and Matković (2012) show, the right-wing government reforms since 2008 became predominantly directed towards financial stabilization, reorganization of hospitals and urgent services, staff rationalization and reductions in non-health personnel (including outsourcing). A need to harmonize the working time of medical staff with the EU directive brought problems related to a shortage of medical doctors in hospitals and remuneration for their overtime work, which resulted in the longest strike of medical doctors in Croatia.[19]

The centre-left government continued on this path of costs rationalisation applying different cost-containment measures (e.g. rationing of services, reorganization of hospitals, strengthening the role of primary care including a gate-keeping function of primary medical doctors, stronger administrative and financial control, stricter control of sick-leave) (Katić et al. 2009; VRH 2013a). Under the argument of improved quality of primary care, a previous capitation fee system based on the number of patients in care was replaced by a combined model of payment dependent also on diagnostic-therapy procedures, success and quality indicators (MSPY 2013b). The success indicators were particularly criticised (Katić et al. 2009) as they are related to e.g. the number of prescribed drugs, initiation of diagnostic tests and sick-leave rates, and can bring lower earnings to the medical doctors who are producing higher cost. Thus, they can be primarily seen as an element of financial control, which can have negative consequences for the healthcare quality. Also, the first insights into the reform effects indicate increased administrative pressure and worsened working conditions in primary care, and increased dissatisfaction of service providers (Katić et al. 2009; Franičević and Matković 2012).

In addition the increased financial burden was put on users, as users' co-payments increased (Act 150/2008),[20] lowering affordability of healthcare. Interestingly, one of the first crisis-related measures of the centre-left government

[18] The WB has supported reforms in healthcare since 1995 (Zrinščak 2008b).

[19] As all kinds of work are regarded as working time, including duty and work on-call, the previous government introduced the possibility to work overtime with a signed consent. As overtime is paid at higher rates, that caused a significant increase in salary costs and the current government proposed flat-rate remuneration.

[20] Although in 2012 the maximum level of co-payment fees was slightly lowered (Act 22/2012), at the same time the reimbursement of travel costs was limited (it applies to cases when user is travelling more than 50 km to receive healthcare).

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was a decrease in the contribution rate for healthcare from 15 to 13 % of the gross wage, which was justified by a need to unburden the labour costs (MF 2012).[21] In the situation of permanent financial problems of the system and diminished labour contingent, this decision may bring more radical reforms leading to, among others, even higher out-of-pocket costs. Hence, the reform efforts continued along the old path of cost-containment, increased privatization initiatives and placement of additional burden on end users.

4.4 Family Policy

Family policy is mostly marked by the socialist legacy which brought a 1-year, fully compensated earnings-related leave and a moderately developed ECEC network (Dobrotić 2012). Although in the 1990s a re-familialist turn was advocated (as discussed earlier), due to financial difficulties (Zrinščak 2008a) most of the proposed familialistic measures were never implemented. Eventually, the 1990s brought a decrease in family benefits and maternity allowance, and flat-rate, 3-year maternity leave in the case of multiple births, the third and any subsequent child. Still, strong pro-natalist discourse continued to dominate family policy in the 2000s resulting in reforms mainly aimed at increasing family benefits, particularly in pre-election periods (Dobrotić 2012; Dobrotić et al. 2013).

As shown elsewhere, the pro-natalist discourse changed its "background agenda" and behind the 2009 reform new arguments appeared. Alongside arguments stemming from national ideology, maintained by the right-wing political parties, a concern because of the lack of future workforce and sustainability of social systems was stressed (Dobrotić 2012). Still, these newly emerging ideas were of limited scope resulting solely in more flexible maternity/parental leave arrangements (particularly for the parents atypically attached to the labour market),[22] while the childcare, the eldercare, unequal division of care or other work-family policy instruments were again left out of the focus.

Studies (Dobrotić 2012; Pećnik and Dobrotić 2013) show that at the political level the costs of ECEC or other work-family policy measures are predominantly seen as expenditure and a "luxury we cannot afford in the times of scarce resources",[23] and their investment potential is not recognized. As Zrinščak (2008a: 318) noted, ECEC is an "unfairly neglected area of family policy" which was not a subject of important political or public discussions since 1990. The ECEC

[21] They planned to additionally lower the contribution rate for healthcare in 2013, however, that was not realised.

[22] E.g. parental leave can be used until the child turns 8, parents can use their entitlement at the same time or consecutively, parental leave can be taken on part-time basis, in one or several periods.

[23] Information received through the interview with the representative of Social Democratic Party (interview conducted in April 2011 by I. Dobrotić).

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network remained underdeveloped, with persistent regional differences in availability, affordability and accessibility of childcare (Dobrotić 2013; Matković and Dobrotić 2013),[24] while the last reform aimed solely at the regulation of childminders' services. The centre-left government enacted the Act on Nannies arguing that this act is inescapable due to the lack of ECEC and a need to regulate an already existent grey market (VRH 2013a). The new institutional arrangement brought only basic regulation of this activity which is not considerate to educational aspects,[25] and it was enacted without any reflections on future developments which could strengthen an existing ECEC network, indicating that the social investment perspective did not enter this area.

Although with negotiations other aspects such as work-family balance or gender equality were alluded to (Dobrotić et al. 2013), the EU requests resulted in smaller adjustments in the leave system in 2009 inherent to gender sensitive terminology and parental leave became an individual right of both parents. Additionally, in 2013 a previous legislation that provided 3-months leave per parent plus 2 additional 'bonus' months if the father uses his 3-months entitlement was replaced by an 8-months scheme for employed parents (4 months per parent, 2 months non-transferable). Policy-makers argued that this would bring increased participation of fathers in childcare. Still the argument was not closely connected to the gender equality agenda and they stressed that a new leave system would allow fathers to "donate part of their time to the family, according to their work obligations" (VRH 2013a).

Although family policy was not directly affected by the crisis-related reforms, the crisis brought stagnation in ECEC capacities (Matković and Dobrotić 2013). Also, due to limited possibilities for work-family balance (Dobrotić 2012) parents are constantly reporting on high work-family conflict (Dobrotić and Laklija 2009; Dobrotić and Pećnik 2013), however, family policy reforms were absent from the agenda in recent years and the last changes were more a reaction on external demands than a result of planned policy. Recent debates in Croatia were predominantly aimed at the definition of marriage as one conservative organization initiated a referendum proposing an amendment to the constitution in order to define marriage as a unit of a man and a woman, which was additionally supported by the Catholic Church. The current government and human rights organisations opposed, but the proposed amendment was voted for in a referendum in December 2013 creating a constitutional prohibition against same-sex marriage. In a response, the government proposed a new law which should give more comprehensive rights to the lesbian, gay, bisexual, transgender (LGBT) population, including the right to a registered life partnership (VRH 2013b).

[24] E.g. with 57 % of 4-year-old children attending childcare, Croatia is far below the European average of 90.8 % (Matković and Dobrotić 2013).

[25] An educational dimension was not explicitly foreseen in the provision of these services.

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4.5 Social Assistance and Eldercare

The social assistance and care system is permanently going through various adjustments, however, without a clear vision, and reforms say more about policy confusion and politicization than a clear agenda. Since the second half of the 1990s the reforms have aimed at decentralisation, strengthened role of the subsidiarity principle, deinstitutionalisation and pluralisation of social services providers (Šućur 2008). However, most of the reform objectives were poorly reached and a lot of the problems inherent to this system still remains such as high centralisation and institutionalisation, low efficiency, lack of experts, non-transparency, low citizens' awareness about their rights, a mismatch of existing programmes and needs, low benefits level etc. (VRH 2003; Šućur 2008).

As a result Croatia is facing the fifth highest poverty rate in the EU (Eurostat 2014), while inability of the system to address changing social risks additionally revealed with the crisis. The civil society organisations and the centres for social work started to warn about the "new" poor for whom they do not have any instruments to use, mainly young families left out of the job in the crisis and under the hard burden of loans which they were not able to payback (UISP 2010). The problem with indebtedness particularly hit individuals/families with loans in Swiss franc. Namely, these loans had lower interest rates than loans in euros so were cheaper, particularly for low-income individuals/families. However, when with the crisis, the exchange rate and interest rates significantly deteriorated, they were faced with the problem of repaying by monthly instalment. Analysis showed that 35 % of respondents spend 50–75 % of their monthly income on monthly instalments, an additional 32 % of them more than 75 % of the monthly income, and for more than one third of them a monthly instalment exceeded a monthly income (CSO Franak 2012). Moreover, a newly initiated rhetoric about a misuse of social rights (VRH 2013a) particularly affected this area and in the context of the crisis and scarce public resources a need for further "rationalisation" came high on the political agenda.

A new reform that aimed at the reorganisation of social services, better targeting of social transfers, financial rationalisation and efficiency of the system started to be prepared under the financial and expert assistance of the WB in the 2000s. The first comprehensive legislation needed for implementation of this reform was enacted in 2011, however, with the new government most of the changes were withdrawn in 2012 and were followed with new legislation in 2013. That brought a lot of confusion at implementation level as most of the changes were related to the organisation of social services. Among others, several social benefits were integrated into one guaranteed minimal income, limited in amount and duration. An upper ceiling of the minimum wage was set on guaranteed minimal income which would affect larger families, while the beneficiaries capable of working could receive a guaranteed minimal income for a maximum of 2 years but if their right is suspended only for a minimum of 3 months. Their right to minimal income is also suspended if they refuse an offered job, while in the case of finding a job, the right is fully suspended for a 3 months period to facilitate the transition period. That was justified

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applying a workfare paradigm[26] and a greater need of activation of long-term users of social benefits (VRH 2013a), while the weak employment opportunities in Croatia remained ignored.

The socialist legacy in eldercare brought a reliance on public residential capacities. Since the late 1990s the reforms were directed towards an increased use of for-profit and non-profit providers in eldercare expecting the state to be unburdened from high (future) social costs for residential care (Balaband 1997).[27] Besides the pluralisation of eldercare providers, a solution for the lack of eldercare capacities and greater cost-effectiveness of the system was seen in the encouragement of home-care and other community-based services (Balaband 1996; Škara 1999). In line with that an adult foster care, family-type homes[28] and different community-based services such as home-care, day care centres, gerontology centres etc. started to be encouraged, while the responsibility for residential homes was transferred at local level (Dobrotić and Plasová 2013).

However, these services are insufficient to reach the growing demands for eldercare. The eldercare system continued to be characterized by social assistance orientation and fragmentation (Dobrotić and Plasová 2013), while the eldercare deficit is putting a hard burden on families contributing to work-family conflict (see Dobrotić and Laklija 2009). Moreover, the system is characterised by non-transparencies (e.g. definition of service fees, absence of price methodology and public calls for new services providers) which produces inequalities among the services providers and the users. Recent reform attempts which aimed to solve some of the problems (e.g. price methodology, public calls) say more about policy confusion and politicization than a clear eldercare agenda. Still, they clearly indicated that the government is planning to continue with the marketization of care and a policy which anticipates higher individual and family responsibility (VRH 2013a).

5 Concluding Remarks

Our analysis has shown that many of the challenges the social systems are faced with in Croatia have their roots in the pre-crisis period, namely that the long-term problems of the Croatian welfare state related to the transition, the changing socio-demographic and socio-economic trends, low employment and activity and high poverty rates have not been addressed in a proper manner. Under the financial and expertise assistance of IFIs the reforms mostly affected the main social security

[26] One of the elements of workfare paradigm is the argument against welfare dependency (see Csoba 2013).

[27] At the political level a marketization was advocated before all and new residential homes de facto started to be predominantly set up by non-state providers, mainly private ones (Dobrotić and Plasová 2013).

[28] Family-type homes are small housing units for up to 20 persons.

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areas, aiming at social expenditure rationalisation and decreased state responsibility. They failed to be followed by adequate protection of the most vulnerable groups, and the EU (pre)accession activities and inclusion of Croatia in activities related to the Open Method of Co-ordination (social OMC) also did not bring visible differences at the implementation level. High politicization of social issues reflected in inadvisable reforms around elections (e.g. in family policy, pension system, war veterans system), as well as ad-hoc, uncoordinated and ill-advised reforms in general brought numerous side-effects resulting in additional difficulties mostly related to financial sustainability, but also an adequacy and efficiency of social systems. The reforms in the pre-crisis period were mostly of a protective dimension, leading to pensioners, compensatory oriented war veterans' rights and family policy (Dobrotić 2008; Puljiz 2008a), while ECEC, ALMPs and social inclusion measures remained neglected. Structural difficulties and the already existing institutional deficits thus became additionally aggravated with the crisis putting new burden on the welfare state, particularly as the crisis prolonged and a need for consolidation of public finances grew.

The earliest government's response in the area of welfare state was indeterminate and absent, and social systems relied on already existing automatic stabilisers (i.e. existing welfare schemes, see Starke et al. 2011). Afterwards, in the absence of clear "anti-crisis" strategy, ad-hoc reforms became predominantly aimed at savings, while the scope of these savings became wider with the duration of the crisis. Still, not all areas were hit by the crisis with the same intensity. The pension and the health-care system were particularly exposed to the reforms which can be described with the welfare state retrenchment concept (see Pierson 1996; Hacker 2004), and to some extent the social assistance and care system. Recent reform processes, particularly in pensions and social assistance became closely connected to the "deservingness" discourse, making strong arguments against the welfare state which is already spending too much. Also, workfare elements were brought more explicitly into the policy design. While some areas such as family policy or eldercare remained absent from the crisis-related political agenda, with the severity of the crisis the labour market reforms brought greater investments in ALMPs. However, those measures have remained insufficient in tackling the growing unemployment, particularly among the youth.

Reform efforts were often vague and did not follow a clear strategy, while a notable reorientation of traditional "risks policies" cannot be noted as the importance of social investment dimension of the welfare state remained unrecognised. The depicted emerging discourse in the political arena about the high level of social costs in Croatia, followed by arguments about fraud and abuse of social rights are giving the welfare state a negative image and additionally threatening the legitimacy of it, which is already marked by low trust and highly divided by particular interests. The placement of Croatia under the EU excessive deficit procedure does not give space for optimism and difficulties with finding funds to invest in ALMPs may be expected, while the reforms in the pension system, healthcare and eldercare may bring new privatization initiatives and increased individual responsibility. The currently discussed antipoverty strategy lacks ambition, while an absence of

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consensus among the numerous stakeholders in the education system and family policy contribute to the status quo and understated future development.

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From a Welfare to a Workfare State: Hungary

Zoltán Lakner and Katalin Tausz

1 Introduction

The main objective of this paper is not only to provide a detailed description of the developments in the social protection system during the global economic crisis, but to prove that paradigmatic changes characterise the Hungarian welfare system. If one wants to understand the changes that the Hungarian welfare system underwent during the global crisis, one will need to be familiarised with the wider political context which has set the background to the changes as political power relations are what really matter nowadays in Hungary.

Based on all these, we will demonstrate in our study, the changes regarding the welfare system in the period of the global crisis: (1) the changes that are closely related to the political turnover which has led to great changes in the constitutional system after 2010, (2) most of the changes that are affecting the welfare system which had started after 2006; these tendencies were not triggered by but made more intense by the global crisis, (3) the hybrid nature of the Hungarian welfare system has been maintained and (4) nevertheless there has been a serious movement towards decreasing rights and state guaranties, while increasing state control too.

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2 Political Context and Its Relevance

The logic of changes having taken place in the field of welfare issues cannot be separated from this constitutional and political transformation.

At the beginning of the crisis a left wing government was in power in Hungary, however in 2010 (as well as in 2014) the right wing Fidesz-Christian Democratic coalition won the elections with a two-third majority. A radical right-wing party, Jobbik, also got into parliament as the third greatest political force. The two-thirds Fidesz majority could only occur because by 2010 the political landscape had radically been transformed. The close competition between the right wing and the left wing, which had lasted longer than a decade and was characterised by balanced power relations, was followed by the collapse of the left wing (Bíró Nagy and Róna 2012).

2.1 Constitutional Changes

In the past few years, fundamental changes have been made to the constitution. A new Fundamental Law came into effect to replace the 1989 constitution which was based on a treaty made between the participants of The National Round Table at the end of long negotiations which took place over several months, prior to the first free elections. The new Fundamental Law was created by the Fidesz-Christian Democratic coalition which won the 2010 elections by gaining two-thirds of the votes. The text of the new norm was introduced to parliament in March 2011 with no liaison between the government and the opposition parties nor with any of the social partners and it was immediately passed a month later.

The constitutional transformation process was followed by much international attention: the European Union took steps against Hungary in several cases of contravention related to the issue; the Hungarian prime minister entered into a debate personally on two occasions upon fractions judging his politics in the EU Parliament, while in 2013 the majority of the EP accepted the Tavares Report which heavily criticised the government's politics based on the EU principles (Tavares Report 2013). Debate was also kindled due, among other things, to the introduction of the National Media and Info-communications Authority, the dismissal of the president of the Budget Council along with the transformation of the Council, and the government's attempts at intervention into the jurisdictional system and into the independence of the National Bank. The government majority constantly change the laws and measures including the Fundamental Law according to their current interests, subduing the principles of a constitutional state by governmental objectives.

The background to all these is the declaration of "a war of independence" and "a financial independence" while openly fighting the 'bureaucrats' of the EU and the International Monetary Fund. This course of politics over-represented the national slogans so as to gain more government control and to keep tabs on the economic and social actors who hold different political opinions. It was used in the levy of a

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disproportionate taxation of banks and other financial sectors, for instance, the nationalisation of the tobacco trade and the gambling industry, and also in case of the distribution of the tobacco trade concessions. International judgments of these practices are turned down due to national sovereignty, while Hungarian critiques are regarded as supporters of foreign interests.

Concerning social security, the 1989 Constitution 70/E § was cited, which assigned the responsibility to the social insurance and social care institutions. According to Article XIX of the Fundamental Law enacted in 2012, the state only *seeks* to provide social security, while not specifying the responsibility of social insurance. According to the Fundamental Law, social benefits should be linked to work useful for the community, meaning that in return for benefits certain conditions should be met. This lays the groundwork for the constitutionality of means tests and control over beneficiaries (Juhász and Tausz 2012: 37).

Also, the radically changing jurisdictional scene and the Orbán government's unique understanding of the constitutional system (e.g. the enactment of unconstitutional laws into the Fundamental Law, the questioning of previously acquired rights) had an impact on other provisions too. Prime Minister Orban has changed the whole constitutional system since 2010, calling this process a 'revolution' and 'second regime change' which lead to 'illiberal state' (Gati 2014).

The prime minister often speaks about leftist-liberal opposition as 'extremists' who are against the 'national interest' or 'state interest' as defined by the prime minister himself and cooperate with 'foreigners' instead of supporting the 'national cooperation system' which was proclaimed by Mr. Orban in 2010, after his election victory.

The Orbán government also reduced the powers of the Constitutional Court. Keeping control over the Constitutional Court was directly connected with the government's sudden pension reform that abolished the compulsory private pillar in 2011. Even though public opinion of the three-pillar pension system created in 1997 was not entirely positive (Müller 1999), the manner of its abolishment is undoubtedly unprecedented. In 2010, the government announced that the tax administration would not channel contributions to the mandatory private funds for 14 months, backing the decision with a similar Estonian example. Only 6 days later the prime minister announced that the state would never again contribute to the private funds. Still in the same year, the government decided that any citizen who insisted on keeping their private fund membership would lose their entitlement to their social insurance based pension. In the meantime, the two-third majority abolished the Constitutional Court's right to review laws concerning taxation and contributions, which suggested that the cabinet itself was also completely aware of the unconstitutionality of its action. The restriction of the Constitutional Court—which was initially said to be temporary—was later included in the new Fundamental Law.

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2.2 Governance

Another important characteristic of the government's measures after 2010 is *over-centralisation*. This may be observed in the organisational structure where gigantic integrated ministries appeared, particularly concerning welfare areas. In public administration, county and local councils were attached and sub-ordinate to government and district offices, also taking over many of their functions. Their leaders also became appointed by the government.

Educational and health care institutions formerly belonging to local governments became nationalised; the only exceptions being institutions run by a nationally recognised church (the Tavares report also reflects on the debate on these). In addition, the Orbán government centralised the partially self-governed financing system of civil society in 2011. Above all, the amendment of the education law foresaw the compulsory membership of teachers in the new National Chamber of Teachers in 2013, financed by the central budget and positioned as the future representative public body of teachers instead of trade unions.

Both the left wing and the Fidesz governments counterattacked using a broad-front strategy: reforms were initiated without including social partners and without thoroughly considering the public policy consequences.

However, the socialist-liberal government's efforts failed due to the resistance organised mostly by Fidesz, resulting in no improvement in its social security system and its reforms also failing to last. Fidesz, on the other hand, when coming to power started a real chain of blitzkriegs while continually relying on its two-third majority, making it even more possible to change the constitution and the rule of law in Hungary. The Orban government's strategy was based on changing the constitutional framework, preferring political intentions to the rule of law (the legal system having been continuously adjusted to fit political decisions, what is more, the governing party is infamous for its exceptional rules which reward or punish certain firms or civic movements) and ignoring social partners.

3 Demographic Change

As in so many European countries, Hungary also has to face demographic challenges. The population of Hungary decreased by 136,603 persons between 2008, the beginning of the economic crisis, and 2013. Projections on the size of the population in Hungary between 2010 and 2060 indicate further unfavourable trends (Fig. 1).

Due to the unfavourable morbidity and mortality rates Hungarian society is not extremely aging, life expectancy at birth lags behind the European average (EU27: estimated rate for males in 2011 77.4 years, in Hungary 71.2 years; for females in the EU27 83.2 years, in Hungary 78.7).[1] Even though life expectancy gradually

[1] Data on the Hungarian situation is based on Bálint and Spéder (2012).

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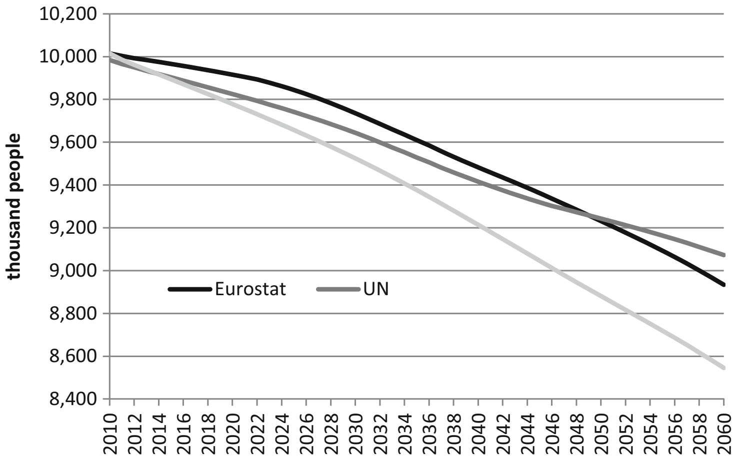

Fig. 1 Size of the population in Hungary, 1990–2060. *Source*: Hungarian Demographic Research Institute (HDRI)

increased in the past years, the speed of its improvement lags behind the EU15 and some of the post-socialist countries (e.g. Czech Republic, Poland) thus the difference has not decreased significantly.

The old age dependency ratio in Hungary is also below the EU27 average and the so called Ratkó children[2] are now reaching retirement age. Their exit from the labour market will deepen the labour market problems and jeopardise the sustainability of the pension insurance fund.

A natural decrease in the population has somewhat been alleviated by the positive balance of international migration in the past years (Fig. 2).

Considering not only the demographic but wider social processes as well, about 7.4 % (approximately 335,000 persons) of the 18–49 year old Hungarian citizens with a permanent address in Hungary, were living in a foreign country in 2012 (KSH NKI 2013). The most popular target countries are Germany (25.8 %), Great Britain (25.6 %) and Austria (12.7 %). A gloomier picture is reflected in the data on Hungarian citizens permanently working in a foreign country. According to the survey of the GKI (Molnár and Udvardi 2013) about 250,000 persons, 4.4 % of the 15–64 year old population have worked at least for 6 months in a foreign country (Fig. 3).

The very low fertility rate (Fig. 3) is one of the main demographic challenges in Hungary. The reasons for this unfavourable phenomenon are diverse: the changing social climate; women are spending longer periods in the educational system: would-be mothers are less likely to have a child without having a job first due to

[2] Named after Anna Ratkó, minister of health (1949–1953) responsible for the family-planning act prohibiting abortion at the beginning of the 1950s.

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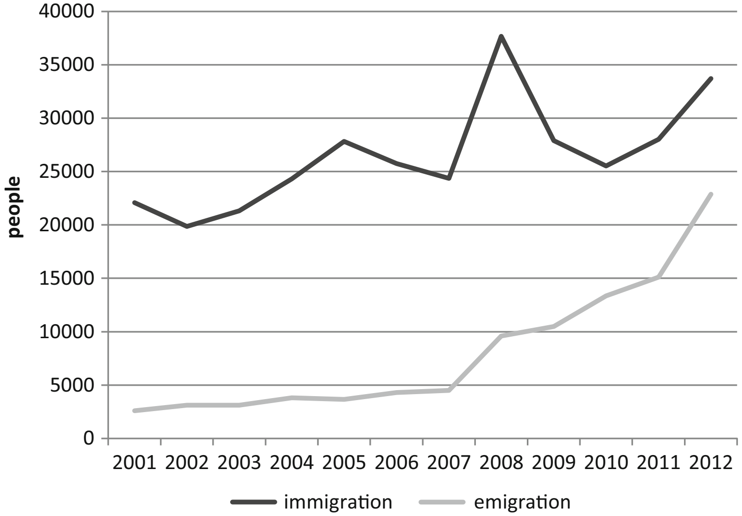

Fig. 2 Migration processes, 2002–2011. *Source*: EUROSTAT

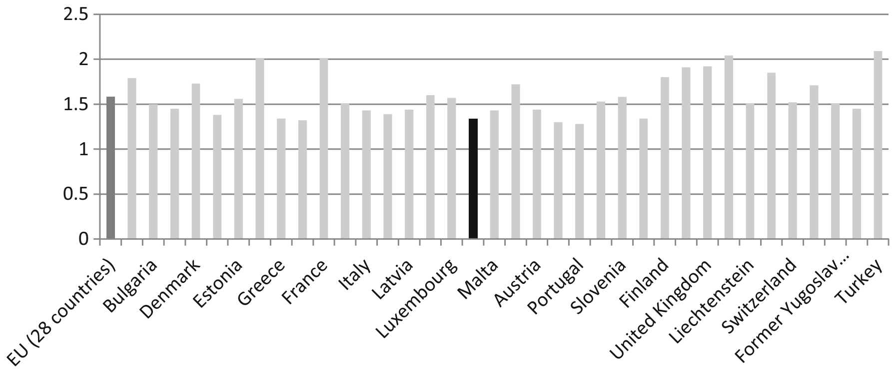

Fig. 3 Total fertility rate, 2011. *Source*: EUROSTAT

the fragility of the labour market; difficulties in the reconciliation of work and family life; and the instability of the family support system.

The age composition of the population, as everywhere, determines the framework of the social protection system. The aging of the population imposes a more serious burden on the pension schemes and on health care as well as on the long-term care services and endanger the financial equilibrium of the social insurance system. However unfavourable demographic trends are only one of the reasons of the challenges facing the social protection system in Hungary. The extremely high inactivity rate of the government, its policies and measures, supposedly aimed at reducing the budget deficit, is having a strong impact and undermining the bases of the social security system.

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4 Fiscal and Economy Crisis

4.1 The Global Crisis and Antecedents

Before the global (i.e. *external*) crisis reached Hungary in the autumn of 2008, the *internal* crisis had already been ongoing for 2 years.

The socialist-liberal government, elected in 2002, gave up the discipline of the budget. After being re-elected in 2006, the government led by Ferenc Gyurcsany was forced to introduce an austerity package which resulted in the Hungarian economy having to hit the brakes in 2007. The socialist-liberal coalition lost a great deal of its support, and the government was defeated on a referendum against healthcare and education measures in March 2008. By the end of 2008, both the external and internal crisis had their tangible effects. The 2009 EP elections followed by the 2010 parliament elections brought a harrowing defeat on the socialist-liberals making way for the radical political turnover.

The Hungarian economy was seriously struck by the global crisis. Hungary was the first European Union country that needed an emergency loan from the EU and IMF due to the global crisis in 2008. This 20 million dollar loan vastly increased the public debt and put great pressure on the state budget in the medium term. The GDP dropped back to 7 % in 2009, which was one of the worst indexes among the EU countries. The ongoing fiscal constraints since 2006 had to be followed with new ones.

During 2009–2010 the Bajnai government supported by the socialist and liberal parties prevented another budget emergency and thus public debt increased. This sparked the elimination of the 13th month pension payment, a freeze was put on both family allowance and social assistance, and several different constraints were issued outside the welfare area too.

To understand this process, it is essential to be familiar with the antecedents. After joining the EU in 2004, excessive austerity measures were immediately carried out. It is usually the case in Hungary that in the election years, the ratio of the budget deficit roughly grows then during the government's term fiscal consolidation comes about. After 2002, the consequences of the electoral budget were not altogether apparent. However this did not hinder Ferenc Gyurcsány's socialist-liberal government in 2006 to loosen the fiscal politics in the very election year.

This resulted in the fact that the budget deficit could only remain under 10 % of the GDP due to the constraint package introduced after the 2006 elections. From then on, it was a main target during the term to keep the deficit low. The cabinet successfully carried this out while severely damaging its political support which undermined the support of the reforms too. In the autumn of 2006, the PM's speech from May gained publicity in which he announced a policy switch for his own party and so the introduction of the constraints. The riots following the speech are without precedence in the history of Hungarian democracy: the taxi drivers' general strike and road blockade in 1990 were without violence, likewise the fact that the ruling political party sustained a harrowing defeat in the municipal elections half a year

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after the parliament elections. As the constraints remained in effect in the following years, the popularity of the socialist-liberals carried on declining.

It was under these circumstances that the Gyurcsány government started the so-called state reform in 2006, in order to prevent structural flaws from impeding economic growth after the period of austerity. In the case of the welfare system, these changes mainly affected healthcare; nevertheless the liberal reforms (such as introducing the 1 euro doctor's visit fee and partially reshaping the health insurance market) did not work out. The doctor's fee system stopped after the majority voted against it in the 2008 referendum, whereas the health insurance law was withdrawn after the Socialist Party faced protests so it never actually came into force.

During the attempt at reforms, a serious decline in the legitimacy of welfare reforms showed, possibly partly due to the opposition's anti-liberal propaganda and also because the Fidesz government was gradually withdrawing from privatising public services, apart from introducing the tertiary education fees. Following the 2008 referendum, the socialists stopped the market transformation policies which led to a break-up with the liberal coalition.

Hungary slipped into the whirlpool of global crisis while slowly recovering from a fiscal crisis; with very low levels of growth and too much political tension going on in domestic affairs.

4.2 After the Crisis and the Change of Government

Following the change of government, the strict fiscal policies remained in action only in a different manner. The Fidesz government followed an 'unorthodox' political scheme, mixing orthodox and new-fangled methods. The two Széll Kálmán Plans, which aimed to set up a secure budget, contain well-known methods of constraint which, as with the previous government, the Fidesz government failed to mention during the election campaign. To be fair, the situation of the Orbán government was a lot easier in political terms as they did not have to start the saving process, only to continue it. In addition, they were not faced with the same opposition as the previous government had faced due to the collapse of the liberal party and the weakening of socialists.

The 2011–2012 constraints involved freezes on the budget, wage rises, and on family allowance, as well as amendments and tightening of early pensions. At the same time, the transformation of the tax system reduced public finance income, which was compensated for by a large scale bank tax and other taxes in different economic sectors, in such way that the costs for companies with foreign ownership should grow exponentially.

This is accompanied by the growing negative redistribution: the introduction of a flat-rate personal income tax in 2011 by the Fidesz government and the new tax allowance system favouring the higher-income class along with increasing burdens for those on low-incomes. In the new linear system, the 16 % tax rate eased the burden for people who were used to the 32 % tax rate before, and also brought (at first glance) a tax reduction for people who were on the lower, 17 %, tax rate. In

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fact, however, until the end of 2010 low-income tax payers had been able to claim tax credit, but this was discontinued by the Orbán government in 2011. As a result, for these people the 16 % tax rate meant a serious tax increase. The government did not compensate those on lower wages who were unable to claim the child tax credit and whose situation worsened. According to estimations, approximately 400 billion forints were reallocated, in favour of the upper and middle classes.

These economic strategies have been seriously criticised by the international monetary organisations, the bank system and the EU. As the government managed to keep the budget deficit low, there was no reason for the EU to sanction the government's economic policies, and so they could only raise issues against a few measures. The government announced that it would cease to cooperate with the IMF and that it would not want to rely on any other credit packages after paying back the loan taken out in 2008. The very insecure European economic environment and the permanently struggling forint-euro rate by November 2011 forced the cabinet to suddenly announce their desire to start talks about renewing co-operation with the IMF. It was commonly assumed in the analyses that the Orbán government would pretend to be negotiating while they did not actually mean to reach an agreement (Emerging Europe Real Time 2011). Although the government denied this, this is exactly what happened in the end. The mere possibility of another IMF credit was enough to mend financial market expectations of Hungary but despite all, the Hungarian government started an internal campaign against the IMF in September 2012 and announced in November that there would not be a further agreement. In 2013, the Orbán government paid back the IMF loan ahead of time and they considered this move to be a great success.

While the Gyurcsány and Bajnai governments were especially keen on co-operation with the EU and the IMF, the Orban government has been aiming to make it difficult to let the EU and economic organisations interfere with their politics. For the sake of this, they were willing to carry on with the strict budgeting, though they referred to this manner when turning down the criticism regarding their politics. One may say that the Orban government has redeemed itself from international control by reducing the deficit. However it has proven to be less successful in terms of reducing public debt. In 2010 this was a central issue. Public debt gradually grew bigger in the 2000s and did not decrease substantially during Orbán's office years (Fig. 4).

The issue of debt belongs in the field of welfare, as the government tried to lay the ground for debt reduction by transferring the Private Pension Scheme to the state's control. The contributions from the PPS were moved over to the Pension Reform and Debt Reduction Fund in 2011. This also indicates that part of the approximately 3000 billion HUF was originally taken out the pension system's control. Later when the state bought properties in some Hungarian corporations, these contracts were also financed from the Fund. Thus the elimination of this compulsory private pillar was unable to serve the permanent support of the pension system or to decrease public debt. Even though the 2011 budget balance showed an exceptionally high surplus, this was solely the result of moving the Private Pension contributions to state control. This was not seen as a maintainable budget policy by

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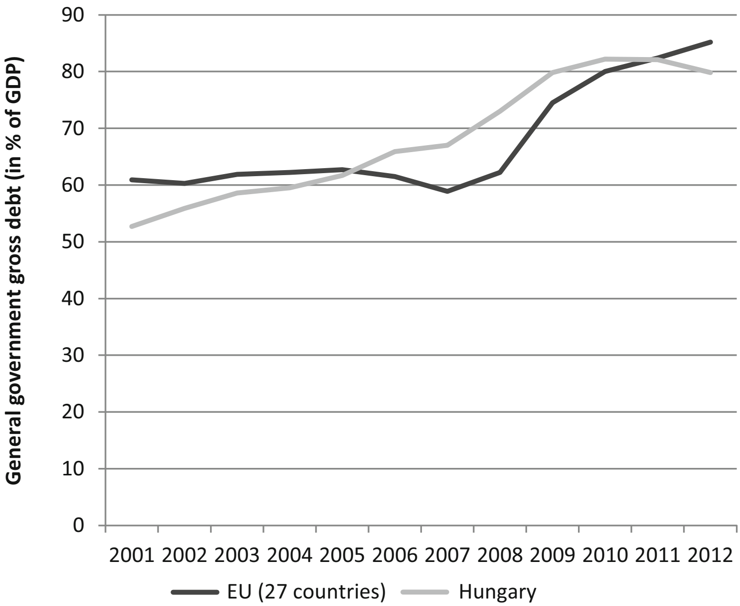

Fig. 4 General government gross debt, percentage of GDP. *Source*: EUROSTAT

the EU (European Commission 2012). Hence the Orban government had to come up with a second Széll Kálmán Plan in 2012 and only in this way could the excessive deficit procedure be eliminated. All this was taking place while the Hungarian economy started sinking into recession again (see also Fig. 5).

All in all, the global crisis took its toll on the Hungarian economy. Budget and public debt, notwithstanding these effects were not without precedent and did not stand on their own. The internal crisis which manifested from 2006 made Hungary vulnerable, which explains why the effects of the 2008–2009 crises came across so dramatically. At the same time, the internal crisis prepared the way for a radical turn in the internal politics too. The Orban government dealing with the 2009–2010 crisis was followed by the Fidesz government which entered the stage with the catchphrase of revolution, aiming to set up a new political system. They carried on decreasing the budget deficit but in radically different political ways. They have kept a close eye on the EU and the international economic organisations so that these can have the smallest chance to influence the government's decisions. In the course of all these, the expenses to be spent on education, healthcare and social allowances has dropped, one of the pillars of the pension system has been eliminated. In the social assistance system, all sorts of systematic restrictions and means tests have been introduced.

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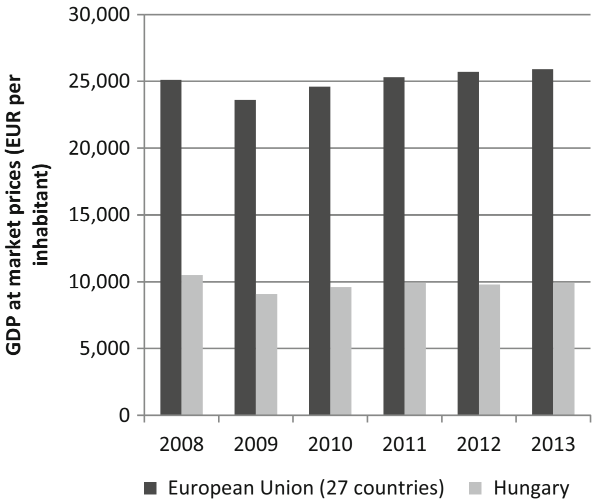

Fig. 5 Gross domestic product at market prices, EUR per inhabitant. *Source*: EUROSTAT

5 Risks and Opportunities

During the crisis Hungary was one of the few countries which decreased total public social expenditure: it was 23.9 % of the GDP in 2009 and 21.6 % in 2013 according to the OECD statistics, none the less expenditure on social protection per inhabitant in 2011 was only 4064 euros against the 7314 euros of the EU27 average (see Table 1).

A series of changes was triggered which seriously also altered the mechanism of the welfare system. Its basic characteristics are accompanied by features that are rooted in the state-socialist system, and in which the state plays the major role. Socialist characteristics have not disappeared since 1990, the most important not even being the state's relatively high activity in redistribution, but rather the *nature* of its role. Because while the market has expanded, members of society are still dependent on transfer incomes, hence the definite division of market and state has not happened. One of the important dimensions of inequality is the accessibility to public services: the state itself has become one of the factors in generating inequality. The losers of redistribution are the poorest, mostly the Roma minority. As a result, a dual structure of the welfare state has been created, in which deservingness has become a central factor, and a basis for the whole welfare system (Szalai 2005).

The governments are unable to abolish this dual structure either because it is very difficult to confront privileges, or because the current government has strengthened the position of the groups who enjoy these privileges while trying to gain stable support. After 2010 the conscious maintenance and use of social segmentation seems to be characteristic.

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Table 1 Expenditure on social protection by function per inhabitant (in euros)

	2005	2006	2007	2008	2009	2010	2011
Total expenditure	1927.10	1998.89	2243.35	2406.12	2216.99	2223.99	2281.16
Sickness/health care	564.35	564.95	560.90	590.49	518.15	549.62	626.91
Disability	186.80	192.45	212.26	221.10	190.38	179.87	169.85
Old age	689.28	711.30	832.09	929.57	902.44	877.28	917.95
Survivors	112.44	116.08	133.80	141.34	126.43	125.98	127.48
Family/children	222.57	251.79	281.33	300.97	275.90	288.83	283.17
Unemployment	54.43	60.00	75.78	87.08	88.05	87.78	82.46
Housing	45.30	47.63	91.01	75.19	62.98	51.11	40.16
Social exclusion n.e.c.	13.12	12.66	14.00	14.99	12.27	12.70	10.40

Source: Eurostat

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5.1 Labour Market Policy

In the pre-crisis period Hungary was characterised by inactivity on the labour market and relatively low unemployment rate. Realising the serious labour market problems and following the intentions of the Third Way type of ideology, the Gyurcsány government introduced measures to reduce the scope of early retirement schemes, to encourage mothers on parental leave to re-enter the labour market and to mitigate the disincentives of the poverty trap for people on social assistance.

An insurance based unemployment benefit system was created in 1986 in Hungary; however a targeted form of social assistance was introduced in the early 1990s in response to the high unemployment. Later this form of social assistance for people of working age was differentiated, providing a somewhat larger sum in the initial phase which is later reduced after a certain time period.

From the year 2000, people in long term unemployment must complete at least 30 days of public work before applying for social assistance. After fulfilling this obligation, the person concerned has to 'co-operate' with the local self-government or with some social or labour market institution.

In 2009, the Gyurcsány government launched the so called "Pathway to Work" programme based on a broad activation oriented concept. This *welfare to work* type programme intended to reduce long-term unemployment, to improve the labour market position of people out of work and to mitigate the disincentives of the social assistance system. As the majority of the unemployed people had (and have) low educational level, a training programme was started for those under 35 years, different benefit subsidies were provided for the companies employing unemployed people and EU funded resources were appropriated to create new jobs for different groups of people in disadvantaged situations. Also, public work schemes were extended. Before the Pathway to Work programme, 14,000–16,000 people were involved in some form of public work programme; in the first year of the Pathway to Work programme their average monthly number increased to 60,000 people (Scharle 2011).

Even though the unemployment rate significantly increased due to the economic crisis, the extremely and permanently low employment rate is the most serious labour market problem in Hungary (Fig. 6 and Fig. 7).

The previous socialist-liberal coalition had already begun to tighten the conditions of retirement and the eligibility for disability pensions, but the current government is applying even harsher measures. Due to these measures, the labour supply increased, but the labour demand did not grow significantly—an indication of structural problems in the labour market and in the economy.

After 2010 the number of registered unemployed persons fluctuated at around 580,000, mainly depending on the inflow into and outflow from public work programmes.

In most of the period discussed the male unemployment rate exceeded that of females (Fig. 8) mainly due to the generous child care leave system in Hungary.

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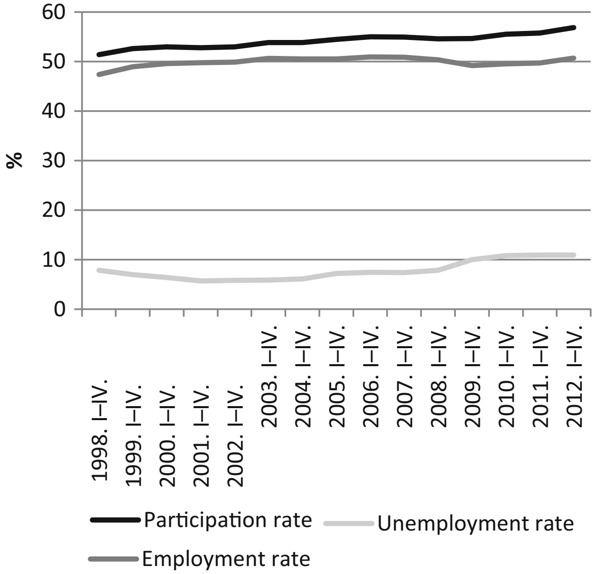

Fig. 6 Labour market indicators 1998–2012, %. *Source*: The Hungarian Labour Market 2013

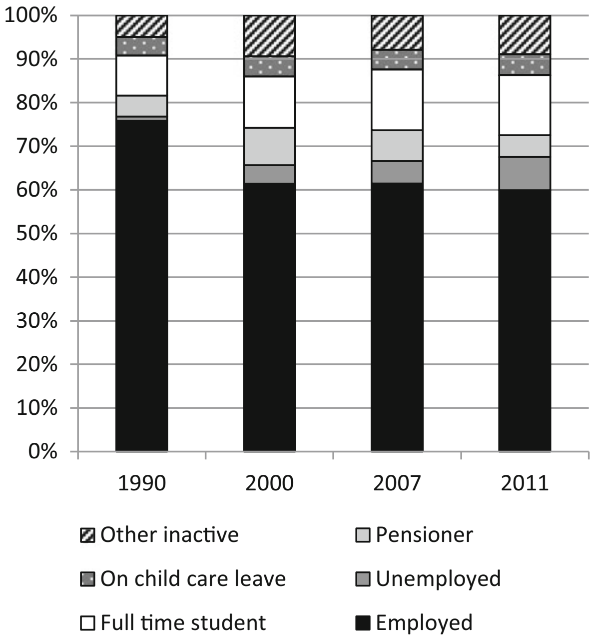

Fig. 7 Economic activity: population of male 15–59 and female 15–54. *Source*: The Hungarian Labour Market 2013

The lack of job opportunities for new entrants to the labour market became an increasing problem after 2004; more than 80,000 young people were registered unemployed on a monthly average in 2013 (see also Fig. 9).

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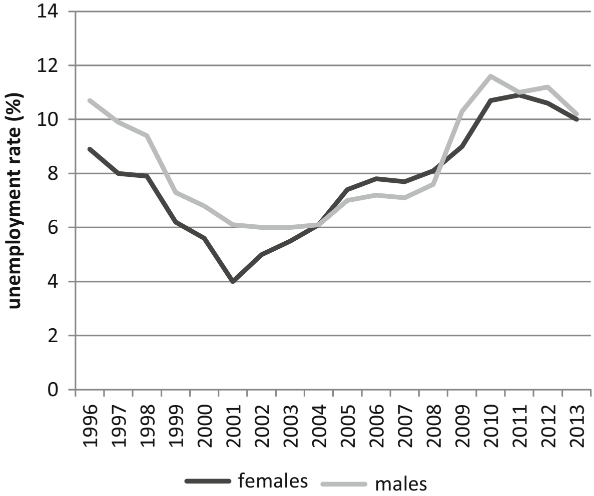

Fig. 8 Unemployment rate by sex (%). *Source*: EUROSTAT

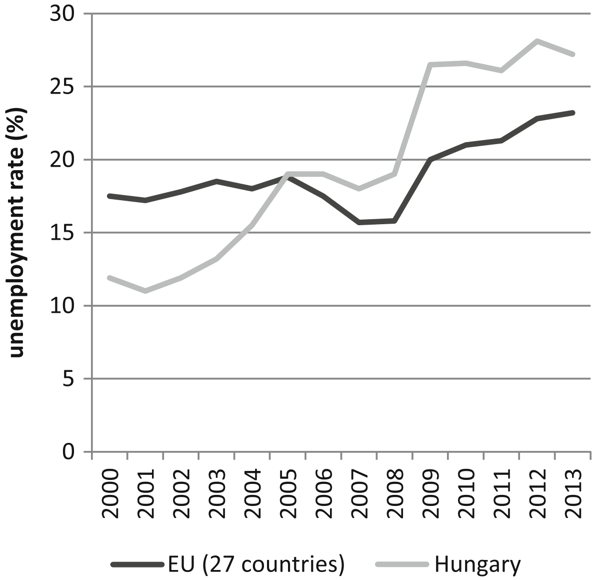

Fig. 9 Unemployment rate of persons less than 25 years. *Source*: EUROSTAT

About half the unemployed persons were and are long-term unemployed. The main trend has hardly changed since the transition: people with a low level of education, living in the northern and eastern part of Hungary and in rural areas have the highest probability to be unemployed or inactive, and in particular Roma citizens.

The Orbán government chose a *work for welfare* approach to handle the same difficulties and the added problems created by the economic crisis. As the prime minister in his speech at the 21st EPP Congress stated: "I am the prime minister of a

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country which two years ago was in a worse shape than Greece. But now I can report to you that we succeeded in regenerating Hungary and putting it on the right track. We have done our homework building up a workfare society" (Kormany 2012). And at the press conference after the speech, he declared: the welfare state will not return to Western Europe either as it is not competitive. According to him every state has to go through the correction of the welfare state. "In the West, it is more difficult as there are fully-fledged welfare states; in Central and Eastern Europe it is not so difficult, because the welfare state had not yet been established. We are stumbling among the ruins of the post-communist economic structure and its semi-finished buildings, but here is not a welfare state. According to our programme, a work-based society will be formed instead of the western type welfare state" (Fidesz 2012).

To achieve this objective, different yet mainly restrictive measures were introduced by the Orbán government. Previously, registered unemployed people were entitled to a job seeker's allowance for 270 days, then job seeker's assistance for another 90 days (or in the case of the unemployed above 50, for 180 days). After this they are then entitled to social assistance and public work. The whole system of the insurance-based unemployment benefits weakened: the duration of the job seeker's allowance was reduced to 3 months and when this benefit expires, unemployed people must participate in either some public work scheme or in active labour market programmes in order not to lose the entitlement to future unemployment benefits. The shortening of the period covered unconditionally (based on unemployment insurance) significantly endangers the chances of finding work. According to another restriction, unemployed people are obliged to accept any form of public work irrespective of their level of education. (Previously for example, someone with a diploma had to do administrative work, but not manual labour.) Full time public work pays less than the minimum wage. "Finally, the change in the complete unemployment benefit system might have selection effects. If job seekers are almost certain that they will not receive any help in finding a job during the registration period, are entitled to low benefits and do not want to participate in the public work programmes, they may not bother registering at the labour offices at all" (Fazekas et al. 2013).

In 2011 altogether 265,607 people participated in some public work programme; in 2012 311,511; in 2013 495,264 persons. Between December 2012 and December 2013 the net number of people in some kind of public work programme amounted to 387,069 persons (Ministry of Home Affairs).[3] In November 2013 446,310 persons were registered as unemployed, among them 53,161 persons were provided with the job seeker's allowance (unemployment insurance based); 144,171 people received employment substitute benefit (social assistance) and 248,978 persons were without any benefits.

[3] The difference is due to the fact that a person may participate more than once a year in the programme.

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The growing importance of public work programmes is reflected in the state budget: less is spent on employment and training while more and more on public work programmes.

Those who refuse public work offered by the job centre are taken off the register and will not receive any kind of financial assistance for 60 days. This may even hinder access to work as companies employing registered long-term unemployed people are eligible for social insurance contribution subsidies.

Following the idea of disincentives created by the so called "too generous" social assistance schemes, the maximum amount of social assistance for people of working age and able to participate in a public work programme was reduced to 90 % of the minimum old-age pension, that is to approximately 87 euros per month when they are out of work.

Regarding the efficiency of these programmes, the opinions are split. According to a report of the State Audit Office of Hungary public work programmes had a positive effect on the employment and unemployment rates as the employment rate increased with 0.8–1.1 % and the unemployment rate decreased with 1.4–2.0 % between 2009 and 2011 (ÁSZ 2013).

Zsombor Cseres, Gergely Gábor Kátay and Béla Szörfi arrived at a different conclusion. "During the crisis, the residual component, which mainly contains the cyclical component of labour market participation, contributed negatively to participation. According to data on flows between different groups, the flow directly from employment rather than from unemployment into inactivity strengthened (. . .). The sharp rise in the flow from subsidised employment into inactivity might be a consequence of the restructuring of the public working schemes. Those who temporarily lost their fostered worker status in the 2011 short term programmes and were not working and seeking another job during the period in which they were waiting to be placed into the programme again, were counted as inactive according to the ILO methodology" (Fazekas et al. 2013).

According to the research of Ágota Scharle (2011), public work programmes do not significantly reduce long-term unemployment as they are rarely effective. Furthermore, it is sometimes harder to find employment because of the reduced job-search time.

In summary, though public work schemes would seem to improve labour market statistics, they do not significantly increase employment. Thus the government basically finances the circulation between social assistance and public work instead of financing the expansion of the labour market.

5.2 Pensions

Since 1998 Hungary had a multi-pillar pension system: a public pay-as-you-go based social insurance tier, a compulsory private insurance scheme for the new entrants to the labour market as a second pillar and a voluntary private pension fund tier. Already the previous socialist-liberal government initiated changes in the pension system to cut pension expenditures. They eliminated the 13th month public

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pension in 2009, changed the algorithm of indexation and decided on gradually raising the statutory retirement age from 62 to 65 years between 2012 and 2022.

The new Orbán government introduced far more radical changes. It argued that it was necessary to reduce public debt and foster economic growth, that there were structural problems with financing the state pension pillar and serious demographic pressures, that the system was not transparent due to the existence of both social solidarity and social care obligations in the state pillar as well as the significant risk posed by the guarantee and management of portfolios by private funds. The response was to make membership of the second pillar no longer compulsory; members had to change to the state pillar and those who did not do so had to face strict penalties e.g. reduced state pensions. In 2010, the new parliament voted to transfer the assets of the private insurance funds to the state and blackmailed members of private insurance funds to nationalise the mandatory private pension system amounting to 9 % of Hungary's GDP. Given the circumstances, only 3 % of the members retained their private funds, which virtually ended the three-pillar pension system.

As a result a two-pillar system was created with a compulsory pay-as-you-go based tier and a complementary voluntary private pillar. At the same time the government promised to set up individual public pension accounts within the public social insurance system, however this intention has not been realized, at least so far.

> "Not only can the legitimacy of this measure be questioned, one can doubt how economically sound it was. The government chose to use half the nationalised capital to finance drastic tax cuts for the upper middle class, instead of reducing with it the already high government debt. At the same time, the centre-right government eliminated disability pensions. It is true that years ago, too many older workers chose this road rather than being unemployed or non-employed, but by 2008, this road had been closed. This measure is simply inhuman, just like the drastic labour policy measure of reducing unemployment benefits from 9 to 3 months. The government also eliminated early retirement, raising the minimum retirement age to the statutory age, namely 62. Again, one can complain that too many workers were allowed to retire below the statutory retirement age without suffering the due actuarial reduction. However, this measure is a true *hungaricum*, as in practically every other EU member state there is at least 2–3 years difference between the two retirement ages" (Simonovits 2012).

In accordance to its conservative ideology and contradicting the reasoning for the necessity of savings, the government opened up a new option for early retirement, without any benefit reduction, for women who worked or raised children at home for 40 years. And unlike other European countries which make efforts to keep senior citizens in the labour force, the government reduced (with some exceptions) the maximum retirement age to the statutory one without any transition period.

Hungary's Structural Reform Programme 2011–2014, based on the political thesis of the Széll Kálmán Plan stated: "The services provided by the system and the insurance, solidarity and social elements within the individual risk profiles must be identified and, when possible, separated. The allowances which are only partly or not at all covered by an insurance policy must be gradually transformed into social benefits" (Ministry for National Economy 2011: 17). Accordingly the government cleaned the portfolio of the public pension insurance system and the

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pension fund finances the old age pension for people above the pensionable age and the survivors' benefits. From the 1st of January 2012, benefits under retirement age are financed from the newly created National Family- and Social Policy Fund, disability and rehabilitation benefits from the Health Fund.

Although speaking of the maintenance of the solidarity based social insurance system, some symbolic steps also query the validity of these statements. Social insurance contribution paid by the employers was renamed to social contribution *tax,* thereby changing its original meaning which was based on acquired rights, benefit guarantee and the contribution's use assigned to a purpose. Returns generated this way, in principle are distributed between the different funds (ONYF 2012).

The long run consequences of all these are hard to tell. The Fidesz government eliminated the second pillar of the three-pillar personal pension scheme introduced in 1997 but never created a new pension system. The government made a promise that they would open the personal account system belonging to the national insurance pillar by the end of 2011 but it did not happen until the end of 2013. This results in a *torso* of the great pension reform as the government intervened in the pension system with a short-term fiscal aim without measuring the long-term consequences beforehand or even dealing with them afterwards. According to the latest data the poverty rate of the population was 17 % while that of the elderly (65 +) population significantly lower, 8 % in 2012 (Szívós and Tóth 2013). However a significant number of persons on old age pension or just before retirement age spent their active ages during the period of state-socialism, characterised by compulsory full employment and are eligible for old age pension. However unemployed people, non-registered employees and persons on very low social benefits will face very serious problems in their older ages and the recently very favourable poverty rate of senior citizens will deteriorate.

5.3 Health Care

Health care services are based on three service packages: the most robust of them is the pay-as-you-go system (contributions paid both by the employees and the employers), a supplementary voluntary private insurance scheme is available as well and those who, for various reasons (non-registered job-seekers etc.), are not members of the social insurance system have the right to use some basic services (emergency, pregnancy, maternity, children, public health). Challenges facing the Hungarian health care system largely similar to those of the more developed countries (efficiency, inequalities in the access to the services, increasing number of the elderly population with special medical needs, sustainable financing etc.), however Hungarian 'specialities' darken the picture: among others ineffective governance, disproportionate structure, lack of co-ordination between the service providers, low wages, acute shortage of medical personnel and the high incidence of gratuity money (Orosz 2009).

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Health care was a battlefield policy between 2006 and 2008 when the Ministry of Health, dominated by the liberal coalition partner, launched several market-friendly reforms which generated strong criticism in the opposition parties and the medical chamber. What is more, the liberal reforms were very unpopular among the MPs of the coalition partner, the Socialist Party, so the socialist prime minister seized the first possible opportunity to get rid of the liberal Minister of Health Care in 2008. From 2010 the Fidesz government considered the fact that health care stakeholders have an interest in maintaining the status quo in this sector, that is why health care remained one of the few untouched policy fields under the otherwise hyperactive Fidesz government. Thus controversies regarding the accessibility, quality, financial sustainability, efficiency in service purchase, meeting the differentiated consumer needs and equal access to services remained unsolved. All the relevant health care statistics (life expectancy rate, healthy life years etc.) reflect a very unfavourable situation compared to the EU average.

There are sharp differences in the health status of the population and in life expectancy at birth from one social stratum to the next. The lower status groups have significantly lower chances of living a long and healthy life.

5.4 Family Benefits

Any family benefit system has three objectives: to contribute to the costs of child raising (horizontal equity), to decrease income inequalities and to alleviate poverty (vertical equity), and to increase the birth rate. The main cash benefits are family allowance, parental leave (universal maternity leave, child care assistance, child care support; social insurance based child care fee), tax allowance and social assistance targeted at families with children.

The recent family allowance system is differentiated according to the number of children and the family type and gives a preferential treatment to single parent families, families with three or more children as well as to long-term sick and disabled children to decrease the risk of child poverty. The level of the benefit is low and it is not adjusted to the inflation rate.

The system of family allowance did not change for decades, however in 1999 a new initiative was introduced: the period of disbursement was divided into two phases: the pre-school and schooling ones (the name in this period is educational benefit). From 1 September 2009 to 29 August 2010 if the child was at risk of poverty, 50 % of the family allowance could be provided as an in kind benefit. From the 30 August 2010 to 31 August 2012 the family allowance (educational benefit) could be temporarily suspended if the child missed more than 50 hours from school without good reason, from the 1 September the same year it could have been totally withdrawn. From 1 September 2013 to broaden the scope of these punitive measures workfare and *learnfare* solutions were combined: those unemployed people whose children miss 30 hours from school without any documentation are ruled out from the public work programme for 3 months and consequently they lose the eligibility for social assistance. This form of family allowance reflects a

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deformed interpretation of conditional cash transfers as instead of applying incentives to motivate children, and primarily those of disadvantaged parents, to get the best use of the educational system, it punishes the whole family, among them brothers and sisters and excludes the parent from the world of labour.

As far as parental leave is concerned, child care assistance and child care support are lump sum benefits (28,500 HUF/approximately 96 euros/month), while the sum of the social insurance based child care fee depends on the earning of the mother and the per capita sum amounted to 91,050 HUF/approximately 304 euros/month in 2012. Taking 2007 as the baseline (100 %) the real value of family allowance (average sum per family) decreased to 84 %, that of family care assistance to 83 % while that of the child care fee increased to 104 % by 2012. The tax allowance targeted families with children and the preference given to child care fees indicates the government's intention to support middle class families.

5.5 Social Assistance: War Against the Poor

The toolkit of social assistance in 2007–2008 already involved not only income and property means tests but behaviour and work tests as well. In practice, these rules targeted the Roma population with a mostly low employment rate. This was probably caused by the attempts of the socialist-liberal government to prevent the growing radical right pressure. This pressure manifested itself not only in the right-wing Fidesz getting stronger but also in the radical right Jobbik gaining more power along with the right-wing attitude and anti-Roma rhetoric generally becoming more popular with the voters (Angelusz and Tardos 2011). The left-wing government could not stop the downward spiral with their new politics; even so they unintentionally prepared the way for the radical changes to come in the welfare system after 2010. Since 2007, these changes have been slowly but increasingly becoming similar to a war against the poor. The government tried (to some extent) to meet this changing political climate by tightening both the social assistance system (the principle of one family—one social assistance) and the public works system by testing the participants' willingness to work (Tausz 2008).

In the social assistance system, it has become common to check people's willingness to work. The local municipalities were given statutory authority by parliament to exercise a harsher control over the beneficiaries than before. It has become obligatory to accept public work, declining it is sanctioned by the withdrawal of financial aid. Making social security a state objective instead of a guaranteed right and incorporating the possibility of control over beneficiaries into the Fundamental Law is closely linked to Viktor Orbán's frequently expressed vision: "We are making an attempt to turn an entitlement-based society into a merit-based one. We are very close" (Emerging Europe Real Time 2013).

Before 2010, it looked as if the hybrid nature of the Hungarian welfare system would show up finally (Tausz 2009), that is different social-political trends would follow one another or they would appear simultaneously. However from 2010 workfare takes over welfare in the political vocabulary, even 'prisonfare' got

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carried away by the “public safety tornado” (Wacquant 2011) the same way the Fidesz government lowered the age limit for compulsory education and culpability and created “school police” for 200 schools that educate underprivileged children. Furthermore, the Fourth Amendment of Fundamental Law in 2013 allows the police and municipal authorities to define homelessness as a crime.

As a consequence: after 2008, the poverty rate clearly increased, 14 % in 2009 and 17 % in 2012 (TÁRKi 2010), even so the Orban government stopped running the most important anti-poverty programme, the National Programme against Child Poverty in 2011.

6 Conclusions: The Nature of the Hungarian Welfare State

Hungarian research on political attitudes show that the level of social trust amongst Hungarians is low, the desire for more income is dominant, and individual ideological approaches easily overcome the acceptance of solidarity’s set of values (Skrabski and Kopp 2008; Örkény and Székelyi 2011). The global crisis caused people turning their back on solidarity even more (Médian 2010). Indicators show that the trust in the government and the parliament is below the European average, as it is usually the case in Eastern Central European post-communist countries. The political change of the election held in 2010 did not help these tendencies to change either: while the basic characteristics stayed the same, the indicators of competitiveness, doing business, corruption and democracy—all linked to the level of trust—continued to fall after 2010 (Ágh 2013). According to the Special Eurobarometer on Social Climate “Hungary has the most negative views after Greece and Portugal in relation to unemployment benefits (1 % think it has improved, 79 % think it has got worse) and the way in which poverty and inequality are addressed (2 % and 65 % respectively)” (Eurobarometer 391: 2012). The Hungarian score of national attitudes to ethnic diversity was the fifth lowest in the EU in 2012. In comparison with the 2009 results, the direction of change was negative (Special Barometer 393: 2012). All in all, Hungary had one of the lowest social climate indexes in the European Union in 2012.

This social background results in weak participation rates in politics—76 % of people are not a member of any kind of NGO or association while the average non-membership in the EU is 56 % (Flash Eurobarometer 373: 2013)—making it difficult for respective governments to create supporting social coalitions behind a grandiose reform, while it also prevents civil disobedience against legislative measures to take an integrated form. The active agent role of citizens as stated by Sen (1999) is less characteristic; it is rather the alternating patterns of staying away from political activity altogether.

There were very few and ineffective social-political protests opposing the large-scale institutional changes after 2010. None of these movements have managed to hold back the government’s reforms, which they called the “reorganization of the country”. The government is not stopped by significant social opposition, and it tries to pacify the occasionally reoccurring movements. There are three ways of

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pacification. The first is limiting rights and total control, an example to which is diminishing labour rights, restricting the right to strike, and creating compulsory public bodies. An example of the latter is the Hungarian Chamber of Teachers with compulsory membership, which has ‘ethical’ control over its members, and may sanction them by dismissal. The second way of pacification is making contracts with the most significant advocacy groups. By doing this, the government divided interest groups and destroyed their fragile unity. The third way of pacification is the “gift approach”: it is exemplified by the salary increase of teachers and health care employees, which—even though is less than promised and its distribution has been prolonged—still managed to quiet the preparing protests of resident doctors and teacher advocacy groups. A further example for this great-scale political tactic is the cutting back on public utility fees by 20 % in 1 year. The sustainability of this measure is doubtful, however, its political benefits for the government are unquestionable.

In general, we can see a society which has low trust levels, is not open to solidarity-based politics, and is also easily distracted from them. In this environment, alternating governments either back off reforms that strengthen solidarity and reduce inequality and poverty, or do not even experiment with these ideas, and try to use the lack of trust and solidarity for their own political purposes instead. In case they do the latter, as the Orbán government from 2010 has done, the elimination of legal guarantees, perverse redistribution and the strengthening of controlling-sanctioning policies occur.

In 2006, Zsuzsa Ferge made a prognosis on which path Hungarian social policy might take until 2015. As a number one option, she pointed out the strengthening of *neo-liberal* tendencies once again. The implementation of this option was backed by the global markets such pursuits being supported by both the European Union’s and plenty of Hungarian advocacy groups’ requirements, while the civil anti-globalization movement had not found ways of counteracting. The second option was *‘paleo-conservativism’*, of which the main example was the Polish Kaczynski government, in power at the time of the study. Paleo-conservativism has characteristics such as traditional family ideals, extreme restriction of reproductive rights, and the tightening of penal policy. According to Ferge, this political strategy has a basis in Hungary, but it is unlikely to become permanent as it is against European mentality, even though the European Union has no methods to take action against these tendencies should they become popular. The third option seemingly feasible in 2006 was the *social democratic* way. In connection with this Ferge adds that after 1989s regime change, left-wing governments were quite conceding when it came to neo-liberalism. However, fight against poverty as well as discrimination has become an important topic among the public and in the activities of the government too, even if mainly as a result of joining the EU (Ferge 2006).

The different versions of prognoses indicate that the Hungarian welfare regime shows eclectic characteristics, and it is highly dependent on political changes which of these characteristics become emphasized. Cook described this as ‘hybrid’ (Cook 2007), while Lelkes called it a ‘faceless’ model (Lelkes 2000). According to other authors, these mixed systems carry certain risks. The concept of Inglot’s

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'emergency' welfare state is based on the finding that these hybrid regimes are hectic and are characterised by rapid change and frequent emergency situations (Inglot 2008: 10–11). According to Tomka, the hybrid nature increases the instability of these welfare systems, while Tausz draws attention to the fact that the possibilities of medium and long-term planning are missing which is why integrative social politics fail to prevail (Tausz 2009: 261).

As we have almost reached the end of the period mentioned in Zsuzsa Ferge's prognosis, the Hungarian welfare regime's hybrid character still has not changed, though there have been some changes.

Due to the 2008 referendum, the pursuit of introducing co-payment in health care has failed. Concerning the pension system, the liberal reform has been inverted. Despite all of this, we still cannot talk of a social democratic turn when tax expenditures and pervert redistribution increases as they do so after 2010 and the social inclusion programmes coming to a halt in this era. To the effects of global crisis on Hungarian real-economy and finances, the Bajnai government reflected with 'traditional' cut-backs, such as abolishing the 13th month pension and a freeze on child benefits. Thus, in some sense, liberal tendencies do appear in the welfare state, but on the other hand we can find radical anti-liberal rhetoric and anti-market steps.

Regarding the conservative elements the picture is still confusing because strong family rhetoric protecting traditional family values are mixed with measures such as targeted benefits aiming to help women to find flexible work arrangements. However, we cannot talk about a continental conservative system where the term for which contribution-based unemployment benefit can be claimed becomes drastically shorter, and where disability pensions are abolished instead of being transformed into a pension-like annuity.

Therefore the system is not liberal, as dire efforts made for nationalisation can be observed. It is not social-democratic, as universal benefits keep losing budgetary importance. It is not conservative in the continental sense, because it does not look at acquired rights and social insurance based contributions as inviolable, neither does it pursue the preservation of the social fabric: inequality keeps rising and the poor—not only the Roma minority, but broader masses—are being pushed into a truly underclass state.

It all shows that the Hungarian welfare regime is not only mixed and eclectic, but it is also harder and harder to find the respective welfare regimes' ideal-typical characteristics in it. As a result, the theory of facelessness seems legitimate even today. On the other hand, this social-political course is getting more and more pronounced: its nature is best described by the term paleo-conservativism (as mentioned by Zsuzsa Ferge). Regarding such elements of social policy as the de-emphasizing of the rule of law, the attraction to social hierarchy and state-centred solutions, the pursuit of strengthening traditional family values and historical churches, the phrase "anti-liberal paternalistic conservativism" would be advised to define Hungary's shift from a post-communist hybrid welfare regime to a new atypical workfare, punitive prisonfare regime.

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Ireland: From Boom to Bust

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1 Introduction

The Irish welfare state was underpinned in the decade and a half to 2008 by a growing economy, full employment and demographic balance—the Celtic Tiger, so-called. Since then the economy has collapsed and this change in economic fortunes has been accompanied, apparently, by another: "a momentous degree of welfare retrenchment" (Considine and Dukelow 2012: 267).

These dramatic developments took place against the wider background of the demise of European corporatist welfare regimes (Palier 2010). The chapter therefore focuses in particular on the potential emergence in Ireland of the emerging paradigm identified by European scholars (Van Kersbergen and Hemerijck 2012): the social investment state. Has the crisis induced a path-departing change in this direction, or is recent policy change susceptible to being reversed under more benign fiscal conditions?

2 Fiscal Crisis and Social Policy

The crisis in Ireland, and the policy response to it, is not unique in a comparative context. As Vis et al. (2011: 338) point out, the recent economic and financial crises were pervasive and did, indeed, "intensify the pressure to reform the welfare state". The argument that such crises create change is compatible with a range of theoretical perspectives. For Marxists, the crisis simply reflects fundamental contradictions that may bring the end of the mixed economy/welfare state model; institutionalists view crises as potential turning points when 'path-departing' change and substantial reform becomes possible; ideational theorists suggest that crises create uncertainty

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and provide a role for new ideas and radical policies; functionalists stress that crises may lead to existential threats and hence to drastic policy change. Have welfare states in general changed in response to the crisis, and if so, is the type of policy change observed in Ireland exceptional in a comparative context?

As Vis' comparative analysis shows, states across the worlds of welfare adopted policies in two phases, the first of these dealt with the immediate financial and macro-economic economic issues and the second with unemployment. Some of the first phase measures were applied in all or most of the sampled countries—lower interest rates and financial measures to support banks and prevent bankruptcy. Germany is distinctive in the first phase measures by its mix of Keynesian policies and the UK likewise by its freedom as a non-Euro member to use all monetary measures. In the second phase, all the countries—except the 'liberal' USA—applied labour demand policies, and they all also implemented measures to activate the unemployed-including the USA.

In general terms, how does Ireland's mix of policies compare? The outstanding feature of Ireland's response is the absence of any Keynesian measures and the limited role for labour demand measures; this reflects the deflationary stance embraced to correct the public finances. The scale of the financial and banking crises generated a wide range of banking and bankruptcy measures in Ireland; some of these were designed and implemented at EU and ECB level—buying of government bonds and liquidity support. Finally, along with the UK, Ireland responded to growing unemployment with a plethora of schemes directed at the unemployed. These distinguishing aspects of Ireland's policies, should, of course, be viewed in context; the *range* of policies in Ireland is not exceptional, but the relative importance of specific policies distinguishes it from the other countries.

This preliminary comparison of policies sets the context for a fuller account of Ireland's experience of the crisis and associated policy responses. The background to, and evolution of the crisis have been extensively studied (Murphy and O'Donovan 2013) and the proximate sources of the fiscal and economic crises well-documented. Ireland's late and dependent development strategy forged in the late 1950s was predicated on export-led growth, and a high penetration of the economy by foreign direct investment—the latter underpinned by low corporate taxes and other supports. In the early 1990s, this strategy elicited remarkable economic success in the context of the expanding Single European Market, the boom in US foreign investment, the boost imparted by the post-Maastricht programme of public investment, and the one-off increase in labour supply through enhanced female participation and substantial net immigration. Ireland acquired a considerable stake in the newly financialised economy. These boom conditions in the context of the cheap finance in the EMU facilitated the emergence of a bubble economy through over investment in, and excessive lending for residential and commercial properties. Furthermore, the economy became imbalanced because of the scale of the bloated construction sector (Murphy and O'Donovan 2013).

In 2008 Ireland's 'perfect economic storm' began. The liquidity crises in international banking triggered financial imbalances in the bloated financial sector culminating in the bankruptcy of the major financial institutions. In turn, this

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reinforced the downward trend in inflated asset and property prices, leading to a property crash and a sudden and sharp contraction in the construction sector—in both output and employment. This led to a marked rise in unemployment and a decline in property-related and other tax revenues. At household level, many households became subject to one or both of the following: housing affordability and negative equity. As the economy entered a deep recession post-2008, with unemployment rising and earnings falling, many mortgage holders became trapped between mortgage repayments on boom-level house prices and mortgages, and falling disposable incomes. Some householders also became trapped in negative equity; the sharp decline in the value of their properties left them with mortgages greater than the value of the property. The Central Bank reported that at the end of 2013 12.6 % of mortgages were in arrears of more than 3 months and that the outstanding balance on these arrears was 18.2 billion euros, equivalent to 17 % of the outstanding balance on all residential mortgages. Negative equity affects a high of proportion of mortgaged properties; at end 2010, 31 % of mortgaged properties were in negative equity, representing 47 % of outstanding loan balances (Kennedy and McIndoe-Calder 2012). The implications of these data for the levels of deprivation, debt and financial stress at household level are reflected in the successive annual EU-SILC findings: by 2010, 31 % of households were reporting 'difficulty' or 'great difficulty' in making ends meet, and over the period 2007–2011 the percent of households experiencing deprivation of at least one or more forms of deprivation increased from 24.3 to 40.3 %.

The decision by the government to offer an almost total guarantee of the banks' liabilities set the scene for the programme of austerity and deflation that would follow. After the implementation of the guarantee, the scale of the banks' losses became clear and the state intervened to directly recapitalise them. As the implications of these developments for the scale of government debt became clear, both the banks' and the sovereign's credit rating were downgraded, and in 2010 the government was impelled to adopt the emergency assistance of the 'troika'(IMF/EU/ECB) in a 3-year programme (2010–2013) with attendant conditions. In addition, the government established a National Asset Management Agency (NAMA) to purchase the riskiest of the banks' commercial loans; this cost 30.2 billion euros—19 % of GDP in 2012.

In social policy terms the net impact of the crisis was to create an immediate problem of unsustainable sovereign debt. The overall, accumulated fiscal cost of the bank guarantee, the recapitalisation of the banks, the cost of the 'bad bank' (NAMA), and other measures was substantial. As a result, general government gross debt which was 25 % of GDP in 2007, escalated to 124 % in 2013 and is projected to remain above 110 % in 2014 and beyond. Table 1 gives key, self-explanatory data for the period 2007–2014. The sheer scale of the economic decline is reflected in the declines in *nominal* GDP from 2007 to 2011 and almost imperceptible growth in 2012 and 2013. Likewise, the data on the budget deficit and on gross debt summarises the sovereign debt predicament, and the employment and unemployment data records the catastrophic conditions in the labour market. The

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Table 1 Economic indicators, Ireland 2007–2013

Variable	2007	2008	2009	2010	2011	2012	2013
Annual % change GDP	–	−5.0	−9.9	−2.6	2.8	0.8	1.2
Volume change GDP %	5.0	−2.2	−6.4	−1.1	2.2	0.2	0.6
Current budget deficit % GDP	+3.7	−1.7	−7.0	−7.9	−6.9	−6.2	4.4
General govt. debt as % GDP	24.9	44.2	64.4	91.2	104.1	117.4	124.1
Employment 000s	2143.1	2128.4	1961.4	1882.2	1849.1	1837.9	1899.3
Unemployment rate %	4.7	6.4	12.0	13.8	14.6	14.7	13.5

+ Surplus
Source: IMF

data for 2012 and 2013 indicate a degree of fiscal and macro-economic consolidation.

What was the official policy response to the evolving crisis? This can only be understood in a European context:

– Its membership of the EMU/single currency precluded autonomous national monetary policy on interest rates or currency devaluation;
– The ECB insisted on the conversion of bank debt into sovereign debt;
– The troika's loan conditions stipulated a quite specific fiscal target in terms of the reduction in the current budget deficit to 3 % of GDP by 2015.

Ireland's policy elite constructed its situation politically as undermining its international business credibility and rendering its situation in sovereign debt markets untenable. In these circumstances, the financial crisis and its management via the troika programme paved the way for a policy stance of deflation and austerity. The specific policies reflecting this stance can be summarised as follows. The government adopted the troika target as an overarching policy goal. It then pursued this policy by means of successive budgetary exercises in fiscal consolidation; broadly, this comprised a mix of two thirds expenditure reductions and one third tax increases. To conform to the conditions of the troika programme, the government also embarked on a programme of public sector reform and restructuring. To analyse the welfare state implications of these policies it is necessary to note, first, some quite specific cuts in social programmes, second, to place these in the context of wider aspects of the fiscal consolidation, and, third, to reflect on the net distributional implications of the overall policy programme.

In relation to the programme cuts, Table 2 gives an illustrative list of cuts in social programmes. Universal Child Benefit, a monthly cash benefit paid directly to all mothers, was reduced in nominal terms and its core rate is now 20 % lower than in 2008; payments tiered by age were introduced for the young unemployed, so that the main payment rate now applies at age 26; conditionality was strengthened for

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Table 2 Illustrations of retrenchment policies

Item	Groups affected	Details
Cuts in benefits and services		
Child benefit	All families with children	Payments for children 18+ abolished; cut in core rates, two child family reduction of 16 %; three child family loses 107 euros per month
One parent family payment	Lone parents (98 % female) in receipt of OPFP	Reduction in rate of 10 %; phased introduction of age limit for child; reduction in earnings disregard in means-test; lone parent also loses from reduced child benefit
Jobseekers benefit and allowance	Adult and young unemployed	Increase in contribution requirements for benefit; 10 % cut in benefit rate; shorter period of entitlement to benefit; tiered rates of payment for younger unemployed (50 % less for <21, 30 % less for 22–24)
Health care	Poorest 40 % of population	Lower threshold for eligibility for free GP care; increased prescription charges for those with free GP care
Services	Users of social services	Abolition of house building programme in public sector; reductions in service quality due to reduced staffing
Tax and other revenue raising measures		
Property tax	All owner-occupiers	From 2013, annual tax on self-assessed market value of home, and exemption for very limited groups
New social charge (USC)	Most income sources	New charge at progressive rates of 2, 4, and 7 %, incomes below 4000 euros p.a. exempt
Income tax changes	All points in the income distribution	10 % cut in lower tax rate band; reduction in personal tax credits; tax relief on pension contributions and private health insurance reduced
Pay cuts for public servants	All public sector employees	2009; pension related deduction, with exemption at low pay and progressive rates; 2010; tiered cuts in pay rates (5 % first 30,000 euros, 7.5 %, next 40,000 euros, 10 % next 55,000); 2013; further cuts for higher paid

payments for the unemployed and lone parents—in the latter case, an age limit for benefit receipt youngest child is aged 7 or younger; unemployment insurance was reduced by means of increased contribution requirements, and the duration of benefit halved to 6 months. In addition, the non-cash subsidies for fuel, energy etc to long-term welfare recipients (mostly pensioners) were reduced by amounts ranging from 16 to 25 %. Official policy was based on protecting ‘core’ benefit rates; hence the nominal value of long-term survivors’ and retirement pensions was unscathed. If retrenchment is defined in terms of outright reductions in social rights, then the suite of reductions illustrated here is a clear-cut case of retrenchment.

Second, this retrenchment was accompanied by tax and other measures, illustrations of which are given in the lower panel of the table. The tax measures

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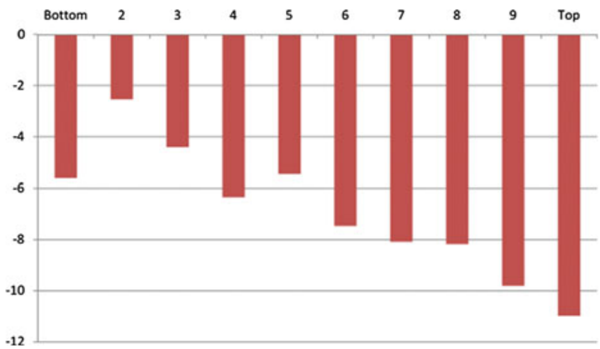
combined actual rate increases, indirect revenue-raising through reductions in basic tax credits, and a widening of the tax base through a reduction in discretionary tax expenditures and the introduction of a property tax on residential property. The budgetary changes in social protection and the tax increases were augmented by another suite of changes; pay reductions for most public sector employees, a programme of cuts in public sector employee numbers and reductions in current and capital spending on all welfare state programmes, including health and education. To date, the overall scale of adjustment has been substantial; over 2008–2013 a significant reduction in the current budget deficit and a total reduction in public sector employment of 10 %.

To understand the long-term implications of these policy responses, it is important to reflect on their broad distributional impacts. Clearly, one set of measures was directly regressive—the outright reductions in social protection. Arguably, the deflationary impact of the fiscal consolidation was also indirectly and powerfully regressive in that it exacerbated the rise and persistence of unemployment. Some of the wider tax and pay measures were formally and substantively progressive, however. For example, the reduction in tax expenditures, the imposition of a mildly progressive property tax, the progressively tiered cuts in pay in the public sector, the changes to capital taxes would all, a priori, affect those on higher incomes more. As this paper is being written, there is no overall, arithmetic calculation available that quantifies the distribution of the losses/gains across social categories or income groups. However, the evidence available from the series of modelling exercises undertaken by Irish analysts suggests these broad conclusions. While two of the individual annual budgets (and some individual measures) were regressive—imposing greater losses on lower income households, other budgets had the opposite effect. Significantly, the most recent analysis of the *cumulative* impact of policy since 2008, summarised in Fig. 1, suggests that the burden of adjustment has been progressive. Across the income distribution, net losses were experienced, but "policy changes tended to reduce incomes by more than average for the top two deciles, and by less than average for other deciles".

Fig. 1 Impact of income tax, welfare and public sector pay policy changes, 2008–2012—percentage change by decile of equivalised disposable income. *Source*: Callan et al. (2013: Fig. 4, p. 19)



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The tax-benefit analyses cited above are not without conceptual and methodological limitations, but they are sufficient to signal a more complex view of the mix and impact of policies. In fact, the most striking outcome to date is the *stability* in the overall income distribution. While the percent of the population subject to relative income poverty rose between 2008 and 2012 (from 14.4 to 16.5 %) and the share of the population recording financial difficulty and deprivation rose (from 13.8 to 26.9 %), the gini coefficient of disposable income inequality, in contrast, hardly deviated from its 2008 value of 0.32 and currently stands at 0.32.

3 Demography

The ageing of European welfare states has long been an important functional pressure for change in European pension systems. This change has generated a substantial literature, best summarised in Palier's (2010) metaphorical question about the demise of generous income replacement pensions: '*A Long Goodbye to Bismarck*?' Ireland's recent and current demographic experiences and discourses are exceptional, in two respects. First, in relation to ageing, its recent and current profile does not conform to a currently aged or immediately ageing population. Table 3 below reproduces comparative data on age structures. It can be seen that Ireland's dependency ratio of 20 is significantly lower than the EU average of 28.5. As the projections in the table also show, Ireland's figure will rise to 27.6 % by 2030. This profile places Ireland significantly behind mainland European welfare states in the ageing process.

In the context of welfare state politics, however, this very gradual ageing is significant. Policy elites and pensions providers *politically construct* Ireland's relatively benign age structure as a rationale for policy change. For example, in its discussion document, *Green Paper on Pensions* (Government of Ireland 2007), the government invoked demographic ageing as a rationale for systemic policy

Table 3 Ireland and EU-27 population and age structure projections

Year	EU-27		Ireland	
	Population (million)	[a]Aged dependency ratio	Population (million)	[a]Aged dependency ratio
2015	508.2	28.5	4.6	20.0
2020	514.4	31.4	4.8	22.8
2030	522.3	38.3	5.3	27.6
2040	525.7	45.5	5.8	33.1
2050	524.1	50.2	6.2	39.7
2050/2015	1.03	1.8	1.3	2.0

Source: Eurostat
[a]Ratio = number of persons aged 65+ as a percent of population aged 15–64

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changes, such as a higher pension age for the state pension and a tightening of the contribution-benefit link. Even more significant is the medium-term strategy announced for pensions. To meet the challenge of projected ageing—objectively, a much less important challenge than in many other welfare states—the government has embraced a private funding model for the second tier of pensions. Briefly, the first tier of Ireland's provision offers low income replacement (currently 33 % of gross earnings) and the second tier has coverage of only 50 %. Attempts to increase second-tier coverage using tax incentives and other measures have failed. Policy makers have therefore defined the pension problem in terms of ageing and an associated imperative to create a wider second tier based on an auto-enrolment funding model. As analysts of pension models (Barr 2001) point out, funding of private pensions may increase coverage, but impose the risk on individual savers, and, moreover, do not necessarily generate enhanced savings, investment and improved economic performance.

In sum, in a European context, Ireland is an example of where the functional pressures for policy change do not explain the extent and nature of change in pension policy. To the contrary; the political reconstruction of demographic realities arguably reflects Ireland's partial assimilation into the Anglo-Saxon 'world of welfare' and the pension industry's success internationally in constructing private funding as a solution to pension sustainability.

What of migration? Here too Ireland records distinctive experiences, historically and currently. The historical backdrop to migration is the long record of population decline and continuing net emigration from mid nineteenth century to the latter decades of the twentieth. Commencing with the demographic restructuring of Ireland in the aftermath of the catastrophic Great Famine of 1845–1847, Ireland's total population declined continuously till 1961; high natural fertility was offset by substantial emigration and hence net outward migration was always negative. The first phase of rapid industrialisation from 1961 to 1981 reversed this historic pattern of high emigration (negative net migration), and this reversal in demographic outcomes was viewed by policy-makers and the public alike as an indicator of long-awaited, successful national development. This reversal took a sharp U-turn in the 1980s, when the economic crisis led to very high unemployment and a resumption of emigration, and from the mid 1990s to 2007 the demographic pendulum swung back again. In short, for historical reasons and because of its integration into the Anglo-Saxon economies, migration in Ireland is directly and immediately responsive to economic conditions and in particular to levels of unemployment (NESC 1991). Critically, migration outcomes are viewed by policy-makers and the public alike as indicators of national success or otherwise. High levels of emigration are viewed as symbols of social failure, and in current debate—both public and political—the resumption of emigration invokes comparisons with earlier eras of economic depression in the 1950s and 1980s.

What is more, the *long-term*, *indirect political* consequences of high emigration at times of economic failure and crisis puts Ireland in sharp contrast to other small,

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open, Northern European economies. Mjoset's (1992: 62) comparative analysis of Ireland and these other welfare states highlights Irelands "unique" demographic dynamics. Specifically, at a critical historical juncture, mass outmigration from Ireland weakened the potential for industrialisation and the emergence of broadly-based social democratic parties. Thereafter, with the institutionalisation of emigration, economic crises (in the 1950s, 1980s, and currently) did not generate mass politicisation or mobilisation. In this analysis, emigration is a functional alternative to politics, and political responses to crises tend to be channelled through the 'peculiar' non-class party system. As Mjoset argued, emigration in Ireland can be seen in Hirschman's terms as a resort to 'exit' rather than 'voice' or 'loyalty' (Mjoset 1992: 62–67). Emigration, accordingly, displaces oppositional voices and reformers, to the benefit of those remaining. In the wake of the 1980s crisis, a prominent Irish historian, reflecting on Ireland's economic history and its failure relative to the Nordic states, placed emigration at the beginning of a causal chain of population decline, political conservatism and economic underdevelopment: Ireland's "socio-economic system decreed mass emigration and national population decline as pre-requisites for the comfort of the survivors" (Lee 1989: 644).

Table 4 below summarises the recent data, showing the sharp turnaround in migration at the onset of the crisis: a decline in inward flows and a dramatic resumption of outward flows. The currently high level of emigration is publicized and therefore politically salient. This analysis of the historic significance of migration has specific-albeit indirect—consequences for the analysis of the demographic aspects of Ireland's welfare state. First, the success of the Celtic economy induced significant net inflows and gave net immigration into Ireland a connotation of success. Therefore, the conflicts over immigrant access to public goods such as housing and education have been muted and no political space has opened

Table 4 Recent trends in population and (E) migration

Year	Population	Change on year	Natural increase	Net migration	In-migration	Out-migration
2000	3790	48	22	26	53	27
2001	3847	58	25	33	59	26
2002	3917	70	29	41	67	26
2003	3980	63	32	31	60	29
2004	4045	65	33	32	59	27
2005	4134	89	34	55	85	29
2006	4233	106	34	72	108	36
2007	4376	143	38	105	151	46
2008	4485	109	45	64	114	49
2009	4533	48	47	2	74	72
2010	4555	21	49	−28	42	69
2011	4575	20	48	−27	53	81
2012	4585	11	45	−34	53	87

Source: Eurostat

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up for xenophobic welfare politics. The threat to the legitimacy of the welfare state from populist critiques of migrants' utilisation of social protection has not materialised.

In the current crisis emigration is again at a historically high level; to put it in context, a comparable rate applied to the UK would imply total emigration of 1.1 million working age adults. This level of emigration plays a role in the relative political acquiescence of the public in the management of the crisis and the implementation of retrenchment. As in the past, emigration substantially reduces measured unemployment and the budgetary costs of unemployment protection. It also displaces a proportion of the working-age and voting age population, minimising demands for transformative politics. This analysis is not inconsistent with the fact that Ireland's economic crises, symbolized by emigration, can have *electoral* repercussions. The dominant political party, *Fianna Fáil*, lost office in 2011 in the wake of the financial collapse and its vote share fell from 41.7 % in 2007 to 17.4 % in 2011, the lowest since 1932. It was replaced in government by a Centre-Left coalition that is currently implementing the programme of fiscal consolidation. Emigration, therefore, serves as a popular symbol of policy failure, but equally the 'exit' it represents reinforces dominant policy models.

4 Towards a Social Investment State

European welfare states have been undergoing change in the last two decades. There is much controversy about the sources and impact of change, but some agreement on its general direction. As Van Kersbergen and Hemerijck (2012: 476) state: "European welfare states have been following a social investment logic in their reform agendas". The core of this strategy—also known as "active social policy" (Bonoli 2013: 3) is well-known: an underlying emphasis on employment as the basis of social inclusion and hence a focus on maximising employment not only among the core workforce but also among women, and those traditionally on the fringes of the labour market—lone parents, the disabled, unskilled youth, and so on. A shift to such an approach is associated with a shift from 'passive' spending on cash payments to 'active' spending on training, child care provision, labour market integration services, and institutional reform of labour market and benefit systems. The rate at which and the manner in which this shift takes place varies across states; the wider institutional context and specific welfare regime attributes structure states' transitions to 'active' social policy (Bonoli 2013).

Is Ireland included in this general move, and if so, has the crisis legitimized the change or accelerated it? Immediately prior to the current crisis, Ireland still lay at the passive end of the 'passive-active' continuum. Comparative studies of activation services (Grubb 2010), benefit systems (NESC 2011), child care for working parents, care strategies for the elderly (Timonen et al. 2006) and social inclusion strategies, cumulatively portray Ireland in these passive terms, with non-cash services relatively underdeveloped and functionally displaced by cash compensation and family-voluntary sector provision. The historical source of this passivity

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lies in the lingering influence of Catholic, paternalistic norms about poverty and work. Additionally, the later adherence to the male breadwinner model retarded policy developments in relation to female and maternal employment, and well-documented institutional constraints delayed the emergence of reformed labour market and training services. Official publications (Department of Social Protection 2006) show that this aspect of social policy has been acknowledged by policy analysts and elites, and indeed some progressive groups in civil society have urged a shift towards service provision—for example in child care. However, there has been no overarching, popular demand for a systemic shift from compensation to investment/activation policies.

The crisis in the public finances has, however, quickened the pace of change, as Table 5 below illustrates. One example of this change was a one-for-one swap in the area of child and family support. In a populist measure in 2006 the government introduced the *Early Childhood Supplement*, a cash payment of 1000 euros per quarter for all families with children aged under 6—in addition to the pre-existing mix of universal and selective cash payments for families. This was abolished in 2008 and replaced with a child care guarantee of 30 hours child care weekly for all children of 3 years of age; current government policy is to extend this measure and move towards more comprehensive provision for child care. A second change was the institutional reform of unemployment-related services. Until 2011, the placement, training and activation services were legally and institutionally separate from the system of unemployment payments—and under the authority of different government ministers. In that year, the two services were integrated, and the administration of claimants' benefits more closely tied to participation in activation services. This institutional switch was accompanied by other changes in unemployment benefits noted earlier—reductions in benefits and lower benefits for the young unemployed, and the proliferation of activation and training schemes.

Table 5 Examples of change towards social investment policies

Policy topic	Original provision	New provisions
Family-child care	Quarterly cash payment to all families with children	Abolition of cash payment and replacement of payment with child care 'guarantee' of public provision of 30 hours care for all 3 year olds
Labour market	Separate policy and administration for cash benefits and activation and training	Abolition of separate national training/job placement authority and integration of training/placement services with benefits administration; also, suite of new activation schemes and stronger monitoring of job search
Lone parents	Categorical payment of benefit, without work or activation requirements, to all lone parents till children reach 21/22	Reduction to 8 years of age of youngest child for parent to receive Lone parent payment; activation and work search requirements imposed at the age threshold

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A final illustration is the qualitative change in provisions for lone parents. Lone parents' payments were always means-tested and the means-test allowed retention of the benefit and participation in employment up to an income limit. Critically, and exceptionally by international standards, there was never a requirement on lone parent benefit recipients to participate in the labour market or be available for work or training, no matter what the age of their children was. In 2006, the government proposed a reform, the key aspect of which was the imposition of an age-threshold for their children (youngest child 8) at which lone parents would be activated, and treated in benefit terms as 'unemployed' (Department of Social Protection 2006). This proposal was not acted upon until 2012 but is presently being implemented, and will be fully implemented by 2017. In the context of Ireland's strong male breadwinner past and its constitutional privileging of full-time motherhood this is a significant qualitative change.

Taken together, these examples offer evidence of a shift in the mix of policies that nudges Ireland towards a social investment model. Is this a path-departing change that puts Ireland on the same trajectory as many other European welfare states? There are contrasting lines of reasoning here. One is that these changes—although actually mooted in policy documents and perhaps preferred by policy elites—are unlikely to be sustained. The changes are associated with enforced, crisis-driven change and, moreover, perceived to be impositions of the troika. Furthermore, a significant extension of these policies—or an extension to the point where they are experienced as successful—requires additional social expenditure on a sustained basis over the long-run that may not be available within the current fiscal targets. Alternatively, it can be argued that the crisis has induced an element of genuine policy learning, notably in the area of labour market policies, and that some of these changes will be both successful and popular—for example, enhanced childcare provision. Likewise, the groups potentially negatively affected—the young unemployed, low-income lone parents, are not politically mobilised or influential, as Bonoli (2006) has observed in his studies of 'new risk' politics. Therefore, if opposition to the changes emerges from these groups, it is unlikely to be successful.

In distilling an interpretation from these arguments, perhaps these are the most important considerations. National policy makers actually support the change in policy direction, and the crisis has given them an ideal 'blame avoidance' opportunity. The troika rather than the national government, policy makers can argue, has insisted on immediate implementation of policies that—till now—were only in the realm of analysis. Policy makers have also positively constructed aspects of the reforms in modernisation terms and, in particular, bringing Ireland's child care and activation regimes closer to European models. (Their capacity for such framing is, of course, partly contingent on substantial expansion in the relevant services and positive public experience of the changes.) This all suggests that this shift in direction is unlikely to be reversed and consequently it can be viewed as a path-departing, crisis-driven change.

In considering the possible development of a social investment in Ireland, the factors that affect its rate of development as shown by Bonoli (2013) should be

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noted. In particular, the current institutional profile of the welfare state will mediate the pressures for change. This suggests that while the direction of change in Ireland's case may be towards the social investment state, the pace of change will be slow by European standards.

5 Sustainability and Challenges for the Future

The Irish economy has just survived an existential threat. However, financial survival has ushered in a truly Piersonian era of 'permanent austerity'. There is, therefore, an immediate threat to the sustainability of the welfare state: the fragility of the economy and the medium-term fiscal scenario. In relation to the economy, Ireland is forecast to achieve 2.8 % growth in (nominal GDP) in 2014, but there is no analysis of the economy that offers persuasive reasoning that it will experience persistent economic growth beyond 2014, at a rate sufficient to reduce the overhang of unemployment. The immediate obstacles to this are both national and European-wide. At national level, the accumulation of debt—corporate, household, and sovereign, is a significant drag on household consumption and private sector investment. The level of sovereign debt and the constraints of the troika's fiscal target preclude any Keynesian, public investment stimulus measures. Furthermore, it is still unclear whether further measures will be necessary to recapitalise banks. As part of the slowly emerging European banking regime, further 'stress tests' of Irish (and European) banks will take place and these may reveal a need for further capital and government investment. If such an eventuality materialised, it might further extend the state's role in rebuilding the banking system and exacerbate the problem of sovereign indebtedness.

At European level, two specific policy problems are likely to dampen the prospects for economic growth. One is the difficulty policy-makers face in building a European banking system, entailing *inter alia* a European-wide deposit insurance regime and failed-bank resolution mechanisms. In the absence of such a regime, European policy makers have an undoubtedly strong rationale for refusing to adopt one specific measure that would reduce Ireland's sovereign debt substantially; European-wide, retrospective sharing of the costs of the Irish state's rescue of its banks. The other, wider problem at European level is the macro-economic stance of the ECB, and specifically the unwillingness to adopt policies in response to the deflated state of the Eurozone economy. Currently, the Euro area is significantly undershooting the inflation target of 2 %, and inflation is close to zero in many countries. For heavily indebted, Eurozone, peripheral economies to grow, debt must fall. In turn, this requires a combination of inflation and growth and neither of these is in prospect in the short-term. It is possible, in short, that Ireland is facing into a protracted period of deflation and a Japanese-style, balance sheet recession.

As this paper is being concluded however, the economy has experienced recovery, and the Budget for 2015 was expansionary. These latest Budget provisions included some tax reductions and a partial rescinding of one of the major items of

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retrenchment—the cuts to Child Benefit. *Budget 2015* increased Child Benefit (by 5 euros) and did not contain any further cuts to cash payments. This is evidence of an end to the era of outright reductions in social provisions.

Against this precarious economic and financial background, Ireland's welfare state faces numerous social policy challenges. To review these, it is useful to survey some key areas of social policy, and to note the specific social policy problems that have been brought into focus by the economic crisis. Beginning with social security, Ireland has a mature, Beveridge-style system of social insurance, long-institutionalised in the public administration system and not facing any immediate challenge to its legitimacy. As noted earlier, however, the unemployment crisis has revealed the limitations of its Beveridge-style, passive income maintenance arrangements. The system of flat-rate benefits meant that when the unemployment crisis struck many middle and higher income earners relied wholly on the flat-rate benefits and had low replacement rates; this affected not only levels of poverty but weakened the automatic stabiliser effect of the unemployment payments system on the economy. In addition, the pattern of unemployment has added a further challenge. The almost total collapse of the construction sector has created a problem of long-term unemployment among a large pool of former construction employees, mostly male and unskilled. This makes the reform and development of activation and labour market services both more urgent and more difficult.

The general challenge of introducing successful activation entails a further, more systemic shift away from the male breadwinner model, especially, as discussed above, for lone parents. The initial efforts to pursue this are underway. However, the difficulty is that, across household types, lone parents already face the highest risk of income poverty and deprivation, and the measures recently introduced may undermine the success of, and potential public support for social investment policies. First, there was no public discussion of the merits of the new activation policies and these may yet face political or legal challenge. Second, while implementing activation, policy makers also reduced Child Benefit (partially rescinded in Budget 2015) and tightened the earnings rules for lone parent benefit recipients; the net effect of these and other changes is that over time entirely new poverty categories will emerge: lone parents activated into low-paid work, and lone parents unable to find work and dependent on the reduced benefits. Quite apart from their social impact, such trends would erode public commitment to social investment initiatives.

The most undeveloped area of the welfare state—and the most contentious and problematic—is health care. Ireland developed neither a fully public, tax-funded system, nor a social insurance model; a partially comprehensive, public system co-exists alongside an extensive private health insurance market (Wren 2003). The health system has been succinctly characterised as an "extraordinary symbiosis of public and private" (Barrington 1987: 285). Now, the costs and contradictions of this mixed system are high on the political agenda and the current programme for government commits policy makers to sweeping reform and modernisation. The pressures for change are multiple and contradictory and pre-date the economic crisis (Finn and Hardiman 2012). On the one hand, the inequities and inefficiencies

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have been well documented and politically debated: the weak state of primary, GP care; the inequitable access to hospital care because of the quicker access with private health insurance; the comparatively high cost of the system because of high provider remuneration and super-normal profits of sellers and producers of medication; the complex, inequitable, cross-subsidisation of private care in hospitals by public provision; the absence of a fully planned, coordinated system of hospitals; the poor physical conditions in many hospitals, and the long waiting lists for surgery and hospital admissions among those without health insurance. Historically, and recently, health policy is a good example of "policy evolution along unplanned lines, following contradictory imperatives" (Finn and Hardiman 2012: 129).

Public demands for change are varied and contradictory; competing for-profit, private insurers protest about the community-rating, risk equalisation systems; middle income households criticise their exclusion from free GP care and medications; privately insured patients with preferential access to hospitals and consultants demand the retention of tax relief on health insurance; publicly funded hospitals retain 'private' provision, and because of public underfunding face incentives to maximise privately insured care; official policy makers acknowledge the lack of public funding but facilitate and incentivize private provision; some of those on the very lowest incomes pay for private health insurance to ensure access to services when needed—and point to the costs of the health insurance premiums. These endemic problems are now being addressed on two inter-related fronts—financial and political.

On the financial front, the troika's fiscal target has necessitated reductions in public expenditure on health, and the troika also advocated specific health care reforms that drew on long-standing critiques of health policy and provision. For example, it stressed the need to develop primary care, insisted on the state using its monopsony power with drug companies to lower the retail cost of some medicines, and advocated the reduction in tax relief on health insurance. One implication of the troika's overarching fiscal programme was the series of cuts in public sector pay (see above): this affected public sector health employees in the form of reduced pay for doctors, nurses, and so on, and lower capitation rates for GPs. The political dimension of health reform arises from the current government's *Programme for Government*, which proposes two important reforms in the lifetime of the government (2011–2016 for a full term of office); extended, free primary care for all the population to deal with the problem of the exclusion of those on middle and higher incomes from publicly funded GP care, and a system of Universal Health Insurance for hospital care, modelled on the so-called 'Dutch system' of managed competition among competing insurers and providers. Both of these changes would represent significant institutional reform. The technical merits of these particular reforms in the Irish context are worthy of detailed debate and are beyond the scope of this discussion, although these points should be noted. There is near universal acceptance of the argument that any overall strategy to reform health care implies a substantial and long-overdue strengthening of the GP and primary care tier of provision; likewise, it is accepted that the current terms on which public and private hospital care co-exist are complex, contradictory and inequitable.

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In the context of this review of social policy challenges, the political and institutional implications of these proposed reforms are significant. As in the case of social security, the attempt at substantial reform is being undertaken when overall expenditure is constrained. Furthermore, the key providers have suffered income losses and, in this context, systemic reform proposals engender suspicion and lack of legitimacy. Critically, the two parties in government have a controversial legacy of failed reforms in previous governments—failures due in part to ideological differences and the capacity of vested interests to exploit these differences (Barrington 1987; Wren 2003). In the present context, the parties have sponsored different aspects of the reforms. Fine Gael (centre-right) and Labour (centre-left) advanced the Universal Health Insurance and GP/primary care reforms respectively in the context of different election manifestoes, and the Programme for Government attempts a political synthesis of two separate, equally challenging reforms. The current indications are that these obstacles to change are being reinforced by others: the lack of agreement within the state bureaucracies about the feasibility and desirability of the reforms, and the failure to date to win the assent of the medical profession and insurers. If the reforms fail to materialise, it will replicate a historic pattern of policy failure and have two long-term consequences. The health care system, ranked second last of 22 countries in one overall international index of health system performance, will retain its dysfunctional features, first (Nolan and Nolan 2004). Second, the overall legitimacy of the health care system and of the welfare state more widely will be reduced both by the repetition of policy failure and the persistence of problems arising from the "conundrum of the intermeshing of public and private" (Finn and Hardiman 2012: 128).

Finally, the economic crisis—and specifically the property crash—has highlighted the weaknesses of one feature of the Irish welfare state that is unique in European terms: the hegemony of owner-occupied housing. At its peak, owner occupation comprised 80 % of the housing stock, with ownership extending across the income distribution. The combination of the property crash and underlying socio-demographic trends have recently enlarged the role of the rented sector and raised challenges for future housing policy; the share of owner occupation has fallen to 70 % and the share of private rented to 17 %, the highest share since 1961. Increased immigration and mobility and a youthful age structure contributed to an increased demand for rented accommodation. This growing role for rented housing was then accentuated by the property crash which has created problems of affordability and a lack of mortgage credit. In the medium-term, therefore, policy must find ways of channelling housing need and demand into private rented accommodation and public sector housing. Each of these solutions faces barriers. Public sector housing will require capital investment, and private rented housing raises problems of affordability for those on lower incomes—problems that have been accentuated by reductions in the means-tested rent allowance. It is simply not clear how acute housing need cannot increase significantly in the short-term. The most recent development is the growing demand for a resumption of public investment in social housing and the government's commitment in Budget 2015 to begin a new programme of social housing construction.

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6 Conclusion

The discussion of the current and emerging challenges should not obscure those aspects of the Irish welfare state that are efficient, broadly equitable in provision, and popular; education, notably, and the first-tier of the pension system. In a comparative context, perhaps the most appropriate reflections by way of conclusion are institutional in nature. For some commentators on Irish public policy, the problems Ireland faces are, to some degree self-inflicted; according to this point of view, the crisis is really one of governance (Hardiman 2012; Kirby and Murphy 2011). This argument is based on a critique of state and political structures: the excessive centralisation of policy-making; the unique electoral system that rewards localism; the absence of clear social, ideational and policy differences between parties; a weak civil society and dependent business class. In short, this mix of institutional characteristics tends to result in populist politics and policies, and a limited capacity for significant structural reform; "Ireland's reflexive learning capacity is low" (Hardiman 2012: 225). Reforms that would address this critique would include reform of the legislative system, changes in processes of recruitment to government, a greater degree of delegation, and public sector reform. For example, Ireland has a very high level of executive dominance by comparative standards, and prior to 2011 it was unusual in not having an independent fiscal council.

If this line of argument is correct, it raises important questions. Will the political class attempt to undertake substantial institutional reform, pointing to the institutional sources of the policy weaknesses implicated in the crisis? The emerging evidence here is that substantial institutional reform is unlikely; it is not clear that Ireland's conservative political culture will engender support for radical institutional initiatives. Moreover, there are no short-term incentives for key actors to engage in institutional reform. Therefore, it is likely that the intrinsic capacity of the policy system to engage in substantive social policy reform will remain limited. One important illustration of the link between institutions and social policy reform is Child Income policy. Since the mid-1980s, this aspect of social protection has been problematic. A universal Child Benefit payment co-exists alongside an additional, separate payment for low-paid employees with children, and a further payment for non-employed benefit recipients with children. This suite of complex provisions has attracted continuous criticism on a number of grounds—the persistence of child poverty, the incentive impacts on the low-paid, lower take-up of payments because of their complexity, among others. In 1985, a coalition government announced a structural reform that would entail the replacement of these inter-related payments with a Unified (taxable) Child Benefit for all families. Today this proposed reform—or any other structural reform of this aspect of social protection—still awaits implementation (Department of Social Protection 2010).

In this context, the point of the above illustration is that the governance crisis has direct implications for the welfare state. Specifically, it implies that the social investment model already embraced by European welfare states will emerge in Ireland slowly, if at all. Of course, Ireland did implement change in the shadow of

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the financial emergency, and under the aegis of the Troika. However, this was enforced and crisis-driven. To return to the example of Child Income provisions, the government implemented outright cuts in Child Benefit, as well as reductions in benefits for working-age adults, imposing greater reductions in income on lower income households with children. This retrenchment was an alternative to structural reform; so too was the limited rescinding of the Child Benefit cuts; these cuts partially restored, but without any structural reform of overall child income provisions. The government and the troika were able to point to the many documented, neglected critiques of child income provisions and invoke these as a rationale for cuts. Arguably, this is an illustration of how the welfare state will evolve in the future. If the financial crisis abates, some of the changes to social policy may be partially reversed in the context of the general election that will take place in 2016 (at the latest). Parties will tend to compete on populist lines, and past patterns of policy change suggest that some of the cuts may be restored, but that these policies will reflect electoral calculations rather than reform imperatives. Child Benefit cuts may be further reversed, but overall reform will not be undertaken—a repetition of the patterns of developments in the 1980s.

Change takes place in Irish social policy either very slowly or is enforced in short, sharp bursts at times of crisis—a pattern that Ireland may share with other countries. In terms of welfare state comparisons, current circumstances have given rise to a new acronym, PIGS (Portugal, Ireland, Greece, Spain) to summarise key features of these states' political economies and financial predicaments. This apparent commonality may have much to recommend it in terms of future welfare state analyses. To understand the predicament of the PIGS' welfare states, it may be necessary to analyse the sources of their peripherality; the 'periphery' is a long-term, developmental outcome rather than a fixed, geographic attribute. The point of this analysis is that the PIGS may share institutional and political features (for example, populist politics, high levels of executive dominance) that reinforce the vulnerability of their economies and welfare states. Understanding the connections between countries' political economies, governance structures, and welfare state outcomes will be necessary in future national and comparative analyses of Ireland's welfare state. It may be that the familiar 'worlds of welfare' are not adequate to such a task and that Ireland's similarities with Portugal and Greece in particular will give rise to a new anomaly in welfare state description; Ireland may be a Southern European welfare state in the North!

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Iceland: Welfare in a Deep Economic Crisis

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1 Introduction

1.1 The Icelandic Welfare System Put to the Test

Iceland is a small state that belongs to the Nordic family of nations. Welfare expenditures have historically been relatively low and in 2002 the figure was for the first time above 20 % of GDP. Thus, in comparison to the other Nordic countries the Icelandic welfare system has offered less social security, i.e. a lower level of income transfers to households, more often with flat and income-tested benefits than the other Nordic societies. Yet, at the same time it has provided a high level of public services, such as in education and health care, with modest user fees (Ólafsson 1999; Eydal and Ólafsson 2012). A younger population with a smaller proportion of old-age pensioners also explains lower expenditure levels to some extent. Hence Iceland has a welfare state that for the most part approaches the Scandinavian model.

Iceland experienced an excessive bubble economy period during the 2000s that ended in October 2008 with the most spectacular financial crash the world has seen to date, when the three main banks of the country came tumbling down within a period of 2 weeks. The collapsed banks were responsible for about 90 % of the banking activities of the country, in addition to extensive activities abroad. The bankruptcy of the three Icelandic banks ranks amongst the ten largest bankruptcies in history, beating Enron and WorldCom (Aliber and Zoega 2011).

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The financial crisis was multi-dimensional, featuring a banking crisis, a currency crisis, a stock market collapse, an economic crisis and a political crisis of lost trust in political and economic institutions as well as in politicians (Bjarnason, 2014). The economic contraction was swift and deeper than seen at any previous time from the founding of the republic in 1944. It was indeed a major event by all political-economic standards.

The accumulated contraction of GDP from 2009 to 2010 was about 10 %, the currency was devalued by some 50 % altogether from beginning of 2008 through 2009, and unemployment went to 9 % at the top (in second quarter of 2009), a previously unseen level of unemployment in Iceland since the 1940s. The government budget had a deficit of about 14 % by the end of 2008.

A coalition government of the Independence Party (right of the centre) and the Social Democratic Alliance (SDA), which had come to power in 2007, passed emergency legislation in October 2008 in order to minimise the impact of the financial crisis on the country. This legislation allowed the government to overtake the domestic operations of the banks while the foreign operations went into legal administration. In November 2008, the government signed an agreement with the IMF on how to revive the financial system of the country and a programme to rebalance the government finances, by balancing out the deficit over a period of about 4 years. Iceland could however select the ways of rebalancing the budget, to what extent it would be achieved by expenditure cuts or tax increases. In the end Iceland did both (Johnsen 2014; Ólafsson 2012a and b).

After large public protests that lasted from autumn 2008 to early 2009 the government resigned. Elections were held in May 2009 and a left-of-centre coalition government came to power in 2009 (Ragnarsdóttir et al. 2013). The government declared that their aim was to pursue politics concurrent with the Nordic welfare model; emphasising egalitarian welfare polices and sheltering the low-income groups as much as possible from the crisis. The government published a special action plan on welfare issues (Félags- og tryggingamálaráðuneyti 2009). The incoming government was faced with huge tasks. Given that government finances were in ruins immediately after the collapse, the task of being 'a Nordic welfare government' in those circumstances was gigantic indeed.

Iceland is thus an interesting case for studying the advent of the financial crisis of 2008 as well as the policy reaction to the crisis. For some Iceland is a case representing an alternative to the outright austerity policies that have dominated the crisis policy in Europe. For critics within Iceland it is on the other hand seen as having failed to reinvigorate the economy, by not sufficiently increasing growth-inducing investment and by burdening business and society with tax increases and currency controls. Still Iceland's growth rates from 2011 to date have been significantly higher than in most European economies, according to Eurostat statistics.

The chapter aims at investigating how the Icelandic welfare system was used to tackle the effects of the financial and economic crisis in 2007/2008. The chapter asks what main challenges the Icelandic welfare system had to face and how they have been met during the aftermath of the crisis that started in the autumn of 2008. Starke et al. (2013) ask if crises have the capacity to cause fundamental policy

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change and path-breaking innovation and point out that the scholarship of historical institutionalism assumes that if such changes do take place, it is usually during moments of 'critical junctures' when path dependency trajectories are temporarily relaxed. Thus the chapter examines whether the welfare state has followed the path that had been chosen during the pre-crisis period or if there have been fundamental changes made to the Icelandic welfare policies.

The main challenges that Iceland faced in the aftermath of the financial collapse was increased unemployment, reduced real earnings, higher debt burden of households and businesses and collapsed governmental finances. The chapter primarily focuses on the welfare strategy part of the responses to the crisis and explains how Iceland managed to promote a welfare strategy despite the serious financial constraints.

First, the chapter discusses the demographical development, the main trends in fertility rates, immigration, life expectancy rates and the forecast regarding the speed of the demographic shift and the relevance of these changes for the welfare system. Then the crisis management strategy is explained with an analysis of welfare expenditure developments. Following that we discuss the main characteristics and the developments during the aftermath of the crisis in the following policy areas: (1) labour market, (2) pensions, (3) health, (4) long-term care, (5) family and children, (6) adjacent social policy fields.

2 Demographic Change and Population Ageing

The demographic structure of this small nation (just over 315,000 inhabitants) has placed different demands on the Icelandic welfare system compared to many European nations. This is due to the fact that the Icelandic nation is still relatively young and the fertility rates have been among the highest in Europe, above two children per woman. However, Iceland faces demographic changes in line with other nations, with ageing population and reduced proportion of individuals at working age, even if they are coming at a slower pace than in many European countries. A counterbalance in this respect during and since the 1990s has been the growing immigrant population that is for the most part of working age.

These demographic changes result in somewhat changed challenges for the welfare state. There has been some discussion of these in recent years, but long-term plans to combat them have been somewhat less forthcoming. In the area of the pension system there has been the greatest concern for preparations, even though the system is well funded with a fully funded occupational pension fund system set to take the bigger part of the expenditures in decades to come, in addition to the public social security system. There is however growing concern about the public employees' generous occupational pensions, which unlike the rest of the system is not fully funded yet. Hence there is increasing talk about raising the retirement age to 70 years of age, which will not be much of a change since Icelanders have an effective age of retirement which is close to that for males, but lower for females.

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Another major concern, which is continually being addressed, is the growing need for nursing and long-term care homes (Sigurðardóttir 2013; Velferðarráðuneytið 2008).

2.1 Demographic Behaviour

Iceland has one of the highest fertility rates in Europe, even though it has been declining gradually for decades some increases have been observed when entitlements to paid parental leave were increased (Garðarsdóttir 2008).

As Table 1 shows births outside marriage are very common in the case of Iceland but most children are nevertheless born into two parent families, but a high number of parents live in registered cohabitation at the time of birth (Garðarsdóttir 2008). Marriages also often take place after the birth of the first or more children. In 2012 a married couple is the most usual family form and 50 % of all families with children are married, 21 % are cohabiting and 28 % are lone parent families. Iceland is facing a similar trend as other European countries towards an increase in individual households but at a much slower rate than most other European countries (Júlíusdóttir 2012).

Life expectancy is high in Iceland. In 2012 newborn boys could expect to reach the age of 80.8 years and girls 83.9 years (Statistics Iceland 2014). Infant mortality in Iceland is amongst the very lowest found (OECD 2014).

During the last 20 years immigration to Iceland has increased. This immigration is mainly employment-related, driven by a high demand for labour. In 2008 and 2013 immigrants were about 8 % of the population. About 36 % of all immigrants are from Poland, 5.4 % from Lithuania and 5.3 % from the Philippines. First, immigrants worked mainly in the fish processing plants in provincial areas, but from the 2000s they were in great demand in both service and construction sectors. There have been relatively few refugees in Iceland compared to the other Nordic countries (Skaptadóttir et al. 2012). The unemployment among construction workers has been relatively high during the aftermath of the crisis, higher than that of the native Icelanders (Sigurgeirsdóttir and Skaptadóttir 2011). There has also been an increase in emigrating during the aftermath of the crisis. The largest group emigrated in 2009. Immigrants move back to their country of origin but individuals born in Iceland moved mainly to Norway and other Scandinavian countries where there have been job opportunities (Statistics Iceland 2014). In 2012 5957 moved to Iceland but 6276 moved away thus a total loss of 319 individuals. This is however a lower number compared to 2011 when the total loss was 1.404 and in 2010 it was 2.134 (Statistics Iceland 2014). Thus there was significant net loss in demographic terms during the years after the crisis hit but in 2013 Iceland became an immigration country again, with a net population gain from immigration.

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Table 1 Total fertility rate[a] and live births outside marriage, Iceland and EU27 2007–2008

	2007	2008	2009	2010	2011
Total fertility rate Iceland	2.09	2.15	2.23	2.20	2.02
EU27	1.56	1.60	1.59	1.60	1.57
Live births outside marriage Iceland	63.8	64.1	64.4	64.3	65.0
EU27	35.2	36.3	37.3	38.3	39.5
Marriages per 1000	5.5	5.2	4.6	4.9	4.6
EU27	4.8	4.9	4.7	4.5	4.4

Source: Eurostat (2014)

[a]The mean number of children that would be born alive to a woman during her lifetime if she were to pass through her childbearing years conforming to the fertility rates by age of a given year

2.2 Population Forecasts and Consequences for the Welfare State

According to the population forecast from Statistics Iceland the number of inhabitants will continue to increase from 320,000 in 2012 to 500,000 in 2060 and that the proportion of people above 67 will rise from 10.4 % of the population in 2010 to 19–23.4 % in 2060. The proportion of children 18 years and younger was 25.4 % in 2010 and is expected to decline to 19.3–23.5 % by 2060 (Statistics Iceland 2014). Thus the age pyramid will be more of a square with a topping.

The dependency ratios in Iceland have been changing significantly from a very high young dependency ratio, from about 90 in late 1960s to about 47 in 2014, while the old age dependency ratio increased gradually from about 17 to 21 by 2014 (Fig. 1). Furthermore the population forecast from Statistics Iceland indicate that the old age dependency ratio is expected to meet the young age ration just above 40 around 2040 and continue increasing to about 50 by 2060. The young age dependency ratio is likely to stabilize around 40 by the middle of the century (Hagtíðindi 2010).

The aging of the Icelandic population is not happening as fast as in most European countries, but nevertheless the process puts new demands on the welfare state in terms of services for the elderly, both social services and health services. Also the pension structure is changing but the Icelandic pension system should be able to sustain the changes, given that the pension funds keep their value (see further the section on pension later in the chapter). At the same time the welfare expenditure for children should decrease, and as pointed out above, the old age dependency ratio does not become larger than the young age dependency ratio until 2040. As mentioned above, policies aimed at increasing fertility rates per se have not been discussed in Iceland but in the light of the constant decline of fertility this might become a bigger political issue.

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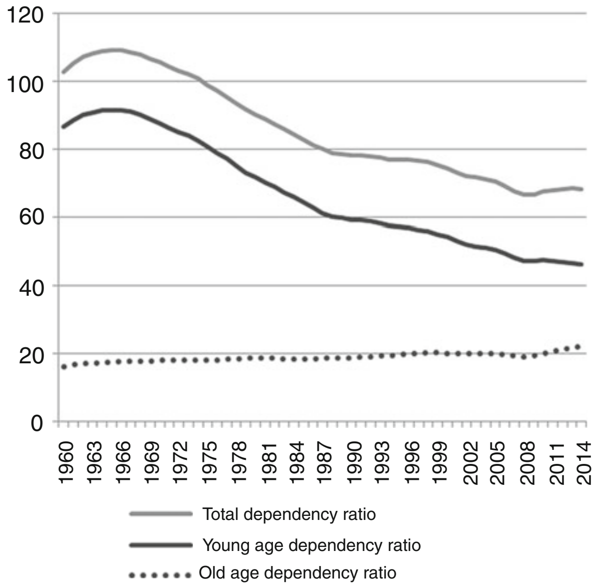

Fig. 1 Young age and old age dependency ratios 1960–2014. *Source*: Statistics Iceland (2014)

3 Coping with the Crisis: The Welfare Strategy

The economy went into a deep recession following the banking collapse. The change of GDP came as a decline in growth in 2008 but the main contraction came in 2009 and 2010, as shown in Fig. 2, altogether about a 10 % setback.

The fall in the economy bottomed out by mid 2010 and since then growth has resumed at a rather high level compared to most European economies. The contraction was amongst the larger ones experienced in Europe and unemployment increased to unprecedented levels by Icelandic standards, which however was not particularly high by international standards. As Fig. 1 shows the average unemployment rate for the EU was higher from the beginning and increased. Iceland has had a significantly better result in bringing unemployment down again from 2011 onwards. By 2014 it is the fifth lowest rate in Europe.

General government debt escalated after the financial collapse, as did household debts. Government debt had been in the region of 26 % of GDP in 2005 and went up to about 100 % when it topped, but it has come down to about 95 % in 2013 (Statistics Iceland 2014).

It is interesting to note that Ireland, which also had a low governmental debt level before the crisis, jumped even higher than Iceland, up to 117 % in 2012. Ireland experienced the greatest increase of governmental debt (up by 90 % points) and Iceland came second (up by 70 % points increase). Then came Greece (57 points increase), Portugal (56) and Spain (43) (Eurostat 2014).

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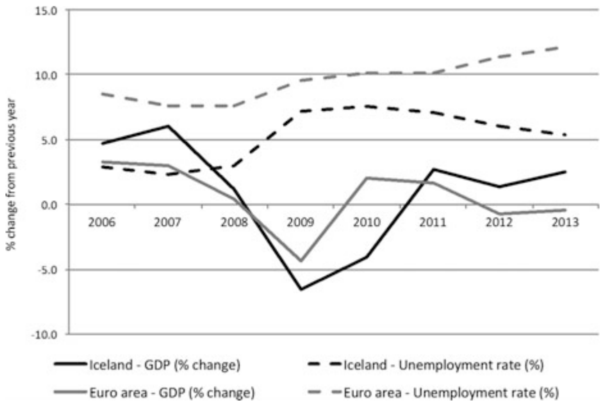

Fig. 2 Growth of GDP and unemployment development through the crisis: Iceland and the euro zone compared, 2006–2013. *Source*: Eurostat (2014)

3.1 Welfare Expenditure Developments

As already mentioned the left-of-centre coalition government, which came to power in 2009, declared its aim of pursuing politics concurrent with the Nordic welfare model. They were however forced to make cuts and rearrange public expenditures, but the welfare expenditures were sheltered as much as possible. Taxes were raised, but the policy was to raise mainly the taxes on high-income groups and shelter the low-income groups. The effective tax burden on the lowest six deciles of households was actually lowered a little while the tax burden on the top 40 % was significantly increased (Ólafsson 2012b, p. 3). The government also lowered the highest incomes in the public sector as well as shelving some work-related bonuses. According to Ólafsson, "the main characteristics of Iceland's approach are an emphasis on redistribution, through the tax system and the social protection system, along with debt relief measures that also were disproportionately aimed at the middle and lower income groups. Redistribution meant that the need for expenditure cuts, classic austerity measures, were not as great as they otherwise would have been. Various efforts to alleviate unemployment were also implemented" (Ólafsson 2012b, p. 3–4). Overall cuts were thus less extensive in the area of welfare than in other areas of the public economy. This is where a strategic mixture of expenditure cuts and tax increases came in. Thus Iceland has partly designed its own policy approach, in cooperation with the IMF, exemplifying its own special strategies.

The government appointed a special Welfare Watch, with representatives from all relevant social partners, interest groups, local authorities, institutions and government ministries, whose role was "…to monitor systematically the social and financial consequences of the economic situation for families and individuals in Iceland and to propose measures to help households" (Ministry of Welfare 2010).

While the national currency (the Icelandic Krona) had a role in exaggerating the bubble economy effect prior to the crisis, its devaluation (which started at the beginning of 2008, well before the collapse of the banks) helped export industries maintaining their operation after the collapse. The cost of that devaluation however

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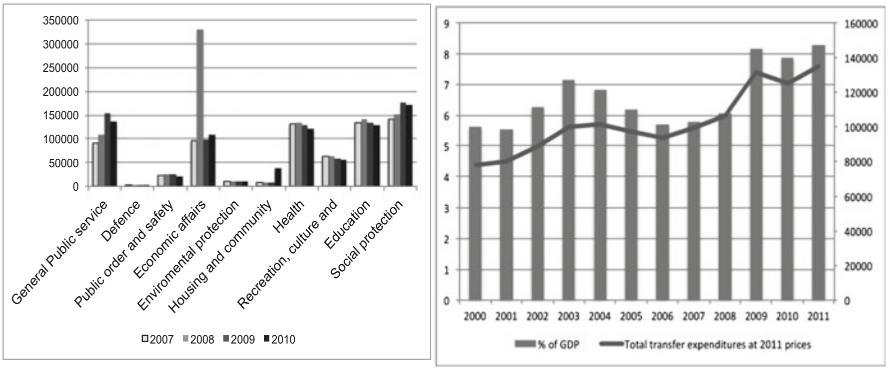

Fig. 3 Development of total public and social transfer expenditures through the crisis. *Source*: Statistics Iceland (2014)

fell drastically on households, with a big cut in real earnings (through price inflation while incomes lagged behind). That cut in living standards fell disproportionately on higher income households, partly due to the policy of redistribution.

In Fig. 3 and Table 2 we profile the main features of the expenditures development through the worst of the crisis years.

Overall public expenditures of course increased greatly, due to various costs of the collapse. Thus we see, for example, on the left diagram of Fig. 3 how the cost of economic affairs skyrocketed in 2008, covering gigantic one-time costs of resurrecting general banks and refinancing the Central Bank. Expenditures on all main posts, other than social protection and economic affairs, came down significantly, including expenditures on health, recreation and culture, as well as on education. Expenditures on housing (debt relief) also increased greatly in 2010. Despite cuts in education the enrolment of students, both at secondary and tertiary levels, significantly increased, since that was particularly promoted, including through activation programmes. Efficiency in education thus increased, i.e. more students were accommodated despite lowered funding. However it remains to be seen if this eroded standards.

The diagram on the right shows overall expenditures on transfer to households, both as a proportion of GDP and in real value *Kronur* up to 2011. They increased significantly, going from 6 % of GDP to more than 8 %. Transfers had come down a little in 2010, which was a difficult year with a great austerity effort. The overall increase in real values is very decisive and social protection expenditures are now higher than they have ever been in Iceland, both proportionally and in real value *Kronur*. An important feature of the social protection expenditures, not reflected in this data, is the fact that expenditures became more directed at lower and middle-income groups and cuts were increasingly directed at higher income groups. This also facilitated the redistribution effect.

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Table 2 Development of social protection expenditures from 2007 through 2010, in real Icelandic *Kronur* (prices of 2010) and % change

	2007	2008	2009	2010	Change in %
Expenditure on social protection	1137.2	1164.3	1235.8	1185.2	4.2
Social benefits, cash	552.6	570.5	649.2	616.7	11.6
Services	584.6	593.7	586.7	568.5	−2.8
1. Sickness and health care	467.5	467.1	440.8	414	−11.4
1.1 Cash benefits due to sickness	84.8	82.8	70.4	68.2	−19.6
1.2 Health care services	382.7	384.4	370.3	345.7	−9.7
2. Disability	147.2	160.5	172.8	166.9	13.4
2.1 Cash benefits due to disability	109.8	120.1	136	129.8	18.2
2.2 Disability services	37.4	40.4	36.8	37	−1.1
3. Old age	254.5	257.2	259.6	246	−3.3
3.1 Cash benefits to elderly persons	232	233.5	236.7	223.4	−3.7
3.2 Services to elderly persons	22.4	23.7	22.9	22.7	1.3
4. Survivors	27.6	26.8	29.7	28	1.4
4.1 Cash benefits to survivors	27.6	26.8	29.7	28	1.4
5. Families and children	151.5	155.5	154.6	151.1	−0.3
5.1 Cash benefits to families and children	74.3	75.8	76.9	71.4	−3.9
5.2 Services to families and children	77.3	79.7	77.7	79.7	3.1
6. Unemployment	12.6	19.4	83.5	79.6	531.7
6.1 Cash benefits to unemployed persons	10.6	17.2	81.7	76.3	619.8
6.2 Services to unemployed persons	2	2.2	1.9	3.2	60.0
7. Housing	32.2	35.9	47.6	51.1	58.7
8. Social exclusion n.e.c.	31	29.8	35	36.1	16.5
8.1 Cash benefits due to social exclusion	13.5	14.4	17.7	19.6	45.2
8.2 Services due to social exclusion	17.4	15.4	17.3	16.6	−4.6

Source: Statistics Iceland (2014)

Table 2 profiles the social protection expenditures in more detail to better reveal the characteristics of the policy, which was of course highly restrained by the generally appalling state of public finances.

Benefits expenditures were increased in real value from 2007 to 2010 by 11.6 % while services on the whole were cut. The biggest increases were for unemployment benefits (620 % increase) and the second biggest was for services to the unemployed (activation and special programmes, an increase of 60 %). This is followed by the housing category, which primarily consists of expenditures on debt relief, with an increase of 59 %. Expenditures on benefits related to social exclusion (not a particularly big category) were increased by 45 % while there were some cuts in services there (−4.6 %).

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Of the biggest expenditure categories, disability pensioners got a sizable increase in real expenditure, with benefits increased on the whole by 18.2 % and services (a small category) cut by 1.1 %. Health care services were cut by 9.7 % (mainly the hospital services) but public sickness benefits were cut more, or by 19.6 % (most working people who become seriously sick maintain their wages for up to 3 months and then have the right to union-provided sickness payments for another 9 months. Some of the cuts in public provisions may have been achieved by transferring more individuals onto these other provisions). For the elderly cash benefits were cut a little, by 3.7 % but more went on services for them (+1.3 %).

Both in the case of disability pensioners and old-age pensioners expenditures were to a greater extent directed at lower income pensioners while cuts were implemented for pensioners with higher earnings (such as from occupational pension funds and from other sources). Hence targeting of expenditures was in fact increased.

In the field of family policy cash benefits on the whole were reduced by 3.9 % while expenditures on services were increased a little (+3.1 %). The cuts in family benefits came primarily on birth leave provisions (maternal and paternal leaves), while child benefits' expenditures were raised a little and they also became more targeted at lower income groups (with more significant increases there).

Thus in the welfare expenditures development as well as in tax and benefits policy there were significant measures aimed at redistribution. This was a good strategy from a Keynesian perspective, i.e. to partly shelter the lower income households from cuts in living standards (Krugman 2009; Reinhart and Rogoff 2009). That is so because it not just relieves the burden on the backs of those who are most vulnerable but it also helps keep up the consumer demand (even though all households got significant cuts in living standards), since lower income households spend most of what they have. The cuts were decisively directed more at the higher income-earning households. Iceland now seems to have succeeded at least partly with its goals of sheltering the lower income groups, as we show in the next two sections.

In Table 3 we show social expenditures by main function in Iceland from 2005 to 2011, with a comparison to the average for the 27 EU countries.

Iceland has a relatively low welfare expenditure level due to the fact that the average age of the Icelandic population is low compared to the European nations. Another contributory factor is the rather extensive use of income-testing in the public social protection system and lastly the rather large role of the occupational pension funds (which belong to the private sector, even though membership of them for working people is mandatory). As the data in Table 3 show the expenditures on old-age pensions and survivors are accordingly lower in Iceland than the EU average, but the disability, sickness and health care expenditures are above the EU average. This pattern has more or less prevailed through the crisis, despite the cuts in welfare services and the changed targeting of income transfers (minimum pension guarantee; interest cost rebates; and later child benefits) to households during the crisis.

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Table 3 Social expenditures by main functions, Iceland and 27 EU countries, 2005–2011

	2005	2006	2007	2008	2009	2010	2011
Total social protection expenditures							
EU average (27)	5851.53	6085.10	6268.55	6446.59	6706.21	6914.70	7023.99
Iceland	5986.21	6125.86	6578.85	6642.56	6889.25	6798.14	7200.26
Sickness, health care							
EU average (27)	1692.42	1775.39	1834.01	1899.18	1977.53	2033.08	2065.04
Iceland	2081.25	2131.20	2730.59	2691.87	2480.54	2398.55	2445.54
Disability							
EU average (27)	468.43	493.43	513.34	524.57	524.11	528.95	536.87
Iceland	905.72	956.36	868.85	929.56	973.31	961.68	1032.62
Old age							
EU average (27)	2281.00	2368.03	2486.78	2564.95	2616.54	2726.10	2801.43
Iceland	1712.05	1753.56	1487.81	1483.32	1462.05	1435.26	1666.71
Survivors							
EU average (27)	–	–	390.26	404.09	387.35	392.81	398.66
Iceland	151.80	154.32	153.86	120.76	161.06	154.30	167.21

Source: Eurostat (2014)

3.2 Debt Relief Measures

Both households and corporations have a long history of relatively high debts compared to other developed countries (The Central Bank of Iceland 2012).[1] According to a special report from the Central Bank of Iceland on household debt problems during the crisis, 12.5 % of households were already in distress due to debts in 2007, but the proportion had grown to 23.5 % on the eve of the banking collapse in 2008. The proportion peaked at 27.5 % in 2009, but declined to 20 % in 2010 due to the mitigation programmes discussed below. The report from the Central Bank also shows that families with children are facing bigger financial difficulties compared to other groups in society. By the end of 2010 parents of every fifth child in Iceland was in financial-distress according to an assessment done by the Central Bank (Ólafsson and Vignisdóttir 2012). Table 4 shows the proportion of households in financial difficulties according to the measures used in EU-SILC surveys. It shows that in general the difficulties have increased after 2008.

During the aftermath of the banking collapse the issue of excessive household debts became one of the major areas of social protection. In August 2010 a special Office of a Debtors' Ombudsman was established. The aim of the agency is to work

[1] The Treasury debt in 2012 was about 85 % of GDP and foreign debt was around 28 % of total debt (The Central Bank of Iceland 2012).

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Table 4 Households in financial difficulties, Iceland 2004–2011

	2006	2008	2009	2010	2011
Arrears on mortgage or rent payments	5.7	5.5	7.1	10.0	10.2
Housing cost is a heavy burden (older def.)[a]	9.9	11.8	15.0	16.4	19.2
Payments of other loans is a heavy burden	7.6	10.3	15.5	19.1	15.2
Unable to meet unexpected expenses[b]	31.9	26.9	29.8	35.6	39.7

Source: Statistics Iceland (2014)

[a]In 2010 a new question that measures housing cost burden was added to the survey in accordance with Eurostat regulations. In the new question all factors of the housing cost were read out to the respondents but the older question is more general with no reading out of the different factors

[b]The amount used in the question about unexpected expenses was 160,000 ISK in 2011 and is based on the at-risk-of-poverty threshold for a single person household calculated from the survey 2 years before

for individuals in serious financial problems due to debts (and negative housing equity). The agency is also in charge of governmental debt mitigation programmes, but the banks have also provided their own programmes (cf. Umboðsmaður Skuldara 2010). Thus, debts have been reduced for those households in greatest need and governmental subsidies for interest costs have been greatly increased (Ólafsson 2012b). The main measures for debt relief were implemented in 2009 and 2010. These involved both measures to lower principals of housing debt for households with lower earnings and highly negative equity situation, as well as debt relief measures (freezing of repayment while refinancing or restructuring debts and increased subsidy of interest cost of housing loans through tax relief).

Figure 4 shows the average value of the tax subsidy for interest cost of housing loans as a percentage of the housing loans' interest cost. It shows that for the low-income group (lowest income decile of households) the government paid close to 45 % of the interest cost of housing loans in 2010, while it is closer to 35 % for the median groups, i.e. those in the middle of the income scale. So there are indeed strong redistribution effects at work in this measure. Some countries do not have such measures as the subsidies on interest cost, but this is very important in Iceland which has had a higher inflation level than most other Western nations for a long time and loans are generally inflation indexed (Ólafsson 2011; Aliber and Zoega 2011). So the subsidy shelters against the worst effects of inflation on debt burden, especially when so strategically directed as was done in 2010.

However, the debt burden is still high and many continually complain about that. The main reason for that is however, as we have shown, that the general purchasing power has come down decisively and consumer loans now play a larger role than the burden of housing loans, due to the generous subsidies for interest cost of housing loans. Thus, the burden of housing loans is no more the biggest debt burden for the majority of indebted households (Ólafsson et al. 2012).

Statistics Iceland published a report on overall housing cost burden by the end of April 2012 (Statistics Iceland 2012), based on EU-SILC data. The finding is clearly that the overall burden of housing cost was higher in 2004–2005 than it was in 2010.

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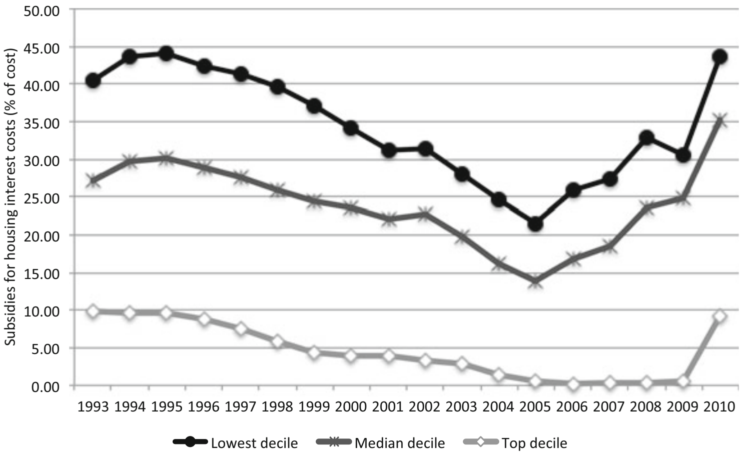

Fig. 4 Redistributive effect of the subsidy for housing loans' interest cost. The subsidy as a proportion of housing interest cost in three income groups: lowest decile, median decile and the top decile. *Source*: Ólafsson and Kristjánsson (2012)

As we have shown this has much to do with the raising of the interest cost subsidy and write-off programmes.

In the spring of 2014 a new centre-right government came to power. Their main promise during the election campaign had been to further cut extensively the level of household debt. By the beginning of 2014 they introduced a programme for achieving that, but on a smaller scale than promised. Still that is a significant measure, but with a more regressive distributional character than previously, hence the middle income groups will benefit more from that than the lower income groups.

4 Risks and Opportunities

4.1 Risk of Poverty

On the whole Iceland has performed well as regards averting the risk of poverty, at least relative poverty since the real disposable earnings of the lowest income groups have declined less than the median earnings. Table 5 shows the main EU 2020 indicators for risk of poverty or social exclusion and they clearly suggest that the strategy of protecting the lower income groups has worked.

The risk of poverty rate itself fell significantly. It had remained at about 10 % from 2003 to 2009 and then went down to 9.2 % in 2011, reflecting the relative sheltering of the lower income groups. Due to the increased unemployment rate the prevalence of very low work intensity in households increased, from 2.3 % in 2007 to 6 % in 2011. The rate for severe material deprivation was very low before the crisis and remains lower than in 2004–2005, despite a significant increase.

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Table 5 Risk of poverty and social exclusion developments, from 2007 to 2011

	2007	2008	2009	2010	2011
At-risk-of-poverty or social exclusion	13	11.8	11.6	13.7	13.6
At-risk-of-poverty	10.1	10.1	10.2	9.8	9.2
Very low work intensity of the household	2.3	2.7	2.5	5.7	6
Severe material deprivation	2.1	0.8	0.8	1.8	2

Source: Statistics Iceland (2014)

The overall rate for risk of poverty and social exclusion in Iceland remained amongst the very lowest in Europe, despite the modest increase. So the outcome during the crisis is quite acceptable in that context, despite the increase, given the enormity of the crisis that hit Iceland.

While relative poverty rates developed favourably in Iceland during the crisis it should be made quite clear that all income groups had reduced real earnings. But since the lowest groups got less cuts than the median, the relative rate declined somewhat. However, when looking at indicators of financial hardship we see the crisis effect more clearly and the group saying that they "have great difficulties in making ends meet" more than doubled from 2007 to 2010 (from 5.6 to 13.7 %). Those saying they "make ends meet with difficulty" increased similarly. From 2011 the problem groups have contracted again, albeit slowly.

4.2 Labour Market Policy

In 2011 83.7 % of men and 77 % of women were active in the labour market. Furthermore, the activity rate for the age-group 55–74 years was 80 % (Statistics Iceland 2014). The Icelandic labour market has historically had a high demand for labour and the Icelandic labour market has never experienced high long-term unemployment (Stefánsson 2012). The unemployment rose from 2.3 % in 2007 to 7.6 % in 2010, as Table 6 shows. The unemployment among young people has been high compared to other groups.

In February 2013, 27 % of all registered unemployed had been unemployed for more than a year. The unemployment is higher for immigrants e.g. in 2011 the Directorate of Labour measured 6.8 % total unemployment while the unemployment among immigrants was 15.3 % (Vinnumálastofun 2014).

As following the Fig. 5 shows, the unemployment did hit young males hardest though young women were also hit hard. The elderly of both sexes fared much better.

Active labour market policies were greatly increased in response to this growth of unemployment. Long-term unemployment was of particular concern. A significant number of unemployed have attended some form of education; secondary, university or other training and in 2010 65 % of all unemployed participated in active labour market programmes and by 2011 125 % took part in such programmes and 137 % of the unemployed in 2013 (Andersen et al. 2012; Vinnumálastofun 2014).

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Table 6 Annual unemployment % of the labour force, Iceland 2007–2012

Year	2007	2008	2009	2010	2011	2012
Unemployment	2.3	3.0	7.2	7.6	7.1	6.0
Males	2.3	3.3	8.6	8.3	7.8	6.4
Females	2.3	2.6	5.7	6.7	6.2	5.7
Less than 25 years	7.2	8.2	16.0	16.2	14.0	13.6
Long term (12 months or more)	0.2	0.1	0.4	1.3	1.7	–

Source: Eurostat (2014)

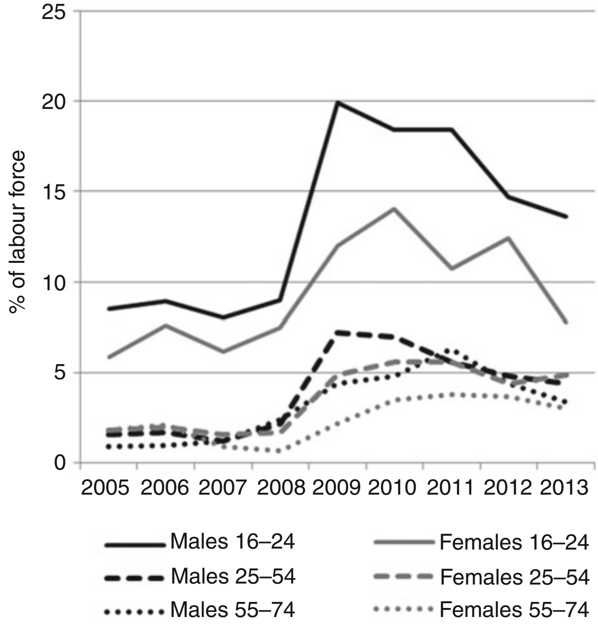

Fig. 5 Unemployment according to age. *Source*: Vinnumálastofun (2014)

Given the contraction in the number of available jobs in the wake of the collapse it was bound to be difficult to make do with activation measures to combat unemployment. The employment rate came down significantly during the crisis, from the region of 81 % to about 74.5 %. The working hours also fell from 42.3 (for all employed, full-time and part-time together) to about 39.40. The employment rate increased somewhat from April 2012, but modestly and working hours were further reduced at that time.

Still there was room for activation, since a sizable part of the population emigrated after the onset of the crisis. Immigrants returned to their countries of origin to some extent (about a fifth of those coming to Iceland between 2004 and 2008 thus returned) and Icelandic natives moved in considerable numbers to Norway, where the employment situation continued to be good. Altogether about 1.7 % of Icelandic natives emigrated to Norway. This created some job

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opportunities for those who had landed on the unemployment register, as did some job creation schemes implemented by the government.

On the whole it seems clear that the activation measures and related labour market efforts have been quite successful in Iceland and greatly helped to alleviate the negative consequences of the crisis. Unemployment is now at a relatively low level by international comparisons, but still high by Icelandic standards. Combating long-term unemployment is still an important issue as well as more job growth in general.

4.3 Pensions

There are two main categories of pensions in the Icelandic social security system; disability pension and old age pension. The disability pension system has not been changed in character, but in 2009, "the Social Security Administration changed its procedures and made stricter demands as well as administered the disability/capability test more strictly" (Ólafsson 2012a, p. 3). According to Ólafsson this has resulted in a reduction of new disability pensioners. Another contributing factor is that there has been a growing emphasis on rehabilitation over the past decade (Guðmundsson 2012). However, Ólafsson warns that it is too early to see if this decline in the number of new disability pensioners is a permanent change.

Icelanders retire from the labour market significantly later than citizens in other European countries. The official pension age is 67 years, but the system (both the social security pension system and the pension funds) encourages people to continue working until they reach age 70, by adding 5 % to the pension amount for each year. The Icelandic old-age pension system consists of three pillars: (1) the public social security system, a pay-as-you-go universal system, with additional pension for those with low or no other pension rights; (2) an obligatory system of occupational funds, and (3) individual pension accounts, where since 1997 individuals are encouraged to contribute, and employers are legally bound to make an additional contribution when they do (Ólafsson 2012a; Sigurðardóttir 2013).

All pillars of the pension systems have been affected by the crisis. The pension funds lost about 25 % of their assets when the banks collapsed and due to that they reduced pension payments by some 10–15 % (Ólafsson 2012a). Furthermore, the government made it possible for people to access a certain amount of their private pensions' accounts in order for them to make ends meet or pay debt. First, it was open to all, but later restricted to those in financial difficulties. It is still possible to apply for a withdrawal from the private pensions fund and during the year 2013 the maximum amount is 6,250,000 ISK (about 40,000 euros; cf. Lög um ráðstafanir í ríkisfjármálum nr. 130/2009 m.s.b.).

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4.4 Long Term Care

Austerity measures in health care services and public services in general have been defining the context for the long-term care sector in Iceland since 2008. In Fig. 6 one can see the development of expenditures on main service provisions of the LTC-sector from 2003 through 2012. The slope is generally downward with a significant jump from 2007 to 2008, from a level of 1.39–1.40 % of GDP to a level of 1.33–1.36 %.

Iceland's overall expenditures (public and private) on LTC in 2010 approximated to 1.67 % of GDP (Ólafsson 2012a).

Iceland is above the EU average as regards expenditures on long-term care, but significantly below the level of the Netherlands, Sweden and other Nordic nations, that top the expenditure league in that sector. Switzerland, Belgium and France are also above Iceland. One explanation for a lower rank of Iceland is the smaller proportion of elderly in the total population.

While the long-term care sector of the Icelandic welfare system is significantly smaller than the pensions and health care sectors, it is a fast growing sector with the ageing of society and rising levels of ambition for welfare services. Iceland seems to be at quite a high level in terms of volume of services and facilities, as well as quality in this sector (cf. OECD Health Data 2012; also Fujisawa and Colombo 2009).

On the whole, there has not been much public discussion about reforming the LTC sector during the crisis years. The reduction of waiting lists has eased the strain which previously was a cause for concern and complaints. The improvement of facilities, with more private rooms in new nursing homes, another source for complaints, has also improved. Thus new nursing homes have been opened in many

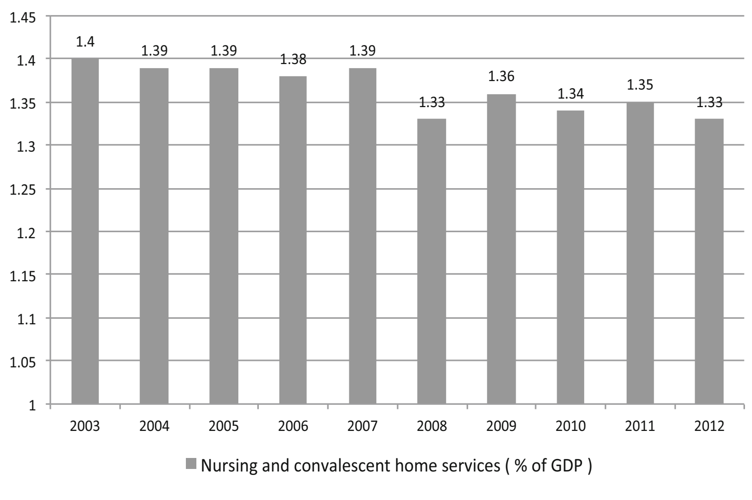

Fig. 6 Public expenditures on nursing homes and home services to the sick and elderly, 2003–2012. *Source*: Statistics Iceland (2014)

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regions in recent years. The need for improvements on that front is still there and waiting lists still remain, even though the situation has significantly improved.

4.5 Family and Children

In 1997, Alþingi formally recognized the need for an explicit family policy with a parliamentary resolution on both the formation of family policy as well as measures that would strengthen the position of the family. During the 1990s and onward Icelandic family policies emphasised three main issues; ensuring legal rights for same sex couples to a family including gay marriage and rights to adoption; increasing legal rights and protection of children, e.g. ratifying and legalizing the Children's Rights Convention and last but not least ensuring both parents equal rights to earn and care. During recent decades there has been a clear development towards an increased sharing of both childcare and domestic work among couples The most radical of these changes regards parental leave, which will be discussed later, and since 2003 Icelandic fathers use about a third of all paid parental leave. Family policy has paved the way for families to move in the direction of increased sharing in all realms of life, paid and unpaid work and the taking care of children (Eydal and Gíslason 2013).

At the beginning of the crisis both the government and local authorities emphasized the importance of protecting children and young people from the consequences of the crisis, as well as ensuring that neither gender is disproportionately affected. Within the Welfare Watch a special group was appointed to monitor children's welfare during the aftermath of the crisis. Despite the goal to shelter families with children from the effects of the crisis, cuts have nevertheless been made in several programmes for families.[2]

The biggest changes have been made to the entitlements of paid parental leave. In 2000, Iceland revised the law on parental leave and the act entitled each parent to the same right to 3 non-transferable months of paid parental leave. In addition the parents have 3 months to share as they choose. The payments were changed from a system of low flat rate benefits to 80 % of salary while on leave, while minimum payments are paid to parents who have not participated in the labour market. In 2008–2009 the ceiling of payments in paid parental leave was reduced three times from 480,000 ISK per month to 300,000 ISK and parents with monthly wages of 200,000–300,000 received 75 % of their previous income (instead of the previously 80 %). This meant that almost half the fathers and around 20 % of mothers were affected by this change to the ceiling. The period in which parents could use their entitlement was also extended from 18 to 36 months. The government parties emphasised that this was a short-term measure and in December 2012 the Icelandic

[2] The minister of social affairs appointed a committee in autumn 2013 to revise the family policy and to create an action plan for the period to 2020 but it has not yet presented its proposals (Velferðarráðuneytið 2008).

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parliament voted in favour of a bill presented by the government, which began to restore economic compensation during parental leave and the gradual extension of the leave from 9 to 12 months, i.e. 5 months quota for each parent and 2 months that they can share as they like (Arnalds et al. 2013). When the state budget for 2014 was introduced the new government, which came to power in June 2013, abolished the planned addition but started the restoration of the ceiling (Lög um ýmsar forsendur frumvarps til fjárlaga fyrir árið 2014).

Pre-schools are in most cases run by the municipalities (85 % of all preschools in 2012) and usually children start attending between the ages of 1–2 (Eydal and Gíslason 2013). The municipalities subsidize the day-care services and parents pay fees that are a fraction of the actual costs. In 2012 80 % of children aged between 1 and 2 years old were enrolled in day care and 95 % of 3–5 year olds, 85 % of the children 8 hours or more (Statistics Iceland 2014). There have been cuts to the budget of the preschools, but little is known about if and how it has affected the quality of services (Davíðsdóttir et al. 2012).

The services for families with children are mainly on municipality level and the financial situation of the municipalities differs quite a lot, but there exist no comparative research on how the crisis has affected the family policies on municipality level (Eydal and Gíslason 2013).

The Icelandic welfare system provides various benefits for families with children under the age of 18 years. The only scheme that has undergone significant changes is the scheme of family benefits (called child benefits in Icelandic). Income testing was applied gradually from 1984 and the whole amount became income tested in 2011, so that parents with income above a certain ceiling do not get family benefits (Kristjánsson 2011). In recent years there has been an increase in support related to care, paid parental leave, day care and leisure time services. At the same time expenditures on family benefits has decreased. At the beginning of 2013 the family benefits were however increased by 30 %, which was a major turning point.

In addition to the social security benefits for parents with children the local Social Assistance authorities pay social assistance to families who are without income from either the labour market or social security. Social assistance is regarded as a short-term measure and therefore only paid as a minimum income. The ministry of welfare publishes recommendations of the benefit amount annually but each municipality makes its own rules on eligibility and the benefit's amount (Eydal and Marteinsdóttir 2011). As can be expected the number of households receiving the social assistance from municipalities has increased during the crisis (see Table 7).

As Table 7 shows the change consists both of an increase in the number of households with municipal income support and an increase in the length of the benefit periods. There is no information about numbers of households that have applied without success, but households with high debts have created a new challenge for the welfare system.

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Table 7 Number of homes with municipal income support 2008–2011

	2008	2009	2010	2011
Number of homes with municipal income support	5029	5994	6910	7715
Average number of months paid	3.9	4.2	4.3	4.6

Source: Statistics Iceland (2014)

4.6 Adjacent Social Policy Fields

The Icelandic welfare literature has traditionally left out education, gender equality, health, and housing policies (Eydal and Ólafsson 2012). The crisis has called attention to the importance of including all welfare policies in research on the wellbeing of individuals and families during the aftermath of the crisis. In particular this applies to housing policies due to the debts of the households.

The government that came into power in spring 2009 placed special emphasis on gender equality and that austerity measures would not endanger gender equality (Félags- og tryggingamálaráðuneyti 2009).

Municipalities are responsible for pre-schools and primary schools but the state finances the upper secondary schools and universities. The ministry of welfare for all levels provides the curriculum frameworks. Iceland has comparatively high expenditure rates for the pre- and primary schools in particular (among the highest in OECD) while the expenditure for upper secondary schools and the universities is relatively low (Urbanic 2010). There is still little research on how the system of education has been affected by the austerity measures and the long-term influences have not yet been accounted for.

5 Conclusions: Iceland's Welfare Strategy

Iceland suffered an unusually deep crisis following the collapse of its financial system in the autumn of 2008. The currency fell drastically, so did the stock market and real earnings were directly hit due to rapidly rising inflation which followed. The debt burden of households increased, most for those with loans in foreign denominations. There followed an economic recession, with unprecedented levels of unemployment, and lastly the general public reacted with a deep loss of trust in societal and political institutions and politicians.

This led to the fall of the reigning government at the beginning of 2009. In came a social democratic government which pledged to follow a Nordic welfare approach in dealing with the crisis, aiming to shelter the lower income groups from the worst consequences of the crisis. While the governmental finances were in ruins this would definitely be difficult to deliver, since the government could not avoid cutting public expenditures significantly, not least due to the IMF-led rescue programme. The government did however manage to shelter the welfare sector, except health care services, to some extent from expenditure cuts, in comparison to other sectors of expenditures.

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The approach of the government was to increase transfer expenditures to lower income households, but cut expenditures on administration, investment, health care services and education. Unemployment benefit expenditures rose greatly, due to the higher unemployment level, but the unemployment benefit was also raised a little and the right to unemployment benefits period was lengthened from 3 years to 4. Then the government put in a great increase in activation measures, rehabilitation, educational measures for the unemployed (especially the young), along with job creation programmes. These efforts proved to be quite successful. Unemployment topped in 2009 but has come down significantly between 2011 and 2014, being in the region of 5 % in early 2014, which is one of the five lowest unemployment rates in Europe.

The minimum pension guarantee was increased significantly, in order to keep the lowest earning pensioners above the poverty line through the crisis, but benefits to middle and higher earning pensioners were cut. In general transfer payments became targeted more at the lowest income groups than before. These efforts equalized the income distribution decisively. Then the government changed the tax burden, lowering the effective burden on the lower income groups but increasing them on the highest earning 40 % of households. This was also significantly equalizing for the income distribution.

The debt burden of households became one of the hottest debated issues during the crisis, since the collapse of the Icelandic Krona produced inflation, which raised the principals and repayment burden of household debts (mortgages and consumer debts), due to the indexation of loans to the consumer price index. It also greatly raised loans in foreign denominations (especially consumer loans, such as for car purchases). The government introduced a debt relief programme, with two main strategies. Firstly there were a few measures aimed at reducing the debt principals of households in particularly difficult financial situation and with negative equity position. Secondly the government greatly raised greatly the tax relief on the cost of interest of mortgages. This measure was targeted at lower income households, households with lower equity position and those with young children. That was therefore also a redistributive measure.

Towards the end of its term the government that came into power in 2009 raised the child benefit by 30 %, but at the same time the expenditures on tax relief for the cost of interest of mortgages were reduced. The right of centre coalition government that came into power in 2013 has taken steps towards restoring the levels of paid parental leave and implemented in 2014 a general cut of household debt.

On the whole one can say that the welfare state and particularly the social protection system served well in ameliorating the harshest consequences of the crisis, especially for the lower income groups. Measures aimed at combating unemployment were also successful. Hence the burden of the crisis was disproportionately placed on higher income groups. This is also reflected in the relatively stable number and low rates of people at risk of poverty and the measures on income inequality, which show a swift turn from the previously rising inequality to rapidly increasing equality from 2009 onwards. However it should be stressed that all income groups suffered reduced real earnings, the low income groups have

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suffered a major backlash in purchasing power and still have difficulties making ends meet. Thus even though the security nets were tightened in particular for the low income groups, the crisis has hit the Icelandic households hard.

It seems that Iceland was somewhat special in restraining the austerity measures, which were particularly common in Europe. The emphasis on redistribution and equalization, along with successful activation and job creation, helped that. A booming tourist industry also proved to be a bonus during the crisis, which helped in job creation and averted further unemployment. Still extensive debt problems remain and may hamper economic development in the near future.

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Italian Welfare Reforms: Missed Opportunities for a Paradigmatic Change?

Chiara Agostini and David Natali

1 Introduction

The Italian welfare state has experienced a huge reform trend in the last two decades. This has been consistent with a lengthy (and still limited) transition towards a more financially viable system of social policies; and a less rigid labour market regulation. As we show in the following pages, these trends have been confirmed in the last few years. Between 2007 and 2013 the Italian social and employment policies saw further reforms to address short- and long-term challenges. The latter are represented by economic recession, increased unemployment, population ageing, and persistent budgetary strains. The economic crisis has been particularly long and intense in Italy and this has largely contributed to retrenchment and further efforts for reforming welfare programmes in the period under scrutiny.

Yet welfare recalibration has proved limited, based on cutbacks on the more costly programmes (like pensions) rather than higher spending in the less developed policies (like family policies). The huge reform record (both before and after the recent economic crisis) has thus not led to paradigmatic changes.[1] From a functional point of view the Italian system is still heavily based on transfers, with limited social services. From a normative point of view we see few proofs of a more active welfare state: active labour market policies and social investment

[1] We here refer to the projected shift towards the active social policy paradigm (see Bonoli (2013) for a precise definition of active social policy).

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measures in general are still of minor importance. All this confirms the Italian welfare system is still part of the Southern European model, with open questions about its future sustainability and adequacy.

The chapter is organised as follows. In the Sect. 1, we briefly summarise the key traits of the welfare state *Italian style*. Section 2 sheds light on the key long-term challenge represented by population ageing. This issue has been at the core of the political and public opinion debate in the last decades. Many reforms (especially in the pension field) have been justified by the need to address the expected demographic 'crisis'. Section 3 focuses on the more recent and short-term critical challenge represented by the *Great Recession*. While in some of the European countries (see Germany) the economic crisis has not had major effects, Italy is a paradigmatic example of a country severely hit by recession. This has had a huge impact on reforms and has stressed the persistent weakness of the Italian welfare programmes. Section 4 looks at the reforms passed between 2007 and 2013 in pensions, healthcare, employment, poverty and social inclusion, and education policies. The crisis represented a new window of opportunity to revise welfare schemes. While economic and budgetary constraints largely limited the opportunity to increase public spending; cutbacks marked most recent measures. The latter were passed through a complex political process characterised by the more limited role of social concertation and trade unions that by contrast were decisive in the past. Section 5 concludes, by looking at the stability of the model and the prospect for its further reform.

1.1 The Italian Welfare State: Main Features

Italy is a typical example of the South European welfare model (Ferrera 1996). It is a typical 'transfer centered' welfare state, where social and employment policies are very fragmented (with different schemes along occupational and social lines). The spread of universalistic health care systems has hybridized the system rooted in occupational welfare provision in other policy fields. Italian welfare is then characterized by the particularistic appropriations of welfare resources, related to a low degree of state penetration of welfare institutions and a low degree of state power, with the consequent spread of political clientelism (social benefits exchanged for political support and votes) (Katrougalos and Lazaridis 2008).

In this context, at the beginning of the 1990s welfare programmes presented two main problematic aspects. The first one consisted of their *financial strains*, part of the broader tensions in the public budget. The second was represented by the *inequity* implicit in the system: across occupational groups; standard risks (for instance, pensions versus unemployment benefits); regions and gender (Ferrera et al. 2012).

Due to that systemic crisis, the last two decades have proved a period of huge reform. Both the political earthquake of the 1990s (the so-called fall of the First Republic) and European integration (e.g. Economic and Monetary Union, EMU) consisted of a set of constraints and opportunities to innovate Italian welfare

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policies. Policymakers have thus tried to 'recalibrate' the welfare state. Yet, such a reform programme has been only partially followed. As a consequence, the Italian welfare at the beginning of the twenty-first century is characterised by an incomplete recalibration (Natali 2009). While welfare reforms have contributed to cost containment and the stabilisation of public deficit (but public debt has increased since the *Great Recession*), three main distortions still mark the welfare state. The first distortion is related to the territorial divide between the rich(er) North and the poor South of the country (Agostini 2011). This results in huge differences—in terms of coverage of social services, healthcare deficits and rates in school drop-out—that have increased between 1990s and 2008 (Pavolini 2011: 269). The second distortion is functional. Protection against major social risks is uneven. If we look at the distribution of total social spending by function, in 2011, more than 52 % of total social spending was used to protect against old age risk (against 39.9 % in the EU at 27). Combined with the protection for survivors (9.2 % of total social spending), overall pension expenditures represents about 60 % of total social expenditures (see also Ferrera 2012). By contrast all other functions are much less protected than in the rest of Europe. Compared to the EU-27 average, Italy invests much less on healthcare, family policies, social inclusion and unemployment protection (Fig. 1).

This is confirmed by data on welfare spending by functions Euros per head (Table 1).

The third distortion is distributive. Two lines have been stressed by contemporary literature (Ranci and Migliavacca 2011): first, the cleavage between generations; and second between social and occupational groups. Italian social policies well protect the population over 64 against poverty risks, while protection is much more meagre for adults (between 16 and 64) and especially for those below 16. Poverty risks for people below 16 are reduced by social transfers of about 44 % in the EU and only of less than 30 % in Italy (ibidem, 53). In terms of social and

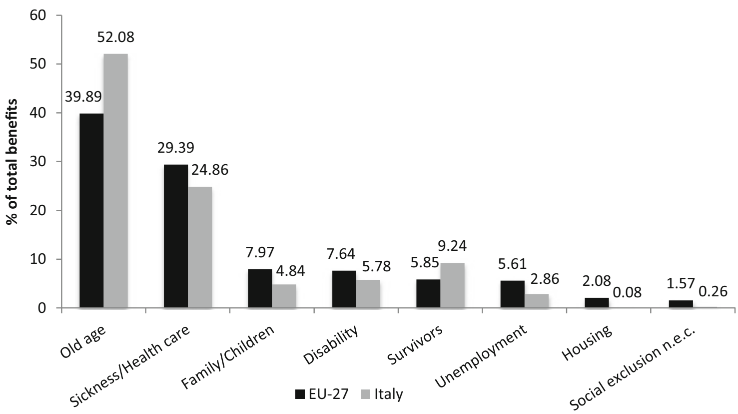

Fig. 1 Social benefits by function, % of total benefits 2011. *Source*: Our elaboration on Eurostat database (data extracted 24th February 2014)

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Table 1 Social benefits per head of population by function

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Old age	2836.8	2875.8	2935.1	3105.9	3295.1	3463.7	3449.7	3710.1	3732.5
Sickness/health care	1369.0	1463.4	1541.2	1632.9	1656.4	1761.9	1736.2	1833.8	1781.7
Family/children	251.8	261.8	258.6	282.3	312.3	326.5	342.2	328.9	346.9
Disability	350.4	340.7	342.4	357.7	381.8	397.2	411.2	426.0	413.9
Survivors	556.3	559.9	572.6	586.4	606.1	620.3	626.2	655.8	662.5
Unemployment	101.6	109.0	115.2	120.9	111.9	128.4	188.7	211.5	204.7
Housing	2.9	4.1	4.2	4.7	5.1	5.7	5.9	6.2	5.7
Social exclusion n.e.c.	13.2	10.1	10.9	11.6	13.2	13.0	16.1	18.4	18.5

Source: Our elaboration on Eurostat database (data extracted 17th June 2014)

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occupational groups, the system is characterised by different protection for: the insiders (‘over protected’) are represented by public and private sector employees; the outsiders (non-guaranteed) are workers active in the grey economy; and the mid-siders who are partly covered by social schemes with more limited access to benefits and services (this is the case of non-standard employment; self-employed and those who work in small and medium enterprises, with a particular role played by gender as a transversal cleavage) (Jessoula et al. 2010).

2 Demographic Change and Population Ageing

In Italy, demographic change has been particularly worrying in the last decades. This has been the consequence of two mutually reinforcing trends: longer life expectancy and low fertility, just partly mitigated by more favourable migration flows. As shown below, the Italian social programmes are vulnerable to ageing, even if recent reforms have largely addressed the problem.

2.1 Demographic Behaviour and Population Forecasts

Together with life expectancy and migration, fertility rates determine demographic changes. In Italy fertility rates (live birth per woman) have dramatically decreased since 1960s. The fertility rate reached its apex in 1965, when the average number of children per woman was 2.59 and then decreased to 1.19 in 1995 (Fig. 2).

Since 1995, the number of children per woman has started to increase again (1.46 in 2010), mainly due to the presence of immigrants (see in the following). Eurostat (2013) points out that fertility follows the economic cycle, decreasing in time of recession and vice-versa. Thus, from the start of the *Great Recession* (2008) the total fertility rates have started to decline across Europe. In the EU-27, the number of children per woman increased from 1.51 in 2005, to 1.61 in 2008. From 2009, the fertility rate started to decrease to 1.58 in 2012. Comparing Italy and EU-27, Italy shows fertility rates constantly below the EU average. However, we should note that these differences are not so relevant and are between the −0.17 and −0.14 %. As for trends, the Italian fertility rates increased since 2010 (1.46) and then decreased in 2011 (1.44) and 2012 (1.43) (see Table 2).

As well as in the other European countries, in Italy life expectancy has increased in the last 50 years. Life expectancy at birth—that refers to the number of years that a person can expect to live at birth, if the mortality condition does not change during the time—passed from 77.1 in 1990 to 82.1 in 2009. In 2009, life expectancy at birth was higher in Italy than in EU-27 (79.7). The indicator related to the “life expectance at age 65” confirms these trends. Italy passes from 17.2 in 1990 to 20.4 in 2009. In the EU-27 this value in 2009 is 19.3.

From the 1960s the Italian population has slowly and constantly increased, passing from 50,025,500 in 1960 to 59,685,227 in 2013. While fertility rates decrease, the percentage of population aged 65 and more on the total constantly

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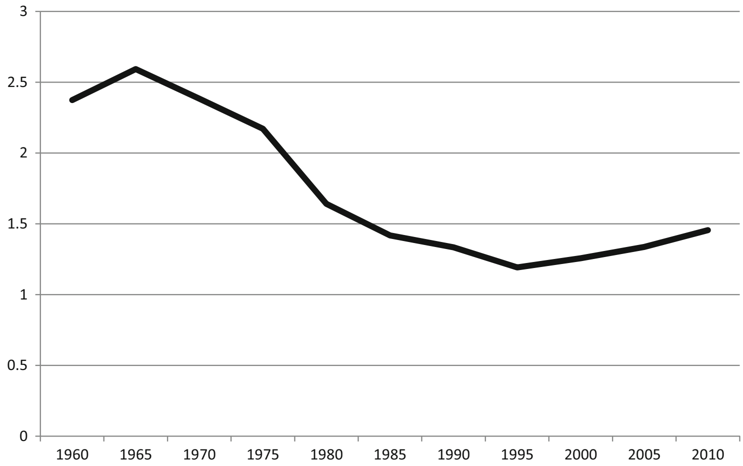

Fig. 2 Fertility rate in Italy, number of live births per woman, 1960–2010. *Source*: Our elaboration on Eurostat database (data extracted 12th February 2014)

Table 2 Fertility rate, Italy and EU-27 (2005–2012)

	2005	2006	2007	2008	2009	2010	2011	2012
EU-28	1.51	1.54	1.56	1.61	1.60	1.61	1.58	1.58
Italy	1.34	1.37	1.40	1.45	1.45	1.46	1.44	1.43

Source: Our elaboration on Eurostat database (data extracted 18th June 2014)

have increased since the 1960s. In 1960, people aged 64 and over were the 7.9 % of the population; in 1990 they were 14.4 % and in 2013 21.2 % (Fig. 3).

The Italian National Institute of Statistics (*Istituto Nazionale di Statistica*—ISTAT) offers data on the foreign population resident in Italy (ISTAT 2013). On 1 January 2013, the foreign population was 4,387,721, +8.2 % than 1 January 2012. The number of foreign people as a percentage of the total population increased from 6.8 % as of 1 January 2012 to 7.4 % as of 1 January 2013. For 2012, the immigration balance (inflows minus outflows) was around 260,000 units. In 2012, the number of foreigners increased mainly due to immigration (321,000 people) rather than through the birth of children of immigrants (80,000). In 2012, the number of non-Italians comprised 15 % (79,894) of the total population in Italy. Compared with 2011, the number of non-Italians is stable (+1 %), with a lower increase compared to 2010 (+1.3 %). This is the opposite of the Italian-born trend that has been in decline for 4 years. However, even if the number of foreign-born is increasing it is necessary to keep in mind that a significant slowdown has characterized it. The presence of non-Italians is not homogeneous within the country: 86 % of immigrants live in the north and in the centre of Italy and only 14 % in the south. Yet, during 2012, the most significant increase was in the south (+12 %) and the islands (+10 %) (ISTAT 2013).

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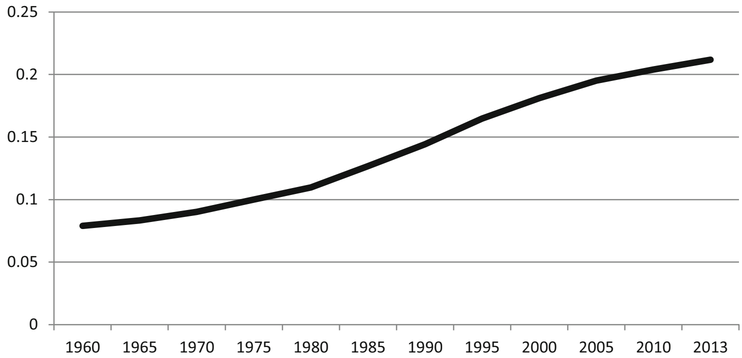

Fig. 3 Percentage of people more than 64 on the total population. *Source*: Our elaboration on Eurostat database (data extracted 12th February 2014)

Irrespective of these migration flaws, the last Eurostat projection (up to 2060) shows that population ageing is likely to attain unprecedented levels in many European countries. Italian population will be older than European average[2] considering both three indicators summarized in Table 3.

In 2060, the median age of the Italian population is expected to be 50.2 years (the European population will be 3 years younger at 47.2). The percentage of the Italian population aged 65 years and older is expected to increase by 11.5 % from 2010 to 2060, passing from 20.2 to 31.7 %. This increase is lower than the EU average: the latter is expected to increase by 13.3 %, passing from 16.0 in 2010 to 29.3 in 2060. The Italian population aged 65 years and over is constantly higher compared to the other European countries. A more impressive increase can be seen in the percentage of people aged 80 years and over that moves from 5.8 % in 2010 to 14.1 % in 2060 in Italy and from 4.1 to 11.5 % in the average of European countries.

2.2 Consequences for the Italian Welfare State

Such an impressive population ageing is projected to have a significant impact on the social protection system as whole. The impact concerns not only the increase in expenditure on pensions but also the increase of public (and private) spending in the fields of health care and social assistance (in particular long term care). As pointed out by the EU (European Commission and Economic Policy Committee 2013), the population aged 15–64 is estimated to decline in the EU and especially in Italy, over the whole projection period (up to 2060). The population aged 65 and above will increase very markedly throughout the projection period. As a result, the demographic old-age dependency ratio (people aged 65 or above relative to those aged

[2] Eurostat developed this analysis by considering the EU-27 member states plus Iceland, Liechtenstein, Norway and Switzerland.

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Table 3 Population ageing: forecast

	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050	2060
Median age on 1 January of selected years											
Italy	31.2	32.7	34.0	36.9	40.1	43.1	46.2	48.4	49.3	49.8	50.2
EU	31.5	31.6	32.4	34.5	37.1	39.8	42.2	44.4	46.3	46.8	47.2
Percentage of population aged 65 years and over on 1 January of selected years											
Italy	9.3	10.8	13.1	14.7	18.1	20.2	22.3	25.5	29.8	31.5	31.7
EU	9.6	11.0	12.5	12.9	14.5	16.0	19.1	22.6	25.6	27.8	29.3
Percentage of population aged 80 years and over on 1 January of selected years											
Italy	1.3	1.8	2.1	3.1	3.9	5.8	7.1	8.2	9.6	12.5	14.1
EU	1.4	1.7	2.1	2.8	3.0	4.1	5.0	6.5	8.4	10.1	11.5

Source: Eurostat (2011)

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15–64) is projected to increase in Italy from 33 to 62 % (in the EU as a whole the average ratio is expected to increase from 26 to 52.5 % over the period). This entails that Italy would move from having three working-age people for every person aged over 65 years, to less than two working-age persons. The effective economic old-age dependency ratio is an important indicator to assess the impact of ageing on budgetary expenditure, particularly on its pension component. This indicator is calculated as the ratio between the inactive elderly (65+) and total employment (15–64). The effective economic old age dependency ratio is projected to rise significantly from around 31 % in 2010 to 84 % in 2060 (in the EU-27 from 39 % in 2010 to 71 % in 2060). In the euro area, a similar increase is projected from 42 % in 2010 to 72 % in 2060.

As we show below in Sect. 4, policymakers passed reforms to address the problem. This is especially the case of the pensions' policy, where the so-called "Fornero reform" of 2011 addressed this problem through the increase of retirement age and extending the contribution method to all workers. In recent years, demographic trends have been addressed through retrenchment more than through additional investments in care and education and training. This effort has contributed to reduce the expected cost of ageing. Strictly-age-related public expenditure is projected to increase on average by 0.2 % of GDP by 2060 in Italy, compared to 4.1 % points of GDP by 2060 in the EU—and by 4.5 % points in the euro area. While in the EU most of the projected increase in public spending over the period 2010–2060 will be on pensions (+1.5 p.p. of GDP), long-term care (+1.5 p.p. of GDP) and health care (+1.1 p.p. of GDP), in Italy pensions spending is expected to decrease by 0.9 % between 2010 and 2060, while long-term care (+0.9 % of GDP) and healthcare (+0.6 % of GDP) should increase much less than in the EU average. In the euro area, spending on pensions and long-term care will be higher, rising by 2 p.p. and 1.7 p.p. of GDP respectively (European Commission and Economic Policy Committee 2013: 33).

Thus major reforms adopted since the early-1990s are expected to massively reduce the impact of the demographic transformation in the next decades. This is especially due to the more rapid implementation of pension reforms and of tighter eligibility conditions and the presence of automatic expenditure stabilizers—regarding benefit calculation, valorisation of contributions and the fixation of the statutory retirement age. The projected increase of pension expenditure in Italy after 2030 is among the lowest in the EU and in fact negative (Jessoula and Pavolini 2013). However, too little has been done to support the fertility rates, the reconciliation policies have not been adequately developed. Compared with the other European countries, Italy is significantly less generous towards family and people with family responsibilities. This is particularly evident both considering monetary transfers (in particular for children) and the provision of social services (Saraceno 2010).

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3 Fiscal and Economic Crisis

Economic, budgetary and labour market trends are a key element to understand welfare reforms in Italy. Economic recession, increased unemployment and persistent budgetary tensions have contributed to further efforts for cost-containment in the period between 2007 and 2013.

In the late 1980s and early 1990s, Italy was characterized by relevant economic growth, but later on growth stagnated. Between 2001 and 2008 average growth was 0.8 % of GDP (roughly half the euro area average). As shown in Table 3, Italian GDP between 2004 and 2012 was systematically lower than the EU-27 average. Economic contraction was particularly evident in 2008 (−1.2 %) in 2009 (−5.5 %) and in 2012 (−2.5 %). Italy thus experienced a 'double-dip': the *Great Recession* of 2009 was followed by some first signs of recovery (in 2010 and 2011) and then by further economic decline in 2012 (Table 4).

The major problem of Italy's economy—partly explaining low growth—is its competitiveness gap, in particular average unit labour costs (Goretti and Landi 2013). Italy's position deteriorated steadily since the launch of the euro area, after a decade of economic slowdown and declined exports. Stagnation in productivity since the end of the 1990s and the rise in labour costs have been paralleled by the reduced market shares for goods and services measured in volume terms by almost 3.5 % per year on average over the 2000–2009 period (Cencig 2012). Italy's share in world trade has declined since the mid-1990s, and the country has not profited from increased demand in emerging markets. This seems to be much related to the typical profile of Italian firms: they are more focused on low-technology and labour intensive products (like textiles). Recent decades have seen no significant shift in the industrial specialization pattern, while economic regulation and openness to competition lag behind other western countries. Another structural characteristic is the traditional predominance of small and medium size enterprises that are unable to fully exploit economies of scale. Furthermore, access to the equity market to finance firms is under-developed (especially by small and medium enterprises) (ibidem, 9).

The economic crisis has impacted on all labour market indicators: unemployment rates dramatically increased between 2007 (6.1 %) and 2012 (10.7 %) (Table 5). This increase is more significant in the case of young people (less than 25 years): unemployment rates increased 15 % points between 2007 (20.3 %) and 2012 (35.3 %). The long-term unemployment rates (as percentage of unemployment) increased in particular in the period between 2009 (44.4 %) and 2012 (53.0 %).

What is more, the crisis further contributed to the segmentation of Italy's labour market, with strong employment protection for some groups, paralleled by the general unemployment insurance system leaving most workers unprotected (see Sect. 4 below). The deterioration of employment rates also led to a deterioration in female employment rates and women's inactivity rates, thus widening the distance from most EU countries. Italy's employment rate is low, with women, older

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Table 4 Real GDP growth rate—volume (percentage change on previous year) EU-27 and Italy

	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU (27 countries)	2.6	2.2	3.4	3.2	0.4	−4.5	2	1.7	−0.4
Italy	1.7	0.9	2.2	1.7	−1.2	−5.5	1.7	0.5	−2.5

Source: Eurostat dataset (data extracted 9th January 2014)

Table 5 Unemployment rates in Italy (2007–2012)

	2007	2008	2009	2010	2011	2012
Unemployment rate	6.1	6.7	7.8	8.4	8.4	10.7
Youth unemployment rate	20.3	21.3	25.4	27.8	29.1	35.3
Long-term unemployment as % of unemployment	47.4	45.7	44.4	48.5	51.9	53.0

Source: Elaboration on Eurostat database (data extracted 26th February 2014)

workers and youth particularly disadvantaged in a comparative perspective (Sacchi and Vesan 2011; Vesan 2012).

Throughout the economic and financial crises, poverty and inequality have significantly increased (Table 6). If we consider the Eurostat indicator (and its three sub-indicators),[3] Italy shows a systematically higher level of at risk of poverty and social exclusion compared to the EU-27 average (AROPE).

This difference was particularly evident in 2011 and 2012 when Italy showed respectively 28.2 % and 29.9 % of people at risk of poverty and social exclusion, whereas the EU-27 average was 24.3 % and 24.8 %. The rates of people at risk of poverty and social exclusion decreased between 2008 (−0.7 %) and 2010 (−0.8 %) and dramatically increased again in 2011 (+3.7 %) and 2012 (1.7 %). Considering the three sub-indicators that compose AROPE, we see that, in Italy, the risk of poverty after social transfers (AROP) decreased between 2008 (18.7 %) and 2010 (18.2 %); to then increase in 2011 and 2012 (19.4 %). The rate of severely materially deprived people grew significantly between 2011 and 2012 when, compared to the previous year, it rose respectively of 4.3 % and 3.3 %. Finally, the rate of people in households with a very low work-intensity (LWI) has not shown relevant changes over time. However, it should be noted that between 2008 and 2009 LWI saw a significant reduction (−1 %) and it then started to increase since 2010. As far as the territorial distribution of poverty risks, more than half of people at risk of poverty or social exclusion live in the south of the country. In this area, in 2012, 40 % of people were at risk of poverty or social exclusion, whereas in the centre-north of the country the AROPE was constantly below the national average (DPS 2013).

[3] In the framework of Europe 2020 strategy Eurostat introduced an indicator concerning people "at risk of poverty or social exclusion" (AROPE). This indicator is composed by three sub-indicators: (i) "people at risk of poverty" (AROP), (ii) "people severely materially deprived" (SMD), and (iii) "people living in households with very low work intensity" (LWI) (for a more detailed analysis see Agostini et al. 2013).

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Table 6 Poverty and social exclusion rates

	2007	2008	2009	2010	2011	2012
AROPE	26	25.3	24.7	24.5	28.2	29.9
AROP	19.8	18.7	18.4	18.2	19.6	19.4
SMD	6.8	7.5	7	6.9	11.2	14.5
LWI	10	9.8	8.8	10.2	10.4	10.3

Source: Elaboration on Eurostat dataset (data extracted 10th January 2014)

After having looked at the key consequences of the economic crisis, we now turn to budgetary conditions. A more long-lasting trait of the Italian economy has been high public debt and deficit. In 2000s the debt was the highest in Europe and currently it is the second highest after Greece. With the exception of 2007, when there was a decrease (103.3 % of GDP), the government gross debt constantly increased between 2004 (103.4 % of GDP) and 2011 (120.7 % of GDP) (see Fig. 4). Over the past decade, this trend has been the consequence of very low economic performance.

As shown above, the unprecedented global crisis that erupted in the US in 2008 hit Italy particularly hard (−5.5 % of GDP in 2009; and unemployment growing from 8.4 % in 2010 up to 11.4 % in 2013). In this context, European institutions put pressure on national policymakers to address the structural weakness of the country, considered as the causes of the low growth rates (Caritas Europa 2013). The hypothesis to ask for an external loan was viewed as a danger for the entire Euro zone. As opposed to most countries in the shadow of the crisis, Italian governments avoided countercyclical actions to address the crisis, while public finances remained largely under control, in part because no banking sector rescue package was needed (Goretti and Landi 2013). Policymakers launched instead structural reforms (see below), although the resistance of vested interests succeeded in blocking a consistent strategic design.

Moreover, the crisis originated in Greece where the mix of budgetary strains and economic recession led to a series of bailouts. After the intervention of the EU and the IMF to help Ireland and Portugal, Italy became the target of the global financial markets. Investors saw higher risk associated with investing in Italian bonds, they thus started to require a higher return to compensate such a risk. The so-called ‘spread’ (the gap between the interest paid by the German government and that paid by Italy and Spain in order to obtain funds on the financial market to sustain the public debt) increased steadily during 2011 and thus made the country’s budgetary conditions even worse (Jessoula and Pavolini 2013).

When the financial market turbulence and possible contagion from other EU countries put Italy at risk, the government thus introduced some consolidation packages. The first 2009–2011 package was adopted in summer 2008 and consisted of a mix of increased revenues and cost-containment. The second package for the period 2011–2013 was passed in May 2010, and included the planned expenditure restraint at the lower government levels, on intermediate consumption, through cuts to departmental spending and pharmaceutical supplies; and pension expenditure

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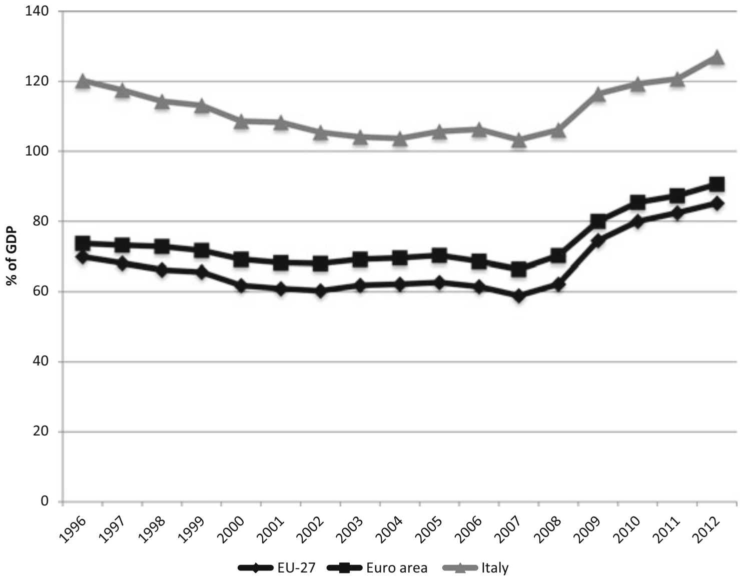

Fig. 4 General government gross debt, percentage points of GDP. EU-27, Euro area and Italy. *Source*: Our elaboration on Eurostat dataset (data extracted 9th January 2014)

(see below), and measures for increasing revenues, (e.g. against tax evasion). All these efforts contributed to reduce public deficit: from 5.3 % of GDP in 2009 to 3.5 % in 2012.

In December 2011, the government passed a package of fiscal and welfare reforms. The plan was to deal with the crises in two steps. The first one for austerity measures, and the second one for reforms and growth measures. The "Save Italy" package should have been followed by a "Growth Italy" package (Bini Smaghi 2013). The austerity measures related to "Save Italy" regarded: (1) changes in the pension sector (such as progressive raising of the statutory retirement age); (2) a shift from direct to indirect taxes; (3) higher taxation on richer people, in particular on property, and measures against tax evasion; (4) increase in value added tax (VAT) and in excise taxes on fuels; (5) wage cutbacks for senior civil servants, wage freezes for other public servants; (6) 'streamlining' of costs in the field of healthcare and education. Moreover, the technical executive passed a new labour market reform (Caritas Europa 2013).

4 Risks and Opportunities

Confronted with this set of challenges, the Italian welfare system has been further reformed. In the following pages we look at key policy fields and measures introduced between 2007 and 2013. In particular, we refer to the reforms passed by the technocratic executive headed by Mario Monti—former EU commissioner

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(November 2011–April 2012). As stressed above, the government introduced key reforms in the field of pensions and employment policy and further measures in healthcare and education, in the context of the 'sovereign-debt' crisis. Economic recession and financial tensions on the one hand; and stringent EU constraints on the other were at the origin of the new round of measures.

4.1 Pension

Italian pensions are a typical example of the social insurance pension model, where the state provides the greater part of pension benefits through public mandatory schemes which are basically earnings-related. The financing method is of a pay-as-you-go (PAYG) type: current contributions paid by both employers and employees (and revenues coming from current taxation) are not accumulated but are immediately used for financing current benefits. In the past, the high generosity and coverage, and the encompassing character of public pensions, limit the role of supplementary pension funds. While Italy shares these traits with other European countries, some peculiarities have characterised the system in the last decades: public pensions have been extremely generous and costly (Italy has been one of the highest-spending EU countries). Since the 1990s, a long list of reforms has radically transformed the system with a turn to a (still incomplete) multi-pillar pension model (in line with a progressive reduction of public pensions and more room for supplementary pension funds).

While the so-called welfare protocol of 2007 passed by the left-of-centre Prodi government reduced cutbacks introduced earlier by the right-of-centre parliamentary majority, three different pension reforms were introduced in the period 2009–2011 (Natali 2011). Both were shaped by external constraints. The EU put pressure on Italian policymakers through different instruments. First direct pressure came from the European Court of Justice (ECJ). Its rulings C 46/07 found Italian legislation about retirement age, in particular the different statutory retirement ages for men and women in the public sector, to be discriminatory. This led to the opening of an infringement procedure against Italy. The Berlusconi government decided to introduce a revision of pensions legislation in 2009 to equalise retirement age for men and women in the public sector at 65 (for women it was 60), through a phase-in period of 9 years. Such direct pressure from the ECJ was supplemented by the first impact of the economic recession. The Italian government had to pass measures to stabilise public budget deficit in a context of huge recession. The increase of the legal retirement age was thus supplemented by automatic mechanisms to further increase retirement age (for both social assistance, old-age and seniority pensions) in line with the progressive increase of life expectancy. These measures were introduced through a short phase-in period, with a full implementation since 2015.

A second reform package was then passed in 2010. Due to the persistent economic recession and the progressive deterioration of the public budget, the Berlusconi government reduced the transition period for the full implementation

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of the measures introduced in 2009. As a consequence of the new law of 2010, the equalisation of the retirement age for men and women (in the public sector) has been in operation since 2012, and the automatic adjustment of the statutory retirement age to life expectancy has been active since 2010.

The dramatic context of the so-called ‘spread-crisis’ in 2011 led then to a more radical revision of the Italian pension system. The Monti government in fact passed a new set of measures in 2011 (the above mentioned ‘Save-Italy’ decree of December 2011). Law Decree 201/11 (December 2011)—then translated into Law 214/11—introduced major changes, in particular:

- a move towards a single retirement age for men and women (66 years and 7 months by 2018), for employees in both the public and private sectors, and the self-employed;
- a flexible retirement age, with a minimum retirement age of 63 (in the case of pension benefits above the minimum level of 2.8 times the *assegno sociale*), and a postponed retirement at 70;
- the periodic adjustment of the retirement age in line with increases in average life expectancy since 2013 (while before the reform it was supposed to be introduced in 2015) with a rise of 3 months, and further increases every 3 years up to 2019;
- from 2012, it was decided on the full enforcement of a defined contribution pension scheme introduced in earlier reforms to replace the earnings-related defined benefit scheme;
- the seniority pension—allowing workers with at least 35 years of pension contributions to retire early—was eliminated;
- gross monthly pensions above 1400 € were not indexed to bring pension spending under control for 2012 and 2013.

New measures were expected to produce savings after 2012 (around 2.7 billion euros) reaching 22 billion euros in 2020. Accordingly, the reduction of public pension expenditure on GDP was deemed to be 0.2 % points in 2012, 0.9 in 2015 and 1.4 in 2020, then gradually declining to 1.1 p.p. in 2025, 0.9 in 2030 and 0.5 in 2035 (Jessoula and Pavolini 2013). In distributive terms, such a reform largely reduced the transition towards the full implementation of cutbacks (related to the introduction of the defined-contribution type of benefit). This has addressed the inter-generational cleavage between younger generations (already concerned by previous reforms) and older cohorts.[4] But retrenchment risks lowering the adequacy of pension benefits and putting the elderly at risk of insufficient protection: this is the case of workers with low wages and interrupted careers (ibidem).

[4] The Dini reform of 1995 that introduced the defined-contribution logic in the PAYG pension system foresaw a 40 year transition period before its full implementation in 2035. The Fornero reform of 2011 cut this transition and made the new rules operative from 2012.

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While reforms thus focused on cost-containment, the role of supplementary pension funds increased. First, with respect to coverage, recent years have seen more members with a still modest coverage—with more than six million members of supplementary pension schemes out of 22.5 million employed by mid-2013. Different trends have characterized the spread of different types of supplementary pension schemes. Second pillar schemes, so called 'closed occupational funds' (CPFs), continued to lose members, while third pillar schemes are more widespread individual third pillar pension plans, such as the 'open pension funds' and individual insurance contracts (PIPs), have attracted new members: an increase of 80,000 members for the former, and 500,000 for the latter. As stressed elsewhere (Natali and Stamati 2013), the emerging multi-pillar system is contributing to inequity between territories, occupational groups and gender. Supplementary pension funds are in fact more spread in the northern part of the country, they cover workers in large firms in manufacturing, while they are weakly developed in the south, public sector and private service sector, and in small and medium enterprises. Workers with low wages and interrupted careers (particularly women) are less represented among pension funds' members.

4.2 Health Care

As stressed above, the healthcare system is marked by the setup of the National Health Service in 1978. Afterwards, the system saw major reforms in the 1990s to improve efficiency (through the increased role of private providers) and rationalize the interplay between central government and regional authorities, the latter having a major role in the administration of healthcare. At the beginning of the twenty-first century, the system was characterized by public spending below the EU average. Yet, since the onset of the crisis the issue of the economic sustainability of the NHS has become central in Italy. Almost the whole debate about the NHS transformation has been focused on cost-containment (Jessoula and Pavolini 2013).

In 2012 the Monti government introduced the "Balduzzi Reform" (named after the Minister of Health Care) (Legislative Decree n° 158/2012). The reform focused on different issues, the most prominent ones were the re-organization of primary care and the redefinition of the "guaranteed levels of health care assistance" (LEAs). Yet the absence of specific financial resources to implement it (see the transformation of the organization of primary care, and the creation of "health homes") largely blocked the reform in this field. New measures then consisted of the introduction of more selectivity in the provision of health services: more limited set of needs to be covered, and more limited access for patients. In parallel, the budgetary law also set new targets for public health care expenditure for 2014 at 7.1 % of the GDP and 6.7 % in 2017 (with a decline of total public spending compared to previous projections). Still to contain public spending, the government promoted the reorganization of hospital and out-patient care with the reduction of hospital beds, more emphasis on prevention (with a new "National Plan for Prevention") and a stricter drugs expenditure regulation.

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Further measures were introduced in 2013 through the Financial Stability Law. New measures consisted of additional two billion euros of co-payments, and the reduction of cutbacks set in the previous years. But indirect cuts were maintained: the law prescribed a freeze on salary increases in the whole public sector; and the stop of the possibility for public administrations to hire new workers when older ones retire. A pact between central government and the regions (running the NHS) was signed. This included the revised hospital care organization (starting with the reduction in beds in acute care), the revision of the types of LEAs accepted in the NHS, and the set-up of similar standard costs all over the country for the provision of LEAs (ibidem).

As a consequence, the financial sustainability of the NHS does not seem at risk. However there is a series of problems concerning the quality and the performance of the system: inequalities in the access; long waiting lists and increasing co-payments. The aging of the workforce and the choices made in terms of its management (freezing of salaries, low "turn-over" rates, etc.) risk creating organisational problems in the medium term (ibidem, 19–21).

4.3 Employment Policy

Three programmes represent the pillars of the system: the general unemployment insurance schemes (which covered workers remaining without a job and with a minimum period of contribution); the so-called short-time work schemes (STW) provide protection against the risk of temporary redundancies; and public and private employment services (see Natali 2009).

Since the 1990s, we have seen the progressive liberalization of employment services: public services have been decentralised and put in competition with private agencies. This was then combined with the increased flexibility of the labour market. The Law n. 196 of 1997, the so-called *Treu Law* from the name of the then Minister of Labour, and the Biagi Law of 2005 introduced more opportunities for flexible contracts. Compared to the other European countries the Italian approach to labour market policy has remained dominated by passive measures. The "activation" turn has had a limited impact in Italy (Bonoli 2013).

Since 2009, the main measure adopted by the Italian government to reduce the impact of the economic crises has regarded short-time work schemes and the new regulation of labour contracts. As far as STW schemes are concerned, the *Cassa Integrazione Guadagni* (CIG) is used in a new version that derogates current regulation by extending protection for further categories of worker, enterprises (including small and medium enterprises), economic sectors and extending the duration of the measure. The so-called *Ammortizzatori Sociali in Deroga* (AD)—which are the CIG plus other short-term work schemes—aim to: (1) extend the measures of income support to some categories of workers (especially those in small and medium enterprises) previously excluded from the scheme; (2) find, with the help of the regions, the necessary funds to cope with the increasing demand of wage support due to the economic crises. The Italian government stipulated an

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agreement with regions that are called to cover 40 % of the cost of AD, also through the European Social Fund. As it has been noted, to face the economic crises the system of social safety net has not been revised, but it is temporarily derogated and thus leads to the further fragmentation of the sector (Sacchi and Vesan 2011; Vesan 2012).

On April 2012, the executive led by Mario Monti passed the so-called "Fornero reform" (named after the Ministry of Labour Elsa Fornero) (Law n. 92/2012). In particular, the reform regulates the individual dismissal and the fix-term employment contract with the aim to favour the use of permanent contracts (reducing atypical contracts) and, at the same time, it simplified the procedures to lay off employees. Second, the reform defined new measures for income support. It re-defines the system of social safety nets distinguishing measures to support wages in case of unemployment and measures to integrate wages in case of suspension or reduction of working hours. A new scheme called *Assicurazione Sociale per l'Impiego—ASPI* has been introduced and, for the government, it should represent the first step towards a unique scheme of ensuring an income in case of unemployment. Finally, regarding the "proactive policies of employment", contracts "with training content" were introduced. The apprenticeship is considered the main stream to promote the access of younger workers to the labour market. The reform introduces also some measures to promote female labour market participation. These measures are however limited if compared to what has been realized in other European countries (Vesan 2012).

4.4 Poverty and Social Inclusion

The period between 2007 and 2013 was characterized by a renewed focus on the fight against poverty and in particular on new attempts to introduce a universal minimum income programme. This programme has been traditionally based on a poor insurance pillar, whereas a means-tested minimum income programme was absent. The only universalistic measure in the fight against poverty is "care allowance" (*indennità di accompagnamento*) for people that need long-term assistance and are not hospitalized in a public institution. A non-categorical means-tested benefit (called "*Minimo Vitale*") was introduced in some municipalities at the end of 1970s.[5] On the base of national regulation, a minimum income scheme (*Reddito Minimo di Inserimento*) was tried out from 1998 in some municipalities (39 municipalities in the first experiment 1998–2000; 306 municipalities for the following 2 years). This scheme was composed of both monetary and activation components: access to cash transfers was made conditional on participation in the programme of social inclusion (Madama 2013).

The main measure introduced since to 2008 (and deeply reformed over time) has been the *Social Card* (*carta aquisti*). In the first version, it was a debt-card to

[5] Turin 1978, Ancona 1981, Catania 1983, Milan 1989.

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purchase food and pay basic utilities. At that time the amount was very low (40 euros per month—480 euros per year). The approach was selective and the social card was reserved for people aged 65 and older or for families with children below 3 and a low income. In sum, in 2008 the social card aimed to ensure access to some essential goods and it was mainly an integration of income for retired people. It did not aim to be a sort of "minimum income scheme".

In 2011, Law n. 10 reformed the *Social Card*, through a pilot project involving a selected number of municipalities (with more than 250,000 inhabitants) and a combination of passive and active measures: cash benefits were combined with social inclusion measures. However, this plan was abandoned due to the fall of government at the end of 2011. The new technocratic government proposed a new version of the scheme (the so-called *Social Card 2.0*) that reflected a new approach. The new measure was conceived as universal, based both on cash transfer and social services, while its generosity increased. Finally the scheme introduced some forms of conditionality (Madama et al. 2014). In sum, with the Monti government, the idea of promoting a more European perspective to support income emerged. However, the *Social Card* continues to have an "experimentation character" (still limited to municipalities with more than 250,000 inhabitants). This confirmed the peculiarity of the Italian case. Italy is one of the two European countries still missing a minimum income protection (the other one is Greece). This inadequate protection of poverty has become even more evident because of the huge impact of economic recession (see Sect. 3). Finally the implementation of the Social Card 2.0 exclusively in the big cities has not allowed to tackle the territorial distortion that characterized the Italian welfare state (see Sect. 1).

4.5 Education

The literature that investigated the relationship between welfare and education models[6] has defined the Italian education system as 'Mediterranean'. The latter is characterized by inconsistent coverage and selectivity that emerge from the low level of expenditure and the low participation in higher education (Busemeyer and Nikolai 2010; West and Nikolai 2013). The Italian school system is compulsory up to the age of 16 and is based on three levels of instruction (*primaria*, *secondaria inferiore*, *secondaria superiore*). It is characterized by a high level of stratification (in terms of level of instruction and school paths), it is centralized from an administrative point of view and standardized in terms of teaching programmes (Pattarin 2011, 2013). The higher education system is "unitary", with a low level of internal differentiation. The Italian academic system is also characterised by the presence of an administrative system coordinated at central level (Ballarino 2011). The education system is then characterised by a poor performance, with a high percentage of early school leavers and a low level of tertiary education attainment.

[6] For an in depth analysis of this literature see Agostini (2012, 2013).

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Different laws have reformed the education system in the period between 2008 and 2010. The so-called "Gelmini Reform" (after the name of the Ministry of Education and Research of the Berlusconi government) prioritised the reduction of the education expenditure, for both the school and university system. The school reform for example reduced the hours of teaching in the primary school, in particular the afternoon schedule (*tempo pieno*) that was transformed in a sort of complementary activity also with the payment of fees (Pattarin 2011; Saraceno 2010). The university reform realized relevant cutbacks on the "ordinary funds" at national level (*Fondo di Finanziamento Ordinario*) (Ichino and Terlizzese 2012). And cutbacks have not stopped with the Monti government. As it has been pointed out (European Commission 2013), after the public budget spending review of August 2012, the cost-sharing for higher education was increased, while fees rose by between 25 and 100 % for students that graduate with some delay (after the statutory deadline).

As it has been pointed out, if the EU-27 continues to invest in education despite the economic and financial crises, Italy registered a significant drop in real public education expenditure. Italian public expenditure on education as a share of GDP is one of the lowest in Europe, in particular at the tertiary level. General government expenditure in Italy (4.2 %) is below the EU average (5.3 %). Due to fiscal consolidation, Italy has further reduced budget allocation for education. Between 2011 and 2012 it decreased of around 5 % in real terms (European Commission 2012, 2013).

4.6 The Politics of Welfare Reform: From Corporatist Agreements to Unilateral Measures

Reforms mentioned above have been introduced in the wake of the severe economic crisis and increased pressure from the EU to respect budgetary criteria. The two factors largely shaped the politics of welfare reforms between 2007 and 2012. They contributed to strengthen the position of political decision makers. The government had more room to manoeuvre vis à vis social partners, while political parties gained a more central role in negotiations. This is particularly the case of the technocratic Monti government that passed tough measures on pensions without any negotiation with social partners. Cutbacks on healthcare spending and the reform of the labour market were further proof of the altered balance of power between the executive, political parties and trade unions. The labour market reform was more complex and passed through different rounds of negotiation with both political leaders and representatives of social partners in early 2012, but in March 2012 the government decided to stop negotiations and pass the reform through a political agreement between the forces involved in the parliamentary majority. The reform was passed by the Chamber of Deputy in June 2012.

Compared to the reforms introduced in the 1990s, more recent changes between 2007 and 2013 were characterized by the limited involvement of the social partners and trade unions. In some respect, the shift from social concertation to social

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dialogue announced by the Berlusconi government at the beginning of the twenty-first century was accomplished. Social partners are still involved in consultations and round tables (at least in the field of labour market), but then the government and later on parliament take decisions irrespective of the eventual opposition of the labour movement. As stressed above, this seems to be the result of a much more difficult economic and European context where adjustment pressures became more explicit. By contrast, the corporatist source of legitimation lost ground: the pro-labour rhetoric of first Italian reformers of the 1990s left room for a more critical stance. In 2001, Prime Minister Monti attacked social concertation and blamed trade unions to be responsible for the country's gloomy economic and social conditions (Sacchi 2013). The internal division of social partners (between employers and trade unions) and the labour movement (along political lines) is a further reason for the decline of concertation.

5 Conclusions

The Italian welfare state has been largely reformed in the last 20 years and this trend has continued since the emergence of the *Great Recession*. Looking at the period between 2007 and 2013 what we see first is the further containment of social spending. In an economic and social context marked by the so-called 'double-dip', two rounds of economic recession in 2009 and 2012, policymakers aimed at introducing austerity measures to increase budgetary sustainability. This was the case of pensions (further reformed in 2011). In the meanwhile, further reforms were introduced on labour market policy. While the latter has been reformed in the 1990s and early 2000s to increase flexibility, the very last reform of 2012 has been more mixed: on the one hand it has rationalized employment contracts (reducing the wide range of atypical forms), on the other it has further reduced job security making workers dismissal more easy.

All this is consistent with what has been called the subtractive recalibration of the Italian welfare state, with effective cutbacks introduced in the most expensive policy areas (like pensions). Such a recalibration has been partial in that the weakest part of the Italian welfare, namely active labour market policies and social inclusion policies, has seen no major improvement. Public spending in these fields is still below the EU average and has not radically improved in the last few years. Education has seen a decline of public spending.

What is more, recalibration has been partial in that major distortions of the system have not been addressed. We refer here to territorial disparities (the North/South cleavage has increased), and the more evident differences between occupational groups. The insider/outsider cleavage is still huge in Italy, with the inequity originated by the labour market further reinforced by welfare programmes. All this confirms the key traits of the Italian welfare state within the South-European model (e.g. fragmented welfare protection; limited stateness; key role of the family to

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provide social services). More innovative measures in line with activation and the social investment paradigm seem to have been left behind.

Yet we see some hope for the future evolution of the system. While Italy has very negative demographic prospects, measures introduced before and after the *Great Recession* have led to an expected low increase in public spending in the next decades (much less than in the EU average). This means that policymakers have addressed major challenges to the financial viability of the welfare state. In the future there could be some opportunity for a more generous recalibration, through increased investment to protect social risks.

What is clear is that after decades of cost-containment, some social groups seem at risk of limited and insufficient protection: this is the case of traditional outsiders (e.g. atypical workers, women and southern Italians) and new groups that are poorly covered, e.g. younger generations.

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Lithuanian Welfare System in Times of Recent Crisis

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1 Introduction

Lithuania regained its independence in 1990. In 2004, it became part of the EU and since then it has been enjoying all the benefits of being an independent state and an equal member of the European community. Since Lithuania's integration into the European Union, social issues have been at the centre of political debate. This is the result of the EU social action programmes. At the same time, the increasing social problems, which have been escalating during the global crisis of recent years, have forced Lithuanian academics, politicians and bureaucrats to put social issues at the top of the political agenda. Nevertheless, after more than 20 years of Lithuania's transition, it is still among the laggards of the EU, according to the following social indicators: poverty, deprivation, income inequality, shadow economy, and minimum wage; the social protection expenditures are also among the lowest in the EU (Aidukaite 2009a, 2011). Moreover, Lithuanian society is also faced with the challenges of the twenty-first century: ageing of the population and increasing outward labour migration. Yet the global financial and economic crisis, which was felt in Lithuania mostly in 2009–2010, has made a considerable impact on the social welfare system of Lithuania.

Studies (Aidukaitė et al. 2012; Guogis 2011; Guogis and Koht 2009) claim that in 1990 Lithuania laid the foundation of the Bismarckian social security model, consisting mainly of a state pay-as-you-go social insurance system, social assistance and some additional special benefits for separate social groups. Social policy, however, was and still is the weakest part of the state's system, namely, unable to

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guarantee a decent standard of living for increasing numbers of people relying on it (Aidukaite 2009b). Even during the economic growth years (2001–2007), social inequality, poverty and emigration as well as distrust in state institutions were gradually increasing. One of the reasons for this could be found in the neo-liberal ideology which prevails in the country. Previous studies (Aidukaite 2009a; Lauristin 2003) have already indicated that the political elite in Lithuania (and other Baltic States) support predominantly neo-liberal ideas and up to now there has been no strong party or social movement which could defend and promote the rights of workers. A recent study (Aidukaitė et al. 2012) based on 67 interviews with the political, economic, administrative elite and social academics shows that the political elite in Lithuania assume that the economy determines the capacity of social policy and therefore the economic development has to be prioritized as a major goal for Lithuanian society. The ideological differences between the “left” and the “right” political groups are minor.[1] Even the social-democratic parties were in favour of social policy liberalization and marketization and trusted the market to regulate its development. These attitudes made social policy dependent on the economic and financial circles that makes it very easy to manipulate. This dependence was especially apparent in the period of economic growth (until 2008) and during the recent financial and economic crisis. During the economic growth period, some social security benefits were raised. During the economic crisis, the benefits which were expanded during the economic growth period were cut back and some even retrenched. However, the ideological preferences of the political elite have not changed over time and remained oriented toward liberalization and marketization of social policy.

This chapter is designed to shed some light on the challenges and changes in the welfare system of Lithuania during and after the recent financial and economic crisis, which in Lithuania was felt most, as noted, during the years of 2009 and 2010. The main questions are: What are the major challenges for the Lithuanian welfare system in the twenty-first century? Which reforms were implemented during the global crisis and what consequences have they generated for the future development of the welfare system in Lithuania? The global crisis has hit the Lithuanian economy harder compared to some of its counterparts in Western and Eastern sides of the EU and this has had further negative effects on the social indicators of Lithuanian society (Roubini 2009a, b; Sommers et al. 2011).

The study will be organized as follows: firstly, demographic challenges (ageing of the population, increasing emigration) will be discussed as one of the biggest challenges which the Lithuanian welfare system has to face. Secondly, the scope of the fiscal and economic crisis will be analysed and its consequences for social policy and the well-being of the population. Then, we will pay more attention to the labour market policies, pension insurance, health care, short-term and family benefits as these are major policies in the Lithuanian welfare system and they were most affected by the crisis. Finally, concluding remarks will be offered.

[1] This was also supported by a study of Guogis et al. (2000).

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2 Demographic Change and Population Ageing

Lithuanian society is ageing, not only due to the decreasing birth rates, but also due to massive emigration, which has been observed since 1990s. Previous studies (Ainsaar and Stankuniene 2011; Barcevičius et al. 2008) have already documented a high emigration rate in Lithuania. For instance, a study carried out by Barcevičius et al. (2008: 8) reveals that from 1990 to 2007 the Lithuanian society lost 10 % of its population due to emigration (about 473.5 thousand persons). The latest census data of 2011 have revealed that over a decade, i. e. from 2001 to 2011, the country's population decreased by 12.6 % (440.6 thousand). The main reason of the decline was international migration (76.9 %), as well as a natural decrease of the population by 101.9 thousand (23.1 %) (Lithuanian Statistics Department 2012a: 66).

According to the data of the Lithuanian Statistics Department (2014), the numbers of emigrants started increasing in 2009, reaching the peak of more than 83 thousand emigrants in 2010 (see Fig. 1) compared to the decrease in the number of persons leaving the country during the economic growth period of 2006–2008. The dramatic increase of 2010 can be explained by the new Law on Health Insurance, which was adopted by the Lithuanian government and enforced in 2010. The law imposed an obligation on permanent residents of the country to pay compulsory health insurance. Therefore, many of those not residing in the country were forced to report on their emigration status not to be obliged to pay compulsory health insurance in Lithuania. Nevertheless, the numbers of emigrants are still higher compared to those reported during the pre-crisis period.

According to the Eurostat data, the proportion of the population aged 65 and over is gradually increasing. In 2004 the elderly population amounted to 15 %, while in 2012 the figure was 18.1 %. This is slightly higher than the EU-27 (or EU-28) average, which stands at 17.8 %; however, it is lower than the Euro-16 area average, which stands at 18.7 %. It has to be kept in mind that life expectancy in Lithuania is one of the lowest in the EU. Although, life expectancy has been gradually increasing since 2007 (see Fig. 2), this is still lower than the EU-28 average. In 2012, the average life expectancy was 73.4 years in Lithuania, whereas the EU-28 average (in 2011) was 79.7 years. For the Euro-16 area the average life expectancy was 80.2 years in 2009 (based on Eurostat data). According to Eurostat data, only Belarus, Moldova and Ukraine have lower figures for life expectancy than Lithuania. A study (Stankūnienė and Jasilionis 2011: 345) shows that the increase in life expectancy from 2007 and onwards can be linked to the decrease in male mortality due to external causes of death and to the decline in mortality from cardio vascular diseases among both older working age and retired women and (mostly) middle aged and retired men.

Previous studies (Ainsaar and Stankuniene 2011; Stankūnienė et al. 2013) have documented a decline in the total fertility rate in Lithuania during the period of 1990–2005, but from 2005 and onwards, the total fertility rate has shown a tendency to increase. The total fertility rate in 2012 was about 1.6 children per woman in Lithuania. This is lower than in Sweden, Denmark, Finland, the Netherlands, Ireland and Montenegro, but higher than in Estonia, Latvia, the Czech Republic,

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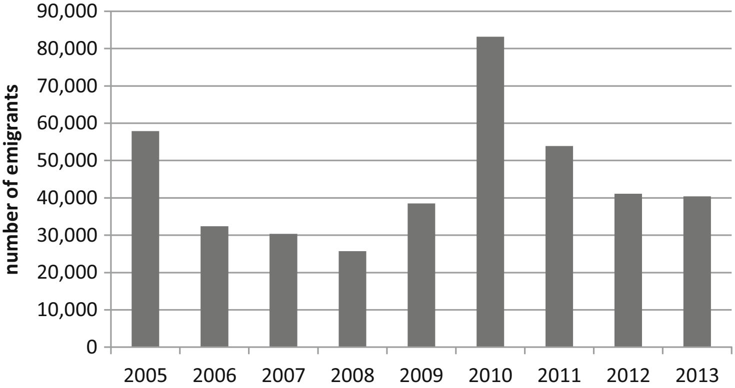

Fig. 1 Number of emigrants 2005–2013. *Source*: Lithuanian Statistics Department, 2014

Fig. 2 Life expectancy at birth in Lithuania 2003–2012. *Source*: Eurostat

Spain, Greece, Germany, Slovakia, Austria, Portugal, Bulgaria and Poland (based on Eurostat data).

Despite an optimistic trend in the development of the total fertility rate in Lithuania, the Eurostat calculations predict negative population forecast (see Fig. 3). The population projection will decline not only on the assumptions for fertility and mortality, but also for outward migration, which is among the highest ones in the EU (see e.g. Aidukaite and Genelyte 2012; Woolfson 2007, 2010). Studies (Ainsaar and Stankuniene 2011; Barcevičius et al. 2008; Sipavičienė and Stankūnienė 2011) indicate that it is mainly the working age population who leave

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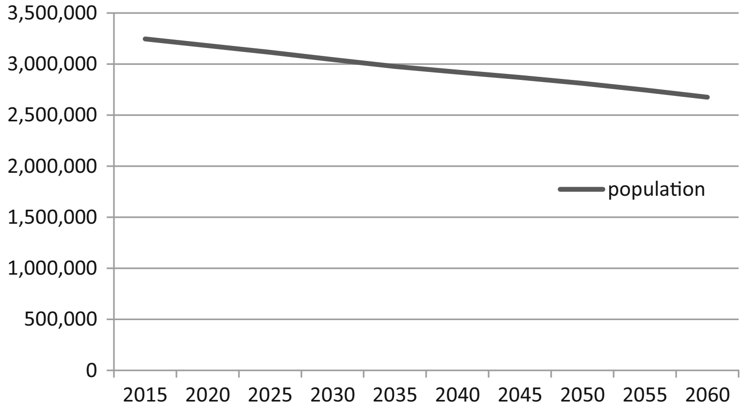

Fig. 3 Population projections. *Source*: Eurostat

the country. Such negative demographic trends due to high outward migration might have serious implications for the social and economic development of Lithuanian society.

Hence, with the decline of the country's population, the deterioration of the working-age population is also observed. Since 2009 the labour force has been shrinking in the country, this indicator, as noted, is sensitive to the population migration trends. The analysis of labour force age structure dynamics in the period 1998–2012 showed that the 25–54 year old population remains fairly stable (ranging between 76 and 79 % of labour force), but the 55–64 year old population has been consistently growing.

Demographic changes and ageing of Lithuanian society will have extremely negative consequences for the country's labour market in the coming decades. According to the Ageing Report (European Commission 2012) Lithuania is among the countries (together with Latvia, Romania, Bulgaria, Poland, Slovakia) where reduction of the workforce in the age group between 20 and 64 year olds will constitute more than 30 % in the period 2010–2060 (see Fig. 4). The share of older persons among the employed is projected to be 20 % by the year of 2025 (in 2010 it was 13 %).

Owing to ageing of the population and increasing outward labour migration, the number of people who depend on social insurance benefits has been increasing, but the numbers of contributors to the social insurance fund have been decreasing. One of the measures adopted to reduce the social insurance deficit and to guarantee future pension provisions for the large ageing group of citizens, was the implementation of the funded pension schemes of the individual accounts. Hence, in response to the unfavourable demographic situation, the Lithuanian government opted for privatization of the pension system in order to ensure the financial sustainability of the pension insurance.

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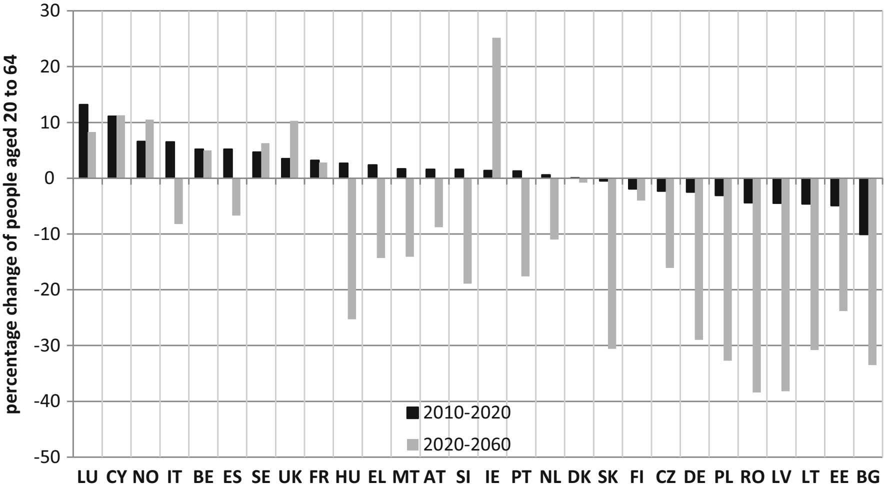

Fig. 4 Labour force projections, 2010–2060 (percentage change of people aged 20–64). *Source*: European Commission (2012)

3 Fiscal and Economic Crisis

The crisis in Lithuania was both financial and economic and it has been explained by collapsing exports and the negative inflow of capital (Roubini 2009a, b). According to Dudzinska (2013), the foreign currency indebtedness in Lithuania reached a very high level. Between April 2008 and April 2009, the proportion of foreign currency loans in total lending stood at 60–70 %. "The growing real estate bubbles in all three Baltic States (Lithuania, Latvia and Estonia) were caused by easy access to cheap credits, particularly because of the nature of the banking sector's strong integration with counterparts in Sweden. This resulted in a collapse in real estate markets and a breakdown in the construction industry, which affected financial markets as well, consequently slowing consumption" (Dudzinska 2013: 2).

The government gross debt has increased dramatically during the crisis and continued to increase onwards: from 5032.1 million euros in 2008 to 13,333.1 million euros in 2012 (see Fig. 5). This huge indebtedness due to expensive borrowing from the International Monetary Fund has substantially contributed to the increasing budget deficit of the Lithuanian government (Jakeliūnas 2011).

The fiscal and economic crisis has had serious consequences for the labour market. The decline of GDP in 2009 was dramatic (see Fig. 6). The GDP went down by 14.8 % in 2009; the recovery, however, was felt already in 2010 (increase of GDP by 1.6 % compared to the previous year) and was further followed by the remarkable increase in 2011 (by 6 %). Nevertheless, poverty and unemployment increased and still remain among the highest in the EU. Lithuania is among the EU countries with the highest at-risk-of-poverty rate, which during the period of

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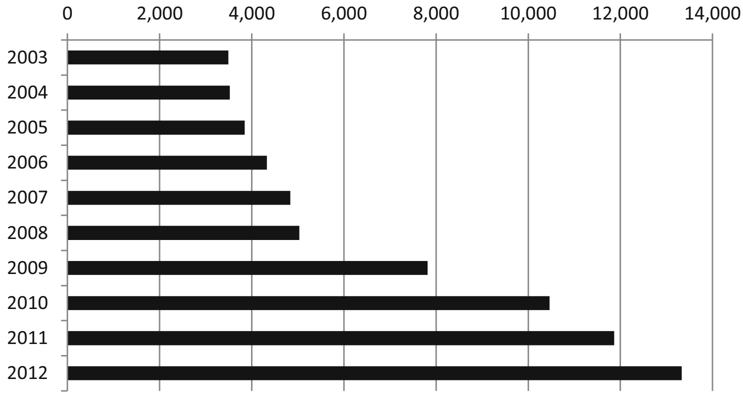

Fig. 5 General government debt in Lithuania (millions of euro). *Source*: Eurostat data

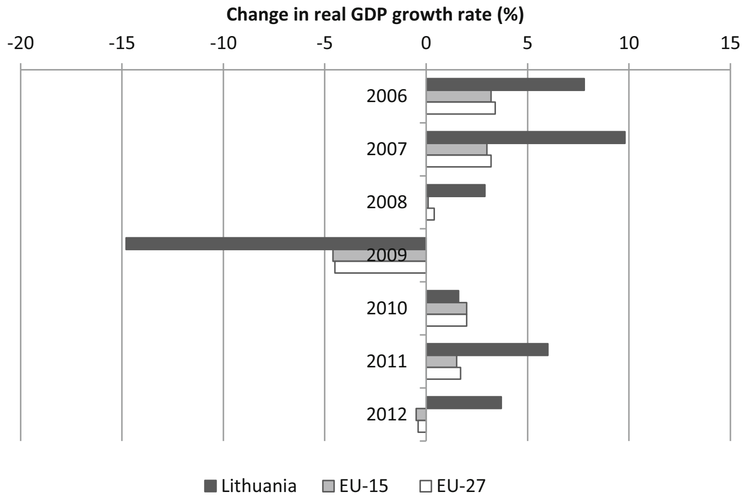

Fig. 6 Real GDP growth rate. Percentage change in previous year. *Source*: Eurostat

2008–2010 amounted to 20 %. The poverty rate went slightly down in 2011 (19.2 %) and in 2012 it accounted for 18.6 % (Eurostat data). It should be noted that households with more than two children, single-parent families, households where parents are unemployed or disabled, and families living in rural areas have been experiencing an increasing risk of poverty. People, who have a lower level of education, those who work in the public sector and also elderly people living alone or those who live on social benefits were/are also very sensitive to poverty (Lazutka et al. 2008). Since the regional inequalities have increased dramatically, with the concentration of wealth and well-paid jobs in the largest cities, the people living in rural areas are more disadvantaged (Pichler-Milanovich 1997).

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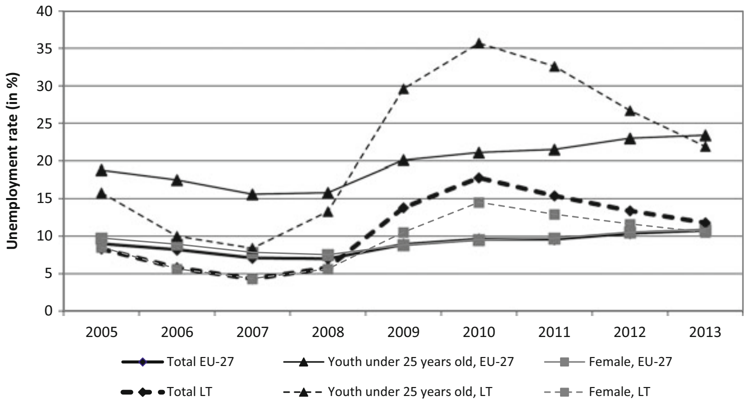

Fig. 7 Unemployment rate (in percent). *Source*: Eurostat

As noted, the construction and industry sectors have been mostly affected by the crisis. The number of employed within these sectors in 2008–2010 decreased respectively by 73 and 52 thousand, amounting to 70 % of all job losses (Okunevičiūtė-Neverauskienė et al. 2013). Men, especially not-qualified and lowly-qualified, have prevailed among the jobless people.

The unemployment of youth increased dramatically due to the economic crisis. During 2008 the number of registered young (under 25 years old) unemployed persons almost doubled, i. e. from 6.4 thousand to 11.5 thousand (see Fig. 7). The share of the unemployed without vocational training particularly rose to almost 40 %. It should be noted that the youth unemployment rate has been always well above the overall national unemployment rate in Lithuania.

The ongoing economic crisis has led to a rapid growth of the long-term unemployed. According to the data from the Labour Exchange Office, in 2010 unemployed persons, who had been unemployed for more than a year, consisted nearly 42 % of the total number of unemployed persons. Every fourth unemployed person had reached the pre-retirement age. The long-term unemployment especially increased in rural areas during the crisis, but even after the post-crisis period remains high or is even increasing in some areas (Okunevičiūtė-Neverauskienė et al. 2013).

For many policy fields (e.g. sickness and disability and family and children), social protection expenditure steadily increased during the period from 2003 to 2009 (see Fig. 8). Then, it went down and still has not reached the level before the crisis. This is due to harsh austerity measures implemented during the crisis such as slashed public wages and cuts of some social benefits. It has also to be kept in mind that social protection expenditure in Lithuania is among the lowest in the EU. To compare, we may note that the EU-27 on average spent 27.8 % of its GDP on social protection expenditure, while the same figure for Lithuania was 16.4 % in 2011 (based on Eurostat data).

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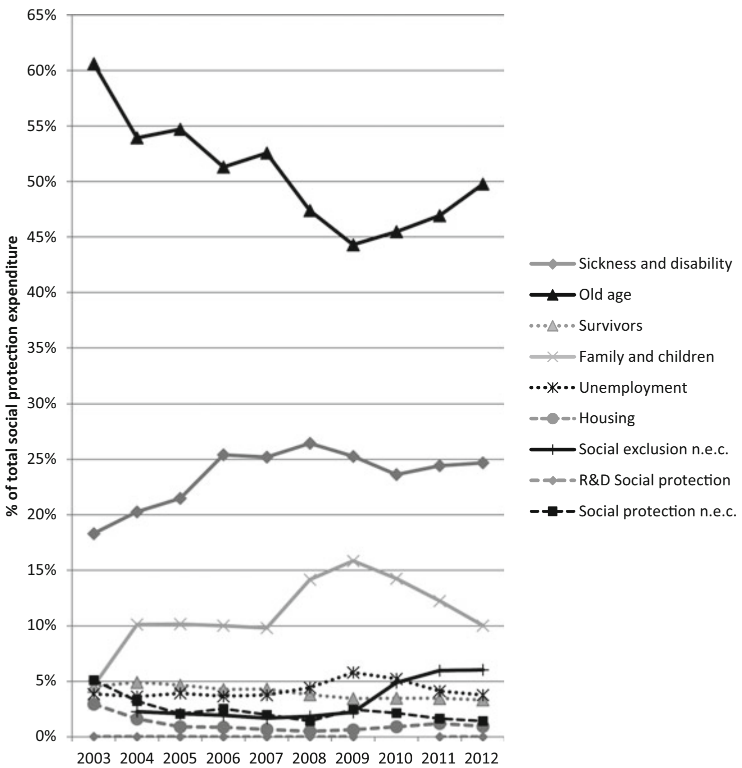

Fig. 8 Social protection expenditure by function, aggregated benefits and grouped schemes (% of total social protection expenditure). *Source*: Eurostat data

In response to the crisis, the Lithuanian government opted for cutbacks in pensions, unemployment and family benefits. In the following discussion, we will pay closer attention to the changes in the labour market policies, short-term and family benefits, pension insurance and health care as these are most important tools in the welfare system of Lithuania, they were also affected most by the crisis, especially pension insurance.

4 Risks and Opportunities

4.1 Labour Market Policy

Gruževskis (2011/9: 45) argues that the Lithuanian labour market model of the years before 2004 can be attributed to a social democratic one. Together with demographic and economic challenges, the preparation for the membership of the European Union and its entry in 2004 also had a major impact on the content of the national market policy: the labour market institutions have been strengthened, the

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European legal norms were integrated into the national legislation, the national employment policies were aligned with the European Employment Strategy. As part of the preparation to participate in a common EU employment policy, the national aims focusing on the development of active labour market policy, structural development of the labour market, supplementary support for the most vulnerable members of the society were set. Generally it is noted, the "Lithuanian labour market policy has been increasingly influenced by the economic and work migration and global economic changes, which prompted the demand for creating a stable, flexible and secure labour market in Lithuania" (Gražulis and Gruževskis 2009: 41).

However, the economic downturn that started in 2008 has shown that social solidarity and social partnership are not the dominant principles of labour resources management (Gruževskis 2011/9: 85); and national employment policy has been increasingly showing the features of the neo-liberal model (Gruževskis 2011/9: 45). For example, during the full swing of economic crisis in 2009 and 2010 the changes in the national Labour Code (IX-926) led to the liberalization of industrial relations, but not to employment security (Kavoliūnaitė-Ragauskienė et al. 2013: 11). It should be noted that liberalization of the temporary provisions of the Labour Code (such as flexible setting of overtime, fixed-term or part-time employment, as well as easier redundancies) did not have a positive impact on employment. The post-crisis amendments of the Labour Code that aimed to fill the gap in the collective agreements had no effect either: it did not promote collective bargaining, did not eliminate or even mitigate the consequences of the crisis (Kavoliūnaitė-Ragauskienė et al. 2013: 58).

While talking about national employment policy, we can say that the aspects of employment and unemployment support are comparatively consecutive. The reorganised social security system for unemployed in the period 2005–2006 facilitated better control of the legitimacy of allocated allowances and increased motivation among the unemployed to be active job seekers. The new system was co-ordinated with those of social security and social support in place as well as with active labour market policies (Gražulis and Gruževskis 2009: 46). However, due to the dramatically increased number of unemployed in 2009, the unemployment insurance benefits were reduced as well as other social payments (for example, temporary reduction of the old-age social insurance pensions for employed pensioners) during the economic crisis. As V. Petrylaitė (quoted by Kavoliūnaitė-Ragauskienė et al. 2013: 56) states, decisions on the unemployment insurance benefits were particularly strict: current unemployment insurance benefits are more like a support payment rather than payments based on social insurance.

The Law on Support of Employment (X-694), passed on 15 June 2006, provides a full range of the employment support measures and programmes that primarily focus on the most vulnerable groups of the unemployed. Under the changing economic and labour market conditions, the Law was modified (Official Gazette, 19 June 2010, Nr. 71-3552): more groups of people were entitled to state support in the labour market; the concept of unemployment was extended allowing previously self-employed individuals to get unemployment status and the related guarantees.

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Acceleration of the economic crisis led to another change in the Law designed to increase the social security of the jobless people or people under the threat of unemployment. For example, the possibility for the employees from distressed companies to take part in public works in order to preserve jobs while the company overcomes economic difficulties. The adaptations to enable an effective use of the opportunities offered by the European Globalisation Adjustment Fund were made. Seeking greater flexibility the organization of vocational training conditions was changed: from 1 January 2012 unemployed persons or those threatened with dismissal are free to choose their professional training providers.

The youth employment rate, as well as the overall employment rate, depends on the overall economic situation and the standard of living in the country. Therefore, the most effective means of increasing youth employment is the intensive economic development. Meanwhile, youth unemployment is the consequence of the lack of an effective system of labour force development (Gruževskis 2011/9). Among the specific measures aimed at reducing youth unemployment during the economic crisis, the amendment of the Law on Support of Employment should be mentioned: unemployed youth under 29 years of age were included into the list of additionally supported people. Young people, as a group of additionally supported unemployed may also participate in other active labour market policies, the most popular of which in this age group are vocational training and support of acquisition of job-related skills. Temporary measures applied during the crisis (up to 31 July 2012) should also be mentioned: in order to stimulate the employment of youth without work experience, the employers, hiring a young person for the first time, are exempted from the designated salary pension social security contributions for 1 year.

Unfavourable demographic changes in the country are expected to trigger more active participation of older people in the labour market, however, their higher economic activity level depends not only on the conditions in the labour market, but also on the size of retirement benefits. The analysis of the transitions of retirement-age population in the labour market during the recent crisis showed this kind of dependence (Okunevičiūtė-Neverauskienė et al. 2013). The period of 2004–2009 saw a rapid growth in the average state social insurance old age pension (from LTL 371 to LTL 811) (see Table 1). In the same period, the economic activity of the retirement age population increased significantly. When the average old-age pension became equal or even higher than a net minimum wage (that was LTL 800 during the analysed period), some of the older people apparently decided to give up employment; hence in 2007–2009 the share of economically active old-age pensioners was reduced. These trends were reinforced by the rapid decrease in the supply of labour in 2008. In 2010, the decision to cut pension of working retirees forced people of retirement age to actively participate in the labour market in order to compensate for the loss of revenue so that their labour market activity increased again. We assume that one of the most important factors of participation of persons of retirement age in the labour market is the income balance.

In terms of employment policies for disabled people, Lithuania as well as other countries saw the shift from income protection to the stimulation of economic

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Table 1 Average state social insurance old-age pension

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
LTL	312.54	317.61	323.05	340.5	371.55	420.29	476.88	595.41	769.66	811.12	746.29	748.39	815.57
EUR	90.6	92.1	93.6	98.7	107.7	121.8	138.2	172.6	223.1	235.1	216.3	216.9	236.4

Source: Lithuanian Statistics Department (2012b)

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activity of these groups. The new model for determining disability, which was introduced in 2005 in the recast of the Law on Social Integration of Persons with Disabilities (I–2044), became an important step. This Law created preconditions for a more objective assessment of the human capacity to work, to receive the necessary medical, vocational and social rehabilitation services and benefits, as well as to become more involved in employment. The target group of disabled people is additionally supported in the labour market and can benefit from the measures envisaged in the Law on Support of Employment. In 2004 the Law on Social Enterprises (IX–2251) came into force extending employment opportunities of the vulnerable groups, particularly people with severe disabilities. In 2012 the Law on Support of Employment was also revised and disabled people with the estimated work capacity lower than 25 % where included among additionally supported groups of the unemployed.[2]

4.2 Pensions

The pension insurance system in Lithuania consists of *three pillars*, i.e. a system advocated by the World Bank and implemented in many Central and East European countries. The ageing of the population, inadequate amounts of old age pensions and the development of a funded pension scheme across the other European countries created incentives for the Lithuanian government to implement a pension reform.

According to the pension reform, the pension system was established with 'three pillars'. The first pillar is a compulsory, state-managed, non-funded scheme based on current contributions or taxes (pay-as-you-go) and it already started operating in 1995. In Lithuania, the second pillar is a voluntary privately managed funded pension scheme, which was introduced in 2004 (Aidukaite 2006, 2009a). The second pillar is financed redirecting the money from the mandatory state social insurance contributions. The third pillar is a supplementary voluntary funded private pension scheme, financed by the individual income of the insured. It started operating in Lithuania as late as in 2004 (see Aidukaite 2006; Casey 2004).

The participation in the second pillar is voluntary, but the majority of the labour force (about 88 %) chooses the second pillar, because the pension funds pursue an active advertisement of funded pension schemes. This has affected the State Social Insurance budget. The overall transfer of contributions to the second pillar from the State Social Insurance budget was 7.6 % in 2006, 9.2 % in 2007 and 8.4 % in 2008 (SODRA 2006–2010). Thus, the State Social Insurance Fund, which is financed pay-as-you-go, experienced a contributions gap in the implementation of liabilities even before the crisis, since part of the contributions went into the privately managed funded pension scheme and there was less money to finance pensions

[2] Persons whose working capacity was below 20 % were not previously included in the list of additionally supported unemployed people and were considered to be unable to work.

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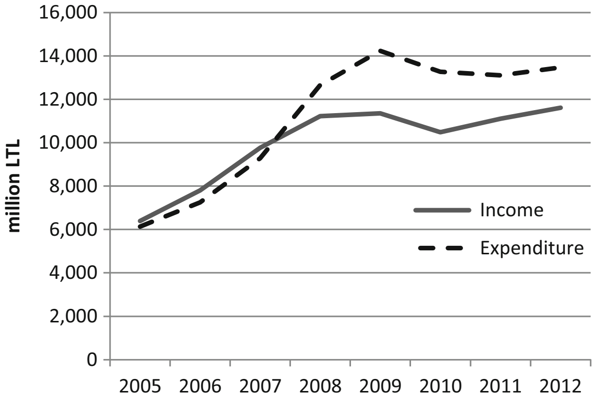

Fig. 9 Income and expenditure of state social insurance budget 2005–2012 (in million LTL). *Source*: www.sodra.lt

for the increasing current numbers of retirees. Yet, the two important sources of social insurance contributions started to shrink too, when the financial crises came into the country: public wages started to decrease and unemployment was increasing. These changes determined the decrease of the collection of social insurance contributions, but the liabilities remained almost the same (see Fig. 9).

The deficit of the state social insurance budget and the lower possibilities to cover it from the state budget induced the politicians to review the contribution rate to the second funded pillar. As noted, the second pillar is financed redirecting money from the mandatory state social insurance contributions. It was envisaged that the contributions to the second pillar would gradually increase. The starting point in Lithuania (2004) was 2.5 %. However, due to the global financial crisis, the government had to reduce the contributions (from 5.5 % to 2 % in 2009) (Gudaitis 2010). These measures were taken as temporary, but they are still in place. In 2012 the contribution rate for the funded scheme was temporarily reduced to 1.5 %; in 2013 the contribution rate was increased up to 2.5 % (the MSSLL 2014). The reduction of the state contributions to the second pillar meant that future retirees who participate in the second pillar would get lower pensions than envisaged. It also contributed to the social insurance budget deficit from which all current pensions are paid (see e.g. Aidukaite 2014; Gudaitis 2010; Lazutka 2007).

In order to balance the State Social Insurance budget during the crisis, other measures were also applied: the level of the pension benefit for current retirees was reduced and the discussions about higher retirement age were started. The Law on Decrease of Social Insurance Pensions came into force in December 2009 (Seimas of the Republic of Lithuania 2009). The social insurance pensions based on this law were recalculated for 2 years, increasing the basic part of the pension and decreasing the supplementary part. However, this law was not applied to those persons who received a very low old-age, disability and orphan's pensions. The survivor pensions and social benefits for those still at work were also decreased. For working persons social benefits (old age pensions, for the time served pensions; compensations for special conditions of work) were cut depending on their insured income. As a consequence, the pensions for the retired decreased by about 8 %,

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while the decrease for working pensioners was higher and constituted about 25 % (Ministry of Social Affairs and Labour 2010).

The EU-27 countries on average spent 13 % of their GDP on pensions in 2008, while the figure for Lithuania in the same year was almost 10 %. After the cut in retirement pensions in Lithuania in 2010, the same indicator for EU-27 was again 13 % of GDP, but it decreased to 8 % in Lithuania. Another important indicator, which is related to the doubts about reasonably applied measures during the crisis in the field of social insurance pensions, was the at-risk-of-poverty rate of elderly people, which was as high as 29.5 % in Lithuania in 2008, while for the EU 27 it was 16.5 % (based on Eurostat data). Hence the pension cut was reasonable only from the fiscal point view, i.e. it helped to reduce the social insurance budget deficit, but the measure was directed to the most vulnerable groups of the population and their situation deteriorated even more during the crisis.

Change to the retirement age was another measure implemented to solve the financing problems of the social insurance in a longer term. According to the law (Seimas of the Republic of Lithuania 2011), in 2011, the gradual increase of retirement age was set at 65 years until the 2026. Before 2011, the retirement age for women was 60 and for men 62.5. The increase of retirement age was a positive measure for balancing the social insurance budget, but in the longer perspective. Based on the outcome of the research “Long lasting development trends of the Lithuanian pension system and its changes from the public finance sustainability perspective”, which was carried out in 2011, showed that postponing of the retirement age can have a positive impact on the finance of social insurance until 2025 (Lazutka et al. 2011).

4.3 Health Policy

Before the economic crisis of 2008, the health care reform in Lithuania continued achieving the following objectives: the improvement of accessibility and quality of health care; the implementation of preventive programmes; the increase of salaries of health care workers; the development of the private health care sector; the modernization of health care facilities. In order to prevent the emigration of physicians, an increase in their salaries was carried out in 2003 and 2008 (Gross and Dobravolskas 2009).

The restructuring of the hospital network (2003–2008) covered two objectives (Gross and Dobravolskas 2009):

1. To design a more effective network of service providers through a merger to establish larger legal entities;
2. To design a more rational structure of services by redistribution of patient flows and strengthening the infrastructure of local hospitals for treatment of widely prevalent diseases, meanwhile concentrating diagnostics and treatment of complex diseases in large hospitals.

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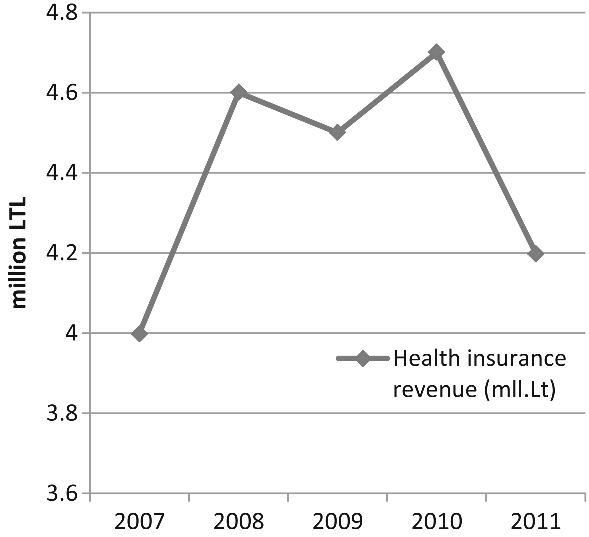
Fig. 10 Health insurance revenue (in million LTL). *Source*: National Health Insurance Fund (2011)



The reforms mentioned above and the objectives continued throughout 2010–2011. Health care institutions were neither closed down, nor otherwise restructured during the economic downturn. However, the main problems remained: long waiting lists for inpatient and outpatient treatment; the patients' requirements for longer visiting times; the unequal accessibility to first aid and also illegal payments to health professionals (Jankauskienė and Medaiskis 2010, 2012).

During the economic crisis, one of the challenges for health policy was the funding of health care.

The Health Insurance revenues decreased slightly in 2009, but increased in 2010, and in 2011 they went down again (see Fig. 10). An increase in 2010 can be explained by the introduction of a mandatory minimal contribution to health care insurance for the unemployed and persons working abroad but using public health care in Lithuania. The measure was taken in order to prevent misuse of the public health care system for persons not residing in the country and not paying any contributions to the health insurance budget but occasionally using health care services. The health insurance contribution structure was also changed in 2009. An independent health insurance tax was detached from the personal income (9 %): currently, 6 % of income tax is paid by employees and 3 % by employers (Gross and Dobravolskas 2009).

During the economic crisis, the focus remained on preventive health care programmes and primary health care funding. Due to decreased financing, the inclusion of new health care programmes in the list of programmes financed from the compulsory State Health Insurance Fund budget was suspended. On the other hand, the funding of prevention programmes, nursing and long-term care did not

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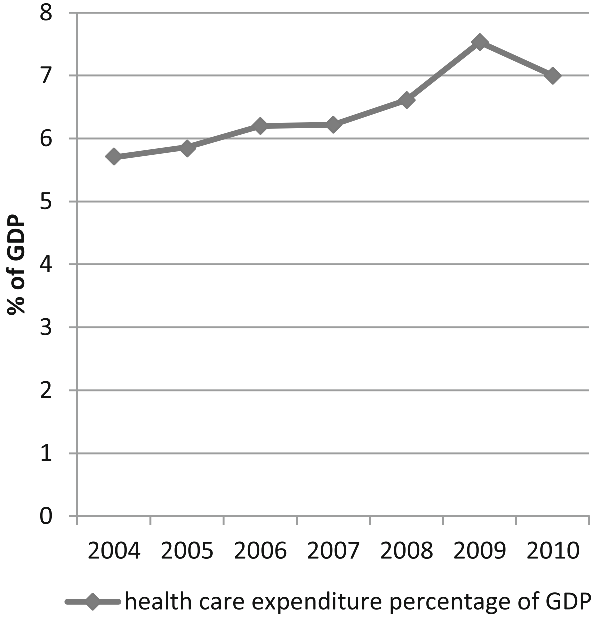

Fig. 11 Total health care expenditure in percent of GDP. *Source*: Eurostat

decrease. The obligations to increase wages of health care professionals also remained the same (Jankauskienė and Medaiskis 2012).

The total health care expenditure as part of the GDP has decreased in Lithuania in 2010 (see Fig. 11). It amounted only to 7 %—this figure was among the lowest in the EU. It was higher only when compared to Estonia (6.34 %) and Poland (6.98 %) (based on the latest Eurostat data of 2010).

4.4 Short-Term, Means-Tested and Family Benefits

Other important changes were related to sickness and parental benefits. Currently, Lithuania has employment related benefits (maternity, parental and paternity), which are quite generous and based on previous salary and employment. The sickness benefit was reformed in 2009; before the crisis, sickness benefits amounted to 85 % of replacement income of the beneficiary starting from the first day of incapacity to work (Aidukaite 2006). At present, the sickness benefit for the first 2 calendar days is paid by the employer and amounts to 80 % of the average salary of the beneficiary; starting from the third day through the seventh day of incapacity to work the sickness benefit is payable from the State Social Insurance Fund and amounts to 40 % of the reimbursed remuneration of the beneficiary. The amount of sickness benefit starting from the eighth day of incapacity to work amounts to 80 %

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of the reimbursed remuneration of the temporary incapacity to work. The duration of the sickness benefit shall be paid for no longer than 90 calendar days over a calendar year (MSSLL 2014). During the period of 2006–2008 Lithuania introduced a generous parental leave (period between 2006 and 2009), which paid 100 % of a parent's previous wage (with some minimum and maximum ceiling implemented) for a period of 2 years. During the crisis, the generous parental benefit was cut back. At present, as it is reported by the Ministry of Social Security and Labour of Lithuania (2014) that if an insured person chooses to be on parental leave until the child turns 1 years old, the amount of the allowance is 100 % of the beneficiary's reimbursed remuneration; if the person chooses to receive an allowance until the child turns 2 years old, the allowance until the child turns 1 year old is 70 % and 40 % of the beneficiary's reimbursed remuneration until the child turns 2.

Between 2010 and 2012, the Lithuanian government managed to retrench almost all universal family benefits. During the period of 2004–2008 universal family benefits were gradually introduced, which in 2008 were payable to every child up to his/her 16th birthday. These benefits were abolished as soon as the crisis hit the country. At present, only children from poor families are eligible to receive family benefits on a means-tested basis. For those who do not qualify for maternity and parental benefits, the state also gives support on a means-tested basis. In Lithuania, means-tested benefits are quite wide-ranging, such as a social benefit, compensation for heating, cold and hot water, free school meals, a lump sum benefit and a benefit for families with children. To qualify for means-tested benefits the claimant has to pass not only an income test, but also property and assets tests. It has to be mentioned that there are also some categorical benefits in Lithuania, such as special benefits for children of parents who are on military duty, benefits for orphans and parents on guardian duties (for details see Aidukaite 2006, 2014; the MSSLL 2014).

Compared to other EU countries, Lithuania has always distinguished itself negatively with the lack of government effort to support families and children (see Fig. 12). Until 2004, Lithuania was spending less than 70 euros per inhabitant on family/children benefits, while the figure for the EU-15 was about 560 euros per inhabitant. Starting with 2004, the expenditure on family/children started increasing and reached its peak in 2009 at 183 euros per inhabitant. The increase in expenditure can be explained by the gradual introduction of universal benefits in Lithuania during the period 2004–2008 and with the introduction of a generous parental leave (period 2006–2009). As already mentioned, starting from 2009, the universal benefits were abolished and the generous parental benefit was cutback. According to the latest Eurostat data for 2011, Lithuania spends 128 euros per inhabitant for family/children benefits; while the same figure for the EU-27 is 513 euros, for the EU-15 it is 613 euros.

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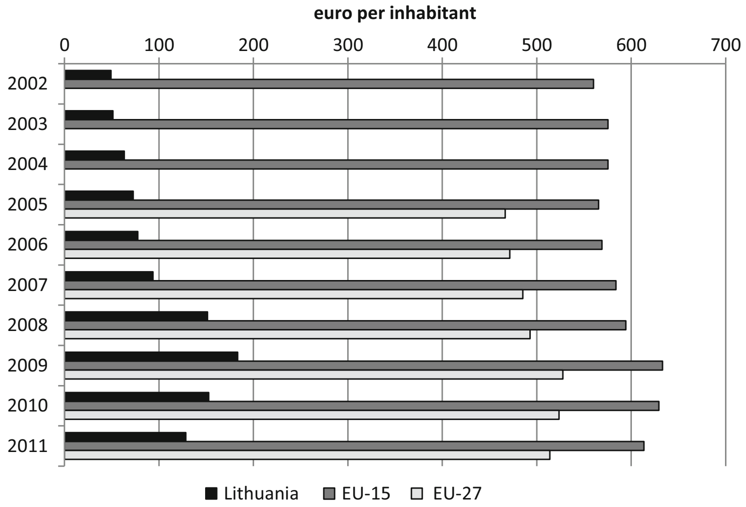

Fig. 12 Expenditure on family/children benefits (euro per inhabitant)

5 Conclusions: Pathways of the Lithuanian Welfare State

This chapter has reviewed the welfare system in Lithuania as it has changed during the global crisis and post-crisis period. The particular attention was paid to the labour market policies, pension insurance, health care, short-term and family benefits as these are the most important instruments of social policy in Lithuania. The findings of this paper show that the crisis has had a remarkable impact on the well-being of the Lithuanian population (poverty and unemployment have increased) and on the social policy design: important cutbacks were implemented in pension insurance, short-term and family benefits and unemployment insurance.

The Lithuanian welfare state is facing many challenges of the twenty-first century: increasing outward migration, ageing of the population, youth unemployment and long-term unemployment. As a consequence of all these challenges the fiscal sustainability of the social protection system is threatened. The fiscal and economic crisis has intensified the fiscal problems of the social protection and social security was reformed in reducing the state's responsibility but increasing the individual/family's responsibility in meeting demands of the increasing social risks.

Using Western typology, the Lithuanian welfare state can be attributed to the hybrid "corporatist—Bismarckian—clintelistic" model slowly drifting towards a liberal-marginal one (Guogis and Koht 2009). Given the continuous outward migration, the ageing of the population, preferences of the ruling elites towards marketization and liberalization of the economy and labour market relations, one might predict that the Lithuanian welfare system will continue towards a liberal welfare state regime path. The cognitive Europeanization, which is understood as

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the exchange of ideas and best practices through the Open Method of Coordination among the EU member states, does not give visible results in social policy (Aidukaite 2014). During the crisis the Lithuanian government handled the social security in such a way, moving away from the major principles of the European Social Model of solidarity, universalisms and generosity.

The detailed analysis of the labour market policies in Lithuania has revealed that during the economic crisis, the employment security, especially for the low skilled labour force has decreased, and the changes implemented in the national Labour Code led to the liberalization of industrial relations, not to employment security (Kavoliūnaitė-Ragauskienė et al. 2013).

The pension policy in the face of the financial and economic crisis of 2009/2010 experienced significant changes. The design of contribution payment was changed to the second funded pillar, the social insurance budget deficit was reduced, but the part of the burden was transferred to the state budget and for all taxpayers. The burden of the austerity measures was shouldered by social welfare recipients and it was a stricter measure than in the other EU countries.

All universal family benefits were abolished in Lithuania during the crisis. At present, support is given to families with children based on previous social insurance contributions or on means-tested basis.

The future of social development in Lithuania will depend on the common efforts of the political, administrative elite and ordinary people. The social policy-makers in Lithuania have to solve some major dilemmas of the current world: Which path of social policy development should be followed? Is it the one that is propagated by the World Bank, the World Trade Organization and the International Monetary Fund, which promotes a liberal approach to social policy? Or the one that is suggested by the European Union, which promotes generous and universal rights for all through the idea of the rights of a European social model? The conclusions of this paper suggest the liberal approach is taking a strong hold in the Lithuanian welfare state system.

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Luxembourg's Welfare State in the Crisis: A Semi Success Story

Nicole Kerschen

1 Introduction

The financial and economic crisis hit Luxembourg especially in 2008 and 2009. It followed '*a long period of continuous and rapid economic expansion during which living standards rose impressively and the economy was transformed by the growing financial sector and large flows of cross-border and migrant workers*'. However, after that period, Luxembourg experienced '*a severe recession, as it was heavily exposed to the fall in world trade and the international crisis*', but it rapidly '*emerged (. . .) in relatively good shape*' (OECD 2010, 2012).

The activities of the financial sector, which represent one-third of GDP, dramatically slowed down. Employment deteriorated from the last quarter of 2008 to the second quarter of 2010. It recovered slowly and approached, at the beginning of 2012, the level before the crisis. Besides the financial sector, Luxembourg's economy experienced recession, but it was not much affected due to the rapid adoption of a pragmatic approach by the government. A special crisis tax was created; *solidarity contribution*, which finances the National Employment Fund, was temporarily increased; short-time working was extensively used. Youth employment and active ageing were promoted. Employment was not altered by the crisis; it even increased between 2008 and 2012. The balance between income and expenses in the social protection system remained positive due to temporary adjustments, especially in health care. Family policy was cut back.

But the crisis altered the Luxembourg social model based on confidence between the partners and consensus-building. *Tripartite,* bringing together the government, employers' organizations and trade-unions in order to find solutions, failed. Social partners agreed neither on the causes of the financial and economic crisis nor on the

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measures that had to be implemented. In 2010, the government had to apply an austerity plan without the approval of the trade-unions, which was considered a totally new situation in Luxembourg. Since then, new types of social conflicts have been rising.

1.1 Structure of the Chapter

We will first focus on the impact of the financial and economic crisis. As in Germany, the crisis can be assessed as no particular challenge to the Luxembourg Welfare system as the national economy recovered quickly from the crisis. The most important change induced by the crisis is the failure of the *Tripartite* model. Secondly, we will focus on demographic change. Contrary to Germany and other EU Member States, demographic change cannot be regarded as a big challenge for Luxembourg. Interior employment of this tiny open economy already includes thousands of immigrants and cross-border workers.

Since 2008, the Luxembourg social security system underwent major reforms. Most of these reforms were underway before the crisis, which speeded up the reform process. In the last part of the chapter, we will analyse the reforms in the sectors of labour market policy, health and long-term care, pensions and investment in children. We will also show how the government tried to decrease expenses, especially in the sector of family policy, and how ECJ case-law regarding social rights of cross-border workers limited more and more the capacity of the Luxembourg authorities to shape their welfare system.

Regarding the timeframe of our research results, we will mainly focus on the developments since the outbreak of the financial and economic crisis in 2008. However, we need also to go back to the early 2000s, when major reforms were already being discussed from a European and international perspective.

2 Financial and Economic Crisis

The financial and economic crisis hit Luxembourg in the last quarter of 2008. GDP growth rate dramatically slowed down in 2008 and 2009. It recovered in 2010, but deteriorated again in 2011 and 2012. Public deficit was more than 3 % of GDP in 2007 and 2008. It decreased in 2009 and 2010. Since 2011, the public budget has been balanced. Gross debt was traditionally at 6 % of GDP, which means that it was very low compared to the average level of the EU Member States. Between 2007 and 2008, it doubled from 6.7 to 14.4 % and gradually increased to 21.7 % in 2012 (Table 1).

The financial and economic crisis has had little impact on the unemployment rate, which fluctuated between 4.6 and 5.1 % during the period 2008–2012. It remained among the three lowest unemployment rates of the EU Member States, behind Austria and Germany. Table 2 shows that the rise in unemployment started before the financial and economic crisis, especially between 2002 and 2004.

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Table 1 General government deficit and general government gross debt (Luxembourg—Euro Area 17—EU 27) (2004–2012)

General government deficit (% GDP)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Luxembourg	–1.1	0	+1.4	+3.7	+3.2	–0.7	–0.8	+0.1	0.0
Euro Area 17	–2.9	–2.5	–1.3	–0.7	–2.1	–6.4	–6.2	–4.2	–3.7
EU 27	–2.9	–2.5	–1.5	–0.9	–2.4	–6.9	–6.5	–4.4	–3.9
General government gross debt (% GDP)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Luxembourg	6.3	6.1	6.7	6.7	14.4	15.5	19.5	18.7	21.7
Euro Area 17	69.6	70.3	68.6	66.4	70.2	80	85.4	87.3	90.8
EU 27	62.2	62.7	61.5	58.9	62.2	74.5	80	82.4	85.5

Source: EUROSTAT

Table 2 Unemployment rate by sex and age group—annual average % (2002/2012)

	2002	2004	2006	2008	2009	2010	2011	2012
Total								
Luxembourg	2.6	5.0	4.6	4.9	5.1	4.6	4.8	5.1
Euro Area18	8.5	9.2	8.4	7.6	9.6	10.1	10.1	11.3
EU28	9.0	9.3	8.2	7.0	8.9	9.6	9.6	10.4
Males								
Luxembourg	2.0	3.6	3.5	4.1	4.5	3.8	3.9	4.5
Euro Area 18	7.5	8.3	7.5	6.9	9.4	10.0	9.9	11.2
EU28	8.3	8.6	7.6	6.6	9.0	9.7	9.6	10.4
Females								
Luxembourg	3.5	6.8	5.9	5.9	5.9	5.5	6.0	5.8
Euro Area 18	9.9	10.5	9.5	8.3	9.7	10.2	10.3	11.4
EU28	9.9	10.0	9.0	7.5	8.9	9.6	9.7	10.5
Less than 25 years								
Luxembourg	7.0	16.4	15.5	17.3	16.5	15.8	16.4	18.0
Euro Area 18	16.0	19.1	18.0	16.2	19.4	20.3	20.6	22.7
EU28	18.0	19.3	18.0	15.8	18.8	20.2	20.8	22.2

Source: EUROSTAT—Unemployment statistics

2.1 Impact of the Crisis: The Failure of the Tripartite Dialogue

The Luxembourg social model, characterized by a *tripartite* approach, has been fundamentally altered by the economic and financial crisis. This hypothesis is based on a '*paradigm shift*', which occurred in 2010 when '*a shared reading of the socio-economic situation and of the priorities for action did not emerge*' (Thill and Thomas 2013).

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Tripartite was introduced in the 1970s, when the iron and steel industry had to be reorganized in Luxembourg and social problems had to be dealt with. *Steel tripartite* prevented thousands of steel workers from redundancy, made the steel industry fit for the global economy and introduced social policy measures with the aim of keeping the unemployment rate very low (Kerschen 2009). Since the 1970s, on several occasions, the government used the *tripartite* and succeeded to get consensus on crucial reforms and to share the financial efforts that had to be done. But since the beginning of the twenty-first century, *tripartite* gradually deteriorated in a context of structural problems regarding public finances. Sharing of financial efforts no longer followed the traditional way, because the deterioration of public finances implied that employers and employees had to make the most of the efforts (Kerschen 2009).

As the impact of the crisis on Luxembourg's economy became obvious in 2008/2009, the newly elected government decided to call in the *tripartite*. Several meetings were held during the first term of 2010 with the aim of coming to an agreement on anti-crisis measures. The different interpretations of the causes of the crisis between, on the one hand, the employers' organizations and, on the other hand, the trade-unions became rapidly a major problem. The trade-unions mobilized their troops under the slogan '*We won't pay for your crisis*'. Regarding anti-crisis measures, employers were in favour of solutions reinforcing competitiveness by reducing costs whereas trade-unions wanted a strengthening of economic demand.

In April 2010, after several meetings, the Prime Minister announced the failure of the *tripartite* and declared that the government's proposal to freeze the automatic indexation of the wages until 2014 had been the main reason for dissension.[1]

2.2 Impact of the Crisis: The Government's Austerity Plan

After the failure of the *tripartite*, the government proposed its austerity plan based on the slowing-down of the increase of wages and pensions, an all-out development of short-time working, changes in public income and a reduction of expenditure in the social protection system.

2.2.1 Adjustment of the Automatic Wage Indexation System

In order to avoid a major social conflict, the government decided to grant an increase of the wages by 2.5 % on 1 July 2010. In September the same year, it signed an agreement with the trade-unions, who accepted that only one indexation

[1] Luxembourg's automatic wage indexation is a mechanism of compensation in case inflation. If the national consumer price index reaches a difference of 2.5 % compared to the last indexation, wages will automatically increase by 2.5 %. The aim of this measure is to maintain the purchasing power of the workers by neutralizing the impact of inflation. Automatic wage indexation has always been considered as the essential counterpart of the '*industrial peace*' and the high level of productivity in Luxembourg.

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Table 3 Short-time working 2005–2012

	Number of short-time workers	Financial intervention of the Public Employment Fund (in Mi EU)
2005	894	0.629
2006	1499	0.551
2007	1328	0.604
2008	4393	2.648
2009	83,971	61.512
2010	31,694	22.125
2011	15,752	15.562
2012	22,474	23.667

Source: ADEM (2012), p. 154

of wages would be applied each year until 2014, namely in October. Regarding pensions, it was decided to adjust, at a rate of 0.95 %, all pensions on 1st January 2011 and on 1st January 2012.

2.2.2 Development of Short-Term Work Contracts

Short-time working, a traditional instrument used in Luxembourg during economic recession in order to maintain employment and income and to enable firms to keep their skilled workers, was extensively used from 2008 onwards. A peak was reached in 2009 when more than 83,000 people, out of 330,000 workers, were on short-term work. Since 2010, it slowed down, but did not approach the level reached before the crisis (Table 3).

Employers, who turn to short-term work contracts instead of redundancies and who compensate the loss of wages of their workers, are subsidized by the state. Since 2009, all firms offering short-time working have been exempted from the social insurance contributions for industrial accidents and family benefits. Moreover, the Public Employment Fund pays all social insurance contributions when short-term work lasts for more than 6 months given that the reduction of working time exceeds 25 % of the normal working time (Law of 3 August 2010).

2.2.3 Changes in Public Income

The government first created a new income tax of 0.8 %, named '*crisis tax*', which had to be paid by all tax-payers. It was only in force in 2011. Secondly, the rate of the '*solidarity tax*', which is the main source of revenue for the National Employment Fund, was redefined. Firms had to pay a corporation tax of 4 % of their income in 2010, 5 % in 2011 and 2012 and 7 % in 2013. The tax rate on the income of natural persons was fixed at 2.5 % in 2010, 4 % in 2011 and 2012 and 7 % in 2013. For persons with a very high income, the tax rate reached even 6 % in 2011 and 2012 and 9 % in 2013. The government proposed also to modify, in the short-term, health care financing. Especially, part of the reserve assets was used to maintain the financial balance between income and expenses; State contribution was redefined;

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contributions of the employers and the employees were increased; health providers had to accept savings (see under Sect. 4.3).

3 Demographic Change and Population Ageing *Versus* Interior Employment

Demographic change and population ageing are not considered as being a problem in Luxembourg. Immigrants and cross-border workers are part of the Luxembourg economy. Therefore, the concept of interior employment is used instead of the concept of resident population (see below).

3.1 Demographic Behaviour

At the end of 2012, Luxembourg had 537,039 inhabitants; 44.5 % were non-nationals. Population growth speeded up from the 1960s onwards, mainly due to migration.

The average birth rate was 1.57, or rather 1.33 among Luxembourg nationals and 1.85 regarding immigrants. Since the 1990, it fluctuates mainly between 1.52 and 1.76 (Table 4). Birth rate of the Luxembourg population has been traditionally low from the 1930s onwards and this trend has been considered as a significant cultural feature (Heiderscheid 1970). Despite its demographic situation, Luxembourg has never developed a policy to increase the birth rate of the Luxembourg population.

Life expectancy (at birth) is very high in Luxembourg: 84.3 years for women and 79.5 years for men (2012). The relation between the total number of persons aged 65 and over and the number of persons of working age (15–64) was the same in 2012 as in 1980.

Immigration did not stop during the crisis period (Table 5). Especially, migration balance between Portugal and Luxembourg rose up to +63 % (2011). Portuguese workers have migrated *en masse* to Luxembourg since the 1960s and settled down with their family. The financial and economic crisis, which severely hit Portugal, caused a new wave of emigration to Luxembourg.

There are forecasts banking on the doubling of the resident population from 2050 onwards (Table 6). In our opinion, they have to be considered with caution. It is not sure at all that the small size of the territory of Luxembourg could allow this evolution.

Table 4 Total fertility rate (1990–2012)

	1990	2000	2005	2009	2010	2011	2012
Luxembourg	1.60	1.76	1.63	1.59	1.63	1.52	1.57
Average EU^{27}	–	1.48	1.51	1.61	1.62	1.58	1.58

Source: EUROSTAT

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Table 5 Migration balance—Luxembourg (2004–2012)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Immigration	12,872	14,397	14,352	16,675	17,758	15,751	16,962	20,268	20,478
Emigration	8480	8287	9001	10,674	10,058	9168	9302	9264	10,442
Migration Balance	+4392	+6110	+5351	+6001	+7700	+6583	+7660	+11,004	+10,036

Source: EUROSTAT, Immigration and Emigration

Table 6 Population forecasts for Luxembourg (2013–2080)

	2013	2020	2030	2040	2050	2060	2070	2080
Luxembourg	537,039	632,529	785,154	923,937	1,051,255	1,139,562	1,218,753	1,287,296

Source: EUROSTAT, Population projections

3.2 Why Are Demographic Change and Population Ageing Not a Problem in Luxembourg?

At the beginning of the twenty-first century, there has been a debate regarding the necessity of a demographic growth of the resident population in Luxembourg. The objective was to guarantee the sustainability of the public pension system and of the whole social security system. On that occasion, the director of the National Pension Fund stated, in a famous article, that this debate was based '*on a (voluntary or unconscious) confusion of two concepts, namely resident population and interior employment*' (Kieffer 2002). The total amount of wages, on which contributions for social security are paid, influences the financial balance of the pension system and of the whole social security system. This amount depends on the *interior employment* which includes the cross-border workers of the *Grande Région* (Table 7). Between 1985 and 2000, the *resident population* increased by 20 % whereas, during the same period, *interior employment* rose by 63 %. Luxembourg has to be considered as being '*in a state of over-employment, the number of jobs offered by the Luxembourg employment market exceeding by far the resident labour force available*' (Kieffer 2002).

Therefore, the main demographic *variable* of the financial balance of the pension system and of the whole social security system is *interior employment*, which depends on the competitiveness of Luxembourg's economy, in order to create supplementary jobs, and on its capacity to attract foreign workers, immigrants and cross-border workers. It is common knowledge that the labour pool of the Luxembourg active population, and even of the resident active population, is greatly insufficient.

As regards the effects of the crisis, it is noteworthy that the employment growth of cross-border workers reduced, since 2008, from an average variation of +8 % per year (between 1988 and 2012) to +2.6 % (2009), +0.8 % (2010), +3.1 % (2011) and +2.4 % (2012) whereas, in comparison, employment growth of the resident population remained stable or even rose slowly. This trend may be interpreted as a

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Table 7 Evolution of interior employment (labour contract only)

	1990	2000	2005	2008	2010	2012	Average variation 1988/ 2012 (%)	Average variation 2011/12 (%)
Workers with Residence in Luxembourg	134,903	157,546	171,904	185,060	191,016	202,240	1.9	3.0
	80.35 %	65.11 %	59.62 %	56.28 %	56.25 %	56.32 %		
Luxembourg National Workers	90,411	90,630	94,007	96,333	100,104	104,376	0.6	2.0
	67.02 %	57.52 %	54.68 %	52.05 %	52.40 %	51.60 %		
Other EEC Member States Workers	40,872	59,996	70,079	79,201	81,330	87,686	3.5	3.4
	30.30 %	38.08 %	40.77 %	42.80 %	42.58 %	43.36 %		
Non EEC Workers	3620	6920	7818	9526	9582	10,178	3.6	4.5
	2.68 %	4.40 %	4.55 %	5.15 %	5.02 %	5.04 %		
Cross-border workers	32,973	84,402	116,381	143,716	148,541	156,810	8	2.4
	19.65 %	34.89 %	40.38 %	43.72 %	43.75 %	43.68 %		
Total	167,876	241,948	288,285	328,776	339,557	359,050	3.6	2.7
	100 %	100 %	100 %	100 %	100 %	100 %		

Source: IGSS—Rapport Général sur la sécurité sociale au Grand-duché de Luxembourg de 2002, p. 399; de 2003, p. 403; de 2011, p. 57 et 2012, p. 57

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Table 8 Evolution of employment of cross-border workers by residence (labour contract only)

	1990	2000	2010	2012	Average variation 1988/2012 (%)	Average variation 2011–2012 (%)
Cross-border workers residing in	32,973	84,402	148,541	156,810	8	2.4
	100 %	100 %	100 %	100 %		
Germany	5983	15,839	37,311	39,617	9.6	2.6
	18 %	19 %	25.11 %	25.26 %		
France	15,378	44,959	73,428	77,613	8.6	2.6
	46 %	53 %	49.43 %	49.49 %		
Belgium	11,612	23,604	37,802	39,580	6.2	1.5
	35 %	28 %	25.44 %	25.24 %		

Source: IGSS—Rapport Général sur la sécurité sociale au Grand-duché de Luxembourg de 2002, p. 399; de 2003, p. 403 et de 2012, p. 57

shift in the allocation of supplementary jobs between cross-border workers and resident workers, which was 70–30 % before the crisis. In 2012, cross-border workers from Belgium, France and Germany represented 43.7 % of the labour force in Luxembourg. Half of the cross-border workers reside in France, 1/4 in Belgium and 1/4 in Germany (Table 8).

The mass of immigrants and cross-border workers in the Luxembourg employment market involves heavy transfers of social benefits abroad. In 2012, children residing outside Luxembourg represented 38 % of the whole population of children covered by the Luxembourg system. They received 47 % of the amount of the family benefits (IGSS 2012, p. 227). Regarding old age pensions, 44 % of the pensions are transferred abroad. They represent 23 % of the expenditure. The difference between the number of pensions and the amount of pensions is due to the fact that most of the pensions are calculated on partial professional careers. Pensioners are residing mainly in the neighbouring countries - Belgium, France and Germany—and in Italy or Portugal (IGSS 2012, p. 195). Nearly 20 % of the health expenditure has been paid abroad in 2012. These costs include medical treatment for cross-border workers in their country of residence and medical treatment abroad, authorized by the National Health Fund, for residents (IGSS 2012, p. 104).

4 Risks and Opportunities

As stated in the Introduction of this chapter, Luxembourg's social security system has undergone major reforms since 2008. Most of these reforms were underway before the crisis. They fit into more general trends. Nevertheless, the crisis speeded up the reform process.

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Table 9 Social expenditure per head of population by function in Euros (2012)

	Luxembourg	Europe 28 countries
Social Protection Benefits	13,593.37	7272.20
Sickness/Healthcare	3460.86	2153.69
Disability	1513.02	537.81
Old Age	3993.52	2953.70
Survivors	1157.45	408.89
Family/Children	2199.93	568.19
Unemployment	788.61	389.22
Housing	173.32	151.35
Social exclusion	306.65	109.36

Source: EUROSTAT

4.1 General Trends

4.1.1 Luxembourg Remains a Very Generous Welfare State, but ...

Luxembourg has the highest total expenditure on social protection per head of population in the European Union: 13,593.37 EU (2012), nearly double the average of the 28 Member States of the European Union (Table 9).

It has also the highest level of GDP per capita. In 2011, it was recorded with a level of more than two and a half time the EU-27 average: 266–100 and 66,700–25,100 Euro (Eurostat 2014).

But there are clear signs of a policy shift. The pension reform of 2012 put an end to a policy, whose aim was a continual improvement of the level of pensions during the last 50 years. In the same way, the reform of income taxation of 2007, amending the system of tax rebate for dependent children, and the reform of family benefits of 2010, abolishing the rights for children over 18, mark a turn in the expansion of the family policy initiated by the *Calot Report* in 1978.

4.1.2 Transformation of the Roots in a Long-Term Perspective

The origins of the Luxembourg Welfare State are linked to the Bismarckian model (Kerschen 2009). Law of 13 May 2008[2] introduced the '*statut unique*', which put an end to the traditional legal differences between blue-collar workers and white-collar workers. It led to the merging of the former six sickness insurance funds of the private sector into one National Health Fund, including long-term care insurance, and to the merging of the former four pension insurance funds of the private sector into one National Pension Insurance Fund. This reform has been interpreted as a step forward to transform the Luxembourg Welfare State from a social insurance system into a more universal one, recognizing '*social citizenship*' (Hartmann-Hirsch 2010).

[2] All legislation referenced in this chapter is listed in Annex 2, where it is also indicated how to search for the original text.

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Since the mid-1990s, a second major change has been underway, namely '*individualization of social rights*'. First, the European '*equal treatment between women and men*' perspective was put forward by the Committee on Women's Work, a public advisory board, whose members are representatives of NGOs, trade-unions, employers' organizations and of the administration. It spoke in favour of individualization of social rights and in fiscal matters: abolition of derived rights for spouses and partners, splitting of pension rights in case of divorce and so forth. This '*revolution*' experienced obstacles, especially regarding pension rights (see Sect. 4.4.5). As a consequence, Luxembourg's Welfare State is still based on a male-breadwinner model, where workers are granted '*direct rights*', whereas family members own '*derived rights*'. In 2012, 617,317 persons were insured under the health care fund, of which 405,419 workers had direct rights (66 %) and 211,898 family members had derived rights (34 %) (IGSS Report 2012, p. 36). Secondly, from 2007 on, individualization of social rights was implemented for children through a new approach promoting '*equal rights for all children*'. Gradually, children have been considered as individuals owning direct universal rights (see under Sect. 4.5).

4.2 Labour Market Policy

Luxembourg's Public Employment Service underwent a major reform. On the one hand, it had to be adapted to the changes in the economic situation and, on the other hand, it had to implement the changes of the new disposals of EC Regulation on the coordination of social security systems. Specific needs of young jobseekers have been addressed. Despite the fact that employment rate of workers, aged 55–64, was exceptionally low in Luxembourg in 2008 (34.7 %), pre-retirement schemes were upheld unchanged and no global '*active ageing policy*' has been established.

4.2.1 The Reform of ADEM

The '*Agency for the Development of Employment*' (ADEM) was created by Law of 18 January 2012. It replaced the Administration for Employment, also called ADEM, which had been established in 1976. The aim of this reform was to reinforce the capacity of ADEM to run the employment policy in coordination with the economic and social policy. According to the economic situation and the concomitant evolution of interior employment and unemployment, the Public Employment Service needed to be adapted.

OECD audited the Luxembourg public employment service, in 2006, and issued a very critical report stating that ADEM was understaffed, that its financial means were notably insufficient, that it needed to be more independent from the state, that a legal department had to be established and new strategies of action had to be implemented (Parliamentary documentation 2011, p. 3).

A study done by CEPS/INSTEAD showed that ADEM was responsible for only 7 % of the hired staff and made the proposal to promote better and closer relations between ADEM and employers (Genevois 2009). In a memorandum, ADEM

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exposed its views for the future. Jobseekers have to be considered as '*clients*'. An individualized follow-up has to be offered to each jobseeker according to his/her employment level. A contract, in which the '*back to work*' path and the respective commitments of ADEM and the jobseeker are described in detail, has to be signed by both partners.

4.2.2 Fight Against Youth Unemployment

Luxembourg's youth unemployment rate has traditionally been below the average rate of the EU (Table 2). In the frame of the strategy '*Europe 2020*', the Council of the European Union recommended Luxembourg to '*take steps to reduce youth unemployment by reinforcing training and education measures aimed at better matching young people's qualifications to labour demand*' (Council of the European Union 2011).

Tripartite 2006 has introduced two activation measures for young people under 30, who are registered as jobseekers at ADEM. The '*contrat appui-emploi*' (CAE) is a special contract, concluded between ADEM and the jobseeker. Its aim is to transfer the young person to a '*promoter*' in order to facilitate his/her access to the labour market. The transfer can last from 3 to 9 months. A financial compensation of 80 % of the social minimum wage is funded by the state (Articles L. 543-1 to -14 Labour Code[3]). The '*contrat d'initiation à l'emploi*' (CIE) is a special contract signed by '*a promoter*', ADEM and the jobseeker. Its aim is to offer practical work experience to a young person. In this case, the '*promoter*' has to be able to offer employment perspectives at the end of the contract. The work experience can last 12 months. The financial compensation of 80 % of the social minimum wage is partially funded by the state (Articles L. 543-15 to -29 Labour Code). In both cases, common labour law does not apply. Training must be offered to the beneficiaries. In case of vacancies, they have priority over other jobseekers. The period under one of these activation measures is assimilated to a working period and, as a consequence, beneficiaries are entitled to unemployment benefits.

Taking into account the difficulties of young people with diploma to access the labour market since the beginning of the crisis, the government extended the '*contrat d'initiation à l'emploi*' (CIE) by Law of 11 November 2009. Young people, who have a diploma either from a secondary school or a technical school or even from higher education, are offered a practical work experience in order to increase their employability. The duration period can be extended to 24 months. The financial compensation granted to the beneficiaries has been raised to 120 % of the social minimum wage and even to 150 % for young people with bachelor or master degrees.

[3] See Annex 2.

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Table 10 Employment rate of workers aged 55–64 (2008–2012)

	2008	2009	2010	2011	2012
Luxembourg	34.7	38.2	39.6	39.3	41.0
EU 27	45.6	46.0	46.3	47.4	48.9
Euro Area	44.4	44.4	45.7	47.1	48.7

Source: Eurostat, Eurofocus. EU labour force survey. Annual results from 2008 to 2012

4.2.3 Pre-retirement Versus Active Ageing

Employment rate of workers aged 55–64 is exceptionally low in Luxembourg. Although it rose from 34.7 % (2008) to 41 % (2012), it remains far below the average rate of the EU Member States (Table 10).

Despite this situation, no global '*active ageing policy*', following the common objectives of the European Employment Strategy, has been established in Luxembourg and implemented either by the public authorities or by companies during the last 15 years (Leduc 2010; Clement 2012; Zanardelli et al. 2012). The government put into place only some small measures. Active ageing does not seem to be a priority, perhaps because Luxembourg is in an atypical situation, due to the permanent contribution of younger frontier workers to the labour market. There is no risk of labour shortage and no need to maintain older workers in the labour market (Leduc 2010). No wonder that, since the beginning of the crisis, Luxembourg did not change the four existing pre-retirement schemes[4] allowing workers to pre-retire from the age of 57 onwards with a financial compensation totally or partially funded by the state.

However, some measures regarding activation, employment and lifelong learning for workers, aged 45 or 50, have been promoted by the public authorities.

Jobseekers over 50 may be appointed by ADEM to carry out a '*public utility task*' [Article L.523-1 (2) Labour Code]. The usual period of 6 months may be extended to 24 months. During this period, the jobseeker will be entitled to a special unemployment allowance. In case of mass redundancies, the social partners have to set up, at company level, a '*plan for maintaining employment*'. Since the law of 3 August 2010, discussions must include '*special measures for older workers*'. Employers hiring jobseekers over 45 are entitled to public subsidies. National Employment Fund may reimburse social contributions in full to an employer, who hires a jobseeker aged 45 and over who has been registered at ADEM for at least 1 month (Articles L. 541-1 to L.541-3 Labour Code). If he/she is hired under a labour contract of indefinite duration, reimbursement will be paid until the worker will be entitled to an old age pension. If he/she is hired under a fixed-term labour contract, reimbursement will be paid for the duration of the contract.

[4] The Labour Code offers four different schemes: solidarity pre-retirement with replacement by a jobseeker (Article L.581-1 to L.581-9), adjustment pre-retirement avoiding mass redundancies (Article L. 582-1 to L.582-3), pre-retirement linked to shift work or night work (Article L. 583-1 to L.583-4) and progressive pre-retirement (Article L. 584-1 to L. 584-6).

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The state may also participate in a company's costs for lifelong learning investments. In principle, a company receives either a financial aid of 20 % or a tax reduction of 14 % (Articles L. 542-13 and L. 542-14 Labour Code). By law of 28 March 2012, the government made lifelong learning for workers over 45 more attractive for companies by increasing the financial participation of the state: the financial aid will rise from 20 to 35 % and the tax reduction from 14 to 25 %.

4.2.4 Implementation of Changes in EC Regulation

EC Regulation N°883/2004 on the coordination of social security systems (see Annex 3) introduced new obligations for Luxembourg, as the state of last employment, regarding cross-border workers losing their job. As a principle, cross-border workers, who are made redundant in Luxembourg, must register as jobseekers in their state of residence, where they are entitled to unemployment benefits. But Luxembourg has to reimburse 3 months of unemployment benefits to the state of residence. EC Regulation foresees an extension to 5 months for workers, who were employed for at least 12 months during the last 24 months (Article 67 §7). In 2004, when EC Regulation was negotiated, Luxembourg received a favour: application of extension and duration of reimbursement period will be subject to the conclusion of bilateral agreements between, on the one hand, Luxembourg and, on the other hand, Belgium, France and Germany (Article 86). Until the end of 2013, no bilateral agreement has been concluded, which means that Luxembourg is only bound by the reimbursement of 3 months of unemployment benefits.

EC Regulation also allows cross-border workers to register as jobseekers in the state of last employment, in this case Luxembourg, and to be entitled to active measures, like assistance to go back to work and recruitment subsidies for employers. Registration of cross-border workers at ADEM started on the 1st of May 2012. Three agencies, competent to register cross-border workers, have been created: ADEM *Luxembourg*, ADEM *Esch-Belval* and ADEM *Wasserbillig*. Staff members have been especially trained to receive cross-border workers. Curiously, there were only 290 non-resident jobseekers registered at ADEM in December 2013. One year earlier, there were 127.

Workers, who lose their job in Luxembourg, are registered as jobseekers by ADEM, if they are Luxembourg nationals, citizens of the European Union or third country nationals who are authorized to reside in Luxembourg. Legally speaking, there has never been a residence condition in the Luxembourg unemployment legislation. But, in practice, until 2012, access to all the services of ADEM was denied for workers residing outside Luxembourg, including cross-border workers. It was common ground that only residents could register with ADEM. In consequence, there was a difference in treatment between residents and cross-border workers. A famous case-law of ECJ put an end to this discrimination. A Luxembourg national, residing in Germany, was hired in Luxembourg by an employer, who submitted an application to ADEM for a subsidy in respect of the recruitment of an unemployed person over 45 years of age (Article L. 541-1 Labour Code). That application was rejected by ADEM on the grounds that the worker did

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not fulfil the condition of having been registered as a jobseeker with ADEM for at least 1 month.

In case-law *Caves Krier Frères*, ECJ decided on 13 December 2012 (Annex 3) that '*Article 45 TFEU must be interpreted as precluding legislation of a Member State which makes the grant to employers of a subsidy for the recruitment of unemployed persons aged over 45 years subject to the condition that the unemployed person recruited has been registered as a jobseeker in that same Member State, in the case where such registration is subject to a condition of residence in the national territory (...)*'. It stated that ADEM's practice constituted a restriction of the workers' freedom of movement guaranteed by the Treaty. In this case-law, ECJ tackled the discretionary power of the Member States shaping their social policy. On the one hand, Member States have still a broad discretion in exercising their power; on the other hand, their discretionary power may not conflict with the '*rights granted to individuals by the Treaty provisions in which their fundamental freedoms are enshrined*'. ECJ developed the '*theory of the sufficient link of integration*' for cross-border workers, which arises particularly from two facts: their participation in the labour market and payment of taxes. Contributing to the financing of the social policy must allow cross-border workers to benefit from the principle of equal treatment as compared with national and resident workers (see also Sect. 4.5.3).

4.3 Health Care and Long-Term Care

Health care and long-term care are both managed by the National Health Fund. But, sickness and need for long-term are two different social risks, which are separately funded.

4.3.1 Reform of the Health Insurance in Short-Term and Long-Term Perspectives

The Luxembourg health care insurance guarantees equal access to high-quality services while maintaining the financial balance of the health system. It is based on the French approach of the '*médecine libérale*', which allows health providers a quasi-unlimited freedom to prescribe medication and patients to choose freely their health providers. Unlike France, all practitioners are compulsory bound by collective arrangements to the National Health Fund. Hospitals are financed by annual budgets.

The crisis altered the financial balance of the health care system, especially regarding the decrease of contributions, and asked for saving measures. In 2009, the government decided to put forward a twofold reform: on the one hand, the immediate effects of the crisis had to be resolved; on the other hand, a medium and long-term reform had to be initiated. The last structural reform dated back to 1992 and the health system had to be adapted to the new financial situation, to quality challenges and to an ageing population.

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By Law of 17 December 2010, financial matters were redefined in a short-term perspective. The *Quadripartite Committee*, bringing together the government, representatives of the employers, representatives of the employees and representatives of the health providers, discussed the efforts, which had to be done by each partner, in terms of income increase and savings. First, it was decided to decrease, on a temporary basis, the inferior limit of the reserve assets of the National Health Fund from 10 % of the annual amount of the health care expenditure (Article 28 Social Security Code[5]) to 5.5 % in 2010 and 2011, 6.5 % in 2012, 7.5 % in 2013 and 8.5 % in 2014. Inside this framework, reserve assets could be used to maintain the financial balance. From 2015 onwards, the inferior limit of the reserve assets defined at 10 % in the Social Security Code will again apply (IGGS Report 2012, p. 131). Secondly, the contribution of the state was fixed, by law, at 40 % of the total amount of the contributions. The contributions of the employers and the employees were increased by + 0.20 % (+0.10 % for each partner). Practitioners and dentists agreed on saving 6–6.5 m Euro in 2011, whereas analytical laboratories made a proposal on saving 2–2.5 m Euro. It was also decided in the law, that annual budgets for hospitals would rise at a maximum rate of +3 % in 2011 and 2012, + 3.5 % in 2013 and + 3 % in 2014.

Regarding the long-term perspective, a primary health care strategy was adopted in order to improve management and control of the financial system. The main measures concerned the creation of the '*referent practitioner*' and the promotion of the '*patient's shared medical record*'.

From 1st July 2012 on, each insured person has the possibility to choose a referent practitioner, whose mission will be:

– To act as the first contact and principal point of continuing care that the patient may need
– To provide preventive care
– To maintain the content of the patient's medical record
– To supervise health care given by different health providers
– To coordinate health care provision, especially for people with chronic diseases or in need for long-term care
– To inform, orientate and advise the patient in order to receive appropriate care.

This measure will be tested for 3 years. Referent practitioners have the right to charge special fees in case of severe chronic illness. A list of 30 severe chronic illnesses has already been established.

In this context, the patient's medical record will be managed by the newly created *National Agency on Information in the health care sector*. The law defines the rights and the duties of the patients and the health care providers.

[5] See Annex 2.

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4.3.2 Long-Term Care Under Scrutiny

In 1998, Luxembourg created a long-term care insurance based on the German model. It covers all persons from the cradle to the grave. It is funded by a social contribution paid by the persons on their income completed with a state contribution and a special contribution financed by the energy sector. All long-term care contributions are fixed by law.

At the origins, the social contribution has been fixed at 1 % of the income and the personal assets of the insured persons. Due to deficit, its rate was increased from the 1st January 2007. Since then, it represents 1.4 % of income. It did not change during the crisis. The state contribution, set up by the law, was defined at 45 % of the total expenditure (including reserve assets). Between 2007 and 2011, it was frozen and it became a lump sum of 140 m Euro per year. Since 2012, it represents once more a percentage of the total expenditure: 35 % in 2012 and 40 % in 2013. The special contribution paid by the energy sector represents only 1.5–2 m Euro per year.

In 2012, the total amount of contributions was 520.7 m Euro, shared by the insured persons (64.7 %), the state (35 %) and the energy sector (0.3 %)

Given the evolution of the beneficiaries and the increase in costs, which have doubled since the start, the government commissioned, in 2013, a report (IGSS and CEO 2013). One chapter was devoted to forecasts regarding the demographic evolution in 2030 and the financial situation in the present and in the future. A major reform is being prepared.

4.4 Pensions

The challenge of the long-term sustainability of the Luxembourg pension system was raised before the crisis. *Tripartite 2006* decided to create a group of representatives of the employers, employees and administrations, whose mission was to study how to adapt the Luxembourg pension system to demographic changes in an ageing society, to a new approach regarding working time in a life-cycle and to more flexible professional careers. The findings of this group were published in April 2009.

The reform procedure was initiated, in July 2009, by the Prime Minister in his address to parliament outlining the programme of the newly elected government, where he mentioned the urgent necessity to reform the pension system. He stated that Luxembourg was under the pressure of OECD and the European Union. In May 2010, OECD issued its economic survey of Luxembourg, which stated that '*a pension reform is required to achieve long-run fiscal sustainability*' (OECD 2010). In July 2011, the Council of the European Union issued its recommendations on the National Reform Programme 2011 and asked Luxembourg to '*propose and implement a broad pension reform to ensure the long-term sustainability of the pension system, starting with measures that will increase the participation rate of older workers, in particular by discouraging early retirement. With a view to raising the effective retirement age, measures such as a link between the statutory*

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retirement age and life expectancy, could be considered' (Council of the European Union 2011).

The law was adopted on 21 December 2012 and it entered into force on 1st of January 2013. It did not follow the tendency encountered in most of the Member States of the European Union, which consists in either raising the pension age or prolonging the professional career (or even in changing both variables). Moreover, it did not respond precisely to the recommendations of the Council previously mentioned.

The government based its pension reform on the hypothesis of an increase per year in real GDP by 3 %, in employment by 1.5 % and in workforce productivity by 1.5 %. The pension reform confirmed:

– The pay-as-you-go system with a reserve fund of at least 1.5 times annual expenses,[6]
– The global contribution rate at 24 % shared by the workers (8 %), employers (8 %) and the state budget (8 %),
– A guaranteed minimum pension of 90 % of the social minimum wage for all insured persons, who can prove a professional career of at least 40 years,
– A legal pension age at 65, which means that workers, who can prove at least 10 contributed years, including contributions on a voluntary basis, are entitled to a pension,
– Early retirement at the age of 57 for (a) workers who can prove a professional career of 40 contributed and assimilated[7] years and (b) for shift workers and night workers, even if they did not pay contributions for 40 years,[8]
– Early retirement at the age of 60 for workers, who can prove a professional career of 40 years, adding contributed, assimilated and complementary[9] periods,
– Pre-retirement measures linked to unemployment.

The new law introduced five main changes regarding governance of the pension scheme: pension replacement rate, adjustment of pensions, combination of early retirement and professional activity and individualization of pension rights.

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[6] In 2012, the reserve fund was of 11 bill. Euro, which was equivalent to 3.8× the annual expenses.

[7] '*Assimilated periods*' are considered as working periods. Contributions are paid. They include periods during which an unemployment benefit or the guaranteed minimum income is paid, training and military service periods, child-raising and informal care periods in the framework of the long-term care allowance.

[8] Retirement at 57 concerned 25 % of the blue-collar workers. 80 % of them retired before the age of 60. Only 30 % of the white-collar workers retired before the age of 60.

[9] '*Complementary periods*' are not considered as working periods. No contributions are paid. They are only relevant for the calculation of the duration of the professional career. They include education periods between the age of 18 and 27 and unemployment periods of young jobseekers, who are not entitled to unemployment benefits.

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4.4.1 Governance of the Pension Scheme

The financial regulation mechanism is based on a reserve fund, which must be over 1.5 times the annual expenses. The global contribution rate is defined each 7 years, for a period of 7 years, on the basis of a technical report on the results of the last 7 years and on the actuarial forecasts for the next 7 years. This report takes into account the evolution of the economic situation and employment.

The new law extends the period from 7 to 10 years in order to guarantee the financial balance for a longer period. At the same time, it introduces a follow-up, on a regular basis, of the financial situation of the pension scheme. Each 5 years, an intermediary report has to be presented. If it appears that the global contribution rate has to be adapted, because the level of the reserve fund risks falling under 1.5 times the annual expenses and the long-lasting funding of the pensions will no longer be guaranteed without imposing supplementary costs on the future generations, it will be possible to redefine immediately, by a special law, a new rate for a period of 10 years.

4.4.2 Pension Replacement Rate (See Annex 1)

The main measure of the reform concerns the reduction, in a long-term perspective, of the gross old-age pension replacement rate linked to the average revenue of the professional career. A progressive reduction spread over 40 years, from 2013 to 2052, has been decided. Changes concern the method of calculation of the pension, which consists of two parts, one income-related part *(majorations proportionnelles)* and one flat-rate part *(majorations forfaitaires).*

The rate of the income-related part of the pension will be reduced from 1.85 % (2013) of the contributed wages to 1.60 % (2052). Experts think that, at the end of this period, pensions will be reduced by 13.05–15.75 %, which means that they will be of the same level as before the 1991 pension reform (Council of State 2012). That is why the President of the National Pension Fund (CNAP) considers that the pension reform marks a fundamental change in the pension policy. In his opinion, the new law will put an end to a policy, whose aim has been a continual improvement in the level of pensions during the last 50 years (Kieffer 2011; President of the National Pension Insurance Fund 2012).

If, in the future, workers want to receive the same level of pensions as today, they will have to postpone retirement and work longer. In order to encourage them to act in this direction, the new law foresees an increase in the rate of the income-related part of the pension for workers, who are entitled to old-age pension rights and who fulfil a *minimum threshold condition*. In 2013, this *minimum threshold* will be 93, which is the sum of two variables, the number of the years of the professional career and the age of the worker. For instance, workers, who add 35 years of a professional career and an age of 58 and who decide to postpone retirement, will see the rate of the income-related part of their pension increase by 0.010 % of the contributed wages per year. Between 2013 and 2052, the *minimum threshold* will progressively rise from 93 to 100 and the rate of the income-related part of the pension will progressively increase from 0.010 % of the contributed wages per year to 0.025 %.

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As a counterpart to the reduction of the income-related part of the pension, the flat-rate part will be raised from 23.5 % (2013) of the social minimum wage to 26 % (2052). The aim of this change is to maintain an adequate level of pension for all pensioners and especially for workers, who were employed under hard working conditions and low wages and for whom it will not always be possible to stay active longer. This measure will reinforce the intergenerational solidarity.

The reduction of the gross pension replacement rate will not affect the level of the minimum pension. Its amount will stay at 90 % of the social minimum wage[10] for a professional career of 40 years.

4.4.3 Adjustment of Pensions

The *automatic* adjustment of pensions to the consumer price index was abandoned in 2006. Between 2006 and 2009, pensions were adjusted, at a rate of 0.95 %, at three fixed dates: 1st December 2006, 1st January 2008 and 1st January 2009. The government's austerity plan of 2010 foresaw two dates of adjustment at the same rate: 1st January 2011 and 1st January 2012. In spring 2012, it was decided not to adjust pensions in 2013. Moreover, the new law introduces a moderation factor: if expenses exceed contributions paid by the employees and the employers (16 % together), the adjustment rate will have to be redefined at a maximum of 0.50 %.

4.4.4 Combination of Early Retirement and Professional Activity

In order to promote active ageing, the new law opted for a more flexible transition from active life to retirement by allowing the combination of early retirement and professional activity. A pension will only be reduced if the combination of the pension and the wage is higher than the average of the wages of the 5 best years in the professional career. Experts pointed out that the new way of calculation is in favour of low wages, whereas nothing will change in case of higher wages.

4.4.5 Individualization of Pension Rights

If a professional career is interrupted, mainly in the cases of women deciding to stay at home and to raise their children, contributions can be paid, on a voluntary basis, in order to acquire pension rights. The new law promotes the voluntary insurance by reducing the minimum contribution rate from 300 Euro to 100 Euro per month. But it limits the time period of this reduction to 5 years.

The Committee on Women's Work criticized the bill for its hesitant approach regarding individualization of pension rights. In its view, the continuity of payment of contributions in case of interruption of the professional career has to be compulsory; otherwise it risks being without any consequence on the pension rights of women (Committee of Women's Work 2012).

[10] 1730 Euro per month (1 January 2015).

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4.4.6 Long-Term Effects of the Pension Reform?

In the view of the Chamber of Employees, the new '*à-la-carte scheme*' is hiding major risks (Chamber of Employees 2012). For instance, it will be difficult for young people in higher education to reach 40 contributed years. It may also be difficult for older workers to stay active in a labour market, which selects its workforce by age. Regarding employees with high revenues, the new law will push them to the third pillar, which is a voluntary individualized scheme promoted by tax advantages.

4.5 Investment in Children

At the beginning of the twenty-first century, Luxembourg adopted a new approach regarding welfare of children, based on the United Nations Convention on the rights of the child. The best interest of the child, dignity, freedom, tolerance, respect, responsibility and non-discrimination were written down in the Law of 16 December 2008 regarding welfare of children and the family. Through reforms in fiscal matters and family benefits, the government recognized the child as an individual. The financial and economic crisis and ECJ case-law slightly disrupted this '*revolution*'.

4.5.1 Reform of Income Taxation and the Creation of the Child Bonus

The first reform based on the newly oriented policy changed income taxation. Law of 21 December 2007 amended the system of tax rebate for dependent children and introduced the '*child bonus*' (*boni pour enfant*). Income tax classes taking into account the presence of children in a household were abolished. As a counterpart, from 1 January 2008, a tax income rebate of 922.50 Euro per year is paid to each child entitled to family benefits, whatever the income tax of the household. Even children living in a household, which does not pay income taxes, are entitled to it. The abolition of the income tax classes linked to the presence of dependent children in the household was intended to generate per year 85 m Euro, which the state would re-allocate to the funding of the *child bonus*, whose annual costs were estimated at 99.5 m Euro per year. The aim of this reform was to switch from a traditional approach based on a horizontal compensation, which means that the standard of living of a household with children has to be the same as the standard of living of a household without children, to a more vertical one, a compensation for all children in the same way (Council of State 2007).

Since the beginning, *child bonus* was a hybrid linked to fiscal law and to social security law. The vagueness of its legal nature led to ECJ case-law regarding the entitlement of the children of the cross-border workers. If *child bonus* is considered as a special tax credit, it has to be paid by Luxembourg to all children of the cross-border workers. If it is considered as a family benefit, it will be treated as all other

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family benefits under the non-cumulation rules, which means that Luxembourg will only have to pay the difference between family benefits paid in the country of residence and family benefits due in Luxembourg. In case-law *CNPF v Salim Lachheb and Nadia Lachheb*, ECJ decided on 24 October 2013 (Annex 3) that '*child bonus is a family benefit within the meaning of European regulation*' and that Luxembourg will only have to pay the difference. For Luxembourg, it meant a reduction in the transfers abroad, but for the cross-border workers it meant a loss of income.

4.5.2 The Creation of a Childcare Service Voucher

The second reform based on the rights of the child concerned care facilities for children under the age of 13. By grand-ducal regulation of 13 February 2009, a childcare service voucher was created. Its aim was, on the one hand, to increase equal opportunities for children residing in Luxembourg through access to out-of-school professional education and care facilities and, on the other hand, to promote employment for parents of young children by offering them reconciliation of work and family.

The childcare service voucher recognizes the child as an individual, but it is calculated according to the revenue of the household, to which the child belongs, and to the rank of the child inside the family. There are special conditions for children living in a household entitled to the guaranteed minimum income (RMG), and for children, who are '*at risk of poverty and social exclusion*'. In theory, the children of cross-border workers, residing in neighbouring countries, are not entitled to this benefit. But the question has been raised whether the child of a cross-border worker attending a *crèche* in Luxembourg could be entitled to it?

This new social benefit has been one of the victims of the crisis. In 2012, in order to save money, the state reduced its financial participation in childcare facilities and increased the financial participation of the parents, especially in households with a revenue of 3.5 times the social minimum wage (Grand-ducal regulation of 21 July 2012 and 26 December 2012).

4.5.3 Financial Aid for Young People in Higher Education

The third reform in line with the recognition of children as individuals is the creation of a new financial aid for young people in higher education as an individualized and universal right, that means not taking into account the revenue of the parents. By Law of 26 July 2010, the government abolished the right to family benefits for children over 18, including *child bonus*, unless they are still in secondary education and, as a counterpart, introduced a financial aid for students.

This new right has been limited to young people in higher education in Luxembourg or abroad, who have their legal residence in Luxembourg. By introducing this condition, the main objective of the reform was to increase the proportion of Luxembourg residents holding a higher education degree at 40 % by

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the year 2020, an objective of public interest acknowledged at the level of the European Union. *De facto,* children of frontier workers residing in a neighbouring country have been excluded.

Trade-unions opposed this reform and defended the principle of 'equal pay for equal work' including social protection benefits (OGBL 2010). They organized an important demonstration in September 2010 and filed a complaint against the law to the European Commission. They also gave legal advice to young people, who are family members of cross-border workers, who are not residing in Luxembourg and who intend to pursue higher education in Luxembourg or abroad. More than 600 young people in this position applied for financial aid in Luxembourg. Public authorities rejected these applications arguing that the residence condition had not been fulfilled. Students asked in court for the invalidation of the decisions and the recognition of indirect discrimination.

In case-law *Elodie Giersch and others*, ECJ decided on 20 June 2013 (Annex 3) that freedom of movement for workers within the Community precludes, '*in principle, legislation of a Member State (...), which makes the grant of financial aid for higher education studies conditional upon residence by the student in that Member State and gives rise to a difference in treatment, amounting to indirect discrimination*', unless it is objectively justified and the residence condition is appropriate and does not go beyond what is necessary to attain the objective pursued. ECJ recognized the objective put forward by the Luxembourg government, the increase of the proportion of Luxembourg residents holding a higher education degree. The judges admitted the appropriateness of the residence condition arguing that students residing in Luxembourg may be more likely than non-resident students to become integrated in the Luxembourg labour market after their studies in Luxembourg and even abroad. But ECJ considered that the residence condition was too exclusive in nature - it excluded all non-residents from entitlement of the aid—and that therefore it went '*beyond what is necessary in order to attain the legitimate objective of increasing the proportion of the resident population with a higher education degree, so as to promote the development of the national economy*'.

The Luxembourg government submitted, in a great hurry, a new bill to parliament. Law of 19 July 2013 did not abolish the residence condition. Instead, it introduced regarding the students, who are children of the cross-border workers, a condition based on the '*theory of a sufficient link of integration*' developed by ECJ (see also Sect. 4.2.1). In this case, one of the parents has to have worked in Luxembourg for a minimum period of 5 continuous years and for at least 50 % of the legal working time. During the second semester of 2013, 14,382 students with residence in Luxembourg and 13,875 students, who are family members of cross-border workers residing abroad, were entitled to a financial aid.

This solution has been criticized by the trade-unions, because it does not recognize the same rights for all cross-border workers and, at the end, will result

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in a division among them. It may also be criticized for the paradigm on which it is based, namely the family model. ECJ considers students, who reached their maturity, as financially dependent family members of a cross-border worker. Their rights are derived rights linked to the employment position of one of the parents in another Member State than the state of residence. This approach is neither in line with the new approach on welfare of children adopted by the Luxembourg government, which recognizes the child as an individual, nor with the European Union, which promotes European citizenship and the rights of the child.

In spring 2014, the government prepared new rules, with the objective to reduce the costs, which were challenged by the students, who organized a demonstration, in which people in secondary school also took part.

5 Conclusions

The government reacted rapidly and in a pragmatic way to the impact of the financial and economic crisis on the Luxembourg economy. It used traditional instruments like *the tripartite*, short-time working and solidarity tax. But it did not totally succeed. Its austerity plan was rejected by the trade-unions and it seems that *the tripartite*, in place since the 1970s, will not survive the current crisis. The government managed, thanks to temporary measures, to maintain the balance between the income and the expenditure of the social protection system. Structural reforms with long-term effects were accepted by the stakeholders in labour market policy and in pensions. But, in the sector of family benefits, the newly adopted approach based on the rights of the child clashed with the European regulation, which banishes all discrimination between the resident population and cross-border workers. As a result, the power of the Luxembourg public authorities to shape their Welfare State turned out to be rather limited.

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Annex 1. New Pension Replacement Rules from 2013 to 2053

	Flat-rate part	Income-related part		
Year of the beginning of the pension right	Rate (%)	Rate (%)	Threshold	Increase
Before 2013	23.500	1.850	93	0.010
2013	23.563	1.844	93	0.011
2014	23.625	1.838	93	0.011
2015	23.688	1.832	93	0.012
2016	23.750	1.825	93	0.012
2017	23.813	1.819	93	0.012
2018	23.875	1.813	94	0.013
2019	23.938	1.807	94	0.013
2020	24.000	1.800	94	0.013
2021	24.063	1.794	94	0.014
2022	24.125	1.788	94	0.014
2023	24.188	1.782	94	0.015
2024	24.250	1.775	95	0.015
2025	24.313	1.769	95	0.015
2026	24.375	1.763	95	0.016
2027	24.438	1.757	95	0.016
2028	24.500	1.750	95	0.016
2029	24.563	1.744	95	0.017
2030	24.625	1.738	96	0.017
2031	24.688	1.732	96	0.018
2032	24.750	1.725	96	0.018
2033	24.813	1.719	96	0.018
2034	24.875	1.713	96	0.019
2035	24.938	1.707	97	0.019
2036	25.000	1.700	97	0.019
2037	25.063	1.694	97	0.020
2038	25.125	1.688	97	0.020
2039	25.188	1.682	97	0.021
2040	25.250	1.675	97	0.021
2041	25.313	1.669	98	0.022
2042	25.375	1.663	98	0.022
2043	25.438	1.657	98	0.022
2044	25.500	1.650	98	0.022
2045	25.563	1.644	98	0.023
2046	25.625	1.638	98	0.023
2047	25.688	1.632	99	0.024
2048	25.750	1.625	99	0.024
2049	25.813	1.619	99	0.024
2050	25.875	1.613	99	0.025
2051	25.938	1.607	99	0.025
2052	26.000	1.600	100	0.025
After 2053	26.000	1.600	100	0.025

Source: Article 214 Social Security Code

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Annex 2. Legislation Since 2007

The official language of legislation in Luxembourg is French. The original text of all legislation referenced in this Chapter can be searched Online, in the Archives of the Memorial A, which is listed per year, month and N°: *http://www.legilux.public.lu/leg/a/archives/index.html*. Accessed 30 January 2015.

For instance, reference N°1. can be found under Memorial A—2007—December—N°234.

1. Law of 21 December 2007 (. . .) 2) introducing the law regarding *child bonus*. Memorial A N°234 of 27 December 2007, p. 3954.
2. Law of 13 May 2008 introducing the '*statut unique*'. Memorial A N°60 of 15 May 2008 p. 790.
3. Law of 16 December 2008 regarding Welfare for children and the family. Memorial A N°192 of 22 December 2008 p. 2584.
4. Grand-ducal regulation of 13 February 2009 introducing a childcare service voucher. Memorial A N°26 of 18 February 2009 p. 376.
5. Law of 11 November 2009 regarding temporary measures for youth employment. Memorial A N°222 of 19 November 2009 p. 3909.
6. Law of 26 July 2010 concerning a financial aid of the State for higher education. Memorial A N°118 of 27 July 2010 p. 2040.
7. Law of 3 August 2010 introducing temporary measures for the promotion of employment, Memorial A N°137 of 13 August 2010, p. 2212.
8. Law of 17 December 2010 regarding reform of the health care system. Memorial A N°242 of 27 December 2010 p. 4042.
9. Law of 18 January 2012 concerning the creation of ADEM, Memorial A N°11 of 26 January 2012 p. 168.
10. Law of 28 March 2012 regarding reform of professional training. Memorial A N°67 of 4 April 2012 p. 754.
11. Grand-ducal regulation of 21 July 2012 concerning modifications of the grand-ducal regulation of 13 February 2009 introducing a childcare service voucher. Memorial A N°162 of 3 August 2012 p. 1918.
12. Law of 21 December 2012 concerning reform of the pension insurance. Memorial A N°279 of 31 December 2012 p. 4370.
13. Grand-ducal regulation of 26 December 2012 concerning modifications of the grand-ducal regulation of 13 February 2009 introducing a childcare service voucher. Memorial A N°300 of 31 December 2012 p. 4785.
14. Law of 19 July 2013 regarding modifications of the law of 22 June 2000 concerning a financial aid of the State for higher education. Memorial A N°132 of 25 July 2013 p. 2724.

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The Labour Code (Code du Travail) and the Social Security Code (Code de la Sé curité sociale) are also available on Internet:

1. Code du Travail 2015
   http://www.legilux.public.lu/leg/textescoordonnes/codes/code_travail/
   Accessed 29 January 2015
2. Code de la Sécurité sociale 2014
   http://www.legilux.public.lu/leg/textescoordonnes/codes/code_securite_sociale/
   Accessed 29 January 2015.

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Annex 3. ECJ Regulation and Case-Law

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EC Regulation N°883/2004 of the European Parliament and of the Council on the coordination of social security systems is available on Internet:

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32004R0883&qid=1422617316801&from=EN.

Accessed 30 January 2015.

ECJ case-law referenced in this Chapter can be searched on the Website of the European Court of Justice : http://curia.europa.eu/jcms/jcms/j_6/. Accessed 30 January 2015.

The easiest way is to search by Number.

For instance, reference N°1) can be searched by Number C-379/11.

1. ECJ 13 December 2012 *Caves Krier Frères* C-379/11 (subsidy for employers recruiting jobseekers aged 45 and over)
2. ECJ 20 June 2013 *Elodie Giersch and others* C-20/12 (financial aid for young people in higher education)
3. ECJ 24 October 2013 *CNPF v Salim Lachheb and Nadia Lachheb* C-177/12 (child bonus)

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Latvia: Both Sides of the Economic Recovery Success Story

Feliciana Rajevska and Laura Romanovska

1 Introduction[1]

In 2007, Latvia, by then one of the most overheated economies in the world, was among the first countries to be stung by the crisis. In this chapter we will analyze the development of crisis, austerity policy measures, impact of the crisis on different areas of social policy, and the main challenges the Latvian welfare system is facing. The list of these challenges is extensive and widely recognized in the public:

- depopulation, continuous decrease of population since 1991 in combination with outmigration and rapid ageing;
- outflow of workforce;
- stable and high level of inequality;
- high proportion of working poor;
- lowest level of health care financing in the EU (under 4 % of GDP);
- social assistance benefits do not adequately fulfill social needs.[2]

[1] For a detailed overview of the Latvian welfare system see also Rajevska (2009).

[2] The above mentioned list of challenges was created by authors of this chapter and is based on their ongoing research on human social security in Latvia in the National Research Program "National Identity" 2010–2014 (Brigsa et al. 2014). Each of the challenges will be reviewed further in this chapter.

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1.1 Characteristics of the Latvian Welfare System

After the proclamation of independence from the Russian Empire (1918), the Republic of Latvia adopted a social insurance legislation that dealt with its own situation and accepted new laws with rather detailed labour market regulation, health insurance system and an emerging pension scheme. After annexation and incorporation into the Soviet Union in 1940, Latvia experienced the common model of USSR social policy: standardization of protection and its extension to all workers, integration of social insurance into the state budget, centralization and universal health services. The Soviet system of welfare was universal and paternalistic. After regaining independence in 1991, the transformation to a market economy in Latvia was accompanied by a serious economic crisis: Gross domestic product per capita decreased by more than half from 1990 to 1993. Price stabilization in Latvia was ensured by strict monetary, income and financial policy. The process of social policy-making has been influenced by many kinds of pressures, both internal and external. The policy transfer and policy learning process contributed a lot to the social policy-making in Latvia (Rajevska 2005). Western experts elaborated a road map for the transformation from a planned to a market economy, known as "The Washington Consensus" with four main elements: stabilization, liberalization, privatization and restructuring. The mood of neo-liberal ascendance, in the early 1990s was pervasive and difficult to resist in almost every post-communist country, but in Latvia especially. The political elite always had and till now has a very clear liberal orientation. Establishing a mechanism that would help to shift responsibility for social security from the state to the individual was considered to be a high priority undertaking. Latvia is the only country among CEE countries that has had a right or centre-right political coalition since the early 1990s till the present time (autumn 2014). Leftist political forces have been represented in all parliaments (31 seats out of 100 in 2011–2014), but never in governments. The explanation of such phenomena is the ethnic division of the party system in Latvia, where Latvian and Russian parties exist and a rather big share of so called non-citizens, residents of Latvia who have no right to vote in national and even local elections.[3] In such a divided society, the ruling elite is rather autonomous in the decision-making process. The population of Latvia, before joining the EU, had rich experience of how to cope with the crisis, and people were used not relying on authorities, but mainly on themselves and family in their survival strategy. After joining the EU in 2004 Latvia strengthened its institutional capabilities, especially through the provision of structural funds and by the implementation of different programmes using the open method of coordination. The increased mobility of

[3] The term non-citizens refers not to newcomers to Latvia after regaining independence in 1991, but refers to former Soviet citizens who arrived in Latvia after the Second World War and their descendants. Their number has decreased from 740,231 in 1995 (Latvia. Human Development Report, 1997, p. 49) to 282,876 in 2014. Their number as a percentage of the whole population has decreased from 29.4 % in 1995 to 13 % in 2014 due to the naturalization process (141,618 persons became citizens from 1995 till the end of 2013), outmigration and natural reasons.

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qualified labour after Latvia joined the EU became a new challenge to compete with salaries and wages in the other EU countries.

2 Demographic Change

The most recent analysis on demographic change in the Baltic States can be found in the Estonian Human Development Report 2010/2011. The three Baltic states not only have some of the smallest populations in the European Union, they also showed the most rapid population decline throughout the 1990s and 2000s—minus 15 % of population. Since 1990 to 2010, the three countries together lost more than 1.5 million inhabitants (Ainsaar and Stankuniene 2011: 44).

Analyses from 1990 to 2009 demonstrate that the Baltic states were in the group with one of the steepest declines in population together with Romania, Ukraine, Bulgaria and Hungary (Ainsaar and Stankuniene 2011: 55). The fertility rate in Latvia is among the lowest in Europe—1.44 per woman in 2012 (see Table 1).

While the population of Europe will continue to grow gradually, all of the Baltic states will face decline. The Baltic decline, especially in Latvia and Lithuania, will also be the steepest in Europe in the long term. This, in turn, will be a challenge for many markets including public services like education, health care, local public administration, etc. (Ainsaar and Stankuniene 2011: 50). Latvian researchers have prepared a forecast based on current outmigration and negative increase tendencies. Albeit this forecast excludes any immigration which is a rather unrealistic scenario (see Fig. 1).

After Latvia's accession to the EU, thousands of workers were quick to use the right to work in the "old" Europe. The removal of restrictions on labour mobility from the new Member States by the UK and Ireland in 2004 triggered an almost immediate migration response. The majority of migrants were temporary, staying in the receiving countries from several months to several years. Throughout 2005–2007 Latvia had the highest economic growth rate in the European Union (10–12 % per year) combined with high inflation rates, a rapid increase in salaries and wages, a real estate bubble and a credit boom. The dominant cause of the rising inflation was the massive domestic credit expansion. Negative migration by the twenty-first century had already exhausted population resources. The high emigration readiness is not surprising because the Baltic States still remain the region with the lowest incomes in the EU. Outmigration received a new impulse following the EU accession in 2004. The years of the economic recession from 2008 to 2010 only increased the migration gap (Ainsaar and Stankuniene 2011: 48). Starting with 2005 and especially in 2009, the number of emigrants reached such a level putting under threat the reproduction of the Latvian population, economic development and sustainability of the social security system. Thus, notwithstanding some positive side effects of emigration, it has become a serious obstacle to the human development in Latvia (Hazans 2011: 77). Since the renewed independence in 1991 till 2014, Latvia lost 25 % of its population due to the negative natural growth and outmigration. Hence depopulation, continuous negative increase of population

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Table 1 Total fertility rate in Latvia

2004	2005	2006	2007	2008	2009	2010	2011	2012
1.29	1.39	1.46	1.54	1.58	1.46	1.36	1.33	1.44

Source: Eurostat

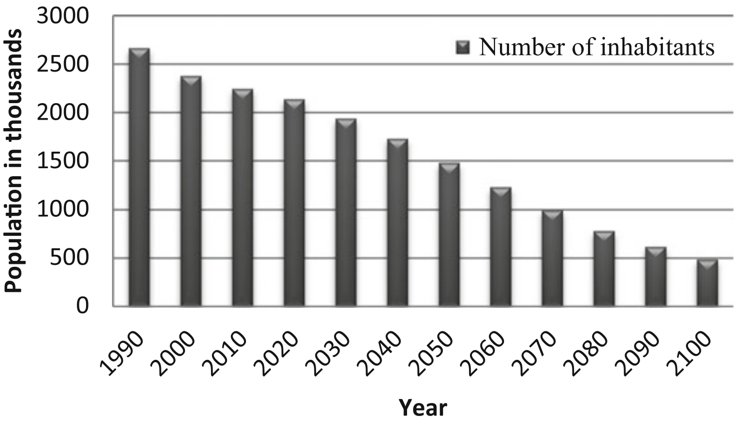

Fig. 1 Population of Latvia (thousands) from 1990 to 2010, and forecast until year 2100 (excluding immigration). *Source*: Latvian Human Development Report 2012/2013: Sustainable Nation; Journal "Academic Life" (No. 47, 2010)

since 1991 in combination with the outflow of the workforce and rapid ageing, is the most serious challenge for Latvia's social policy.

3 Economic and Financial Crisis

Senior Fellow Anders Aslund and Prime Minister Valdis Dombrovskis (March 2009–January 2014) published the book "How Latvia Came through the Financial Crisis" in May 2011. The authors explain that Latvia offers an interesting case study of the global financial crisis. By 2007, the Latvian economy was seriously overheated, and the extraordinary boom turned into a bust because of a drastic contraction of credit, which become a near complete liquidity squeeze in the fall of 2008. The Latvian government signed a memorandum with the IMF already in December 2008: "Years of unsustainably high growth and large current account deficits have coalesced into a financial and balance-of-payments crisis. (..) The Latvian authorities are launching a decisive economic reform program and are seeking substantial international financial assistance to quell this crisis" (IMF, Country report, 2009). IMF experts evaluating the situation wrote: "Latvia has suffered one of the deepest recessions in the world" (IMF Survey: February 18, 2010). For a long time key words for politicians and Latvian society became: austerity, fiscal consolidation and structural adjustment measures.

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Table 2 Gross domestic product in Latvia

	Total, millions of euro at current prices
2008	22,889.8
2009	18,521.3
2010	18,038.9
2011	20,211.3
2012	22,257.0
2013	23,372.1

Source: Eurostat

The European Commission in its Eighth Progress Report on Economic, Social and Territorial Cohesion grouped Member States by the impact of the recession (2007–2011): very high, high, moderate and low. The criteria are annual average change in GDP and employment. According to this classification the impact of the recession on Latvia was the highest one: the annual average decrease of GDP was −4.5 %, the annual average decrease of employment was −6.4 % with a combined value of −5.5 %. Other countries in this "very high" group have the following combined value: Greece −2.9 %, Ireland −2.8 %, Lithuania and Estonia −2.1 %, Spain −1.7 % (European Commission: June 2013) (Table 2).

The result of efforts was summarized in the IMF executive board calendar "When Latvia asked for financial support from the IMF and the European Union in December 2008 it was one of the first countries to suffer the full consequences of the global economic crisis. Three years later Latvia has successfully completed its IMF and EU supported program" (IMF 2012, February 07). Latvia's recovery sets an example for other European governments struggling to reduce national debt and get out of the recession, but Latvia's successful recovery is not easy to replicate (IMF 2012, June 11). In 2013 Latvia had fulfilled all Maastricht criteria and joined the euro zone in 2014. Latvia is among those EU countries that quite successfully are retuning loans: one billion euros has been returned to the European Commission on 25 March 2014, 1.2 billion euros to the European Commission and 60.05 million euros to the World Bank in January 2015 Such is one side of the success story, impressive enough and providing bases to be proud of the country (Table 3).

As IMF experts comment, Latvia has been an object of intensive attention during the crisis. There still exist two radically opposite opinions how to evaluate the situation of Latvia—is it a success or a failure? Paul Krugman has written: "We're looking at a Depression-level slump, and five years later only a partial bounce back; unemployment is down but still very high, and the decline has a lot to do with emigration. It's not what you call a triumphant success story" (Blanchard et al. 2013: 1).

Other austerity measures (in pension, health, labour market and social security policy) and their impact we will describe further.

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Table 3 General government gross debt

	Percentage of GDP
2007	9.0
2008	19.8
2009	36.9
2010	44.5
2011	42.0
2012	40.8
2013	38.1

Source: Eurostat

3.1 Austerity Measures

The public expenditure cuts were draconian: reducing public employees by 15 %, public nominal wages by 15 %, and state procurement of goods and services by 25 % (Åslund and Dombrovskis 2011: 42). Presumably, the highly paid, well-to-do middle class faced larger salary cuts than poorer workers who had never flourished (Åslund and Dombrovskis 2011: 74). On 10 December 2008, the government signed a protocol with local governments compelling them to undertake the same nominal wage cuts as the central administration (Åslund and Dombrovskis 2011: 44). After a large demonstration in Riga on 13 January 2009 and rioting at the end of it with 106 arrested persons, as well as a farmers' protest on 3 February, President Zatlers declared, that Prime Minister Godmanis had lost his confidence, and the unpopular government fell. New government with Prime Minister Valdis Dombrovskis was accepted by parliament on 12 March 2009. In March the IMF suspended lending to Latvia until June when a new budget was adopted with more cuts in public spending. The new Prime Minister emphasized that Latvia had no choice but to fulfil its obligations to the IMF (mechanical reductions for expenditures for all sectors by 20 %) so that the country could receive international financial aid (Åslund and Dombrovskis 2011: 69). To ensure trust the government reduced the salaries of ministers and other top officials within the government, not only of policemen, teachers or the health care sector. The government targeted three sectors for far-reaching structural reforms, namely public administration, health care and education. "The government initiated a substantial downsizing and streamlining of the state apparatus. Half of the 75 state agencies were to be closed down and 8,000 civil servants to be laid off initially. No fewer than 23,000 or 29% of the civil servants were dismissed". Authors do agree with a remark by the Prime Minister that "the reduction in bureaucracy also eased the hardship of citizens" (Åslund and Dombrovskis 2011: 73).

3.2 Changes in Taxation System

On 11 December 2008 parliament adopted the controversial package of tax changes demanded by the IMF, and the Ministry of Finance published the brief stabilization

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programme which set out the basic policies agreed with the IMF and the European Commission. Excise duties were to be raised for fuel, coffee, alcohol, and other beverages. Before the crisis individuals who speculated in real estate did not have to pay any tax on their gains if they held their property for at least 1 year. No capital gains tax existed. Nor did Latvia have any property tax on residential buildings (only on land). These taxes were introduced during the crisis. VAT was to rise by 3 percentage points from 18 to 21 % in January 2009, the reduced VAT rate was doubled from 5 to 10 %. The next increase took place in January 2011—from 21 to 22 %, the reduced rate was increased once more from 10 to 12 %. The reduced rate was abolished for electricity in January 2011 and for gas in July 2011. After July 2012 the standard VAT rate was reduced by 1 %, and in 2014 constituted 21 %. Many EU countries maintain reduced VAT rates for food, some of them even have zero rates (Ireland, Malta and United Kingdom). In Latvia a reduced rate of 12 % applies only to infant food.

Since Latvia's accession to the European Union, a constant increase in the size of non-taxable income has taken place, calculated not only for the tax payer but for each dependent as well. This is a way of providing incentives for those who are active in the job market. This policy had the support of the population because it benefited all legally employed persons but, most of all, those with low income. Austerity measures included a cut of non-taxable income from 128 euros to 50 euros starting on 1 July 2009 or from 20 % of the average wage to 8 % of the average wage. This meant a decrease by 10 % in net income for those receiving the minimum wage. At the same time the share of employees' social contribution has been raised from 9 % to 11 % since 2011. Starting with 2012 non-taxable income was increased to 64 euros and 75 euros in 2014, nevertheless it is still very far from the pre-crisis level of non-taxable income.

4 Risks and Opportunities

4.1 Safety Net

Since the beginning of crisis in 2008 expenditures for social protection in Latvia as % of GDP have continued to grow (11 % in 2007, 12.6 % in 2008, 16.9 % in 2009, 17.9 % in 2010 and 15 % in 2011). Still one must bear in mind that GDP fell in 2008 by 4.6 %, in 2009 by 17.8 % and in 2010 by 0.2 %. Hence in absolute numbers this increase is not that significant (see Table 4). The most part of these expenditures are retirement pensions, health care, families and children, as well as unemployment (Central Statistical Bureau of Latvia, 2008, 2009 and 2010).

In the fall of 2009 a minimum social safety network was introduced in cooperation with the World Bank to improve targeted social support to those members of the society in the greatest need. Funding from the European Social Fund was instrumental in mitigating unemployment, facilitating a large temporary works programme involving tens of thousands of people (Åslund and Dombrovskis 2011: 76). The government adopted the Social Security Network Strategy for the

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Table 4 Social protection expenditure in Latvia (euros in PPS per head)

	All functions	Old age	Sickness/health care	Disability	Survivors
2004	889.76	430.42	225.15	68.51	21.70
2005	967.34	448.07	265.76	70.19	21.52
2006	1130.05	503.79	344.83	79.56	23.71
2007	1199.93	525.49	370.47	81.14	23.76
2008	1329.13	580.42	391.98	97.63	25.80
2009	1480.78	671.47	347.88	115.21	27.42
2010	1670.57	865.20	346.99	127.70	28.46
2011	1574.71	837.60	335.22	136.88	27.36

Source: Eurostat

period from 1 October 2009 till 31 December 2012 along with the necessary funding. This funding illustrated a crucial turn to state involvement in co-financing social assistance: 50 % of Guaranteed minimum income (GMI) (stayed in force until December 2012) and 20 % of housing benefit (stayed in force until April 2012) was refunded to local government by the state. The goal of the strategy was to elaborate emergency security measures, the implementation of which would ensure the reduction of a negative social impact. The strategy contained detailed tasks for several ministries and municipalities in the area of unemployment, social assistance, health care and transport services for pupils ("Social Security Network Strategy", 2009). The Ministry of Welfare asked the World Bank to carry out an assessment of post-crisis policy (World Bank 2013), the results of which became available in spring 2013. Based on these results a report about proposals on the improvement of the social security system was presented to the cabinet of ministers in December 2013. The final decision was to take the report into consideration, and within 2 years prepare several concept projects concerning the possibility to determine a basic or social pension, a minimum unemployment benefit and review the amount of other social benefits binding them to specific economic indicators. According to this government decision, the discussion and evaluation should end by 31 December 2015, but the implementation of the new minimum income scheme should start only in 2017.

4.2 Inequality

A very high level of inequality is a constant feature of Latvia's society. The Gini coefficient in Latvia is constantly among the highest among old and new member states (see Fig. 2). Richard G. Wilkinson and Kate Pickett in their book "The Spirit Level: Why More Equal Societies Almost Always Do Better" argue that there are "pernicious effects that inequality has on societies: eroding trust, increasing anxiety and illness, (and) encouraging excessive consumption". It claims that for each of 11 different health and social problems: physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life,

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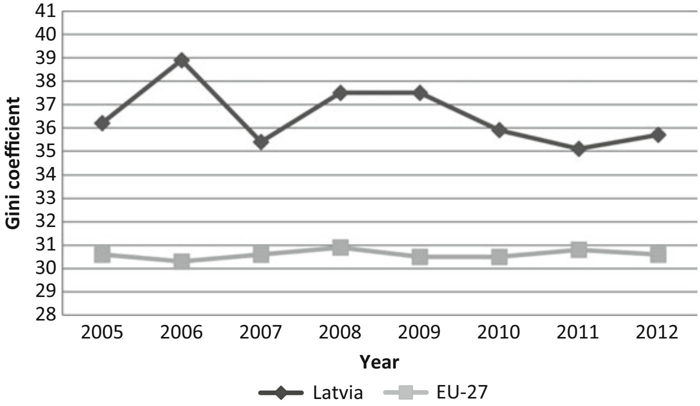

Fig. 2 Gini coefficient of equalized disposable income in Latvia and EU-27. *Source*: Eurostat

violence, teenage pregnancies, and child well-being, outcomes are significantly worse in more unequal rich countries (Wilkinson and Pickett 2009).

A knowledge-based economy demands huge investments in the development of human capital. The question is: who and in what proportions must pay for regular, in-service training of employees—government, employer, or employee? In Latvia, the question has so far been more or less left to take its own course (not, however, in the case of the public service). A disproportionally large number of workers receive the minimum wage. The minimum salary has been frozen for 3 years (2011–2013) despite the fact that the minimum salary in Latvia is among the lowest in the EU and was equal to 1.47 euros per hour. Austerity measures were strictly implemented in wage policy. The average monthly salary (net) in 2010 constituted 90 % of the salary in 2008. An especially painful cut took place in the public sector where the average monthly salary in 2010 constituted only 82 % of the same indicator in 2008. At the same time the value of the subsistence basket in 2010 was 104 % of 2008. There is a high share of employees receiving low salaries (see Table 5).

Data from this table convincingly demonstrates why the increased mobility of qualified labour is a serious challenge to compete with salaries and wages in other EU countries.

Tax rebates are the generally accepted mechanism for helping people with low incomes. From the renewal of independence to the end of 2007, the income tax rate was 25 %. In 2008, it was reduced to 23 %, but in 2010 it was raised to 26 % for everybody, and gradually returned to 23 % in 2015. Despite the high level of inequality, the introduction of progressive income tax has never been discussed as a real alternative to the proportional income tax. There is a growing understanding in public opinion that the level of inequality is unfair, 94.9 % of the population in 2013 consider income disparities in Latvia as too large. At the same time there is very weak political will to solve this problem.

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Table 5 Division of employed persons according to the net wage in Latvia (fourth quarter of 2013)

Monthly net wage (euros)	Share of employed persons (%)
Under 285	28.8
285–427	28
427–711	27
711–1423	9.7
Over 1423	1.6

Source: Central Statistical Bureau of Latvia

Table 6 Proportion of employed persons in Latvia (%)

	2004	2005	2006	2007	2008	2009	2010
Total	56.1	57.1	60.1	62.0	62.6	55.2	53.1

Source: Central Statistical Bureau of Latvia, www.csb.lv

4.3 Labour Policy

After joining the EU, the level of employment grew rapidly (see Table 6). It was stimulated at least by two factors: economic growth and a decrease in the shadow economy.

Due to the economic crisis, the situation in the labour market significantly deteriorated. The lowest point was reached in the first quarter of 2010 when the employment rate shrank to 57.7 % (population aged 15–64 years), but the unemployment rate (population aged 15–74) increased to 20.5 % (Ministry of Economics 2011: 74). The youth unemployment level is high in Latvia as is typical in all EU Member States (Fig. 3).

High youth unemployment is due to less experience as a natural consequence of age. Younger cohorts, who are already disproportionally affected by the crisis, do not have as much education as older cohorts. A large share of the skilled youth migrated when Latvia joined the EU. The improvement of vocational training programmes targeted at youth became very acute for the labour market inclusive policy in Latvia (Brock 2013).

The situation in the labour market kept improving in 2012—employment and economic activity of the population increased, while unemployment gradually decreased. According to the Labour Force Survey data, the average number of employed people reached 885.6 thousand in 2012, which is 2.8 % more than in 2011. The employment rate in 2012 reached 56.3 %, which is nearly by 3 percentage points higher than a year ago (Ministry of Economics 2013: 80) (Fig. 4).

The number of long-term unemployed increased along with the overall unemployment rate during the crisis. The number of long-term unemployed has tended to drop along with the growing economic activity. At the end of 2012, there were 44.6 thousand long-term unemployed registered at the State Employment Agency, which was 11 thousand or 20 % less than in 2011. Although the situation is improving gradually, the share of long-term unemployed remains relatively

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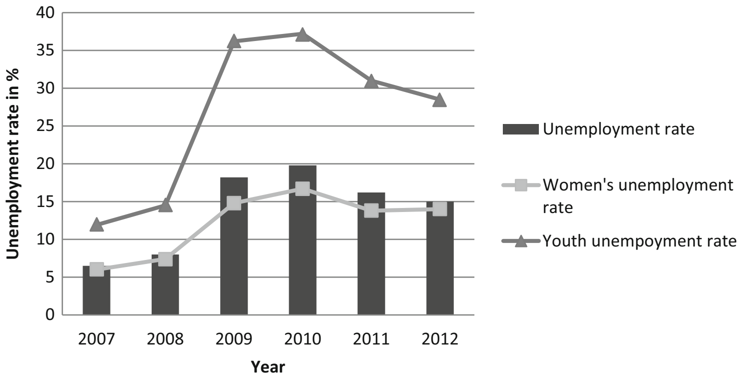

Fig. 3 Unemployment rate in Latvia. *Source*: Eurostat

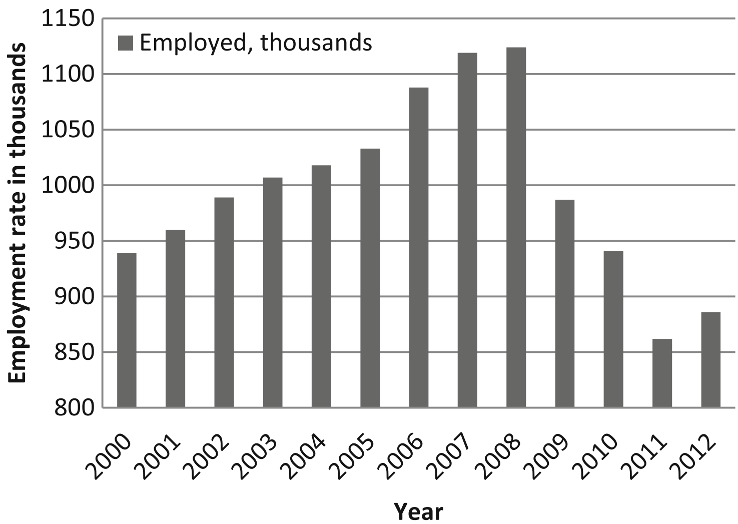

Fig. 4 Employment in Latvia from 2000 until 2012. *Source*: Report on Economic Development in Latvia, June 2013

high—46 % of the total number of registered unemployed in late 2012 (Ministry of Economics 2013: 80).

During a discussion on "Tax policy and progressiveness" sponsored by the Friedrich Ebert Foundation, the deputy chairman of the Latvian Free Trade Union Association, Egils Baldzēns, stated that the average labour cost per hour in 2012 was 6.24 euros, while EU average was 23.48 euros. The hourly labour cost in 2013 was 6.30 euros. In the meanwhile price parity in Latvia was 72.2 % of the EU average in 2011. Nearly two-thirds of the poor population is made up by the people who live in households with low work intensity, with 28 % of the poor population

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unemployed. Just over a quarter of the poor are "working poor" (The World Bank 2013).

The quantitative target set by Latvia in the context of implementing the Europe 2020 Strategy is to reach an employment rate of 73 % by 2020 in the age group of 20–64. To reach this target, policy directions are planned on both the labour supply and labour demand side. For instance, Latvia's economy is ranked 24 in the World Bank's *Doing Business* ranking which reflects the ease of starting and operation of a local firm. Unfortunately another government initiative to help small businesses—considerably decreased enterprise income taxes (9 % instead of 15 %) for micro-enterprises since 2011 is now being questioned by the same government. If the enterprise income tax will be raised, the micro-enterprises will have to fight for their survival. Considering the recent situation in the labour market, employment policy is now focused on training-oriented measures instead of socially-oriented measures. Most of the financing is granted for the measures for improving skills, which involve professional training, retraining, and promotion of qualification, measures to promote competitiveness and career consultations. A significant part of the financing has also been granted for paid temporary work and subsidized employment. Overall, more than 2/5 of the funding is spent on training-oriented measures—professional training, retraining and informal education; training by the employer; lifelong learning measures for employed persons (Ministry of Economics 2013: 87).

Life-long learning is among the most appropriate instruments for social investment. The share of persons aged 25–64 years involved in life-long learning in Latvia was rather low—only 5 % (2011). According to the National Development Plan 2014–2020 this share should increase to 7 % in 2014 and to 9.5 % in 2017. However, such growth is insufficient to achieve the goal of having a well-paid labour force and economic breakthrough. The average level of adult participation in education in the European Union was 8.9 % in 2011. It means that investment in human capital is very acute for the economic growth in Latvia.

A training-oriented measure *Training Programmes for Involvement of Adults in Lifelong Learning* was launched in 2010. The target group includes employed and self-employed persons (except employees of the public civil service) who have reached the age of 25, but have not reached the age for granting the state old age pension. In 2010, 5155 unemployed persons started the training, in 2011—15,638 persons (incl. 4715 transferred from 2010), and in 2012—7187 persons (incl. 4727 transferred from 2011) (Ministry of Economics 2013: 89).

Latvia has decided to foster continuous improvement and development of public knowledge, skills, and competences providing the lifelong learning available to ensure that 15 % of the population (aged 25–64 years) would be continuously involved in the educational process in 2020. In 2013, the Ministry of Economics in cooperation with the involved institutions continued working on specific remigration support measures incorporated in the Remigration support measure plan for 2013–2016 (the plan was adopted on 30 July 2013 by the Cabinet of Ministers). The plan is aimed at defining specific support measures for those nationals of Latvia living abroad and their families who are considering returning or have already

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decided to return to and work in Latvia, or want to establish their own company or develop business ties with Latvia (Ministry of Economics 2013: 86).

The legal basis for launching the measure *Promoting regional mobility of individuals employed by merchants* has been prepared in form of a pilot project in 2013, by supporting those unemployed who have found a job in another city/district during the initial working period (Ministry of Economics 2013: 89).

4.4 Health Care

Latvia's health system in general is tax-financed. At the same time, some kinds of treatment are provided at the patient's own expense. The share of private expenditure for health care is growing each year, and so are the prices of medicines. The share of public and private expenditure on health care according to the WHO was 58.5 % and 41.1 % respectively in 2011. The trend remains: only private expenditure on health care in Latvia has grown (Bite 2011: 16). Government expenditure on health care has been less than 4 % of GDP for a long time (Fig. 5). During the recent crisis the national budget consolidation programmes have had a severe impact on health policies. The government used the crisis to implement a Master Plan on Optimization of the Hospital Network that was prepared before the crisis with the World Bank.

From 1 February 2010 patient fees and co-payments for low income earners were reduced due to the grant received from the European Commission and World Bank. For families in which per capita income over the past 3 months does not exceed 170.70 euros per month the patient fees were abolished, and for those with an income not exceeding 213.40 euros they were reduced by 50 %. Such favourable conditions existed only for 2 years. Since 1 January 2012 these families pay the full amount of patient fees and co-payments. The payments allowances will be maintained only for needy persons (Bite 2012: 17). Some other measures provided by the funding allocated to the Social Security Network Strategy (2009–2012) adopted by the government included coverage of day hospital services for all psychiatric patients. On 1 January 2013 Latvia had 1368 general practitioners, 99.5 % of them had a nurse or assistant to the doctor, 36 % of them—two nurses or assistants to the doctor. This practice was estimated as very useful both by doctors and patients. An important amendment to the legislation has been made in order to ensure sustainability of this measure: since 2014 those practitioners with more than 1800 patients (or 800 patients under the age of 18) are obliged to have two nurses or assistants to the doctor (Report on the Implementation of the Social Security Network Strategy, 2014).

Since 1 March 2009 new amounts of patient payments for health care were adopted, most of them grew significantly. Hence, in the area of health care a clear increase in personal contributions took place that was linked with the stable tendency to decrease public expenditures. Short-term austerity measures included a ceiling of sickness benefit amounts till the end of 2014, and a decrease in sickness benefit duration from 52 to 26 weeks. Along with the introduction of sickness

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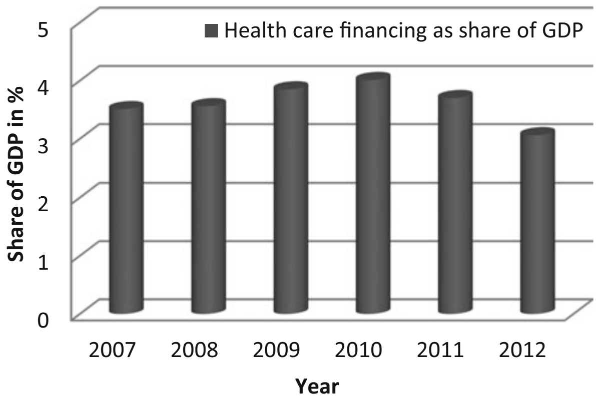
Fig. 5 The share in GDP from public sources for financing health care in Latvia. *Source*: Annual National Report 2012 on Pensions, Health Care and Long-term Care in Latvia, March 2012



benefit limitations the length of paid sick-leave was diminished. However one must bear in mind that sick people still have to pay bills.

The reduction in the number of hospitals has been a permanent trend in Latvia since the mid-1990s. The health care system is not sustainable in terms of health care personnel. One third of Latvia's physicians are at pre-retirement or retirement age. Each year young doctors and nurses graduate from Latvian universities. They are well prepared and therefore sought-after by Western European countries. This leads to the situation where a new Member State, namely, Latvia provides old Member States with highly qualified medical specialists.

The idea of linking health care services to paid taxes has been promoted during the crisis years by the ruling political party "Unity" as a means of forcing people out of the shadow economy. This means that health care services would be provided only to those paying taxes and to some other groups, such as children and pensioners. It also means that many people will be excluded from the health care system, for example, the long-term unemployed. The idea has been criticized by social partners and practitioners, who have difficulty imagining how it will be possible to check before treating a patient whether non-payment of taxes is justified or not. This approach has not found support in society as a whole and in spring 2014 was overturned. We agree with the evaluation given by the experts: If the idea finds support in parliament, Latvia's health system will go in the opposite direction to the targets set by the EC, WHO and ILO—to achieve universal coverage—by imposing a financial penalty on the ill. In any case, the proposal has nothing in common with social health insurance (SHI) the way it is understood in social protection theory (Bite 2012: 23).

4.5 Long-Term Care

The development of a modern social care system started in 1991 when Latvia regained its independence. It is divided between the health and welfare systems. The aim of the social system modernisation (its availability and accessibility) was

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to provide social care services as close as possible to a client's home. Thus the concept of social care has been maintained by ensuring the existing quality of life for those persons, who are unable to sustain themselves (Law on social care and social assistance). Social care provision is managed on three levels: the state, municipality and social care providers. The state level (divided responsibility of Ministry of Welfare and Ministry of Health) is developing the policies and standards (on EU and national level), implementing these policies and monitoring service providers. Meanwhile the on-going process of decentralization has affected the municipality to become a key stakeholder in a rather broad spectrum of social care service provision: municipalities are developing social service conceptions, proposals, introducing the new services (innovations) etc. On the one hand, municipalities are ensuring availability and decide the matters of social care service accessibility on local level for different target groups. On the other hand, local municipalities (geographical location, density, size, available resources etc.) are challenged and looking for new solutions (partnership between municipalities, engagement of NGOs, family support system development etc.). Social care services can be provided in long term institutions (institutionalized social care), can be provided at home, in day-care centres, group apartments, halfway houses and service apartments (deinstitutionalized social care) etc. A self-assessment system and evaluation about the quality of social care service provision was reintroduced in Latvia during 2011. The main reason for the new quality control system development was the ineffectiveness and lack of transparency of the system. During the economic crisis (2008–2011) there was a need to ensure a social safety net for those in severe financial need. The demand for social care services is rather high. The development of an alternative care system as well as the integration of disabled persons, e.g., with mental illness is on the political agenda. From January 2013 a new program for disabled persons has been introduced to facilitate independent living-assistant's service to accompany the person for out-of-home activities, e.g. to see the doctor, to visit the rehabilitation centre, the library etc. One of the new type of day care centres becoming recently particularly popular are day care centres for people with dementia. Several municipalities have developed new services based on ICT i.e. security buttons. Also mobile care teams are used to provide more differentiated services. However coverage of these services is low and territorially uneven (Ministry of Welfare).

The state financed institutions are specialised care institutions, such as those for people with mental disorders, and so this reflects the medical statistics that the number of people with mental problems is growing. Social care services at the place of residence are provided in Riga only by the private sector: NGOs and private organisations—limited liability companies. Private insurance schemes or contracts have until now not been used in long term care, because the insurance companies do not offer the possibility of insuring such a risk as "need of care". Neither does the state social insurance system recognize "need of care" as a social risk to be insured. Taking into account the restricted financial possibilities, local authorities are searching for other resources to support their residents, in other words: resources in the community itself. Thus, municipalities are facilitating the development of

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mutual self-assistance in the community. These tasks are being implemented by developing community social work. The volunteer movement is gaining in importance, supported by the Latvian Red Cross, other charity organisations and organisations for people with disabilities.

The Social Security Network Strategy that was established by the government in 2009 provided financial support for home care services. During the time period from October 2009 till December 2012 funding made available by the Strategy was used for 595,713 home care visits (Report on the Implementation of the Social Security Network Strategy, 2014). Cabinet of Ministers has approved the Operational Program “Growth and Employment” objective of the 9.2.2. “Increase quality alternative to institutional care of social services at home and in a family environment closer to services for persons with disabilities and children” in June 16, 2015. Planning regions will receive support from the EU Structural Funds to form the basis for permanent residence—infrastructure and security system. According to the Ministry of Welfare intentions are that in 5 years about 700 people will leave the social care centres, choosing the place of residence in one of the municipalities, where the preconditions for an independent life would have been created. At present state, regional and local level communication and cooperation between all the de-institutionalization process stakeholders are becoming crucial.

4.6 Family Policy

Family support policy came onto the agenda due to the pressure of the middle class. Latvia has a rather developed system of family and child support benefits: child birth benefit (421 euros), maternity benefit (112–140 days), paternity benefit (10 days while the child is no more than 2 months old). Maternity and paternity benefits are 80 % of the salary with an established ceiling of 32.75 euros per day plus 50 % of the remaining amount. Parents’ benefit (70 % of previous gross income till the child is 1 year old) and child care benefit 140 euros till 1.5 years of age together with the opportunity to be employed for those who have paid social insurance payments. Those mothers who have not paid social insurance payments are able to receive child care benefit, the amount of which has gradually been increasing: in 2012—71 euros until the child is 1 year of age, 43 euros for 1–2 years of age, in 2013—142 euros until 18 months of age, 43 euros for 18—24 months of age, in 2014—171 euros until 18 months of age, 42.69 euros for 18—24 months of age. Latvia has a child-friendly environment and an increase in the number of places in kindergarten is among one of the constant priorities of the local authorities in combination with financial support to those who are still on the waiting list. A positive fact, one that testifies to responsible policy, is that non-taxable income for dependent children was not lowered, and starting with 2013 has been increased. Non-taxable minimum was increased from 100 euros per month to 115 euros in 2012 and 165 euros in 2014. Free access to text books in 2013 and free lunch for 1st - 4th grade pupils in 2015 was a big relief for families with children. Some municipalities (Riga for example) introduced free public transport tickets for their

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pupils. However in Latvia families with children belong to the at-risk-of-poverty group. Children whose parents are working abroad (mainly in UK, Ireland and Germany) are at the highest risk of poverty. In the time of deepest crisis (2010/2011) parents of 3325 children of school age and 62 children of pre-school age emigrated to make a living, leaving their children with relatives or friends. For a country with a population of two million these figures are serious enough. In the academic year 2012/2013 the figures were: 2773 and 65 respectively. The slight decrease can be contributed to the reunion of families abroad and an increasing trend for whole families, not individuals, to emigrate. Therefore one of the goals of the National Development Plan for 2014–2020 is “encourage people to stay in Latvia and facilitate the return of Latvian nationals to Latvia”. A measurable outcome of the goal is a migration balance by primarily promoting return migration and reducing emigration. Basic value is year 2011 with a negative migration balance of −23,127, the forecast for 2014 and 2017 still is negative −8500 and −1500 respectively. 2020 is the first year with positive figures +1000 (Cross-sectoral Coordination Centre 2012: 49).

4.7 Pensions

The old-age pension system in Latvia consists of a state administered mandatory notional defined contribution (NDC) scheme, a mandatory funded scheme and voluntary private pensions. In NDC schemes the level of contributions and not the final benefit is predefined: no final pension promise is made.

The first pillar is a pay-as-you-go NDC scheme. The amount of the individual pension from the first pillar is determined by lifetime contributions paid into the scheme thus accumulating the individual’s notional pension capital. For years of service prior to 1996, notional capital is calculated on the basis of earnings in 1996–1999 (average earnings in the economy for those with low wages and 30 year career). To calculate the individual amount of annuity at retirement, the aggregate individual pension capital is divided by the gender-neutral average life expectancy at the age when the pension is claimed. The notional pension capital is indexed by internal rate of return based on the real growth of the amount of total social insurance contributions.

The second pillar is a statutory funded defined contribution scheme, launched in 2001. The second pillar was mandatory only for those born after 01/07/1971. The vast majority of all those born between 02/07/1951 and 30/06/1971 who had right to join the pillar voluntarily have exercised this right. There were 1.2 million members of the state funded pension scheme and the total worth of assets adds more as 2 billion euros in 2014. Contributions to the mandatory funded scheme are deducted together with the social security contributions. The contributory burden is shared between the employer and employee, with the employer contributing around two-thirds of it. The benefit is accrued by transferring part of the social insurance contributions to one of seven mandated asset managers offering 20 pension plans of various risk profiles (in 2014). At the time of retirement the accumulated capital

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can be converted into an annuity either by adding it to the first-pillar notional capital or by purchasing a life pension insurance policy.

The third pillar is voluntary, any person and employers can make contributions to a private pension fund: 6 asset managers offer 18 pension plans, and then convert the accumulated capital into annuity. There were 235 thousand participants and assets made 280 million euros in 2014. The pensionable age in the mandatory pension system was 62 years in 2008, for both men and women. Latvia's pension system is a striking illustration of the evaluation of the NDC scheme in crisis time. It contains practically no mechanism for redistributing income from highly paid employees to the less well-off (Rajevska et al. 2014).

Before the crisis, during the so-called "fat years", both prices and salaries rose, and the purchasing power of pensions dropped accordingly. Such unfair situation enforced protest mood among pensioners and radical demands were put on referendum in August 2008. Before referendum government took preventive measures putting a number of amendments to the pension law. The indexation rules became more generous; supplements (1 euro) for each pre-reform year of service were applied to everyone, the pensions were indexed. As a result the average pension grew rapidly just before crisis started.

Latvia's pension system is a striking illustration of the evaluation of the NDC scheme in crisis time. It contains practically no mechanism for redistributing income from highly paid employees to the less well-off. The Latvian formula does not guarantee that the pensioner's income will match reality: The minimum pension (70 euros) is tied to the state social benefits whose amount has not changed since 2006 and does not even reach 30 % of the subsistence minimum calculated by the Central Statistical Bureau in 2013. There is also no regulation for indexing the minimum pension. Latvia was included in the black list of those European countries which have not ratified the Social Security Convention of 1952 (No. 102) of the International Labour Organization (ILO), which fixes the lowest level of the old-age pension at 40 % of the wages of a skilled worker (or 50 % of the average wage from all those insured by the social insurance system) (International Labour Organization 1952). In March 2013, the minimum pension in Latvia was at 10 % of the gross average salary: i.e. the gross average salary of the employed in March 2013 was 700 euros, but minimum pension 70 euros (Central Statistical Bureau 2013).

4.8 Short-Term and Long-Term Effects of the Crisis on Pension

During the crisis a number of changes were made in pension policies. The social insurance contributions were redistributed between the first and second pillar. Together mandatory social insurance contributions to the first and second pillar make up 20 % of the insured person's gross wage. The proportion transferred to the second pillar was gradually increased from 2 % in 2001 to 8 % in 2008. The initial plan was to reach 10 % in 2010, but it was reduced to 2 % in 2009–2012 to support the revenues of the PAYG scheme. The final split between the first and second pillar

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was revised to 14 %+6 % to be phased in by 2016 (15 %+5 % in 2015). Second pillar has been managed by commercial banks. In 2014 the Parliament adopted amendments to the Law on State Funded Pensions. The guaranteed fee of the asset manager at 1 % was set. Another part of the fee will be variable up to 1 % of assets depending on the financial performance of the pension fund. This provision entered into force in January 2015.

Indexation of pensions had been suspended during the crisis but was resumed under strong pressure from the pensioner organizations in September 2013, when the pensions below 285 euros per month were increased by 4 %. After ad hoc indexation in 2014 which applied to all pensions, but only to the part below 285 euros, the parliament has accepted new amendments concerning future indexation of pensions. The indexation will apply only to the part of pension equal to 50 % of average national earnings for the previous year and the indexation ratio to be based on both consumer price index and 25 % of real increase in the social insurance wage bill.

The pensionable age is set to increase with 3 months every year from 2014 to 2025, whereby the pensionable age will be 65 years. Individuals also have the possibility to defer retirement without an age limit and to combine retirement and work. The options of earlier retirement 2 years before the pensionable age was safeguarded as a permanent provision (temporary before). During earlier retirement the pension is paid on the level of 50 % (80 % before the crisis) of the pension amount calculated from the individual capital. The income ceiling for contributions which has been suspended between 2009 and 2013 as a revenue-boosting measure , was reintroduced in 2014 at the level of 46,400 euros per year (5.4 times higher than gross average earnings), in 2015—48, 600 euros per year. According to the Latvian authorities the main purpose for reintroducing the income ceiling is to avoid cases of excessively high short term benefits and pensions in future.

When analysing the impact of crisis on pension system and pension policy in Latvia it is reasonable to follow approach that distinguishes three subgroups: (1) those retired before the beginning of crisis; (2) those who went on pension during the crisis years; (3) future pensioners that are now in preretirement age (Rajevska et al. 2014). The effect of crisis emerges in different ways, as the role of certain socio-economic factors varies between those subgroups significantly. Those who were already on retirement were relatively well protected, since their benefits remained the same. As concerns the second group—those taking retirement during crisis and post crisis time—the observed trend was “the later the worse”. Damage to persons who retired in 2010–2015 (around 107 thousands) was evident for everybody. The crisis helped the people of Latvia to finally better understand the existing principles behind the NDC pension system. The pension formula included automatic balancing: as soon as the economic and/or demographic situation worsens, the newly granted pensions reacted by dropping. This is the self-adjustment mechanism, guaranteeing resistance and not demanding any efforts on the part of the state. During crisis years annual valorisation indices fell below 1, so newly retired pensioners received lower remunerations for the same amount of contributions (Rajevska 2013). The majority of the examined crisis consequences relate mainly

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to future pensioners that are now at the stage of accumulation their pension capital in both NDC and funded pillars. Therefore changes in the rules concerning capital valorization index were initiated. On June 18, 2015, the parliament approved the amendments to the Law "On State Pensions" aimed to avoid injustice against those pensioners whose benefit amount was calculated in 2010–2015. According to the revised norms, valorisation index in the future shall not be lower than one (i.e. the capital cannot grow down), and pension benefits awarded during crisis and post-crisis years should be recalculated increased by replacing negative capital valorisation indices with "1". The public's awareness and education are growing and informed participation of every individual in the formation of their social security system is the only way to a knowledge-based welfare state.

5 Conclusions

The Australian scientist F. Castles asks whether the type of welfare state matters and his answer is: "it almost certainly does". The minimalist, liberal welfare state is where one might expect to encounter the biggest impacts. If existing schemes do not cover a new contingency or cannot be readily adapted to meet the new challenge, the alternatives are to do nothing, use existing residual poverty-relief mechanisms or create a new scheme to cater for those specific needs (Castles 2010: 98–99). The position of F. Castles seems appropriate for the Latvian case analysis—existing schemes were complimented with temporary state involvement (2009–2012) in social assistance.

The authors of this chapter once wrote "a modern (in the sense of form and personnel) social insurance and social assistance system is created in Latvia which complies with the liberal model of social policy" (Rajevska and Romanovska 2009: 103) with several elements of the policy of Scandinavian and Continental Europe countries. Some scholars have even grouped Estonia, Latvia and Lithuania as closely falling into the neoliberal model of the welfare state based on macroeconomic indicators of low welfare state spending, high income inequality, low minimum wage and low degree of decommodification in these societies (Aidukaite 2012).

The effect of the crisis on Latvia's population was and still is one of the hardest in the European Union. It is a serious challenge for political stability and appropriateness of the social security system, and to the political system as well. The crisis has greatly contributed to the already existing distrust in public institutions and policies which may, at some point, become a threat to legitimacy. Experience has shown that the social insurance and social assistance system generally fulfil their tasks. This was possible because of the social budget annual surplus (which in its turn was possible because of the reserves in pre-crisis time almost equal to the annual social budget sum), institutional resources, individuals' savings, the European Social Fund and World Bank subsidies.

The crisis has significantly eroded human capital. Survey data, especially respondents' answers to the question "on whom they would rely in a situation of

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high insecurity" supports this thesis. In 2003 the majority of people relied first of all on themselves and then on family; by autumn 2008 it was reversed: on family first and then on themselves and it has been a stable trend since then. The crisis seriously decreased the share of those, who rely on themselves: 84.3 % of respondents in December 2010 and 74.6 % in May 2013 rely mostly on themselves (National Research Program "National Identity" Project "Social Human Security" Surveys, December 2010 and May 2013). The high out-migration wave has also contributed a lot to this trend. Those persons who are accustomed to rely on themselves are far more mobile than others and therefore their proportion in the country has declined.

Employment has not recovered and unemployment remains high with a large share of long-term unemployed. Emigration is ongoing due to an inadequate level of wages. In 2012, labour cost per employee in Latvia was 36 % of the average EU level. Therefore, the equalization of wages (convergence) is an objective process to be taken into consideration in the future, and the gap between productivity and the dynamics of wages is likely to remain in the coming years (Ministry of Economics 2013: 84). At the EU level, Latvia together with other new member states should actively promote the creation of a mechanism which should compensate the countries of origin of the migrants for the loss of human capital, labour force and reproductive potential (Hazans 2013).

The prospects for health care are characterized as gloomy by the leading specialists of the field. This tendency is a sign of the long-term impact of the crisis when the cause of the crisis has been neutralized but its influence still lingers. The structural reforms in the health care sector were indeed carried out swiftly and have reduced administrative costs in the health care administration significantly.

One of the aspects of the social security system that is traditionally hard to reform is the pension system. Researcher Karl Hinrichs created the concept "elephants on the move" in order to explain why attempts to reform modern pension systems are unsuccessful most of the time and when successful, they have taken a long time. Social security systems are hard to divert from their initial route because of their size and elaborated routine. Modern social security systems are prone to inertia. Just like elephants on the move they have difficulties straying from their initial path because the elaborated routine provides a thick skin (Castles 2010: 96). One peculiar feature of Latvia's social policy is that the government was able to move these elephants, namely, to perform large scale structural reforms. After such swift and radical reforms it is inexplicable why the reform-experienced government hesitates to elaborate and introduce a basic safety net with adequate support.

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Welfare State Realities in Macedonia: Trends and Perspectives

Maja Gerovska-Mitev

1 Introduction

Any discussion about the welfare state of a country which does not belong to the existing welfare regime typologies (Esping-Andersen 1990; Ferrera 1996; Cerami 2006) needs careful examination of its historical and institutional welfare arrangements. Macedonia, since its independence from the Socialist Federal Republic of Yugoslavia in 1991 was very rarely on the comparative welfare map. Some of the attempts to depict characteristics of the social welfare model in Macedonia sent different messages. Deacon's pioneering work on post communist social policy indicated that "parts of (ex)Yugoslavia witness emergence of a modified form of conservative corporatism in which a 'deal' is struck between some elements of old nomenklatura and some elements of the working class to modify the free play of market forces, at the price of less economic growth, in order to secure a greater degree of state protection for both nomenklatura and skilled workers" (Deacon et al. 1992, p. 179). Revising his work later in 1997, Deacon together with Stubbs noted that social integration of Macedonia is interconnected and dependent on management of ethnic divisions in the country (Deacon et al. 1997, p. 191). In addition, Deacon and Lakinska also indicated that Macedonia, like many other post communist countries does have a developed social protections system, but that it needs to be sustained in the face of economic and political pressures to cut benefits and services and meet international competitiveness' requirements (Deacon and Lakinska 1997, p. 50). In a similar fashion, Agh has pointed out that "the real stabilization of Macedonia can occur only by economic consolidation and durable solution of ethnic problems in the multi-ethnic and multicultural state" (Agh 1998, p. 179). A scholar from the region, Puljiz, has

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argued that a "mixed" model of post socialist welfare state has emerged in Post Yugoslav countries, in which the previously existing Bismarckian model of social insurance has been complemented with elements from liberal and social democratic model (Puljiz 2008, p. 82). Similarly, Stubbs, in his research on the Western Balkan, states that "the region inherits historical legacies in social protection which are a complex product of the Austro-Hungarian Empire in the latter part of the nineteenth century, influenced by Bismarckian ideas and practices on social insurance, which came to frame modern welfare settlements (Stubbs 2009, p. 36).

Although some of these descriptions differ, still they are relevant for two purposes. First, in order to differentiate the social welfare model in Macedonia from other countries (in the region or wider) it must be emphasized that it is dependent on the degree of integration of vulnerable ethnic communities within the wider society (labour market, local municipality, etc.). Secondly, after the country's independence in 1991, the degree of influence from the international governmental organizations (mainly the World Bank) has contributed towards major social policy reforms (introduction of the new pillar of fully funded pensions' system, conditional cash transfers, privatization of the primary health sector, etc.), and towards incorporation of the neo-liberal principles and norms. Hence it may be said that Macedonia belongs to the club of countries in which, as argued by Vaughan-Whitehad, the dominance of international governmental organizations such as the World Bank and IMF has distanced them from the European Union, which in turn has even risked the future of Social Europe in the newly enlarged European Union (Vaughan-Whitehead 2003).

For the purpose of providing a starting point for the further country analysis, it may be argued that the socialist welfare state which existed until 1991 introduced the universal access to social welfare/care, albeit with different degrees of quality for different constituents. In addition, the social security system was created on the basis of Bismarckian contributory principles which provided social protection rights along socio-professional status. The main units that provided access to social services (Social Work Centres) were created in the 1960s and continued since then in provision of both cash benefits and institutional as well as day care support. But, these socialist legacies were largely reformed since the 1990s, with the introduction of: the principle of conditionality (social assistance scheme linked not only to the active search for a job but also with obligatory acceptance of public work at the level of local municipality), principles of individual responsibility (in addition to the pay-as-you-go pension pillar, a second mandatory fully funded pension system was introduced), as well as principle of pluralisation (on the basis of which the state gives more emphasis on private and non-formal provision of social care). All these, accompanied with the particular ethnic composition of the country[1] and continual low economic and jobless growth in the country, adds to the challenge of

[1] According to the last 2002 Census, according to their ethnic affiliation there are 64.18 % Macedonians, 25.17 % Albanians (25.17 %), 3.85 % Turks, 2.66 % Roma, 1.78 % Serbs, 0.84 % Bosniacs, 0.48 % Vlachs and 1.04 % of other ethnicities.

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demystifying the particularities of the social welfare model and its viability in times of economic and demographic pressures. These general challenges facing the welfare state in Macedonia have been reinforced since 2007, with the onset of the global economic and financial crisis as well with the growing demographic imbalances.

2 Demographic Pressures

Demographic pressures on the welfare state in Macedonia although existent, are not among the primary factors for reform of the social protection system. Namely, when compared with labour market trends (high unemployment rate, low activity rate) demographic indicators show less dramatic reasons for change. This is particularly true when old-age dependency ratio is being compared for Macedonia and EU countries. While in the EU in 2012 the average old-age dependency ratio was 26.8 %, in Macedonia this ratio was 16.5 % in 2011. Still, some of the national demographic trends, particularly the fertility rate, are more concerning, which was also the reason behind the introduction of a set of governmental measures to boost population growth.

According to the official population estimations (as of 31.12.2012) in Macedonia there are 2,062,294 inhabitants, which is a negligible increase of 0.8 % compared to 2007 or 1.9 % compared to 2002. Similarly, an examination of the total fertility rate shows that in 2011 it was at a similar low level of 1.5 % as in 2007. However, there are differences in fertility rates among different ethnic communities in the country. Women that are ethnic Albanian, Turk, Roma and Bosniacs have much higher fertility rates, than women that are ethnic Macedonians, Serbs and Vlachs (Table 1).

To stimulate population growth, the government since 2009 has introduced a set of family support mechanisms, such as financial compensation for the third child (until the first child becomes 10 years old), and family pension for the (unemployed) mother of a fourth child (after retirement age). Although these measures may be welcomed as an improvement of the living standard of the families, still it is worrying that for some vulnerable multimember households this may create a "poverty trap". Namely those on low and irregular incomes and with more than four children may see this measure as attractive, but the measure itself in terms of its amount is not adequate as an income support for the whole family, and it also only has a duration of 10 years. Hence, beneficiaries who are not active on the labour market and rely solely on these population growth-stimulant measures, may end up with inadequate and time-limited incomes that may further challenge the living conditions in their families.

Table 1 Total fertility rate

2007	2008	2009	2010	2011	2012
1.46	1.47	1.52	1.56	1.46	1.51

Source: State Statistical Office (2013a), Macedonia in numbers; Eurostat (2012), Total fertility rate

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Table 2 Population forecasts

Year	1950	2013	2025	2050	2100
Population (thousands)	1254	2107	2094	1881	1327
Percentage distribution of the population in selected age groups					
0–14	n.a.	16.7	n.a.	13.3	14.2
15–59		65.3		52.1	48.8
60+		18.0		34.6	37.0
80+		2.3		7.3	13.1
Median age (years)	21.8	37.1	n.a.	49.1	49.0

Source: United Nations Department of Economic and Social Affairs/Population Division (2013)

In relation to the age structure, the Macedonian population is in continual process of ageing. In the period from 2002 till 2012 the participation of the young population (0–14) in the total population has decreased from 21 % to 17 %, while participation of the older population (65 and more) has increased from 10.6 % to 12 % (State Statistical Office 2013a). UN estimates indicate that the older population in the country will have doubled by 2050 and will continue to rise by 20 % up to 2100 (Table 2).

These demographic indicators, accompanied by worrying low rates of employment, have been the main reason behind the introduced pension reform in 2005. The previously existing PAYG pension system was complemented with the introduction of the mandatory second fully funded pension pillar. In addition, since 2009 there is a gradual reduction of the social contribution base for pension, health and unemployment insurance for 10 percentage points, namely from 32 % to 22 % of the gross wage, between the period 01.01.2009 till 01.01.2011.

Although these reforms have been based on demographic and economic projections, still their social impact was not part of the overall forecasts. Particularly, the combined impact of these two reforms, on one side reduction of the funds in the first public pension scheme (and their reallocation in the second pillar) and on the other reduced pension contribution rate (currently 18 % of the gross wage and it is expected to drop further to 15 %), meant an overall decrease of finances in the Pension and Disability Fund. In conditions of low employment, these reductions are currently supplemented by the central budget and foreign loans, which provoke fear in relation to its sustainability particularly in times of global economic crisis. In addition, recent analysis shows that pensions are the primary source of income for 24.3 % of the households in the country (Gerovska-Mitev 2012). Hence, suggested changes may further destabilise not only pensioners' benefits, but also overall family budgets in households where the main source of income is pensions.

The overall economic situation also has an impact on demographic change due to external migration. According to a recent research (Bornarova and Janeska 2012), "emigration in the country has taken three primary forms: permanent family emigration or family reunification, temporary and circular emigration for economic reasons, and illegal or refugee-motivated migration. Within this latter, comparatively small category, the number of asylum-seekers shot up dramatically following

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Table 3 Crude rate of net migration per 1000 inhabitants

2007	2008	2009	2010	2011	2012
0.1	−0.3	−0.3	−0.3	−0.4	−0.5

Source: Eurostat (2013a), Crude rate of net migration, 2013

the 2010 liberalization of European Union visa rules, with a particular rise in applications by Roma and Albanians (ibid, p. 2) (Table 3).

Some reports say (referring to a report on migration from EUROSTAT) that from 1998 to 2011, some 230,000 people left Macedonia to live abroad legally.[2] The figure represents more than 10 % of the country population of 2.1 million. Some 170,000 of these people were granted temporary stays in European Union countries, mostly in Italy, Germany, Austria and Slovenia, while the report also shows an increasing number of foreign passports being issued to Macedonians in the last several years. Although Macedonia has had a long tradition of emigration, still the emigration trend after its independence since 1991 shows that lack of employment, lack of decent living standards and poverty continue to be push factors which contribute towards permanent, temporary or asylum seeking migration.

3 Fiscal and Economic Crisis

Before indicating the impact of the global economic and financial crisis in Macedonia, it is important to notice that despite some visible economic growth in the periods 1998–2000; and then from 2004 till 2008, the rate of employment is constantly low, particularly compared to European standards (Table 4). Hence the global economic crisis is not the major reason for the low economic activity, but rather an additional factor which contributed to a certain degree towards insecurity and instability of the conditions on the labour market. Some of the more profound reasons that are associated with the long standing and high unemployment rate in Macedonia include: low economic growth and particularly "jobless growth", low educational qualifications of the unemployed, skills mismatch, as well as low participation rates particularly among women from ethnic communities, such as Albanian, Turk and Roma.

Overall expenditure on social protection as a percentage of the GDP is experiencing continual decline. Although recent estimations are not publicly available, data since 2008 show continual declining trends. Data for the 2000–2005 period, based on State Statistical Office calculations, show that the expenditure on social protection as a percentage of GDP has declined from 13.7 % in 2000 to 12.2 % in 2005 (European Commission 2007). According to a World Bank analysis (2013), social protection spending as a share of GDP in 2011 was 9.5 %, which is low by regional standards. For example, according to the ESPROSS statistics,

[2] Balkans News http://www.balkans.com/open-news.php?uniquenumber=174764

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Table 4 Economic growth, employment and unemployment in Macedonia (2007–2012)

	GDP (current prices—million euros)	GDP per capita in euros (current prices)	GDP real growth rates in %	GDP quarterly growth (I–IV quarter)[a]	Central government gross debt (% of GDP)	Employment rate total
2007	5965.45	2919	6.1	6.5	n.a.	36.2
				4.8		
				5.3		
				7.9		
2008	6720.39	3283	5.0	5.2	n.a.	37.3
				6.5		
				5.9		
				2.5		
2009	6703.37	3269	−0.9	−0.6	23.8	38.4
				−1.2		
				−1.4		
				1.2		
2010	7057.01	3434	2.9	0.0	25.8	38.7
				2.5		
				4.5		
				4.0		
2011	7472.73	3630	2.8	6.1	28.3	38.9
				3.6		
				1.2		
				1.0		
2012	7490.40	3616	−0.4	−1.0	32.2	39.0
				−0.6		
				0.4		
				0.1		

Source: State Statistical Office (2013c), News release gross domestic product in the Republic of Macedonia in 2012; Eurostat (2013b), Quarterly national accounts
[a]Compared to the corresponding period of the previous year, %

social spending in Croatia in 2012 amounted to 20.6 % of the country Gross Domestic Product (GDP), while Serbian social spending in 2010 (latest available data) amounted to 24.6 % of its GDP (Eurostat 2014). In Macedonia, social insurance spending represents the largest part of the overall social protection spending with around 8 % of the GDP, followed by the social assistance spending of 1.2 % and 0.3 % of GDP for active labour market programmes. These data indicate that social protection expenditure in Macedonia is not only low by regional and European standards, but also that its trend of continual decline reflects the low priority given to social protection within the overall governmental spending and policies.

Currently, the fiscal sustainability of the welfare state in Macedonia is ensured through the central budget allocations as well as loans and credits from the

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international financial organizations. The European Union's structural funds (IPA) as well as some UN donor programmes also contribute to some extent towards the financing of active labour market programmes. In conditions of low economic growth, low employment and high unemployment rate, the sustainability of the existing welfare state in Macedonia is endangered.

A comparative review of Central Budget spending on social transfers from 2012 to 2014, shows that overall social transfers have increased since 2012. A particular increase was evident in 2012 and 2013 (compared to 2011), which may partly be explained by the local elections in 2013, which promised an increase in support to pensioners, social assistance beneficiaries, etc. The most worrying indicators for the proposed 2014 Central Budget are a reduction in the financial compensations for the unemployed (part of the social insurance system), low active labour market programmes, as well as a negligible increase in measures for poverty reduction. The latter are actually measures for promoting active employment among more vulnerable groups, which reflects the lack of social protection dimension in alleviating poverty. The major increase in overall social transfers is due to the increase in pensions, as well as the introduction of new family benefits, such as financial compensation for the third child and parental support for a mother with a fourth child. Overall social transfers, due to their low amount and limited scope of beneficiaries, are not expected to make significant contribution towards alleviating poverty and social exclusion, particularly among the most vulnerable groups.

The financing of social protection is facing serious challenges, due to previously mentioned reforms, such as: the reduced contribution rate for social insurance as well as the introduction of the fully funded pension pillar. The combination of these two reforms have decreased the overall budgets of the immanent insurance funds (i. e. Pension and Disability Insurance Fund, Health Insurance Fund), which indirectly have also impacted the regular provision of basic social services, (i.e. closure of primary health centres in some rural municipalities due to lack of financing), as well as the amount of benefits (reduction of pension replacement rate from 80 % to 72 %). These changes have particular negative effects on socially vulnerable categories in the country, who due to the inability to use private social services, rely on public services and benefits whose scope, quality and amount is continually decreasing.

The impact of the global economic crisis in Macedonia, judging from the aspect of labour market activity, was most evident in 2009. According to the State Agency for Employment, the number of newly registered unemployed in 2009 was greater in comparison to 2008, but also compared to the following period 2010–2012 in which there is a downward trend. In addition, the Unicef report (2009) analysing wellbeing in Macedonia in difficult economic times implies that "official data show that worst affected households are those with at least one employed in the export-oriented industries, such as metal, mining, textile, and food as well as those whose income mostly depended on remittances. Similarly, the crises has additionally worsened already difficult social conditions of households that are traditionally seen as vulnerable, such as those with no employed members, multi-member households as well as those living on subsistence agriculture (UNICEF 2009, p. 18).

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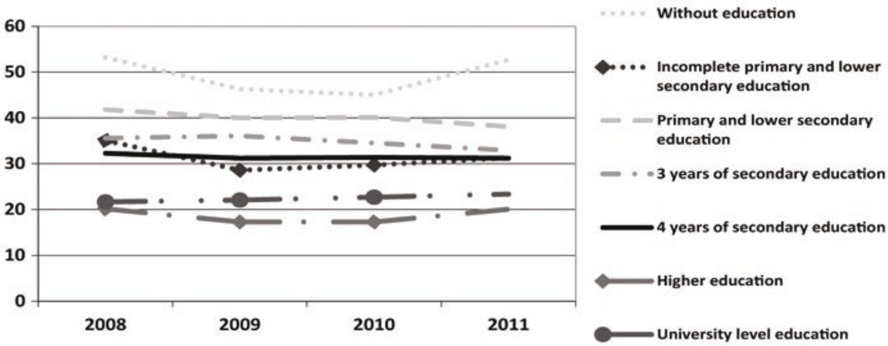

Fig. 1 Unemployment rate of the population (%) by educational attainment, 2008–2011. *Source*: State Statistical Office (2012), Labour force survey 2011, October 2012

Analysis of unemployment trends according to educational attainment of the workforce show that despite the fact that the highest level of unemployment is evidenced among those without education, there is a continual rise since 2008 in unemployment among those with university level education. Although this group is smallest in size (12.04 % of the total population), it still gives a worrying signal that a higher education degree does not easily guarantee employment in the country. Rising unemployment among those with higher education results from the tendency in the past few years of increased enrolment at university level (as a mechanism to temporarily avoid unemployment) and the lack of jobs offered for those with higher qualifications (Fig. 1).

The labour market in the country cannot be described as inclusive, since there are many groups who are excluded from it. Official statistical data show that the unemployment rate is highest among young people (15–24), standing at 53.9 % in 2012. Data from administrative sources (Employment Agency of RM 2011) indicate that when registered unemployed according to ethnicity are compared with their total ethnic representation in the country, Roma people score as the most excluded from the labour market (24.57 % registered unemployed Roma of all Roma in the country). The numbers of registered unemployed from the Albanian ethnic community in October 2012 was 52.989 or 10.4 % of all ethnic Albanians in the country. In addition, people with the lowest educational attainment (incomplete primary and secondary education) are most represented among the registered unemployed and have the highest unemployment rate (Table 5).

Due to the internal economic constraints as well as challenges rising from the global economic crisis, there were a number of governmental measures aiming to support the living standards. The latest package of measures, created and adopted in 2012,[3] included: introduction of the statutory minimum wage (effective

[3] In the period of final revision of this article some new governmental measures were adopted (June 2014), such as: writing off the debts of social assistance beneficiaries and other vulnerable categories, free legalization of real estate properties for vulnerable categories, etc. The overall analysis in this paper does not reflect these measures.

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Table 5 Unemployment rate of the population aged 15 years and over by gender and age

	Total			15–24			25–54			55–64			65+		
	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women
2008	33.8	33.5	34.2	56.4	55.7	57.4	23.60	n.a.	n.a.	28.5	31.7	21.5	8.8	9.6	7.1
2009	32.2	31.8	32.8	55.1	52.7	59.4	22.48	n.a.	n.a.	26.3	27.9	22.8	12.3	9.9	16.6
2010	32.0	31.9	32.2	53.7	53.9	53.3	22.70	n.a.	n.a.	27.8	28.7	25.8	6.3	8.3	2.3
2011	31.4	31.8	30.8	55.3	55.5	54.8	21.92	n.a.	n.a.	28.2	30.2	24.2	6.8	9.2	3.0
2012	31.0	31.5	30.3	53.9	55.2	51.8	21.98	n.a.	n.a.	25.1	27.0	21.4	9.4	10.3	7.9

Source: State Statistical Office (2013b), Labour force survey for 2012, 2013 and column on 25–54 years own calculation based on LFS data from 2009 to 2012

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from January 2012), governmental package of eight socio-economic measures, including: increase in the financial subsidy for energy consumption for social assistance beneficiaries (effective from August 2012); programme for public work for 4000 registered unemployed; summer/winter vacation for children from households that are social assistance beneficiaries; vouchers for computers for students and children from households that are social assistance beneficiaries, as well as continuation of opening up of public kitchens.

The focus on and expectations from the public employment programmes in the country have been increased. Despite negligible financial expenditure on active employment measures around 0.11 % of the GDP, still the majority of the international support (UNDP) as well as EU funds (IPA component four) has been targeted and used for the purpose of increasing the employment opportunities of the registered unemployed. Employment opportunities enabled through the National Action Plan for Employment 2011–2013, lack stipulation of measures targeted among those most vulnerable, and those that represent a majority among the registered unemployed—low skilled workers. There is a lack of measures providing elementary or vocational training for these groups, who remain a main problem for activation. Generally, active employment measures lack sustainability, and lack more tailor-made employment opportunities for the most vulnerable registered unemployed. The most recent policy change that has happened in the second half of 2013 is the implementation of the change in the Law for Employment and Unemployment Insurance (of December 2012), which differentiates registered unemployed as active and passive unemployed. The latter category is not in a position to benefit from active employment measures. Particularly affected with this change are long-term unemployed, as well as unemployed without education or incomplete education. Among them significant numbers are people from smaller ethnic communities. This policy change confirms the policy orientation towards increased labour market deregulation and flexibility, and leaves little room for measures and policies that aim towards unemployment support of the most vulnerable.

Access to the system of social protection in the country has been tightened in recent years. The main reasons behind such development were the previously introduced reforms insisting on reducing the amount, the coverage period and replacement rates of the social protections benefits. According to the administrative data from the Ministry of Labour and Social Policy, the number of social assistance beneficiaries decreased from 62,019 in January 2008 to 34,008 in December 2012. Such a spectacular decrease is not a result of reduction in poverty or unemployment rates, but rather a result of more tightened eligibility criteria. These among others included: more frequent and rigorous controls, as well as electronic obtaining of documents which were previously supplied by applicants themselves, which as exemplified by the representatives from the Centres of Social Work, reduced possible manipulation and fraud of documents. Also comparison of unemployment compensation beneficiaries between 2011 and 2012 shows a declining trend of −14.7 % in 2012.

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The data may suggest that the welfare protection system reaction in the past few years has been one of reducing access and introducing conditionality. On the other hand, the amount of some social benefits (although still low in comparative terms) has been increased in the past 2 years (social assistance, pensions). Although the increase of these social benefits in 2012 and 2013 is more a result of the political elections campaigns, it still gives some hope that the overall social protection system is not being completely rolled back. However, the overall tendency of social welfare in the country seems to be headed towards the general goal of poverty alleviation rather than that of more universal politics of social solidarity, which, as argued by Deacon and Cohen, can "strengthen the middle class and contribute to improving the quality of life of more vulnerable populations" (Deacon and Cohen 2011, p. 233).

4 Risks and Opportunities

The current scope of the welfare state in Macedonia is conditioned by economic growth, socio-demographic trends as well as ideological preferences of the political parties in office. Among them, the main risk factor is the continuity of low economic growth, and more particularly jobless growth. Namely, even in periods when there was a continual economic growth (GDP growth between 4 % and 6 % from 2004 to 2008), the employment rate did not show a spectacular rise, and increased by 4 percentage points only. For comparison purposes, in the same period (2004–2008) the neighbouring Bulgaria evidenced continued economic growth of 6 %, and this contributed towards an increase in their employment rate of 10 percentage points. In his analysis on employment in South East Europe, Sengenberger provides some of the possible explanations for the jobless growth in the SEE countries, out of which the following correspond most with the realities in Macedonia: (i) growth of the informal economy, implying that economic growth translates into informal employment instead of (statistically recorded) formal employment; (ii) limited reliability of the recorded employment and unemployment statistics (both registered and LFS-based rates); (iii) and the net effect of labour migration: migrant workers do not show up in the national employment statistics of their home country, but may add to national economic growth in that country due to income transfers (Sengenberger 2006, p. 20).

A potential threat to the welfare state in Macedonia may be seen in the continuing trend of limited welfare spending accompanied by the lowering of overall social insurance contributions. These trends, in conjunction with the governmental policy of changing the previous progressive tax system into the flat rate tax regime (unification of personal income tax and corporate income tax rates at a flat 12 % rate from 2007, falling to 10 % from 2008) may lead to limited welfare state capacity for redistribution. Current dominant economic doctrine among political leadership, which sees an increase in foreign investment as an "erga omnes" solution to the problems of high unemployment, poverty and material deprivation,

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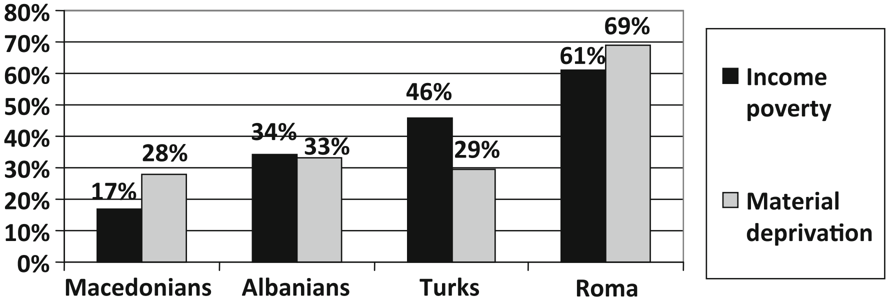

Fig. 2 Poverty according to ethnicity in Macedonia. *Source*: Gerovska-Mitev (2012, p. 29)

evident among one-third of the population in Macedonia, may prove disastrous in the long run. Such strategy, clearly supported and backed by international financial organizations (IMF, the World Bank) presents a clear neo-liberal threat, which, as indicated by Jilberto and Mommen "drives the welfare state towards decreased common welfare and wage standards, and increases social and cultural inequality between nations" (Jilberto and Mommen 2002, p. 11).

Other risks associated with the welfare state functioning and effectiveness is the scope of welfare support and social inclusion of vulnerable ethnic communities. Despite the fact that unemployment, poverty and social exclusion are common problems for the majority of the population, a number of studies (Gerovska-Mitev 2012; UNDP 2012) as well as official data has confirmed that ethnic Albanians, Turks and Roma experience higher incidences of unemployment and poverty. According to the last census from 2002, the unemployment rate among Roma was twice the national average, while also high unemployment rates were evidenced among Albanians (61.2 %) and Turks (58.2 %) (Fig. 2).

Taking into consideration that smaller ethnic communities represent one third of the country's population, and that the highest levels of unemployment, poverty and social exclusion are found particularly among these groups, their access to and support from the welfare system represent an important factor for their overall living standard and inclusion. Unfortunately, despite separate soft legislations and measures that are aimed towards these vulnerable groups, such as Roma Decade activities,[4] equal representation of ethnic communities in the public sector (as part of the Ohrid Framework Agreement), the strategic approach towards a solution of unemployment and poverty among smaller ethnic communities in the country is still not evident. On the contrary, some of the recent policy measures have distanced these ethnic groups from the social protection system. This is the

[4] The Decade is an international initiative that brings together governments, intergovernmental and nongovernmental organizations, as well as Romani civil society. The 12 countries currently taking part in the Decade are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Montenegro, Romania, Serbia, Slovakia and Spain. Slovenia and the United States have observer status.

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Table 6 Comparison between registered unemployed in 2012 and 2013 according to ethnic affiliation

	Registered unemployed (status 31.12.2012)	Registered unemployed (status 30.09.2013)	Decline in %
Macedonians	165,792	73,689	−55.5
Albanians	51,413	12,101	−76.5
Turks	9068	1529	−83.1
Roma	9037	1657	−81.6

Source: Agency for employment of RM, statistics for unemployed persons according to nationality, status 31.12.2012 and 30.09.2013

case with the changes related to registration status of the unemployed, which has led towards huge numbers of registered unemployed from smaller ethnic communities to be re-registered as passive unemployed, and as a result lost the right to active employment measures. Anecdotal evidence suggests that most of the beneficiaries from the smaller ethnic communities, such as Roma lacked the necessary qualifications to take up the active measures, and in combination with a lack of awareness they agreed to be registered as passive unemployed and hence register at/ report to the Agency only twice a year, as compared to the active unemployed who need to report to the Agency every month (Table 6).

The system of social protection in Macedonia, despite facing realistic risks, is still an indisputable mechanism for tackling poverty and social exclusion. Its effectiveness is particularly visible in relation to pension transfers which reduce the poverty rate by 12.3 percentage points (compared to other social transfers which reduce the poverty rate by an additional 3.2 percentage points). Also, according to the World Bank analysis (2013), the targeting accuracy of social assistance benefits has been improved in recent years, as 68 % of total benefits are received by the poorest quintile and the total coverage of the poorest quintile is around 25 %. Opportunities related to the existing social protection system may be also seen in the introduction of new social protection transfers such as the number of new family benefits (parental allowance for the third child, financial compensation for a fourth child), introduction of financial benefit for mobility/blindness, financial assistance for those who had the status of child without parents and parental care up to the age of 18, and financial assistance for social housing. While the introduction of these new categorical benefits may additionally improve the difficult conditions of the vulnerable groups, still a potential risk lies in the inactivity of some beneficiaries who due to lack of labour market opportunities (and lack of educational qualifications) solely rely on these benefits.

Another opportunity may be seen in the possibility to use the EU funds towards programmes and support of the socially vulnerable population. Such projects have already been initiated (IPA pre-accession instrument), and they have been primarily focused towards improvement of local capacities for providing and tackling social exclusion, support to vulnerable ethnic groups on the labour market, support to women from different ethnic communities in their access to the labour market, etc.

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The EU pre-accession funds if used strategically may present an important financing mechanism that will complement limited national and local resources and hence jointly contribute in the fight against poverty and social exclusion.

Finally, an opportunity must be sought in the greater use of private and the civil society sectors as contractors and partners in the provision of social support of and services to the vulnerable population. A greater degree of welfare pluralism will provide not only less bureaucratic access to social services, but may also improve the quality and innovation of social service provision. So far, the involvement of the civil society and the private sector in social protection has been limited (pensions, child care, elderly homes), serving mainly those who are financially in a position to use their services. A greater use of the private and civil sector is needed on the basis of non-profit provision of social services to vulnerable categories, supported through the financial incentives from the state (tax deduction, low tax rates, etc.).

5 Conclusion

Analysed trends and challenges of the welfare state in Macedonia show that it is difficult to identify a firm and recognizable welfare model. Taking into consideration all services and benefits provided within the social protection system, it may be argued that variants and characteristics of all three Esping-Andersen's welfare state models co-exist. The least visible or recognisable are characteristics of the social democratic elements in the Macedonian social protection system. They may only be detected within the child care system, i.e. kindergartens, which are among the rare legacies of the previous socialist system, and provide universal, affordable and quality care, without intrusion of any neo-liberal elements, such as co-financing, introduction of eligibility or conditionality criteria, etc. However, these solidaristic elements of the social protection system have been increasingly substituted with selective, conditional, targeted and means-tested services and benefits particularly associated with the social assistance, unemployment benefit, child allowances as well as activation measures for the unemployed. Subordination of the principle of solidarity to the principle of individual responsibility is also seen within the reformed PAYG pension system and the newly introduced mandatory fully funded pensions insurance. The introduction of the neo-liberal characteristics in the Macedonian social protection system may be seen as a result of the low financing capacity of the state but also as a result of lack of opposition to these elements by the trade unions, civil society organizations and other national stakeholders. Finally, due to the conservative ideology of the ruling political party in the country, the last 7 years since 2006, have seen an increased focus on family based support and benefits, promotion of traditional values within the welfare system, i.e. population growth measures, etc. The combination of all these characteristics of the Macedonian welfare model produce mixed results, as to some extent the dominant neo-liberal tendencies (i.e. cuts in social transfers, reductions in social assistance and unemployment benefits) contradict the

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effectiveness of conservative dimensions of the system (the family support system and child protection). Most importantly, the undertaken reforms and overall social protection trajectory seem to be reactionary, instead of incorporating a strategic and evidenced based approach.

The global economic crisis has proved the inclination towards neo-liberal preferences in the social protection system, as unlike other European countries, Macedonia has opted for a reduction of social transfers during the crisis, the limitation of social assistance recipients and decrease in duration of benefits. Overall, the Macedonian social protection system and the welfare state itself seem to be transformed as a support mechanism for the most vulnerable. If its future orientation continues to prefer the neo-liberal path, that might endanger not only the scarce vestiges of the universal social services, but also the possibility to effectively approach the prevailing problems of unemployment, poverty and social exclusion.

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Malta: Safeguarding Welfare Through Flexicurity

Sue Vella and Charles Pace

1 Introduction

The onset of the global crisis in 2007 was met with some trepidation in Malta, in view of the relatively low labour supply and the implicit threat to jobs, especially in the industrial and financial services sectors. The relatively high number of one-earner households, due to low female employment, made a possible rise in unemployment an especial concern for the social security system and tax revenue, apart from the households themselves.

This did not happen. Rapid action was taken at the onset of the global crisis to contain any negative impact on unemployment, with the result that major job losses were averted and employment has actually risen in recent years. This rise is largely due to a notable and continuing move away from the traditional male-breadwinner model, with more women across educational groups entering formal employment. However, this has led to a significant decrease in the amount of informal care traditionally provided by women for their parents, children and grandchildren, and will continue to be an issue as the need for long-term care of an ageing population is set to increase.

In reality, the principal changes to the welfare system that have been implemented during this period were due not to the financial crisis as such but to the demographic impact of ageing. Though discussed during much of the prior decade, pension reform started in 2007 when the retirement age was raised and the contributory period was lengthened, but has slowed down since these initial reforms. In terms of other social benefits, while there was no retrenchment as

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such, the receipt of benefits has become more contingent upon participation in active labour market measures. This is especially challenging for those furthest from the labour market, such as single parents, unskilled youth, persons with disability and immigrants.

The key issues facing the Maltese welfare state are the twin, perennial challenges of adequacy and sustainability. In respect of adequacy, the cost of living has risen in recent years accompanied by quite a steep rise in those at risk of poverty and social exclusion even after taxes and transfers. In respect of sustainability, the Maltese are set to age at one of the fastest rates in Europe, with all that this implies for the public pension and healthcare systems. Efforts to anticipate this impact have not been deemed sufficient by a number of external bodies.

The chapter focuses on developments from 2007 to date and pinpoints a number of challenges to both the economy and the Maltese welfare state. Recent economic growth needs to be sustained. Control of the public debt and deficit remains essential, together with further increases to the labour supply and the reversal of the rise in poverty and social exclusion. While the social investment strategies which have predominated in recent years have undoubtedly contributed to productivity gains, social compensation strategies have not been sufficient to arrest the rise in poverty and social exclusion.

This chapter is structured as follows. Section 2 opens with an overview of demographic developments and projections for Malta, which is followed by Sect. 3 on the financial crisis. The fourth section looks at Risks and Opportunities in various policy areas, while the fifth and last section concludes this chapter.

2 Demography and the Labour Market

Population ageing is one of the foremost challenges to be faced by the Maltese welfare state. The Maltese are set to age at a faster rate than many other European states, and levels of fertility remain well below replacement rate.

Malta is a micro-state, with a population of 421,364 at the end of 2012 having almost doubled in size over the past century (NSO 2014b). Population growth surged around the Second World War and the early 1980s, and declined around the First World War and the late 1950s and 1960s, which were characterised by mass emigration. Eurostat predicts that the population will continue to increase (though more gradually) over the decades to come, as indicated in Fig. 1. Despite this increase, the speed of population ageing coupled with a low labour supply significantly alters the dependency ratio and challenges the sustainability of pensions and health and care services.

2.1 Demographic Change

The principal demographic challenges faced by Malta would appear to be population ageing, migration and evolving family models.

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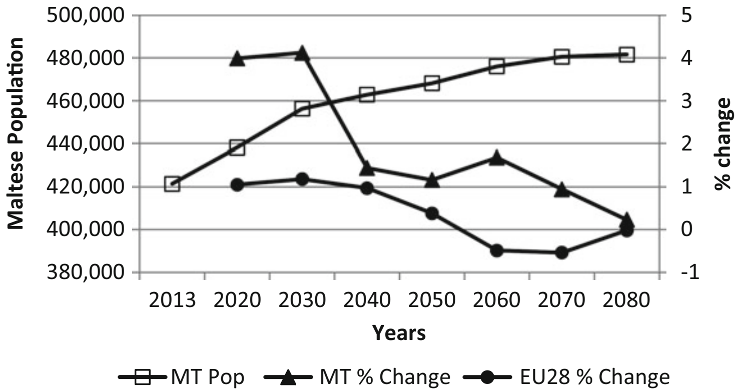

Fig. 1 Population projections: 2020–2080. *Source*: Eurostat (2014a)

Much like its European counterparts, the Maltese population is ageing. Life expectancy at birth has risen by a full 10 years since 1980, standing in 2012 at 80.3 (78 for men and 82.5 for women). This is marginally above the EU28 average of 79.6 with a gender gap of similar magnitude. The Maltese will be among the fastest to age in Europe, with greater similarity to Eastern European countries than to other European islands. The median age is projected to rise to 49 by 2060 which represents the sixth highest rise in the EU27 for the period in question. Looking at the older age groups, by 2030 one quarter of the population will be aged over 65. The number of those over 80 is projected to treble between 2010 and 2040, reaching 9 % of the population. The old age dependency ratio is currently around 21 %, and is projected to double by 2040 (Eurostat 2011a).

This increase in the old age dependency ratio is due in large part to Malta's low fertility rate which has dropped fast in recent years, no doubt due to the rise in secularisation and individualisation since the 1970s. Women are having fewer children and at a later age. The crude birth rate per 1000 inhabitants has decreased progressively—from the grand figure of 36 in 1948 (NSO 2010) steadily down to 9.8 by 2012. The total fertility rate has also declined, from 3.6 in 1960 (NSO 2010) to 1.43 in 2012. Although in the early 2000s Malta's fertility rate was on a par with the EU28, it then commenced a downward trend while the EU28 average started to rise; today it stands at the ninth lowest in the EU28 (Fig. 2).

Malta's crude marriage rate in 2010 was of 6.2 marriages per 1000 of the population, compared to the lower EU27 rate of 4.4. Divorce was only introduced in 2011. 5.1 % of the population aged 16 and over has either undergone separation, annulment or divorce, only up 1 percentage point in the 15 years since the last Census in 1995 (NSO 2014b). The proportion of live births outside marriage has risen from 0.7 in 1960 to 25.7 in 2012 which, while still lower than the EU28 figure of 39.3, indicates a marked social change that has accelerated since the turn of the millennium. In 2012, one fifth of all births outside marriage were born to girls under 19.

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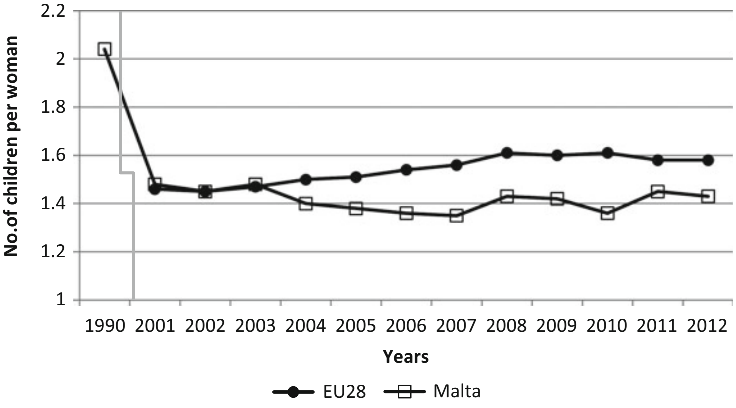

Fig. 2 Fertility rate 1990 and 2001–2012. *Source*: Eurostat (2014a)

2.2 The Labour Market

Ageing and the changing dependency ratio emphasize the need to increase Malta's labour supply which has long been low (though rising). In 2013, the active population in Malta stood at 187,200, up 13 % from 2007. The average employment rate in 2013 was 60.8 % (EU28 64.1), currently the 11th lowest in the EU28. Young people in Malta are more likely to be employed than their European counterparts, with an employment rate of 45.9 % that is almost 14 percentage points higher than the EU28 average.

Interestingly, the male employment rate, at 74.1 %, is one of the highest in the EU, while that for women is, at 47 %, the fourth lowest in the EU28. The policy goal to increase female employment has contributed to an increase of 10 percentage points since 2007, occurring largely across all educational groups. Similarly, it has risen across all age groups, with the most marked increases occurring in the age groups 30–45 (Fig. 3).

Unemployment has remained more or less constant since 2000, without the peaks experienced in Europe, and at 6.5 % in 2013 was higher only than Germany and Luxembourg (Eurostat 2014a). Unemployment among young people in Malta has, at 13.9 %, been almost half the EU28 rate but still double the rate for Maltese adults (Table 1).

Since the onset of the crisis, employment growth has followed a similar pattern to that of the EU28, though appearing to have weathered the recession notably better. As is indicated in Fig. 4, however, there is a clear difference between the services and manufacturing industries, the latter having experienced a double dip since 2001 while growth in services has been constant. Since the crisis, changes in the employment structure have been identical in Malta and the EU28: a decrease of 1 % in industry and an increase of 2.4 % in services (Fig. 5).

The growth in services has occurred largely in knowledge-rich sectors requiring a skilled workforce. This has been enabled by rapid gains, in recent years, in

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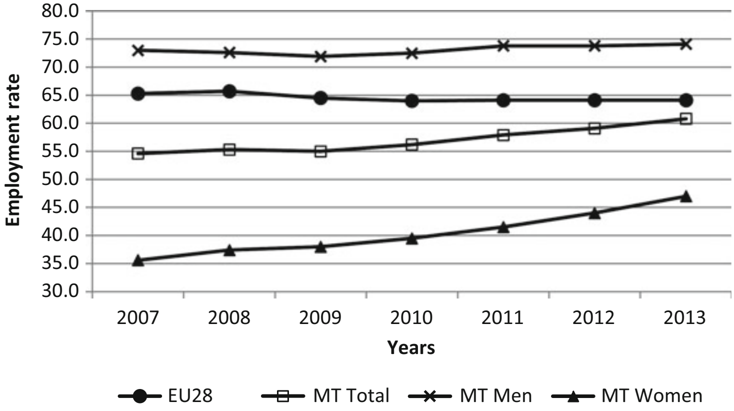

Fig. 3 Annual average employment rates 2007–2013. *Source*: Eurostat (2014a)

Table 1 Unemployment rates in Malta by age group and gender, 2003–2013

	15–24			25–74		
	% Men	% Women	% Total	% Men	% Women	% Total
2003	16.9	16.6	17.4	5.0	5.1	5.1
2008	13.7	10.4	12.2	4.2	5.8	4.7
2013	15.8	11.5	13.9	5.1	5.2	5.2

Source: Eurostat (2014a)

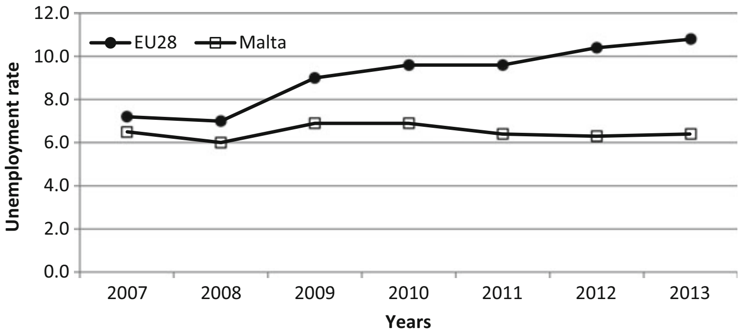

Fig. 4 Unemployment, Malta and EU28 2007–2013

educational attainment. As a proportion of those aged 15–64, the share of persons with tertiary level education has trebled—from 4.9 % in 2000 to 14.8 % in 2012 with negligible gender difference. While this overall rate is still well below the EU28 average of 24.5 %, when the cohort 20–24 is considered separately, the proportion of graduates in Malta rises to 16.6 % which exceeds the EU27 cohort average by 1 %. Also, the NEET rate (youth not in education, employment or

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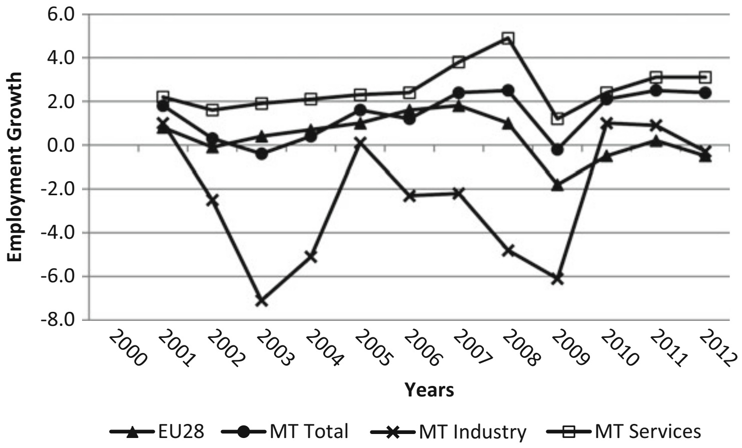

Fig. 5 % Employment growth, 2002–2012. *Source*: Eurostat (2014a)

training) is 11.1 % of all 15–24 year olds, 2 percentage points below the EU28 average, and reflecting Maltese youth's higher employment rates.

However, concern is still warranted at the lower level of educational attainment. In 2013, 21.2 % of Maltese youth left school early (at most, having completed lower secondary education). This rate is almost double the EU28 average of 12, and second only to Spain. Renewed policy has achieved notable progress, as early school leaving has come down by half from 2004 when the rate stood at 42.1 %; but it remains a policy challenge to encourage and support young people at risk to remain in formal education beyond secondary level.

2.3 Migration

Migration and its current and longer-term social impact on Malta have been prominent in national discourse for some years now. In 2013, the stock of foreign nationals in Malta was 5.3 % of the total population. Malta has the third highest number of immigrants per 1000 inhabitants across the EU27, following upon Luxembourg and Cyprus, and three times the EU27 average (Eurostat 2013a). The migration balance (of immigrants less emigrants) in 2012 was 3106 persons, equivalent to a typical Maltese village, or to 0.73 % of the total population, ten times as large as the relative average for the EU27 (Fig. 6).

EU nationals make up 60 % of foreign nationals in Malta. The four largest groups of non-EU residents hail from Somalia (5.1 % of foreign nationals), Russia (3 %), Eritrea and Serbia (2.7 %). In these groups, men significantly outnumber women except for Russia where the converse applies. Figure 7 illustrates the respective shares by citizenship from 2011 Census data (NSO 2014b).

The relatively high shares of Somali and Eritrean residents has been due to a steady stream of asylum seekers into Malta in recent years, with 16,617 individuals

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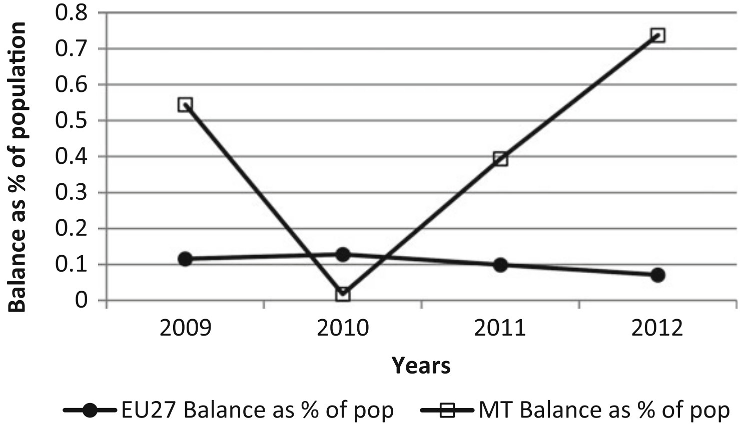

Fig. 6 Migration balance, EU27 and Malta, 2009–2012. *Source*: Eurostat (2014a)

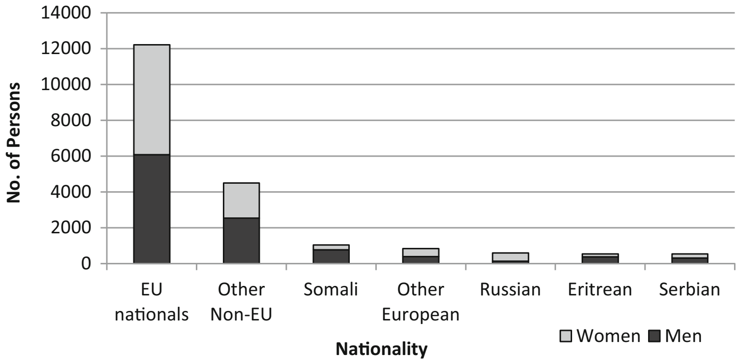

Fig. 7 Foreign nationals in Malta, 2011. *Source*: NSO (2014a)

(equivalent to almost 4 % of the population) having arrived by boat in the 10 years since 2002. Arrivals continued in 2013, when 24 boats arrived from Libya carrying 2008 persons. Of these, the largest group were Somalis (50 %), followed by Eritreans (23 %) and Syrians (8 %). Malta has had by far the highest number of applications for asylum, amounting to 4542 applications per one million inhabitants (EU27 average of 602), although the proportion of unaccompanied minors was one of the lowest in the EU. Malta also had the second highest proportion of positive asylum decisions, second only to Portugal (55.1 % and 56.5 % respectively).

Fertility rates among migrants are currently lower than the rate for Maltese nationals and are estimated to remain so until 2060 (Eurostat 2011b). Although European projections suggest that the long-term impact of migration on Maltese demographic developments will not be marked, it is very difficult to estimate this with precision because the extent of immigration among individuals seeking to

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escape war, persecution and poverty in Africa depends largely on unpredictable occurrences.

Malta at present faces a problem with its relationship with the EU as regards undocumented immigrants. Unlike other member populations who view the economy as the biggest problem facing their country, the Maltese believe that Malta's greatest challenge is immigration—not in respect of EU and other Eurasians who come to Malta to work, but asylum seekers from the sub-Sahara who cross the Mediterranean from North Africa on small and unseaworthy boats. In fact, the 2008 crisis in Malta was most signally characterised not by finance but by the greatest influx to date of sub-Saharan persons seeking asylum. Though many eventually move out of Malta, those who are found to do so without permit are returned by Europe to Malta by virtue of the Dublin II treaty which, while possibly serving the interests of other, more 'central' EU countries, certainly does not serve those of Malta—an island on the EU's southern borders with by far the highest population density in Europe.

In recent years, Malta's relationship with the EU has been somewhat overshadowed by this problem. Though present numbers are not impossible to sustain, there is no telling what numbers will arrive in the future, seeing the unpredictability of the events triggering African emigration. An agreement to allow burden sharing among EU member states was reached, but leaving these states with complete freedom to choose how many to take. Lately, Malta has experienced two further disappointments. One was the fact that this time round, no EU countries were ready to take on any new immigrants from Malta. The second was the EU's reaction to the horror of mass drowning in the Mediterranean. EU decided to deploy Frontex seacraft to intervene in the Malta region as its remedy to this grave problem, but they were ready to do this only if any immigrants rescued would become the responsibility of Malta. Obviously, Malta could not accept such a condition, and the missions did not materialize. New rules were approved in April 2014, supported by all Maltese MEPs, while the Italian presidency now intends to push for better sharing of the peripheral countries' burden.

Migrants contribute a large proportion of Malta's new jobs. However, the potential for asylum seekers to provide high value-added jobs is restricted by serious training gaps. Besides, their potential to redress the dependency ratio is limited by the reluctance (lately possibly softening) for government policy to envisage and facilitate their long-term integration.

2.4 The Welfare System in Malta

The Maltese welfare state shares a number of features of the much-discussed Southern European welfare model (Gal 2010; Ferrera 1996). It has a universal public health service, a relatively low level of social protection expenditure with poverty rates varying quite markedly between social groups, high job stability for those in employment, and a traditionally strong role for women and the Catholic Church in the provision of welfare.

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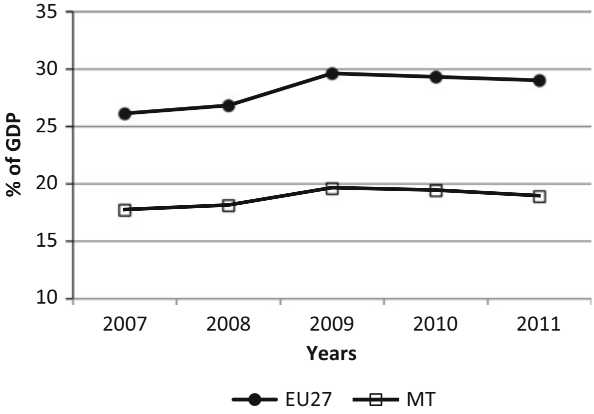

Fig. 8 Social expenditure as % of GDP, 2007–2011. *Source*: Eurostat (2014a)

In respect of social spending, in recent years Malta has followed a similar pattern to the EU27, with an increase in expenditure at the start of the crisis, tapering off somewhat in subsequent years. In 2012, social protection expenditure amounted to 18.7 % of GDP (EU27 27.8 %). In purchasing power standards per inhabitant, in 2011 Malta spent 4010 euros compared to the EU27 average of 7292 euros. Since the onset of the crisis, the increase in social expenditure in Malta (as a proportion of GDP) has been the fourth lowest in the EU28, possibly due in large part to the relatively lower levels of unemployment experienced as a result of the crisis (NSO 2014b) (Fig. 8).

The proportion of social expenditure dedicated to old age and survivors is relatively high in Malta and in fact, Malta ranks fifth in the EU28 in terms of the magnitude of this proportion. Malta's expenditure on sickness and health is close to the EU28 average, while it ranks low in terms of expenditure on family/children; unemployment and disability. While expenditure on disability also appears very low, it must be noted that major expenditure for the residential care of the severely disabled is borne by Church institutions in Malta (Table 2).

If one compares changes in social protection expenditure in 2011 over 2008, a number of issues become clear. Changes to benefit provisions in recent years have favoured pensioners and widows, resulting in an increase in expenditure on old age benefits of 21.9 % and 11.6 % respectively, growing faster than the EU average. Expenditure also rose on sickness, unemployment and families/children, the latter probably attributable to relaxed eligibility to children's allowances and the introduction of the utility subsidy/energy benefits which grew at a fast rate since the crisis started.

Despite relatively low welfare expenditure, the proportion of Maltese at risk of poverty or social exclusion is, at 23.1 %, lower than the EU average. Pace (2009) contends that moderate-to-low inputs may manage, in the Maltese context, to yield higher than moderate outcomes. That is, the same amount of state expense on welfare tends to go a longer way in Malta because of several factors such as:

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Table 2 Expenditure per function as percentage of total social expenditure, 2011

	EU27	Malta
Old age	38.3	44.8
Sickness/healthcare	28.2	29.0
Families/children	7.7	6.3
Disability	7.3	4.1
Survivors	5.6	9.3
Unemployment	5.4	2.8
Housing	2.0	1.0
Social exclusion n.e.c.	1.5	1.7

Source: Eurostat (2014a)

(a) the yet-unquantified contribution of church welfare, especially in social care;
(b) the relatively low Malta salaries, by average EU standards, making Malta score high on personnel value for money—same output for lower cost;
(c) the relatively low salary differentials, so that there is a high measure of equality even before welfare starts operating;
(d) the spatial compactness of the population, minimizing the difference in level of services between urban and country areas.

Still, there are signs that, while the proportion of GDP on social protection has now reached the European average after increasing by almost 2 percentage points the last 10 years, in many areas it has not kept pace with the increase in the type and extent of need. Understanding and effectively responding to this need will undoubtedly be a major challenge to social policymakers in the coming years.

2.5 The Consequences for the Maltese Welfare System

Population ageing poses a clear fiscal sustainability risk to Malta in the medium and longer term. Overall, social protection expenditure in Malta is relatively low at present, and at 18.9 % of GDP in 2011, exceeds only that of Bulgaria, Romania, Slovakia and the three Baltic States. This is likely to change, as the rise in age-related expenditure in Malta is projected to be almost three times higher than the EU average, rising 8.2 percentage points of GDP between 2010 and 2060. This rise is true both for pension expenditure (an increase of 5.5 % of GDP) as well as health and long-term care expenditure (an increase of 3.8 % of GDP). In fact, Malta's projected increase in pensions expenditure will be the fourth highest in the EU after Cyprus, Luxembourg and Slovenia, while the increase in its health care expenditure is set to be the highest in Europe (EC 2012d).

Increasing the labour supply is a critical factor in ensuring the system's sustainability. More women are taking up work as the traditional gender contract is changing. While a rising female labour supply is essential for Malta's pay-as-you-go pension system, the decrease of unpaid female care leaves serious and as yet unmet gaps in critical areas such as childcare and eldercare. While the

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family-friendly measures of recent years may improve quality of life for working parents, they cannot of themselves offset the impact of ageing.

The issue of sustainability serves to underscore not only the need to raise the labour supply but also to step up efforts in tax collection. Malta has increased its tax revenue by almost 20 % between 2000 and 2011, primarily from direct taxation (EC 2013c). However, its tax-to-GDP ratio remains low, and at 33.7 % in 2011 was five points lower than the EU27 average.

Malta is heavily reliant on direct and indirect taxes which make up 39.4 % and 42.3 % of the total tax burden (EU27 33.2 and 34.5 respectively). Social contributions, on the other hand, only make up 18.3 % of the total tax burden, compared to the EU27 average of 33.5 %. The national insurance system in Malta is tripartite; the employer, employee and Government contribute 10 % of an employee's basic salary. Meanwhile the self-employed pay 15 % of their net income received during the previous year.

If taken in relation to GDP, employers contribute less than half—and employees around two thirds—of the EU average, while social contributions as a whole (6.1 % of GDP), only yield half the EU27 average (12.7 % of GDP) (EC 2013c). Lower contributions may reduce the cost of labour but inevitably place constraints on the sustainability of the social security system.

3 The Impact of the Financial and Economic Crisis on Malta

The Maltese economy has withstood the crisis well. Since 2007, it has outperformed the European average with a far milder decrease in GDP at the peak of the crisis. Growth is projected to continue as domestic demand picks up, and should remain above the EU average until 2015 (Eurostat 2013b). Inflation has been low to moderate, averaging 2.34 % since 2000, peaking at 4.26 % in 2008 but averaging 2 % since then. Malta's gross domestic product at current prices was 1865 million euros in the first quarter of 2014. Figure 9 compares GDP and main components at current prices (seasonally adjusted and adjusted data by working days) for Malta and the EU28.

Malta's performance can be explained in terms of a number of factors. Liquid and well-capitalised banks, growth and diversification of exports, development of niche sectors, rising employment levels and general household wealth have all played an important role in shielding Malta from the worst of the recession's effects. The Central Bank of Malta has not had to intervene since the crisis began, and further economic and employment growth are foreseen in the coming years. Although domestic demand has been subdued, it is slowly reviving and expected to continue to pick up. Remarking on the stability of Malta's outlook and the resilience of its banking sector, Fitch currently rates Malta as A, while Standard and Poor's give Malta a credit rating of BBB+/A-2 (Fitch 2013).

In recent years, Malta has proven an attractive location for business and financial services, especially since accession to the EU and in view of its favourable tax

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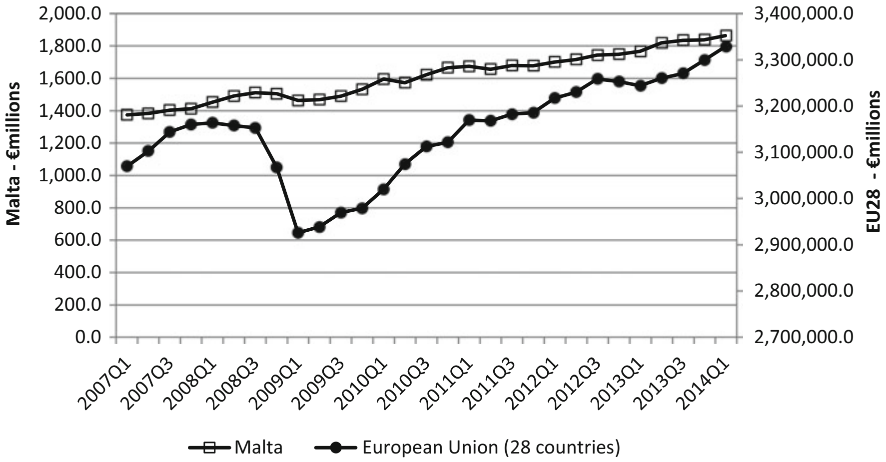

Fig. 9 GDP and main components in millions of euros—Malta and EU28 Q1 2007 to Q1 2014. *Source*: Eurostat (2014b)

regime, macroeconomic stability and flexible, English-speaking workforce. New niche sectors have grown markedly, particularly in financial services, online gaming, legal and accountancy services, information and communication technologies (ICTs) and pharmaceuticals (IMF 2013). Online gaming and the financial sector have played the most significant role in the country's recent growth, with a rapid rise in their contribution to Malta's Gross Value Added (GVA) from 5 % in 2008 to 8.1 % of GVA in 2012. In employment terms, too, Malta experienced a 24 % increase in financial services between 2008 and 2012, unlike the EU28 where it decreased by 1.5 %. However, the sector is not without its risks. As the IMF pointed out in 2013, EU-level tax and regulatory reforms may indeed challenge the country's desirability as a financial location.

Despite these positive developments, Malta is faced with the challenge to control its debt and deficit which have risen from 2008. As highlighted by the Commission in its assessment of Malta's efforts to address the Council's 2012 country-specific recommendations, the budget deficit that started to rise after 2011 and, together with public debt, needs to be reduced (EC 2013b) (Fig. 10).

At the end of 2012, Malta's deficit stood at −3.3 % (EU28 −3.9 %). In June 2013, the European Council decided that a new excessive deficit procedure should be opened for Malta, and recommended that action be taken to end the said deficit by 2014. By February 2014, the European Commission noted that it expects the deficit to have stabilised below −3 % in 2013 and to decline to −2.7 in 2014 and 2015 (EC 2014).

Though, like the deficit, Government debt is lower than EU averages, it is still above the threshold of 60 % of GDP. It stood at 71.3 in 2012 (having risen by 10 percentage points since 2008, compared to a 23 % rise in the EU28) and is

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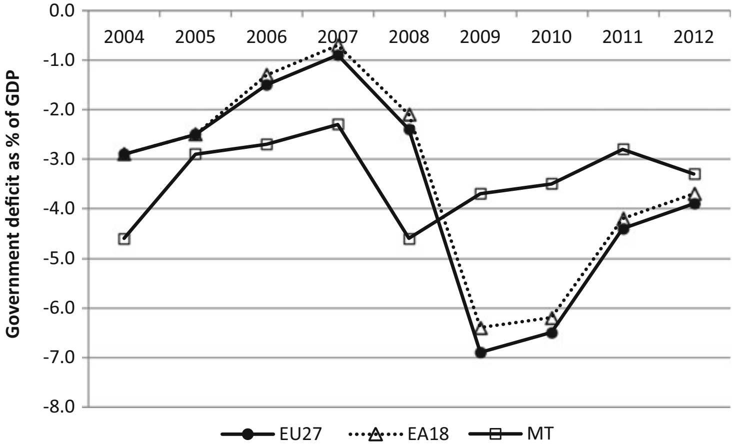

Fig. 10 Government deficit, 2004–2012. *Source*: Eurostat (2014b)

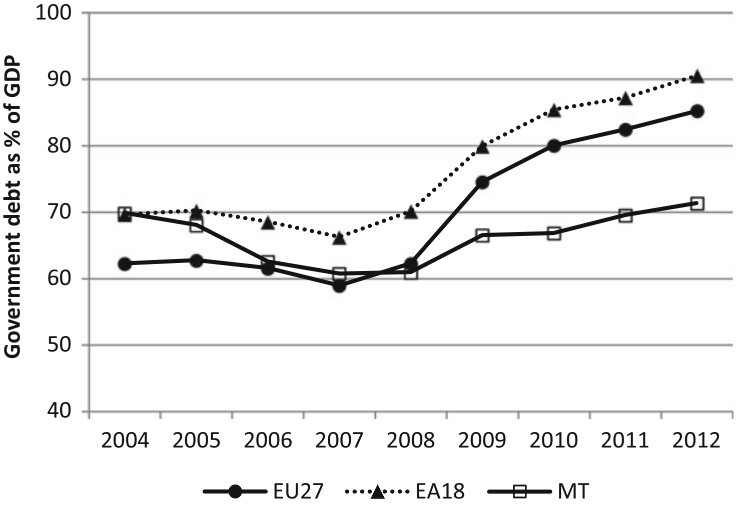

Fig. 11 General government debt as % of GDP, 2004–2012. *Source*: Eurostat (2014b)

forecast to rise to 72.4 % in 2014, thereafter decreasing to 71.5 % in 2015 (EC 2014) (Fig. 11).

The IMF (2013), too, urges Malta to address the debt and deficit. It highlights high government-guaranteed debt in respect of large public corporations and calls for effort to restructure these to become more viable and profitable. This is particularly true of Malta's electricity provider and the national airline, though restructuring of both is underway and with the prospect of imminent foreign investment in the former.

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Failure to control the debt and deficit would raise the risk of a lowered credit rating for Malta, with consequences for Malta's reputation as a stable and promising macroeconomic environment and for its capacity to attract and retain foreign direct investment.

4 Risks and Opportunities

4.1 Labour Market Policy

As noted above, the Maltese welfare state has traditionally shared a number of features of the Mediterranean model, particularly in terms of low levels of female employment and women's traditional role as informal carers. Since the run-up to EU accession in 2004, policy efforts to increase the labour supply have been quite marked, and have accelerated since 2007. This period may be characterised as one of social investment and activation.

In terms of social investment, there has been unprecedented capital investment in the modernisation of schools, the transformation of schools into colleges and the upgrading of facilities, technology and curricula. Multi-million Euro investments have also occurred in training for employees and the unemployed, due in large part to the injection of ESF and ERDF funding in the 2007–2013 programming period. A broad variety of educational services, grants and tax credits have been introduced across the age spectrum, from early educare through to postgraduate education. The 2014 budget announced the unrolling of a programme of free childcare for working parents. Government has recently launched an Individual Investor Programme (the granting of citizenship upon meeting mainly investment criteria) with the stated aim to channel the fees paid by such investors into an eventual National Development Fund for social projects such as housing and education.

The past few years have also seen a clear shift towards activation measures, with a tightening of the work obligation of unemployment benefit recipients alongside compulsory participation in training programmes and job placement services for the registered unemployed. Simultaneously, measures to curb benefit fraud have been implemented, alongside amendments to benefit rules to mitigate the risk of leaving benefits to take up work. 2011 saw the introduction of a disregard of part of the income earned by people on means-tested social assistance moving into work, enabling them to retain part of their benefit to facilitate this transition. This was strengthened further in the budget for 2014, which introduced a staggering of the loss of unemployment benefit over the course of a person's first 3 years back in work. A variation on this theme was the introduction of the Community Work Scheme in 2009 whereby jobseekers wishing to undertake 30 hours of community work would receive benefits equivalent to 75 % of the national minimum wage.

In addition, income tax and national insurance formulae were amended to encourage the take up of work, many targeted at women. Practically every budget since 2007 has seen such taxation measures, for instance, removing tax entirely for minimum wage earners; introducing a 1-year income tax exemption for mothers

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who return to work after 5 years; and a 50 % raise in the income threshold for the preferential 15 % income tax rate for part-timers. A ‘parent computation’ was introduced in 2012 for married couples with children (preferable to the single rate computation), and the maximum tax rate of 35 % was reduced to 32 % for those earning up to 60,000 euros per annum. National insurance provisions were also amended. 2007 saw a reduction in national insurance contributions, and the granting of pro-rated benefits, for part-time employees working less than 8 hours; a similar concession was subsequently made in 2011 for part-time self-employed women. In 2014, government introduced a scheme to accredit 1 year national insurance contributions for jobseekers aged 45 and over who take up self-employment.

Efforts have also been made to encourage the creation of jobs, particularly for the disadvantaged. This has been a feature of most annual budgets over the past years. Employers have received support to render their workplaces more accessible to all and to provide family-friendly measures. During the period in question, the Employment Aid Scheme (co-financed by the ESF) provided a grant of 50 % of the minimum wage to employers who recruited persons from any one of a range of disadvantaged groups. Tax deductions were introduced for employers who recruit apprentices and jobseekers over 45, and for employers who fund employees’ childcare. Government has also committed to accrediting the social security contributions for the newly introduced 14th–16th weeks of maternity leave (rather than require the employers to meet this cost).

EU funds and regulations have featured prominently in labour market policy after accession, offering unprecedented opportunities for policy learning and for labour market measures. These opportunities were timely. For instance, the sharpest blow to employment in recent years happened at the start of the crisis, when two major textile firms relocated their production outside Malta rendering 675 employees redundant (equivalent to 0.4 % of the active population). This led to Malta applying to, and availing itself of, the European Globalisation Adjustment Fund, set up in 2007 to help people who lose their jobs due to changes in world trade (EC 2007). These funds were used for training and re-insertion purposes.

In 2009, and in line with State Aid rules, the Commission authorized the Maltese government to implement a Temporary Aid Scheme. This scheme allowed government to give direct grants of up to 500,000 euros per firm over 2009 and 2010 to help businesses that faced reduced orders or lack of credit due to the recession (and which businesses were not in financial difficulty prior to the credit crunch). The national allocation for this *de minimis* aid scheme was 40 million euros. Ten of the larger enterprises in the manufacturing sector received grants under this scheme, which saved hundreds of jobs. Although short-time working arrangements do not formally exist in Malta, a number of these enterprises were assisted—when orders were low as a result of the crisis—to train and upskill their employees on the ‘fifth’ day (in lieu of working) rather than discharge them.

The EU Structural Funds were another important measure in recent years, having had a significant impact on infrastructure, enterprise and the labour market. Malta had—at just below 70 %—the fifth highest ratio of Structural Funds to total

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public investment between 2009 and 2011, illustrating the significance of these structural funds to the Maltese economy (EC 2012e). In the period 2007–2013, 840 million euros were allocated to Malta, of which 87 % on infrastructure (through ERDF and Cohesion Funds) and 13 % on labour market measures (through ESF). Although the implementation of these projects has meant a steep and challenging learning curve for a small administration, also with lags in project selection and interim expenditures, the results in terms of job creation and capacity building have been considerable. In addition to large infrastructural projects, a wide variety of projects and aid schemes were provided under the European Social Fund to boost employability and access to the labour market.

Notwithstanding the above domestic and EU co-financed measures, there remains a growing concern about the risk of poverty among those in employment. In 2012, 5.7 % of those in work faced the risk of poverty, having risen from 4 % in 2005. While these rates do not compare badly with those of the EU27, the rise in this risk has been almost double that of the EU over the past 7 years. This issue, particularly in respect of the adequacy of the minimum wage (currently 166 euros per week), has been a point of debate for over 2 years. A report by Caritas Malta in 2012 indicated the need for the minimum wage to rise to 180 euros a week for essential needs to be met (Caritas Malta 2012). In January 2014, the Minister responsible for social solidarity acknowledged on national television that those on the minimum wage face a poverty risk and pledged that government would be addressing the matter in the months to follow.

In-work poverty may be explained in part by the rise of precarious jobs. While Malta has one of the lowest rates of atypical employment in Europe, the notion of precarity has been prominent in recent discourse the last 3 years. It is taken to mean, in current Maltese trade union parlance, not only casual jobs but also jobs that have bad conditions, especially where conditions break labour law, such as where workers were employed without a workbook, at less than the minimum wage, or not given the pro rata leave and sick-leave entitlements due to part-time workers. Irregular immigrants tend to be the ones who most bear the brunt of such abuses as being obliged to work without a workbook, while generally feeling too weak to use their right to report the employer, except once they have quit the job in question (Pace & MacKay 2013, Chap. 6, pp. 36 ff). Thus, a growing labour market segmentation is an important policy issue, with all the social ramifications for persons in precarious work, such as poverty, loss of skill and the difficulty in obtaining a mortgage and raising a family.

4.2 Pensions

As noted previously, the Maltese pension system will come under increased demographic pressure in the medium- and long-term. In recognition of a rapidly ageing population, pension reforms were introduced in 2007, raising the retirement age for both men and women from 61 and 60 respectively, to 65 (staggered across 2010–2026), a lengthening of the contributory period from 30 to 40 years, and the

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introduction of pensions indexation. A 10-year childrearing social security credit was also introduced, offsetting the lengthening of the contributory period for parents—the vast majority women—who exit the labour market for a while for childrearing purposes.

Policy discourse on pensions has been well noted by the Maltese, of whom 14 % cited pensions as the third most important issue they face, ranking slightly above the EU28 average (EC 2013a). Expert views, however, are divided on the desirable pace and extent of pension reform. On the one hand, in its 2010 report, the national Pensions Working Group recommends that the retirement age be linked to life expectancy, a position supported by the European Council (EC 2012b) and the IMF. On the other hand, in its budget for 2014, Government reiterated its pre-electoral pledge that it will not raise the retirement age. At a Business Breakfast on Pension Reform in July 2014, the Minister of Finance stated that the pensions issue is "not alarming"; the situation is being monitored and the policy preference is to "tweak" the system every 2 or 3 years rather than undertake a large-scale reform (Times of Malta—ToM—2014b). The risk remains whether such incremental measures will suffice to offset demographic change when within 15 years from now, a quarter of the population will be aged 65 and over.

The 2010 Working Group had also recommended the introduction of a mandatory privately funded second pillar and a voluntary third pillar. Employer representatives have come out against the idea of a mandatory privately funded second pillar, stating that this would mean imposing a substantial cost to employers and forcing employees to save when they may not necessarily afford it (ToM 2014b) and no action has been taken on the second pillar to date. In its budget for 2014, Government also announced that a technical group is currently working on the regulations and incentives necessary to foster a third (private) pensions pillar in a bid to encourage voluntary savings.

4.3 Health and Long-Term Care

It is not only pensions but also health and long-term care which will see spiralling costs in view of population ageing. Waiting lists for old people's homes and for various medical services are very long. In 2007, a new (and only) general hospital was built on Malta which, during construction, was the largest health project ongoing in the whole of the EU. This was accompanied by the introduction of sophisticated IT systems within the hospital and in the whole health network. The professional, residential and technical aspects of the service were distinctly improved, though the hospital is now being plagued by a shortage of beds and skyrocketing waiting lists—both prominent on a highly publicized reform agenda. Issues of adequate staffing, among which nurses are the most vociferous though not necessarily the most acutely affected, are a frequent bone of contention and at times spill over into industrial action.

In October 2013 the Minister responsible for Health is reported to have stated that the equivalent of 3.3 % of the population were on surgery waiting lists, of

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whom one fifth had been waiting over 3 years (ToM 2013). A 2012 report by Johns Hopkins is said to have noted that access to care is the greatest challenge facing the hospital, in light of the lengthy waiting lists for both outpatients and inpatients. This issue is impacting negatively on sustainability and quality of care (ToM 2014a). Perhaps as a result of these delays, the level of out-of-pocket expenditure incurred by Maltese households (direct outlay on health goods and services) has reportedly risen by 22 % since 2004 (World Bank 2014). As increasing waiting lists for elective hospital operations and for beds in old people's homes force more and more people to have recourse to a burgeoning private sector, this is resulting in a forced or 'hidden' privatisation. However, this type of privatisation advances by stealth and does not carry the shock or arouse the protest that would result from the announcement of a sudden slash of free services or the introduction of fees.

Formal community care is not sufficiently developed in Malta to replace traditional dependence on the unpaid support of female relatives not in formal employment, whose availability is now shrinking. In view of older people's preference to remain within their homes, and the very lengthy waiting lists for places in old people's homes, unless planning and investment in this sector are accelerated, the safety and quality of life of the growing number of the very old will be imperilled.

4.4 Poverty and Social Exclusion

At first glance, the financial crisis has not had as deep an effect on Malta as on other member states in terms of employment or social expenditure. Employment is rising and unemployment is relatively low; inequality is moderate and lower than the EU27 average. The Gini coefficient for Malta in 2012 was 27.1, the same as it was before the global crisis in 2006, while that for the EU27 also remained similar over this period though at a higher level of 30.6.

At a household level, though, the Maltese have expressed concern over the rise in the cost of living in recent years. Since the base year 2005, consumer prices in Malta rose by an identical degree as the rest of the EU, in both cases an increase of 20 % over 2005. However, prices in Malta have risen far more steeply than in the EU in the case of energy, and also, to lesser extents, in the case of food, health and education. According to a recent Eurobarometer (EC 2012a) the Maltese have been considerably more concerned about the affordability of energy, food and housing than their European counterparts. A high-profile change in electricity generation technology with Chinese investment aims to fulfil the 2013 election pledge to make electricity more affordable to both households and industry.

The hike in the cost of living has contributed to a rise in the risk of poverty or social exclusion[1] over the past 7 years. A number of issues may be identified in Table 3. First, while the proportion of persons in the EU27 facing these risks has

[1] Income below 60 % of the national median wage and/or severely materially deprived and/or living households with very low work intensity.

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declined by almost 4 % since 2005, it has increased by almost 13 % in Malta. Second, the increase has been marked for those aged 16–24, where it has risen by 45 %, and particularly among young men. Even if the proportion of young people facing these risks is still 8 % lower than in the EU27, the rise is of great concern. The rate has also gone up, though to a lesser extent, for those aged 25–54.[2] However, in the case of those aged 65 and over, the proportion of the population facing these risks has declined by almost one fifth. In respect of gender difference, overall women face a higher risk than men (of 2.4 in Malta and 2 in the EU27) though the gap has decreased by 0.7 % in both the EU27 and Malta since 2005.

Recent years have seen mainly incremental improvements to social compensation, the spirit of which was captured in the Budget Speech of 2011 which referred to Government's "choice to sustain [social benefits] cautiously" given the challenging economic environment (Ministry of Finance—MoF 2010).

Efforts have been made to improve income adequacy. Every year, wages are increased by a cost-of-living adjustment (COLA) based on a price index. Being a flat rate, this has an equalising influence, modest but effective over time. In 2008, the two-thirds cap on COLA for pensioners was removed, so that pensioners now receive the full COLA with their pension. Furthermore, in the same year, pensioners became able to work and earn any amount without having the equivalent deductions made to their pension. With effect from 2011, COLA was disregarded for purposes of means-testing one's eligibility for social benefits. From 2012 persons in receipt of a severe disability pension may earn up to minimum wage without a reduction in their pension. Widows have been granted the right to retain their survivor's pension for the first 5 years of a new marriage (and the 5 year period is increasing by 1 year every year); those in receipt of a severe disability pension may also retain it after marriage.

4.5 Families and Housing

Recent budgets have also seen modest changes to the benefit system to address demographic issues, encouraging fertility and supporting care of the elderly and of children with special needs. Children's allowances have been doubled for the second and subsequent child (thus bringing the allowance to par with that for the first child), and the minimum children's allowance was also increased for poorest families. Allowances for children with disability, orphans and foster families have been increased, as has the child-in-care benefit which has been extended to age 21 for youth who remain in education or training. Persons who employ carers to care for their elderly or disabled relatives have been made exempt from paying the employer's national insurance contribution. An entirely new energy benefit was introduced in 2008 for low-income households.

[2] Data for 25–64 not available.

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Table 3 % of the population at risk of poverty or social exclusion, 2005 and 2012

	2005			2012			% Change 2012 over 2005		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
EU27									
All ages	24.3	27	25.7	23.7	25.7	24.7	−2.47	−4.81	−3.89
16–24	29	30.9	29.9	30.4	32.2	31.3	4.83	4.21	4.68
25–54	22.4	23.7	23.1	23.2	24.4	23.8	3.57	2.95	3.03
65+	21.5	28.4	25.5	16.2	21.5	19.2	−24.65	−24.30	−24.71
Malta									
All ages	18.9	22	20.5	21.9	24.3	23.1	15.87	10.45	12.68
16–24	15	16.9	16.2	23.5	23.4	23.5	56.67	38.46	45.06
25–54	15	18.1	16.5	18.4	21.1	19.8	22.67	16.57	20.00
65+	25.8	28.1	27.1	23.6	21.3	22.3	−8.53	−24.20	−17.71

Source: Eurostat (2014a)

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Also worthy of mention were the compensatory mechanisms to offset the cost of housing. In 2008, Government introduced the grant of a 1 % subsidy on the base rate for loans for one's first residence, and also raised the ceiling for stamp duty payable on one's personal residence. The Shared Ownership Scheme and the Equity Share Scheme were introduced to enable poorer households to gradually become owners of their homes in a progressive and affordable manner. In 2009, succession tax for disabled persons inheriting their ordinary residence was removed. In the same year, a new means-tested scheme came into effect whereby government pays a maximum of 30 % of the monthly house loan repayments for 10 years, for a first residence. Tax deductions were introduced on the fees payable for private residential care of the elderly and disabled.

4.6 Looking Forward

Thus, while poverty has risen, it must also be noted that the capacity of the Maltese welfare state to impact positively on the reduction of poverty has also risen. Similar to the EU average, it now brings about over a 9 % reduction in the risk of poverty (Fig. 12).

However, its capacity to reduce risk differs by social group and one can point out that it still does not sufficiently reduce the risk for lone parents or large families, as illustrated in Table 4 below, and which continue to pose a challenge to the adequacy of Maltese welfare.

That said, the next few years present a number of opportunities for the Maltese welfare state to consolidate and strengthen adequacy and sustainability. Continued increases to the labour supply will improve Malta's productivity and household income, while the upward trend in post-compulsory education will increase the national skills base and individual employability. The opportunities for peer learning in the field of social and employment policy will also support sustained efforts to enable transitions into work, among those on benefits, the low skilled, mothers, persons with disability and immigrants with the right to work in Malta, thereby strengthening their social inclusion.

Another opportunity lies in the recently launched policy process to address poverty and social exclusion. In February 2014, the Ministry for the Family and Social Solidarity issued a Green Paper to address this issue, putting forward an analysis of the Maltese situation and a variety of proposals for public consultation. The results of this consultation, and its eventual translation into targets and a strategic plan, are eagerly awaited.

In the field of pension reform, in the budget for 2014 the Ministry of Finance appointed a Pensions Strategy Group to take stock of work done on pension reform to date and to make further proposals to strengthen the adequacy and sustainability of pensions in Malta. The technical advisory group set up in 2013 will shortly propose eligibility criteria that financial products would need to meet in order to form part of fiscal incentive packages for savers (and possibly employers) in support of voluntary retirement savings under a third pillar system.

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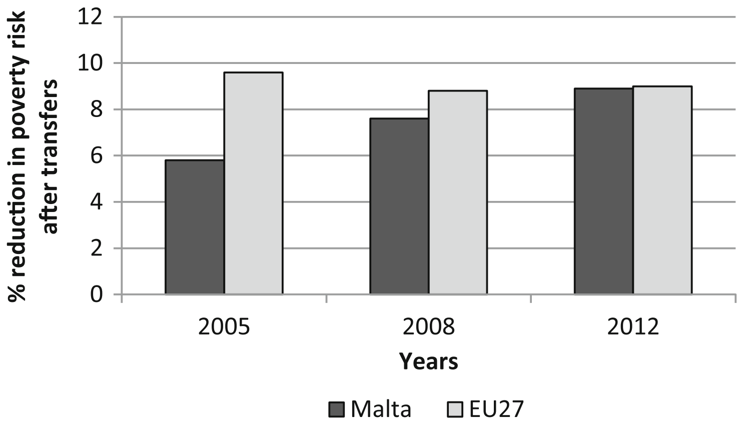

Fig. 12 The % reduction in poverty risk, 2005–2012. *Source*: Eurostat (2014a)

Table 4 At-risk-of-poverty rate before and after social transfers by group, 2005 and 2012

	2005			2012		
	Before	After	Reduction	Before	After	Reduction
Single person with dependent children	58	35	23	69.1	47.6	21.5
Couple with three or more children	39.8	28.2	11.6	47.8	35.5	12.3
Single person	30.6	23.5	7.1	29.8	20	9.8
Aged 65 and over	25.3	23.3	2	24.1	17.3	6.8
Very low work intensity	n.a.	59		n.a.	62.7	

Source: Eurostat (2014b)

In the field of healthcare, in February 2014 the Ministry of Health issued a National Health Systems Strategy for the years 2014–2020 which acknowledges the need for additional investment and service reorientation to improve primary care, rehabilitation and community services, and higher-dependency long-term care. Among an array of intended initiatives, the Strategy commits Government to develop a centralised Waiting List Management System; to seek out value-adding public-private partnerships; to search for new revenue streams; to streamline entitlement processes and criteria; and to target community and long-term care at those who need them most.

Besides the above, the current new programming period for EU social funds offers an invaluable additionality to domestic resources in the field of social policy. The Operational Programme II for the years 2014–2020, depicting Malta's intended use of the ESF, offers Malta broad opportunities to achieve inclusive growth through a wide array of labour market measures and the strengthening of stakeholders' capacities in education, employment and social policy implementation.

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5 Conclusion

By way of conclusion one may say that the Maltese economy has weathered the financial crisis well, and the pursuit of a flexicurity approach, including the promotion of cooperative industrial relations, accelerated investment in workforce training, measures to make work pay, and an increase in the scope and number of family friendly measures have all contributed to stabilising the labour market during this challenging period.

The Maltese are generally optimistic about Malta's economic prospects. In the latest Eurobarometer (EC 2013a), only 19 % of Maltese households expressed concern over the economy, compared to an EU28 average of 33 %. Four in ten respondents expect the economy to improve further during 2014, while seven in ten support the Euro. The Maltese are far more likely to be content with the way poverty and inequality are being tackled, compared to their European counterparts.

Fewer Maltese, however, are likely to rate healthcare, pension provision and unemployment benefits as 'good' compared to the EU27 average (EC 2012c). While there is no evidence of welfare state retrenchment, there are signs of a gradual transformation towards a more disciplinary welfare state. These include a growing emphasis on the work obligations of benefit recipients and the encouragement of private savings for retirement. There is also some evidence of privatisation by stealth, with greater recourse to private health services in the face of growing waiting lists and the current inadequacy of public sector long-term care for the elderly.

The challenges facing the Maltese welfare state include further action to increase the labour supply, to address the emerging segmentation and to ensure that the forecast employment growth is accessible to all. In particular, a balance must be sought between increasing tax revenue while strengthening work incentives through measures such as tax credits and the retention of benefits for the first months of work. The commendable attention paid to the adequacy of social security for older persons must be extended to other groups at higher risk of poverty and exclusion, including lone parents, large families and unskilled youth. The question of the integration of immigrants is pressing. In the face of population ageing, timely and determined action to strengthen the adequacy and sustainability of pensions, health and long-term care remains necessary. The need for policy recognition of the irreversible change to the traditional gender contract runs through all of these.

The Maltese welfare state enjoys broad legitimacy across political parties and the general population, although political and popular discourse on controlling benefit fraud has recently become louder. The newly elected government has signalled its commitment to bring the deficit under control, to address public debt, to fight fraud and increase tax revenue. It has also issued a number of policy documents on poverty and social exclusion, employment, health, youth and in the near future on pensions. Time will tell whether these documents will translate into decisive and effective action plans which, while conforming to debt and deficit commitments, promote the social inclusion of those furthest from the labour market

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and effectively anticipate the impact of demographic ageing on pensions and healthcare.

Malta's membership of the EU continues to play an important role in the design and management of its welfare state. The opportunities for peer learning afforded by the various Open Methods of Coordination have undoubtedly contributed to a broader and deeper understanding of policy options and consequences, and to the articulation of goals and monitoring of performance in the social sector. Furthermore, the next programming period of the European Social Fund will play an important part in the successful implementation of Malta's social inclusion goals. The broad impact and successful outcomes of the 2007–2013 programming period augur well for the coming years.

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Beyond the Dutch Miracle? Challenges to and Responses of the Dutch Welfare System

Minna van Gerven

1 Introduction

In September 2013, the Dutch King Willem Alexander made international headlines by declaring the end of the Dutch welfare state. The speech was preceded by years of Dutch politicizing urging for a shift from extensive welfare state towards a 'participatory society', where people take responsibility for their own future and creation of their social and financial safety nets, combined with a strongly reduced interference by the state (Prinsjesdag 2013). This chapter explores how the Dutch welfare system has evolved in recent decades, and especially since the beginning of the financial and economic crisis in 2007/2008. Against this background, the chapter focuses on two main questions:

1. What are the main challenges the Dutch welfare system has had to face between 2007 and 2013?
2. Which reforms have been conducted in reaction to these challenges and which pathways is the Dutch welfare system following in the forthcoming years?

The Dutch welfare system, although often assigned to the group of the continental or Bismarckian welfare states, displays characteristics from the conservative-corporatist systems with their strong emphasis on work-related compensatory systems as well as the universal (social democratic) systems and their comprehensive protection of citizens. No wonder that authors in the past have characterized the Netherlands as a 'hybrid' model (Van Oorschot 2009) or even referred to it as an enigma (Esping-Andersen 1996). This hybridity is often considered to give the Dutch welfare state an advantage over the 'pure' welfare models that may be less flexible to change than the Dutch hybrid model. Indeed, since the previous

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evaluations of the Dutch welfare system (i.e. van Gerven 2008a; van Oorschot 2009), much has happened to welfare policies in the Netherlands.

In a nutshell, the Dutch seem to have escaped from the vicious circle of welfare without work (Hemerijck and Marx 2006) in the last decades. In the 1990s and 2000, social insurance systems were targeted at numerous cost containment measures, access to benefits was made more dependent on behavioural conditions of activation, and early exit incentives from employment were stopped (van Gerven 2008b). In the 2000s, political attention was geared towards raising labour market participation levels, in particular that of women, older workers and migrants. The government policies, reflecting the government's slogan 'Work rather than benefits'('werk boven uitkering'), have put participation in the labour market as well as civic engagement at the core to the survival of the welfare states in the twenty-first century, especially when bearing in mind the future prospects of the aging population.

As will be shown in this chapter, the economic crisis and the process of demographic change have put the Dutch welfare system to the test. The surmounting pressures from 2007 onwards have revealed structural problems of the Dutch welfare system, such as sustainability of pensions and health care systems. Furthermore, increasing dualisation in the labour market (e.g. dualisation between a low and high skilled labour force, carers (as women) and non-carers (as men), young and old) may suggest that the 'Dutch miracle' of the 1990s—being able to generate a considerable employment growth and prosperity—has been evaporating and the Dutch labour market is currently facing great challenges to meet the short and long-term pressures. Furthermore, reconciliation of care responsibilities and (full-time) employment are already challenging and will become ever more so in the future. Although the Dutch corporatist consensus-driven policy-making has been able to take some action in reforming social security and social services under conditions of extended austerity, the paradigmatic policy changes remain unpopular and (still) few in actual numbers. The strong consensus-seeking nature of Dutch politics still hampers the possibilities of political leaders to push through radical reforms and, regardless of some changes towards the 'participatory society', the legitimacy of the welfare state in the Netherlands remains strong. But the actual consequences of the 'great recession' are still yet to materialize.

The structure of this chapter is as follows. In Sects. 2 and 3 the two most prominent challenges to the Dutch welfare system are addressed, namely demographic change and the fiscal and economic crisis. These challenges have attracted great political attention and fuelled much debate on how to (re-)balance Dutch welfare policies in order to address future risks and opportunities as discussed more closely in Sect. 3. Section 4 studies the recent developments of the Dutch welfare state and pays attention to the following policy sectors: (1) the labour market, (2) pensions, (3) health, (4) long-term care, (5) family and children, and (6) adjacent social policy fields. Finally, Sect. 5 draws conclusions for the Dutch welfare system.

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2 Demographic Change and Population Ageing

Of all challenges to welfare systems, demographic change is allegedly one of the most daunting pressures to the sustainability of the welfare state institutions in the long run; with a shrinking labour force contributing to the social security systems and the rapidly increasing number of welfare recipients (in particular the elderly) gaining from them, the financial burden is likely to be overwhelming to many western welfare states. Arguably, the first frostbites of the 'demographic winter' are already visible in the Netherlands: the fertility rate is well below the replacement level and the rapidly ageing population puts increasing pressures on the pension and health care systems as well as other social services. Consequently, the sustainability of the welfare systems and the necessity to reform them have become burning issues in the current national debates. This section starts with portraying the main trends in fertility and other demographic developments in the Netherlands. Subsequently, population projections and the resulting challenges for the Dutch welfare system are addressed.

2.1 Demographic Trends

The Dutch fertility rate sharply decreased between 1960 (3.12) and 2011 (1.76) (EC 2013: 11). Regardless of the modest increase in the fertility rates between 1990 and 2010 (from 1.62 to 1.79) (EC 2013: 11), the rates have remained well below the replacement level during the past decades. Although the Dutch fertility rates are slightly higher than the EU-27 average (EC 2013: 11), they have been decreasing since 2011 and the number of births in 2013 reached about the level of the early 1980s. The data from the Eurostat (2014) visualize this development in Fig. 1.

The relationship between change in policy orientation in the 1990s (increasing labour market participation for women) and declining fertility trends is not

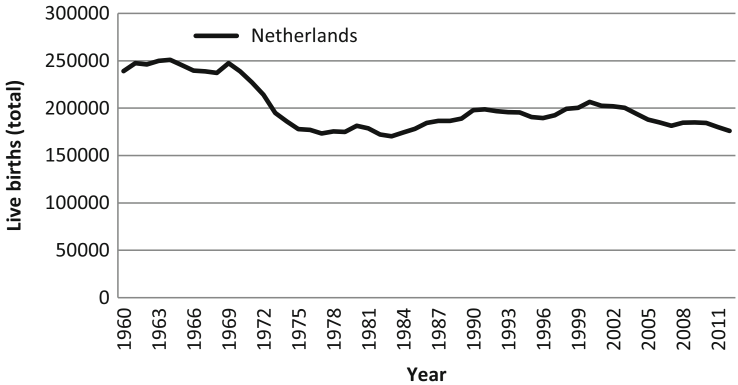

Fig. 1 Development of the Dutch birth rate 1960–2012. *Source*: Eurostat (2014), Population statistics (number of live births)

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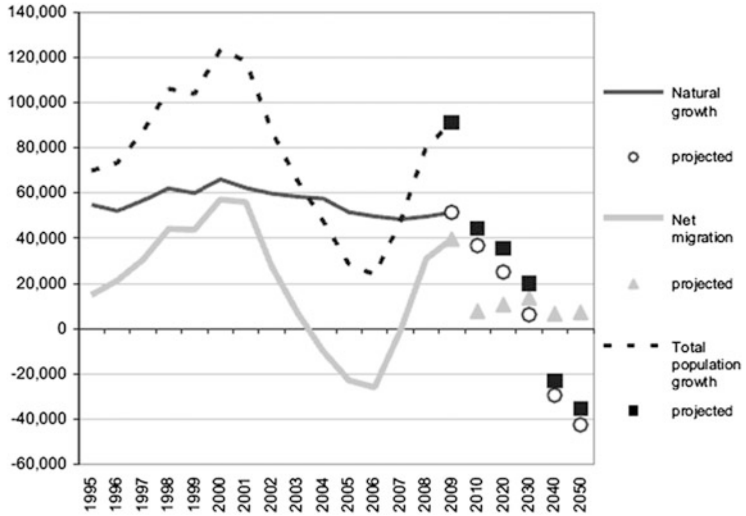

Fig. 2 Population growth in the Netherlands 1995–2050. *Source*: EC (2011: 146)

straightforward. Since the early 2000s, more women have been postponing motherhood or remain childless which may indicate that women have started to prioritize their work lives above motherhood (at a young age). The national figures from the Centraal Bureau voor de Statistiek (CBS) (2013b) show that the number of women in their reproductive years has remained fairly stable in recent years. Although the CBS holds that the economic recession is responsible for causing delays to motherhood or increasing number of childless families (CBS 2013b), the trend of postponing motherhood was already visible before the recession. Between 1970 and 2009, the mean age of women at childbirth steadily increased from an average of 28.2 years to 30.7 years respectively (EC 2011: 146). In total, the natural population growth is declining, as demonstrated in Fig. 2.

The increasing net migration up to the 2000s was favourable for the total population growth. According to Eurostat projections (EC 2011: 146), the total population of the Netherlands is projected to decrease between 2030 and 2050, but to reach the current level again around the year 2050. Projections are based on the assumption that fertility will remain equally high and that life expectancy will grow slower than for EU-27 as a whole (EC 2011: 147). These trends combined with significant immigration will result in a below-EU-27 average old-age dependency ratio by 2050 (as discussed below), however, the Dutch population is projected to grow by only a few per cent until 2050 (ibid: 147). Bearing in mind the drop in net migration in the 2000s and the current anti-immigration climate that dominates national political debates on the issue, it is questionable whether immigration flows will remain sufficient to feed into population growth also in the future. We will return to this point in Sect. 5. In spite of these discussions, the Netherlands continues to be a very multicultural country. In 2009, the Netherlands counted

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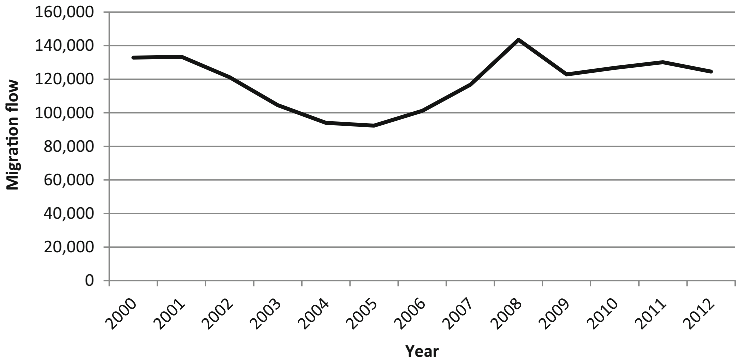

Fig. 3 Migration flows to the Netherlands 2000–2012. *Source*: Eurostat (2014), International migration flows (immigration)

about 16.5 million inhabitants, of which 10.9 % were foreign born (EC 2011: 52). Of these 2.5 % were born in another EU member state, while 8.4 % were born in a non-EU country (EC 2011: 52). In 2009, the foreign-born residents originated mainly from Turkey (10.9 % of the total foreign-born population), the previous Dutch colony Suriname (10.4 %), and Morocco (9.3 %) (EC 2011: 53).

Figure 3 shows a decreasing trend in the total number of long-term immigrants into the Netherlands between 2001 and 2006, and an increasing trend between 2006 and 2008. From the 2009, the trend line has been slackening again. The same applies for the net migration rate (see Fig. 2). Although the net migration rate has been higher in the Netherlands than the EU-27 average, it has decreased in recent years; Eurostat data (2014) illustrates a drop from 2.3 % in 2009, to 2.0 % in 2010 and finally to 1.8 % in 2011. The further decrease may thus lower the total population growth further and put more pressure on the collective welfare arrangements in the future.

2.2 Population Forecasts

When looking at the population structure, and in particular at the projected old-age dependency ratio, the Netherlands seems to be doing reasonably well when compared to other EU member states. In the Netherlands, the old age dependency ratio has steadily increased from 16.2 in 1970 to 22.3 in 2009, and it is projected to increase even further also in the decades to come, namely to 40.0 in 2030 and 45.6 in 2050 (EC 2011: 146). This increase would be equivalent to a doubling of the old-age dependency ratio between 2013 and 2050. In spite of this rise, in 2060 the projected number of persons aged 65 and over (expressed as percentage of the projected number of persons aged between 15 and 64) is expected to be lower in the Netherlands (47.47) than the average number of persons aged 65 and over across all 27 EU member states (52.55) (ibid.). At the same time, life expectancy at birth for

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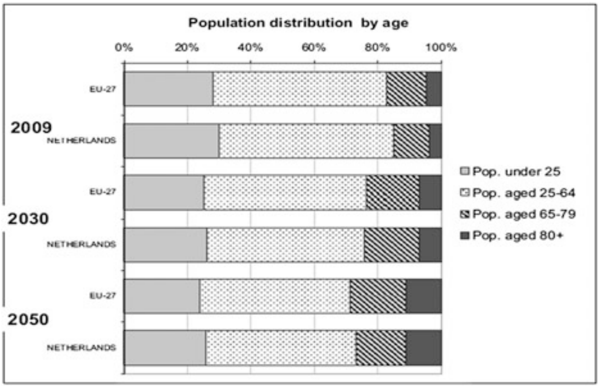

Fig. 4 Population distribution by age in the Netherlands and EU-27 in 2009, 2030 and 2060. *Source*: EC (2011: 146–147)

both genders has increased significantly throughout the twentieth century and is projected to increase even further over the next decades (ibid.). Already, however, life expectancy in the Netherlands is higher than the average European value, though the differences are only marginal (82.9 years (NL) vs. 82.4 years (EU 27) for women in 2009 and 78.7 years (NL) vs. 76.4 years (EU 27) for men in 2009) (ibid.).

As a result of the continuously low fertility rate and the ever increasing life expectancy, the percentage of persons under 25 years as well as the percentage of persons aged 25–64 years will decrease, while the percentage of persons aged 65–79 years and especially the size of the 80+ group will increase in the coming decades in the Netherlands. Figure 4 illustrates the changes in the population structure that are expected to shape Dutch society until the year 2050.

2.3 Consequences for the Dutch Welfare System

In the following it will be discussed how the demographic processes outlined above relate to the specific structures and policy designs of the Dutch welfare state. Reforms that have been implemented in reaction to the (demographic) challenges will be further elaborated in Sect. 4.

The Dutch population may thus be one of the youngest in ageing Europe, and largely thanks to high migration flows to the country (in the past), a modest population growth is projected to take place until 2030 (EC 2011). Notwithstanding these reasonably favourable conditions, the potential impacts of population ageing on the sustainability of the welfare state have increasingly gained attention on the political agenda, especially concerning *pensions*. This goes somewhat against the image of the Dutch pension system abroad: it is often argued that a multi-tiered pension system is more able to adapt to changing economic and demographic

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conditions (see i.e. Ponds and Riel 2007).[1] Nevertheless, political pressure to extend working life has been high in recent years, and eventually led to the political attempt to increase the official age of retirement from 65 to 67 years.

Representing the main characteristics of the continental welfare regime, including generous income replacement benefits and the classic role of the family in the provision of care services, the Netherlands has traditionally relied on the collective social compensation of risks and a strong attachment of (male breadwinners) to the labour market in their social policies. In the second half of the 1990s, a rather sudden U-turn from passive income replacement systems to an active and preventive social policy has been suggested to have cured the Dutch system from its 'vices of welfare without work' (Hemerijck and Marx 2006). Part of this 'Dutch miracle', praised at home and abroad, was the strong promotion of increased labour market participation, especially of women. In the context of new social risks, demographic change and financial sustainability, *labour market policies* have to be geared towards coping with a further flexibilisation of the labour market and projected labour market shrinkages in the future.

Therefore, the liberation of Dutch women from family (and/or) care responsibilities to enable them to participate in the labour market has been commonly considered among the political elite as a *sine qua non* for the long-term sustainability of the inclusive welfare state (Hemerijck et al. 2013) and has evidently contributed to the erosion of the male breadwinner hegemony in the last decades. In this vein, the *family-friendly policies* aiming at a better reconciliation of work and family responsibilities are of utmost importance. These policies, however, have been one of the hardest-hit victims of the retrenchment reforms that have been implemented in the midst of the ongoing economic crisis. By now, the future of care has emerged as one of burning issues in the current (political/social) debates in the Netherlands.

Admittedly, the reconciliation of work and family responsibilities will pose a grand challenge to the Netherlands in the future, in particular in the context of population ageing and the rapidly increasing need for *care of the elderly*. As a matter of fact, policy priorities have been set that may pose a double burden for the carers in the future: on the one hand the government's plans to extend working lives obliges people to work (more hours and longer) in the labour market and on the other hand the last three governments' tendency towards a rapid re-familiasation in the care of the elderly will obstruct their possibilities to do so. Moreover, the ageing population heightens the pressures to cut the costs of the comprehensive *health care* system in the Netherlands.

Last, but certainly not least, the demographic changes have fuelled the national and international debates on the future of the Dutch welfare state. Trends such as the de-centralisation of social services (to the municipalities) and the other ongoing

[1] Having a multi-tiered system, including the basic pillar of state-led pensions, the second pillar of funded pensions paid by the employees and employers and third pillar of voluntary private funded pension accounts like the one in the Netherlands, is often seen as more effective than having one state-run basic pension only.

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localization and regionalization efforts in the area of social policy, have been visible for some time now and have gained ever more prominence in recent years. The surmounting pressures from population ageing as well as the current extended fiscal crisis have paved the political way towards the creation of a participatory society, where people need to take (more) responsibility for their own future and the creation of their own social and financial safety nets, with reduced help from the national government. These main challenges and their implications for Dutch welfare state politics are discussed in more detail in Sect. 4.

3 Fiscal and Economic Crisis

The Netherlands, with its small open economy (Katzenstein 1985), is very much dependent on exports, which makes the country completely vulnerable to external shocks like the recent global economic crisis which originated in the US in 2007. With a fairly low unemployment rate, stable finances and low government debt, the Dutch economy was however in comparatively good shape when the global financial crisis hit Europe in 2008. As described in Fig. 5, in 2007, the real GDP growth rate was higher in the Netherlands (3.9 %) than it was on average in the EU-27 (3.2 %). However, this growth ground to a halt in the second quarter of the year 2008, and in 2009 the real GDP growth rate even tumbled down to −3.7 %. In 2010 and 2011 economic growth was again positive, but much slower than before the recession (1.6 % and 1.0 % accordingly). In 2012, Europe landed in a double dip recession and the real GDP growth rate for the Netherlands was negative (−1.2 % for 2012 and −0.8 % for 2013) (Eurostat 2014). The economic growth turned positive in the second quarter of 2013, and is projected to reach 1.0 in 2014 and 1.3 in 2015 (Eurostat 2014).

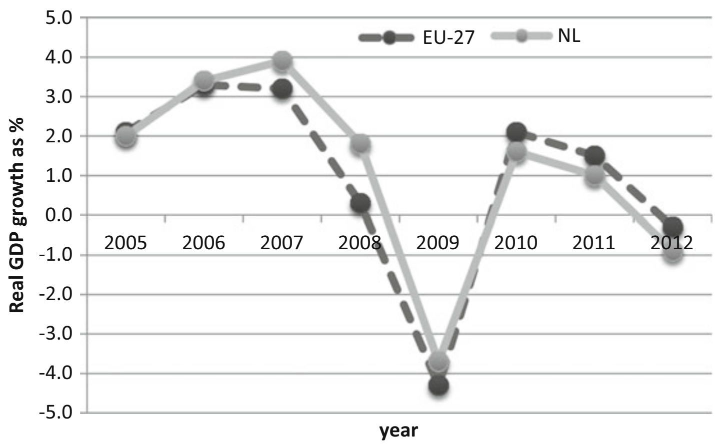

Fig. 5 Real GDP growth (as percentage change on the previous period) in the Netherlands and the EU-27 2005–2012. *Source*: Eurostat (2014), Real economic growth

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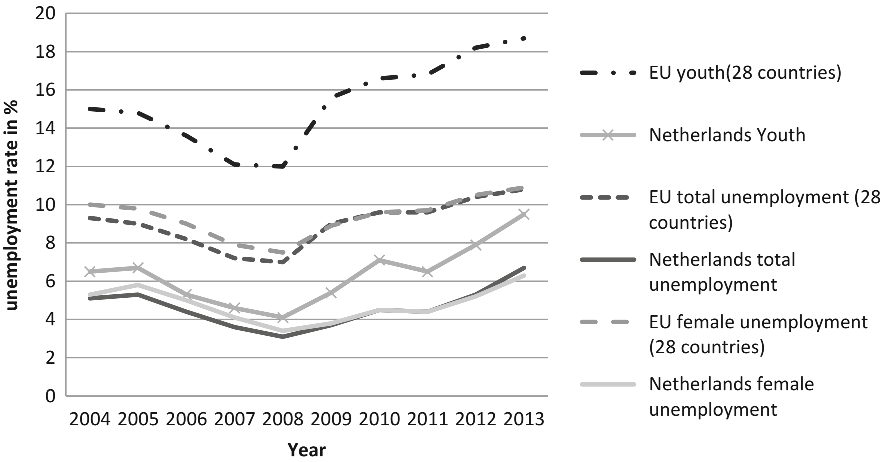

Fig. 6 Development of the unemployment rate (total and youth) in the Netherlands and the EU-28 (%) 2004–2013. *Source*: Eurostat (2014), Labour Force Survey

The general government gross debt in the period of the 'great recession' has exceeded the 60 % threshold that was the norm for the preceding period (of 1994–2009). The general government gross debt has increased from 63.4 % in 2010 to 74.3 % in 2013 despite the consolidation measures by the government (more of these measures below). The deficit is expected to rise in 2014 (75.3) and in 2015 (75.6 %) (Eurostat 2014 projections). The so-called 'business cycle tracer' provided by Statistics Netherlands indicates that the Dutch economy has been hit hard by the economic crisis and a downward trend can be seen for nearly all economic indicators (e.g. consumer confidence, consumption, export, unemployment, temporary jobs, vacancies etc.) from 2009 onwards (CBS 2013a). Yet, at least when compared internationally, the Netherlands has been doing relatively well with regard to unemployment figures, as becomes apparent from Fig. 6.

With their 2013 unemployment rate being 6.7 %, the Netherlands currently has one of the lowest unemployment rates in Europe. Consequently, the Dutch unemployment rate was much lower than the averages of both the EU-28 (10.8 %) and the Euro area (12 %) in 2013 (Eurostat 2014, Labour Force Survey).[2] At the same time, the employment rate in the Netherlands has remained higher than the EU average. In 2013, 76.5 % of the Dutch population aged 20–64 were employed according to Eurostat records (in comparison to the EU-28 average of 68.4 %) (Eurostat 2014, Labour Force Survey). The sharpest increase in unemployment has occurred among the youth as was depicted in Fig. 6. In 2013, the youth unemployment rate in the Netherlands was 8.8 %, one of the lowest rates in the EU (EU-28

[2] It is worth mentioning that according to the Statistics Netherlands (CBS), unemployment is actually higher than reported by Eurostat, and that it is increasing: between December 2012 and January 2013 unemployment among the Dutch labour force rose from 7.2 % to 7.5 %.

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average being 18.2 %). The growth of unemployment in the age group 15–29 has, however, been rapid as youth unemployment in the Netherlands has climbed from 3.6 % in 2008 to 8.8 % in 2013.

Although the political answer to the global economic (and financial) crisis has been an increased focus on austerity measures, the initial answer to the crisis in the Netherlands was to stimulate and invest in the economy. After the first signs of the economic recession in 2008, under still reasonably stable economic conditions, the Balkenende IV cabinet launched *a short-term stimulus plan of six billion euros* in March (TK 2008/2009, nr 24, p. 6). A part-time unemployment scheme was introduced as the main element of this stimulus package, and some minor investments were made to facilitate (access to) training schemes and improve employment mobility in order to assist people into new jobs quickly and prevent youth unemployment. To restore public finances, the government planned to reduce the public deficit by at least 0.5 % of GDP per year, as from 2011. Other elements of the 'sustainability package' which were designed to cut costs (by five billion euros) in a long-term perspective, were the increase in the statutory retirement age from 65 to 67 years and a reform of (and cuts in) the health care budget (ibid.). The Balkende IV government, however, was ousted in February 2010 before the measures could be passed in parliament and therefore no factual savings were reached.

Very soon the economic crisis in the Netherlands took a turn for the worse, as it turned first into a banking crisis, and then, consequently into a fiscal crisis. All trouble started with the Dutch Central Bank having to rescue two of the largest banks of the country in October 2008. Fortis/ABN Amro, having a 40 % market share in the small business sector, ran into trouble in the aftermath of the US banking crisis. Altogether, the Dutch government paid nearly 40 billion euros to rescue the domestic financial sector through these capital injections for ING, AEGON and SNS REAAL as well as nationalising ABN AMRO. Although ABN AMRO was planned to be privatised in a mid- to long-term perspective, the rescues worsened the budget deficits of the Netherlands, as a result of which the Dutch budget deficit exceeded the EU's targets.

Comprising liberals and Christian democrats, and supported by populist Geert Wilders' PVV party, the Rutte I cabinet came into office in October 2010 with a strong commitment to austerity measures and the promise to lower both the state deficit and governmental expenditures (Regeerakkoord 2010). An austerity package of 18 billion euros, including a long list of 122 large and small austerity measures, was launched for the duration of the cabinet period (Koolmees 2013: 32). Some of the measures suggested were rather controversial, such as cuts in the spending on care, the military, and the cultural sector, or the planned increases in the statutory retirement age. Before the smoke from this austerity package had cleared, a new forecast published by the Netherlands Bureau for Economic Policy Analysis (CPB), predicting a 4.5 % budget deficit for 2013 and a further slow-down of the economy, alarmed the coalition partners of the Rutte I cabinet (VVD, CDA and PVV). As a result they launched an additional austerity package of 14 billion euros on March 5, 2012. After 7 weeks of negotiations, consultations came to a halt and the Rutte I government offered its resignation to the Queen on April 23, 2012. Only 3 days

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later (on April 26, 2012), initiated by the opposition parties (D66, Groenlinks and Christen Unie), the demissionary cabinet closed an agreement (the so-called *Spring Accord*) on the additional austerity measures (14 billion euros) and brought the government deficit under 3 % as requested by the EU's Growth and Stability Pact (see i.e. TK 2012/2013). The (many) measures decided on were again rather controversial and included for instance an increase in the statutory retirement age, the partial privatisation of unemployment insurance, a restriction of mortgage interest tax deductibility (for decades a taboo in Dutch politics), a higher own risk with regard to health care costs, an increase of the VAT from 19 % to 21 % (as from October 2012), and last but certainly not least, a reform of the dismissal law. The budgetary deficit was successfully cut back with the additional package and remained below the European norm of 3.0 % of GDP in 2013.

In January 2013, the Rutte II cabinet had to adopt another 10 billion euros package to prevent the bank and insurance group SNS REAAL from collapsing under the weight of property loan losses and to shore up again confidence in the financial system. As a consequence of the nationalisation of SNS REAAL, the Dutch budget deficit worsened again. In June 2013, the economic forecasts of the Dutch Central Bank bore the troubling news that the fiscal shortfall would widen to 3.9 % of GDP in 2014. Although the European Commissioner for Economic and Monetary Affairs and the Euro, Olli Rehn, opened up the possibility that the EU could further relax the Dutch budget target for 2014, the Rutte II cabinet affirmed its commitment to clean up the Dutch 'household books', as the slogan from Rutte's previous election campaign went. In August 2013, the Rutte II government called upon further expenditure cuts to honour the European Union's deficit ceiling for 2014. Details of the cuts were presented during the 'Prinsjesdag' on September 17th 2013 (Prinsjesdag 2013). For the 2014 budget, an additional six million euros in austerity measures were announced, including higher costs for health care and a reduction of the payment of unemployment benefits to 24 months. Consequently, a new Law on Work and Security (wet werk en zekerheid) was passed in the First Chamber in June 2014, that provides various measures to strengthen the legal position of the flexible workers, and will eventually lead to a reform in the dismissal law by July 2015. Pensions were reformed by reducing the maximum tax incentive to accumulate a pension by 0.4 %.

To sum up, although the socio-economic indicators (unemployment, employment) have remained relatively favourable over the past 6 years, the economic crisis has posed great challenges to the Dutch economy and its governments. The further and cumulative cuts to social spending and the political pressures for structural reforms are to be materialised in the years to come. The political measures that have already been implemented, and those bills that are currently carried forward through all the stages of the legislative process at the time of writing will be discussed next, but the real implications of the crisis for the Dutch welfare system will probably only become apparent in the coming decade(s).

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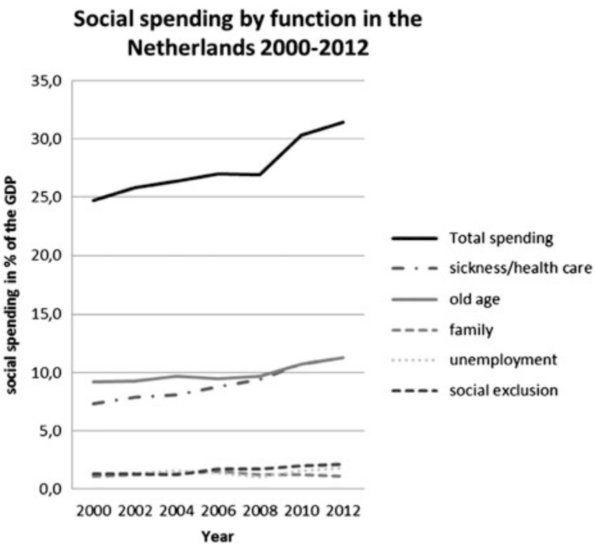
4 Risks and Opportunities

When the centre-left government Balkenende 'Four' (2007–2010) took office in 2007, the prime minister declared that the Netherlands was 'tired of reform' ('hervormingsmoe') (Koolmees 2013: 32). After recovering from painful reforms implemented by the first three Balkenende cabinets[3] and supported by a high economic growth, the Balkenende IV cabinet proposed in its coalition agreement to invest e.g. in childcare, higher disability benefits and an extension of the basic health insurance package (Regeerakkoord 2007). The OECD data shows that, while total spending had decreased in the previous period (between 1990 and 2000 from 25.6 % to 19.8 % of GDP), it increased again between 2000 and 2009 from 19.8 % to 23.2 % (OECD 2014, Socx database).

Then the economic crisis came. Between 2008 and 2011, the Eurostat social expenditure data (2014) illustrates a rise in expenditure from 26.9 % in 2008 to 30.5 % in 2011, as Fig. 7 describes. This increase predominantly reflects the increasing costs of health care and old age transfers, yet it reflects also developments in volumes: i.e. a rise in unemployment protection and social inclusion expenditures. The investments in family policies and child-care were predominantly made prior to 2008 and these policies have been largely frozen in the period of economic crisis: (staying at the spending level of 1.2 % from 2008 to 2011). The volume development is also reflected in the national figures on social security

Fig. 7 The development of total public spending (in percentage of GDP) by function 2000–2011. *Source*: Eurostat (2014), Social expenditure



[3] Especially revisions in the unemployment, disability and social assistance benefit systems, for this see van Gerven (2008a).

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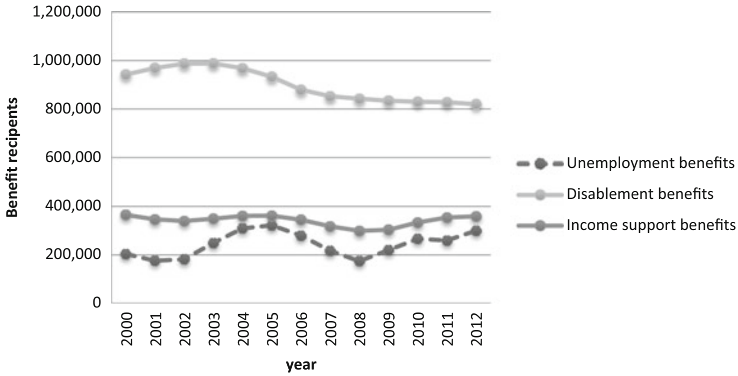

Fig. 8 Development of the number of benefit recipients in the Netherlands 2000–2012. *Source*: CBS (2013a)

recipients, as illustrated in Fig. 8. The disability benefit scheme has finally witnessed a downward trend in beneficiaries from 2006, and the rate has stabilized around 800,000 recipients, but the number of people on unemployment insurance and social assistance benefits has been rising since 2008.

The next sections will relate these socio-economic developments to the developments in the Dutch welfare system for the following policy sectors: (1) the labour market, (2) pensions, (3) health, (4) long-term care, (5) family and children, and (6) decentralized social policy fields.

4.1 Labour Market Policy

Credited to the flexibilisation of the labour market in the 1980s and initiated by the revitalisation of the negotiations between the government and the social partners, the Dutch were successful in increasing their labour market participation rate in the 1990s, in particular among women (Visser 2002). The employment rate of women has been catching up to that of men ever since: according to figures from Eurostat the Dutch employment rate for women aged 25–64 was 72.7 % in 2009 in comparison to 84.9 % in 2009 for men in the same age group in the same year (EC 2011: 146). Both rates are above the targets set by European Union for employment rates, but the reading of such statistics should be done with some caution. Although the number of men working part-time has also increased from 19.3 % in 2000 to 24.8 % in 2009 (EC 2011: 146), the Netherlands has established itself as the first one-and-a-half breadwinner society (Visser 2002), where many of the women have, sometimes very small, part-time jobs.

The creation of a secondary labour market for part-time workers (see also Visser 2002) in the Netherlands has not been accompanied by a deterioration of the protection of workers as is often suggested by scholars. The 'Flexicurity agreement'

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of 1995 between the social partners improved the employment protection for workers with flexible contracts, and the 'Working Hours Act' of 2000 officially ratified the contents of the agreement as statutory equal rights for part-time workers in all areas that are negotiated by the social partners, such as wages, basic social security, training and education, subsidised care provision, holiday pay and second tier pension (Houwing 2010). Part time-work has been the central policy for promoting (women's) employment also during the new millennium and a significant, and an increasing number of women indeed work part-time (71.0 % in 2000, 75.8 % in 2009) (EC 2011: 146).[4] From the outset of the crisis in 2007, flexibilisation of labour relations has apparently increased, as less permanent labour contracts have been signed since 2008 and the number of part-time and temporary work contracts has grown (APE 2012). In the future, this development may lead towards an increased dualisation among the workforce.

Having implemented reasonably activating arrangements before the crisis, the last Balkenende (IV) cabinet did not need to initiate drastic changes in the field of labour market policy in the first years of the economic crisis. Merely more funding was made available for training, retraining and the prevention of youth unemployment. Additionally, in April 2009, a part-time unemployment benefit (the so-called 'Deeltijd WW') was made available for companies that needed temporary support and which were judged economically viable in the long-term. Arising from the extraordinary economic crisis, Deeltijd WW was a temporary measure and already abolished in July 2011. The following governments, governed by Prime Minister Rutte, have, however, introduced more measures in the field of social and labour market policies; some of which are of a path-breaking nature. Profound plans for labour market policy, stemming from the 'Spring Accord' of 2012 between the opposition parties and the demissionary cabinet Rutte I, included e.g. a partial privatisation of the unemployment insurance (shifting the responsibility of unemployment benefit payments to the former employers for the first 6 months) and the controversial reform of the dismissal law (see i.e. TK 2012/2013). In agreement with the social partners on a social package of measures to stimulate the Dutch economy in April 2013, these measures were, however, suspended until the year 2016, when—it is hoped—the Dutch economy will have started to recover from the crisis. In the plans which the government announced in September 2013, the reforms were, however, still on the agenda.

Similar to the other EU countries, the highest unemployment rate in the Netherlands is found among the young population (aged 15–24). The Rutte governments have increased the funding for training and retraining schemes directed to young persons and attempted to further prevent dropout. At the time of writing, no structural cures or political master plans have been presented to deal

[4] In 2009, the average number of hours worked per week was lower in the Netherlands than the EU-27 average for both women (25.2 % in the Netherlands in comparison to 33.0 % in the EU-27) and men (36.6 % in the Netherlands hours in comparison to 39.9 % in the EU-27). At the same time, gender pay gap (unadjusted) has decreased slightly from 21.0 % in 2000 to 19.6 % in 2009. *Source*: EC (2011: 146).

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with the issue of youth unemployment, with the exception of increased spending on youth unemployment and training through European Social Fund (ESF) and national funding and collaboration with social partners and vocational training centres. In the 1970s, the Netherlands faced a similar challenge of mass youth unemployment and the solution at that time was the institutionalisation of the early retirement schemes. This solution, however, soon became too costly, and, after a series of painful reforms in the 2000s, the early retirement schemes were abolished in the Netherlands. In the current situation, the old solution no longer attracts political attention, on the contrary, the policy trend of the twenty-first century, already foreseeing the structural shortages of the Dutch labour market in the future, are in line with the political ambition to extend working careers of older workers, discourage (premature) exit from the labour market, promote active aging and life-long learning and increase the (effective) pensionable age all over Europe. Having abolished nearly all premature exit routes for older and partially disabled workers and having fundamentally reformed the disability insurance system (for this, see i.e. van Gerven 2008a) by the mid-2000s, the Dutch governments have been successful in raising employment rates for both women and men aged 55–64. Between 2000 and 2009, the employment rate for women aged 55–64 increased from 26.1 % to 44.7 %, as did the employment rate for men in the same age category, which rose from 50.2 % to 65.4 % in the same time span (EC 2011: 146). In the context of the ongoing economic crisis, this development poses a challenge to politicians: they will need to find solutions to create (new) employment possibilities for young persons while at the same time having to promote the extension of working careers of (existing) older workers looking for or actually in employment.

4.2 Pensions

The Dutch system with its integrated public and private mandatory provision of retirement income is often seen as a benchmark for other continental welfare states to emulate (Ponds and Riel 2007). The system comprises of the first pillar of basic state pension based on residency, the second pillar of occupational pension (defined benefit) system based on the average salary of the worker, and third pillar of voluntary private pension system. In contrast to many Western European welfare states that are being exclusively based on public mandatory pay-as-you-go systems, the Dutch pension system is commonly considered to be more effective with regard to risk-balancing and intergenerational burden-sharing through combining a general revenue financed, basic pension guarantee with funded extensions of earnings-related (mandatory) occupational pensions. Yet, and perhaps living up to the ‘never miss a good crisis’ strategy, the Dutch political leaders have extensively used the economic crisis in the Eurozone as a window of opportunity for calling up structural reforms. After worsening relations between the trade unions and the Balkenende government(s) in the early 2000s, the economic crisis has provided the Rutte governments with a foreseen opportunity to engage in negotiations with the social partners and to pressure them to accept the increase in the legal retirement age as well as the increase of contributions by both employers and employees. In a social

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summit that was held on March 24, 2009, the Rutte I government came up with a plan on how to combat the effects of the crisis on the labour market. The main topics in this respect were measures to prevent long-term unemployment, promote a responsible development of labour costs and improve the sustainability of public finances and the pension system. In the pension debates, the government avoided linking this reform with the economic crisis, and rather framed it as a necessary measure to be able to deal with the demographic changes (the ageing of the Dutch population, 'vergrijzing') and to guarantee the sustainability of the pension system in the long-run (Regeerakkoord 2010). The government plan was to increase the statutory retirement age from 65 to 67 years, but after difficult negotiations the social partners came up with an alternative plan. The pension agreement in June 2011, negotiated between Minister Kamp of Social Affairs, and employees and employers, hinged on increasing the retirement age to only 66 years in 2020 and then to 67 years in 2025. The plan was rubber-stamped by FNV chair Agnes Jongerius on behalf of the federation, but the triumph was quickly followed by internal turmoil within the trade union confederation when two of the biggest FNV-affiliated unions, Bondgenoten and the General Union of Public Servants (Abvakabo), voted against the agreement. This turmoil led to the resignation of the president of FNV, Agnes Jongerius, and a complete re-organisation of the trade union confederation. The new trade union confederation, led by Ton Heerts, and supported by the leader of the employers association Bernard Wientjes (chair of VNO-NCW) have entreated the first chamber to go along with the tripartite decision on pension reform. The raising of the standard retirement age was enacted into law in July 2012 and this will be implemented at an accelerated rate: raising the retirement age to 66 in 2018 and 67 in 2012. The standard retirement age will also be linked to life expectancy.

4.3 Health Policy

Next to pension spending, pressures to cut the health care costs have been high. Although increasingly regulated by the government, the Dutch health care system has its origins in the various private health insurance funds established at the end of the nineteenth century. The current system (based on the 2006 Dutch Healthcare Act, ZvW) comprises of a compulsory basic health insurance for every citizen that provides coverage for primary health care. It has replaced the previous two-tier system, which distinguished between the wealthy and the rest, and has introduced more competitive incentives for insurers. Under the current scheme, each year, the Dutch government defines the costs and content of this basic insurance packet. In addition to the basic package, people can make personal choices to pay extra for a more extensive insurance coverage and can take out a complementary insurance that provides for the costs of additional medical treatments and care. The private health insurance companies are obliged to accept every citizen for the basic health insurance and they are intended to compete on two markets: on the market for (new) clients as well as on the market of health care suppliers.

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In the advent of demographic ageing, the measures debated with regard to cost control commonly include increases in contributions and premiums, increased private payments through rises in the mandatory individual deductions, and restrictions on the scope of the mandated benefit packages (Maarse 2011). Furthermore, each year insurers are encouraged by the government to negotiate with providers for lower prices for services or medicines. The Rutte II government has emphasised in its coalition agreement the need to improve the quality of care by means of reducing variation in medical practice and preventing unnecessary medical treatment (Regeerakkoord 2012). Further efforts towards cost control, including strict package management and greater cooperation between providers, were also mentioned as priorities. The controversial reforms intended to make health insurance payments more progressive were announced, but were later withdrawn after strong criticism by the constituency of the Labour party (PvdA). Citizens will, however, bare more of the cost of their health care, as the coverage of their package will be renegotiated (made less encompassing) and the 'personal responsibility' part of the payment will be raised (to 360 euros per year in 2014).

4.4 Long-Term Care

In addition to the expansion of child care services (which are discussed below), elderly care services were expanded by the purple coalitions in the late 1990s (Regeerakkoord 1998). The Kok government strove for a long-term care system that was demand-led and tailor-made towards the needs of individuals (see also van Hooren and Becker 2012). This included further professionalization of nursing homes, where the elderly in need of substantial care can receive provisions for living and care. These homes are funded by a national insurance (the so-called Exceptional Medical Expenses Act, ABWZ) to which all citizens pay contributions. To promote the freedom of choice, the Kok government also introduced the system of 'personal budgets' ('persoonsgebonden budgets'): cash payments to the persons in need of care that enabled these persons to choose what kind of care services they would like to consume and to whom they would want to supply these services (often spouses). Yet, the costs quickly went over budget and the social security contributions for the AWBZ rose from 9.6 % of gross wages in 1998 to 13 % in 2004 (van Hooren and Becker 2012). The first Balkenende's Christian democratic-led government intervened by increasing co-payments for services as well as tightening eligibility criteria and shifting home help services from the ABWZ to local governments' social assistance programmes. The Balkenende's government chose a different course. It emphasised in its coalition agreement of 2003 that 'state responsibility ends at the front door' and strongly opposed the replacement of informal help through a public system (Regeerakkoord 2003). From here on, the focus in the care of the elderly has been laid on the promotion of informal care for as long as possible, while public care will intervene only when care at home is no longer manageable.

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To strengthen this vision, a new Social Support Act (WMO) was enacted in 2007. It decentralised the provision of home help services to local governments and increased marketisation of and competition in the sector. Under the WMO, people in need of care have no longer a right to domestic help, but the local governments have been assigned a duty to assist citizens who are incapable of running a household independently. The new policy direction is likely to put more strain on the family, first on the spouse, and then on the children (particularly daughters) in providing (informal) care. In the context of a shrinking labour force in the future, the de-formalisation of the care of the elderly accompanied by the de-formalisation of child care may lead to a double burden: the working age population is expected to extend their working careers (and working hours) while at the same time they are expected to assume increasing responsibility for the care of both their children and their elderly parents. In a short-term perspective, further cuts are expected for this sector and more responsibilities will probably be shifted towards the families and local governments (see also Sect. 4.5).

4.5 Family and Children

The flexible labour market has been the Dutch solution for dealing with the new social risk of female labour market participation. The creation of a 'secondary' labour market for women has enabled Dutch governments to address the issue of reconciling work and family responsibilities without the need to fully formalise child care services. Flexible working opportunities for women (working part-time and often only during the hours children are at school) and a tax system that supports the one-and-a-half breadwinner model have been an opportunity, but also a risk to the Dutch welfare system.

In the 1990s and early 2000s, as a part of the governmental strategy to encourage the labour market participation of women, the political decision was taken to institutionalise and formalise child care (see more Van Hooren and Becker 2012). The rights were extended further in 2007, when all families with two working parents could qualify for subsidies and employers were made responsible for bearing parts of the costs of child care of their employees. As a consequence, parental payments declined to from 37 % of real child care costs in 2005 to only 18 % in 2008, at the same time, the number of children using care facilities increased substantially between 2005 (311,000) and 2010 (715,000) (BoK 2013).

Very soon, the costs of child care went beyond those anticipated. Christian democrats had pushed for a demand-led system of child care where subsidies were made available not only to market providers, but also to informal or guest parent carers (van Hooren and Becker 2012). Adhering to the Christian democratic value that the family is the corner stone of society and that parents should also be able to choose informal forms of child care, the implemented policy allowed family members (most commonly grandparents) to make use of the financial system when caring for their children. When the expenditures of child care exploded in 2008/2009, the Balkenende IV government (2007–2010), the same government that had implemented the law in the first place, felt obliged to intervene. From 2009

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onwards, several cutbacks were implemented to child care policy by Balkenende IV and Rutte I (2010–2012). Parents' contributions were raised from 2008: whereas the parent's contribution had been only 18 % of total costs in 2008, they were gradually raised to 27 % in 2011, and currently to 37 % in 2013 (equal to the ratio in 2005) (BoK 2013). At the same time, the state's proportion of the costs was cut from 59 % of the total cost in 2008 to 30 % in 2013 (ibid.). Moreover, rights to subsidies were restricted to prevent the misuse of guest parent subsidies (i.e. for grandmothers who had previously looked after their grandchildren for free). Since 2009, only those guest parents who are registered and qualified are eligible for the subsidy. From 2012 onwards, the maximum amount of hours that childcare is provided for was linked to the amount of working hours of the parent who works the least hours (usually the mother). The cuts were commonly justified by the almost fivefold increase in expenditure on day-care since 2005. The message of the Rutte II government is that working parents should bear more financial responsibility for their children (Regeerakkoord 2012). After attempts to formalise child care services in the early 2000s, the Rutte II government advices parents to use their informal network for finding other (cheaper) solutions for child care, cutting down working hours or engaging in 'the new work' pattern of (tele)working more from home. Additionally, parents are expected to get involved with their children's schools (as school budgets have also been cut) (Regeerakkoord 2010). The (neo-liberal) discourse behind the cost containment measures of child care (subsidies) has lingered around the fact that, as articulated by the Minister of Social Affairs and Employment, the increase in child care places and increased financial support for families has had led only to modest simultaneous increase (+3 %) in the labour market participation of women (for the empirical evidence, see Bettendorf et al. 2012).

In the midst of the economic crisis, the Netherlands remains a part-time working economy with strong traditional norms regarding child care and mother's employment. The maternity leave of only 16 weeks can be considered as relatively short, and many women indeed cut down their working hours after child birth (Visser 2002). Consequently, child care remains the main task for mothers. In 2009 child care for toddlers aged 0–2 years was provided for only 47.0 % of them (Eurostat 2014, child care arrangement statistics). The political attempts of the early 2000s to institutionalise the formal child care services and raise the number of working hours were not considered successful, or at least the costs were not seen to outweigh the gains. The recent cuts to child care subsidies, however, have led to drastic consequences for child care centres and people working in this sector. The ministry had calculated that the cuts were necessary from a financial point of view and would lead to a better supply and demand situation and result merely in the reduction of the long waiting lists for day care in certain cities. Since the cuts, the long waiting lists for day care have indeed disappeared, as initially predicted by the ministry, but at the same time, as portrayed in Fig. 9, the number of parents making use of day care facilities has been decreasing from 2011, being cut by almost 100,000 children between 2011 (738,000) and 2013 (660,000). This has led to various rounds of lay-offs by child care personnel and a massive increase in the number of bankruptcies within the branch of these organisations.

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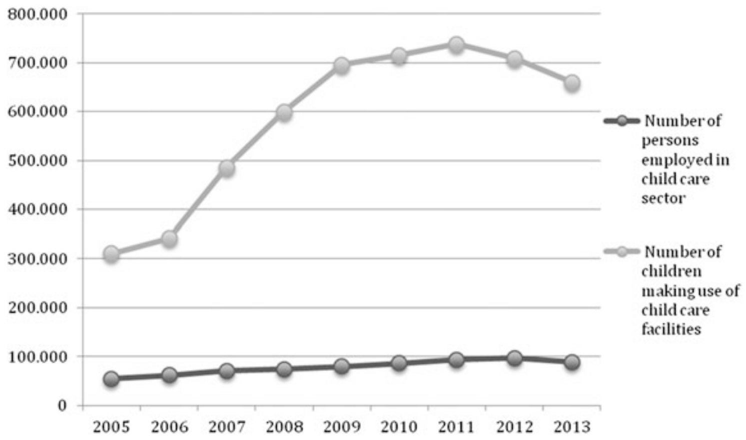

Fig. 9 Developments in the Dutch child care sector 2005–2012. *Source*: Brancheorganisatie Kinderopvang (BoK 2013)

4.6 Decentralization of Social Policies

The Netherlands is a unitary state, governed constitutionally as a single unit, with a constitutionally created legislature of 12 provinces, and more than 400 municipalities. The municipalities possess a large degree of autonomous powers with respect to the central government. For a long time, most social policies have been governed at the national level, but in the last decade, reinforced by the prospects of population ageing and the impact of the recent austerity measures, the trend of decentralizing social policies from the state level to the local level has increased. Framed as part of the sustainability discussion, the Rutte II government re-communicated in 2013 its intention to decentralise responsibilities in the social sector relating to youth care (Youth Services Act), employment and participation (Participation Act), and care for the long-term ill and the elderly (AWBZ and WMO) (Regeerakkoord 2012) in 2014 and 2015. By 2016, most of the tasks shall be delegated from the central level to the level of municipalities under the policy agenda 'one family, one plan, one coordinator' with one budget and one government coordinator. The motivation behind this new, de-regulated system is that it is expected to be more efficient, coherent and cost effective. The consequences for the municipalities are not yet apparent, but at the time of writing the municipalities are concerned: although shifting the services under one coordinator provides municipalities with more freedom to organise matters to meet local needs and prevent parallel work by different care providers, the decentralisation is proclaimed to lead to further retrenchments and rising inequalities between municipalities. The current plans indeed confirm these worries: some of the services are no longer reimbursed by the central government, or are done so only partially. Arguably, more responsibilities and less funding will pose great challenges to the municipalities. It is expected, and also declared by the central government, that

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the decentralisation of administrative and financial responsibilities to the local governments will eventually lead to a significantly reduced number of municipalities. The government expects the amount of municipalities to decrease from 400 to 300 by the end of the cabinet period (2016) (Regeerakkoord 2012).

5 Conclusions

During the extended economic crisis, the Dutch welfare system has indeed been put to the test: Although political leaders have figuratively speaking kissed goodbye to the traditional welfare state, it is not yet clear to what extent this is actually going to happen in mid- and long term perspectives. Since the beginning of the crisis, many steps have been taken away from the politics of previous governments, especially in the area of care policies. Political signs have been given towards a further loosening of collective social protection and increasing of individualism in providing welfare. The austerity reforms are announced to continue in the near future, and the need to structural changes in the area of pensions and (un)employment remain to be emphasized by the politicians. In the long-term perspective, the further localization and regionalization of social policies, and strengthening of participatory society are also the focus of political intentions.

To what extent the measures will lead to another U-turn in the Dutch welfare system? Policy-making in the Dutch context means that governing parties must negotiate with opposition parties as well as relatively strong labour movements. The multitude of veto players in the Dutch social policy game makes it difficult to push through unpopular structural reforms. Social policies also often need years and even decades to materialize, and such changes regularly necessitate normative shifts in thinking. The recent example of formalizing the child care services in the early 2000s, and the reverse of these policies in the recent past illustrates this well. Social policies are grounded in the historically shaped preferences and values and changing these is difficult. The example of disability benefit reform in the Netherlands illustrates this difficulty as well. It took literally decades before the new disability insurance schemes were successfully and legitimately implemented in 2006 (for this, see van Gerven 2008a): small (unsuccessful) changes in the scheme throughout 1980s and 1990s paved a way for a wider recalibration that eventually took place in the mid-2000s. This highlights the importance of time in welfare reform.

Despite the prevailing rhetoric of Rutte II government announcing a shift towards the participatory society, where people need to take responsibility for their own future, with a strongly reduced interference by the state, the legitimacy of the Dutch welfare system has not yet seriously been questioned. By using Dutch survey data, Van Oorschot (2006) and Raven et al. (2010) others have demonstrated that, in the eyes of most Dutch, the positive social consequences of the welfare state outweigh the negative economic and moral consequences. Recent polls (Autumn 2013) have shown that confidence in the Rutte II government is at a record low level, and that Dutch people (along with labour unions, employers' associations and

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many leading economists such as Paul Krugman) believe the Rutte cabinet's austerity policies are at least partially to blame for the fact that the Dutch economy has worsened while economic recovery is underway in neighbouring Germany, France and Britain.

An extended economic crisis may yet put the legitimacy of the Dutch welfare state to another test—caused by increasing welfare chauvinism. This proposes that, in the context of migration, some categories such as immigrants are considered to be less entitled to welfare than needy nationals, such as the elderly, the ill or the unemployed (van der Waal et al. 2010). The recent rise of political counter movements and the success of populist parties such as LPF (list Pim Fortuyn) and the Freedom Party (PVV) by Geert Wilders in the elections of the last decade(s), have been credited to their carefully created image of these parties as defenders of the welfare state and collective social protection (de Koster et al. 2013). Eventually their anti-immigrant focus can make the shared solidarity behind the collective welfare arrangements crumble. The results of such societal change will, however, take more time to materialise.

Finally the Dutch, similar to all European economies, are confronted with unseen challenges to their welfare systems. The strict economic and fiscal balances stemming from European Union are among the core factors necessitating the reform of the Dutch welfare systems under the current liberal-left government. The European Union's attempts towards stricter economic regulation are, however, in line with the current Dutch political visions for the country, as well as the country's vision for the European Union at large. A U-turn from compensatory state towards social investment state, as connoted in the European Semester, has found only a little common ground within the Dutch policy vision. So far, the Dutch have downscaled parts of their welfare state provisions, and the encompassing social investment policies have not (yet) gained a high priority among the Dutch policy makers.

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Between Constrained Opportunities and Social Expectations: Social Policy in Contemporary Poland

Renata Siemieńska and Anna Domaradzka

1 Introduction

1.1 The Polish Welfare System in Times of Crisis

Using the Esping-Andersen typology of welfare state regimes, the Polish model resembles most the conservative-corporatist model, in which the social rights and amount of social support is very strongly connected with the labour market status. Another feature shared with the conservative-corporatist regime is the compulsory character of the social insurance system in which all employees are required to contribute to the system through monthly premiums. However, similar to the liberal regime there is a relatively strong connection between the satisfaction of basic needs and labour market performance of citizens, and quite wide income gaps between various strata of the Polish society as well as visible selectivity in the construction of social benefits other than insurance benefits.

In sum, the social policy model emerging in Poland for the last 25 years is certainly still a model in the making, best characterized as "mixed". Both the decentralisation of public administration and changes in the economic system aimed at strengthening the market economy, resulted in the creation of the "welfare blend" where the conservative and corporate tradition coexists with the elements of the liberal model. While dominated by partly privatised social insurance, which provides employment related benefits, it is also supplemented by the universal, means-tested benefits. On top of that, the underdevelopment of the social services sector expects families to fulfil many social tasks connected with care and social

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support. Therefore, the most characteristic feature of the emerging Polish social policy model is the simultaneous presence of both paternalistic and market-oriented notions, which Księżopolski describes as a paternalistic-market hybrid, a term which emphasizes its very profound inconsistency (Księżopolski 2013).

This duality becomes even more visible during times of crisis. Poland has suffered less than many European countries from the economic crisis after its outbreak in the United States in 2008: *Looking at GDP growth since 2007, some EU members are richer than before the crisis, many are back to pre-crisis levels, and some others are significantly poorer. (...) many new Member States maintained the trend of economic convergence, with Poland and Slovakia performing exceptionally well over the period* (Curtarelli et al. 2014: 226). Nevertheless, the economic conditions in Poland have been unstable, and concerns with regard to the public finances have been growing.

The situation in Poland in this respect has been shaped by various factors, some of which are rooted in the previous political system. The shock therapy of the early 1990s resulted in the emergence of new economic mechanisms, increased social stratification and a growing number of people unable to cope with the new socio-economic reality. A significant part of the population has lost the sense of security in terms of employment, access to healthcare, education, housing, childcare services and care for the elderly, while the percentage of this age group has been increasing rapidly (as in other European countries).

The subsequent governments, regardless of their political affiliation, have begun to realize that the existing welfare system is too costly and inefficient, and therefore the privileges of various groups (such as farmers, miners, teachers, uniformed services) must be verified. Each parliamentary or local election, however, was influenced by fear of social dissatisfaction and loss of political support in case of withdrawal of any special rights. Therefore, instead of introducing risky reforms, politicians opted for more populist solutions (e.g. early retirement to reduce unemployment), which resulted in an additional financial strain on the state budget. However, the signals indicating the deepening crisis in different European countries have encouraged the ruling coalition of the Civic Platform (a central-liberal party) and the Polish People's Party (an agrarian party),[1] to speed up work on social reforms to mitigate the burden imposed on the state. Decreasing the cost of social benefits has become the basic motivation behind the reforms undertaken. At the same time, the European Union regulations also had an impact on the direction of social policies development in Poland, pushing for pro-active labour market policies as well as more opportunities for reconciliation of work and family.

In a nutshell, the welfare system in Poland can be characterized as based on transfer of cash benefits to the families as a way of covering risks and social gaps. Not much has changed in this respect in the last 10 years, despite many voiced concerns about this policy's limited effectiveness, as it strengthens the passive attitudes of aid

[1] Both came into power in 2007 and managed to keep the position after the subsequent election of 2011.

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recipients and generates further social and budgetary costs. Although there is a new notion of introducing new "activating" social policy tools, still not enough emphasis is put on welfare as a method of opening up opportunities, which manifests in an insufficient access to affordable childcare as well as undeveloped methods of social and economic activation of the unemployed and marginalized.

Undoubtedly, one of the main problems of the Polish welfare system nowadays is the ageing population, meaning the security system cannot afford to pay retirement benefits from the transfers coming from currently employed people. Another issue is low labour market activity due to problems with reconciliation of work and care, which leads to the withdrawal of women from the labour market. Also, high costs of social insurance in the case of legitimate employment, pushes many employees into the grey labour market, where they receive higher income, but are devoid of any kind of work or social security.

1.2 Financing and Organization of the Polish Welfare System

The social security system in Poland is composed of the social insurance and welfare system, health insurance system, as well as benefits in respect of unemployment and family benefits. The local governments are responsible for the payment of benefits, organization of local support institutions etc. The higher-level local authorities are responsible for management and supervision of those tasks at the local level and creation of more general strategies of social support on the local level. The state administration, on the other hand, is responsible for monitoring the whole system as well as defining future directions of development of social assistance.

The main provider of social services in Poland is still the state government, followed by local and regional governments (Siemieńska and Domaradzka 2009). There is a stable involvement of Catholic Church organizations but also a growing activity of civil society organisations (CSOs) that start to play an important role as welfare providers. Within the framework of the existing system, the state secures the right of citizens to receive social support, and the burden of such support has been divided among the main actors of the sphere of social policy—the state (financing from the state budget), as well as the citizens and the employers (premiums based on employment relationships). Part of the social support system is based on the insurance formula—this applies mainly to retirement pensions, disability pensions and events related to illness, maternity and accidents at work. Benefits in this regard are financed from the state budget and premiums, collected in various parts from the insured (employees) and the payers (employers). Other, strictly social components of the support system are associated with unemployment, poverty, disabilities and raising children. These expenditure categories are financed from the state budget and premiums of the taxpayers (employers).

In 2008, 36.1 % of Poland's government spending was devoted to social protection, in 2010, 32.5 % (almost 96 billion PLN) of the total state budget spending was dedicated to social expenditures. In 2010, social expenditure costs

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amounted to PLN 245 billion, including 39 % financed from the state budget. The state budget covered nearly 100 % of expenditure for social pensions, remunerations for uniformed services, retired judges and prosecutors, social assistance and family benefits. It also covered 87 % of benefits for farmers (within the framework of the Farmers' Social Security Fund). The rest of the funds were obtained from the social insurance system (managed by the Social Insurance Institution—ZUS) and the external sources, mainly the European Social Fund. Compared to other EU countries, Poland's social expenditures are relatively low, amounting to 19.2 % of GDP in 2011, while the EU average was 29.1 %. According to Eurostat, nearly 60 % of that expenditure is on pensions and invalidity allowances, which is in turn the highest rate in the EU.

Summarizing, the forms of state-financed social support include money and material assistance, benefits in form of services as well as active forms of social assistance. In comparison with the situation 10 years ago, social activation plays an increasing role among the social assistance tools. This has been possible mainly thanks to the European Social Fund, which has supported various activities stimulating activation of persons threatened by exclusion or unemployment. The most interesting forms of support, which have been gaining importance in recent years, include assistance in establishing social cooperatives (established by the unemployed, willing to create workplaces for themselves) and the emerging centres and clubs for social integration. Cooperatives may count on financial support provided both by local Labour Offices and the European Social Fund. On the other hand, Centres and Clubs for Social Integration are aimed at rendering services for persons belonging to special risk groups on the labour market and those threatened by social exclusion. The number of those institutions is constantly growing, although not all of them are able to survive on the market.[2]

2 Demographic Change and Population Ageing

Demographic change is one of the main drivers influencing welfare policies in Poland. Among the main concerns are:

- Aging population as a burden to social assistance and health system,
- High unemployment rates among young people, resulting in labour emigration,
- Low birth rates resulting from overburdening of women and changing system of values.

[2] At the end of year 2010, there were 70 centres, 286 clubs and about 320 social cooperatives operating in Poland. Social contracts were provided for more than 112.5 thousand people. As for passive forms of social support, the most popular form was the unemployment benefit. At the end of December 2010, 326.6 thousand people were entitled to these benefits—that is, 53.4 thousand less than at the end of December of the previous year.

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The government addresses the problems through politics of incentives and regulations. To avoid the collapse of the pension system, due to the aging of population, the retirement age has been gradually increased since 2013. Also, since 2010, income-related social insurance fees are steadily growing, to secure the money for pensions and public health system. Since 1996 part of the pension contributions are managed by private retirement plans, for the generation of people under 50. However, recently the government decided to de-privatise the retirement system and put it again under control of the state institutions.

2.1 Demographic Behaviour

In recent years the population of Poland has been growing, mainly due to natural change. Between 01.01.2011 and 01.01.2012 the number of inhabitants increased by 8.6 thousand persons from 38,529.9 to 38,538.4 (Eurostat—online data code: demo_gind, in: EU Employment and Social Situation, Quarterly Review March 2013, European Commission, p. 4). However, according to Central Statistical Office, 1–2 million persons out of this figure have been living abroad for at least 1 year or longer (data for 2011). It is due to the fact that large numbers of Poles have been emigrating in search of jobs since the accession to the European Union in 2004.

The Polish population is ageing, just like populations of the majority of other member countries in the European Union. The median age of the Polish population was 32.8 in 1992 but rose to 38.4 in 2012. It is still lower than in EU-27, where respective figures were 35.7 and 41.5 (Eurostat: online data code: demo_pjanind in: EU Employment and Social Situation, Quarterly Review March 2013, European Commission, p. 9). During that period, young age dependency ratio decreased from 37.7 % to 21.2 %; the trend was sharper than in the whole EU (in 1992—28.5, in 2012—23.4 %). At the same time, the old age dependency ratio increased from 15.9 % in 1992 to 19.4 % in 2012, showing the same trend which is observed in whole EU-27 group (respective figures 21.1 % and 26.8 %) (Eurostat: online data code: demo_pjanind in: EU Employment and Social Situation, Quarterly Review March 2013, European Commission, p. 9). At the same time, in 2012 Poland had one of the lowest birth rates in Europe—1.3 live births per woman (Eurostat (demo_frate)).

2.2 Population Forecasts

Most probably, in the next 20–25 years, Poland will become one of the three countries of the European Union most burdened by the necessity to support the elderly (Okólski and Kaczmarczyk 2013). In their report "Przyszłość demograficzna Polski" (Demographic Future of Poland), Okólski and Kaczmarczyk using both the national and international data, stated: *Both depopulation of the country and biological ageing will grow in the near future to an unprecedented scale in the history of Poland. 50 years from now*, *there will be 7 million less of us than today* (*the population of Poland will be 31.1 to 32.7 million people*), *while the*

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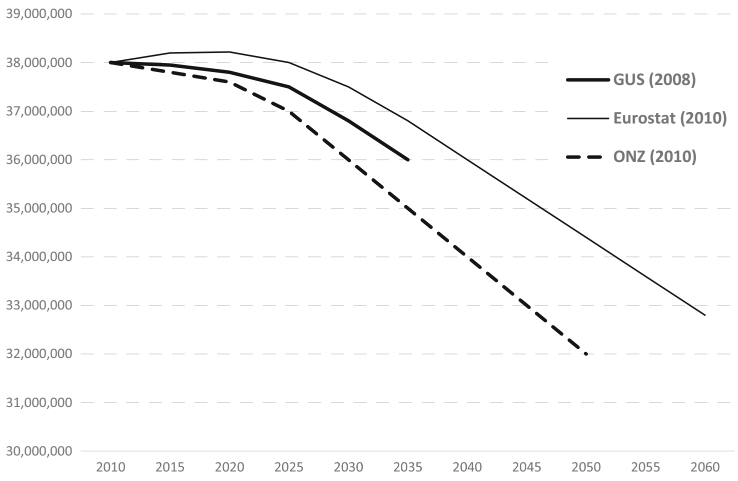

Fig. 1 Population of Poland according to selected demographic forecasts, 2010–2060. *Source*: Okólski and Kaczmarczyk (2013)

number of old people (*those*, *who have reached the age of 80*) *will increase by 3 million*. (Okólski and Kaczmarczyk 2013: 1). It is also foreseen that the number of economically active people will decrease in the next 50 years by about 40 %. Such substantial demographic changes over such a short period of time indicate a great challenge for the labour market, the social policy and the social welfare system in general (Figs. 1 and 2).

According to estimates of the Central Statistical Office, also the mass post-accession labour-related migration of the Poles has and will continue to have a permanent impact on the size and structure of the domestic population in the coming years. The overall loss of the population of Poland due to migration is estimated to be approx. 6–7 %. (Okólski and Kaczmarczyk 2013: 2). Similarly, the low fertility level will continue to have a negative impact on the demographic structure in the future.

The demographic crisis has been observed in various regions of Poland to a varying extent, depending on the situation in the labour market as well as availability of care for children and elderly. In terms of migration, at present, the outflow clearly exceeds the inflow, so it does not offer a realistic solution to the demographic problem of Poland. As Eurostat estimates indicate, maintaining an unchanged resource of persons at working age would require a mass inflow of immigrants, so that their share in the total population in year 2050 would have to reach nearly 45 %. It seems that the only option, which could put a stop to the decrease in the size of the working-age population, is the scenario providing a systematic, long-term implementation of a non-traditional pro-family state policy (Okólski and Kaczmarczyk 2013).

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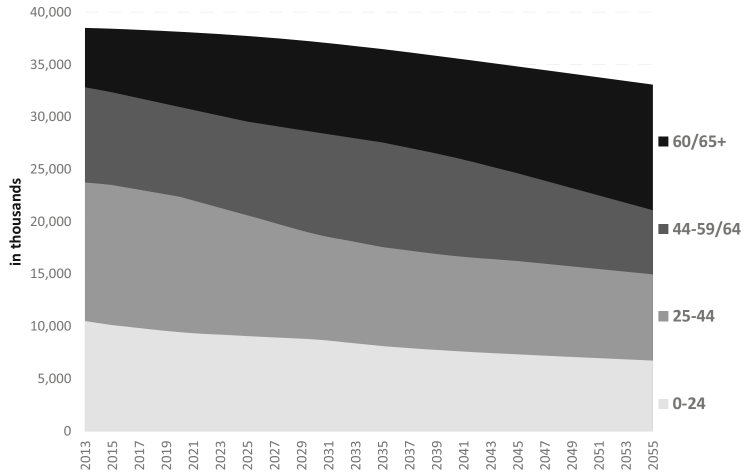

Fig. 2 Population of Poland by age, 1990–2050. *Source*: Ministry of Labour and Social Policy (2008, p. 116)

2.3 Consequences for the Polish Welfare State

Decreasing birth rates are perceived as one of the main problems in Poland nowadays, but the solutions designed to encourage women to have more children often result in creating new social problems (mainly deactivation of women in the labour market or creation of low-security part time jobs). One of the recent solutions (since 2013) is an introduction of 12 instead of 5 months paid maternity leave. However there are no solutions to enable the easier reconciliation of childcare duties with a professional career currently in place, and therefore, the family support network plays a decisive role in enabling mothers' reintegration into the labour market. Overburdening of women, who are both responsible for childcare, but also work to supply the second income for the family not only have a negative effect on fertility rates, but also limits women's engagement in professional and public activity (Central Statistical Office 2006).

On the other hand, at present, the public debate in Poland often mentions the "social disadvantages" of employment of women and of cultural changes, which are based on a shift from a collectivist to an individualized culture, in which people prefer to satisfy their own needs instead of performing traditional family duties. Conservative participants of the debate, including right-wing politicians and Catholic Church representatives, stress that the main reason for crisis is that women fail to meet their traditionally defined obligations.

However, the number of supporters of the model, in which the woman is to take care of home and children, and the man is a sole breadwinner, has been steadily decreasing in Polish society in the last decade (Siemieńska 2009). Those processes were accompanied by substantial changes in life aspirations. In 2012, 46 % of men

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and 56 % of women disagreed with the opinion that housework could be as satisfactory for a woman as professional work (unpublished data, WVS 2012).

Ageing of society means that it is necessary to increase the social transfers on behalf of 60+ group in the form of retirement and disability pensions and the appropriate scope of healthcare and social care services. Efficiency of the social security system measured by the overall age dependency ratio (showing the number of people at non-productive age per 100 people at working age) in 2009 and 2010 amounted to 55 (including 26 at post-working and 29 at pre-working age of 17 or younger).

Another problem is connected with the relatively low levels of economic activity in Polish society. In 2010, those professionally active in the population aged 15 or more, were at the level of 55.8 %. Among men, it reached 64.1 %, and among women—48.2 %. Women also constitute 90 % among those, who indicate the necessity to perform household duties and other personal reasons for lack of labour market activity.

We have also observed a significant decrease in activity particularly in the groups aged 50–54 and 55–59 (by 25.5 %). According to Eurostat, in 2009, the average age of withdrawal from the labour market in the EU countries was 61.4. For Poland, in year 2007, it was 59.3. Poland is also in the group of states characterized by the lowest employment rates in Europe; in 2010, it was 59.3 % as in 2009 and 2008. At the same time, the number of the unemployed increased. The unemployment rate in 2008 was 7.1 %. In 2009 it increased to 8.2 %, while in 2010 to 9.6 % (Eurostat database, accessed on 14.02.2012).

Another important factor influencing the Polish welfare system is migration, both out of and into the country. Female immigrants from Ukraine fill an important gap in the social welfare system by supplying cheap household workforce—taking care of children and the elderly and performing other household duties to allow Polish women to work for wages. In some regions of Poland, the majority of families receive financial support from relatives working abroad. However, the emigration of the large number of young people, who decide to have children while being abroad, negatively influences the domestic demographic balance. The situation is serious enough to require the development of a reasonable and effective public policy to change the existing demographic trends.

3 Fiscal and Economic Crisis

As it was stated earlier, the economical crisis of the recent years was much less visible in Poland, which was the only EU member state with a positive economic growth in 2009 (1.6 %), and which experienced a GDP growth of 3.9 % in 2010. Thus, the convergence to the EU has even accelerated during the crisis: the GDP per capita in PPS increased from 56 % of EU average in 2008 to 61 % in 2009 and 63 % in 2010 (Eurostat database, accessed on 14.02.2012).

However, Poland was hit by the economic crisis via other countries. Due to the slowdown in economic growth (from 6.8 % in 2007 to 5.1 % in 2008), the

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unemployment rate started to rise again (Eurostat database, accessed on 14.02.2012). Despite those negative processes, no special polices or stimulus packages were introduced during that time. However, we could observe the intensification of spending and investments financed from EU funds, both in the area of labour market and unemployment (European Social Fund) and in infrastructure, science and education, health or tourism (European Regional Development Fund). We can say that the flow of EU funds had an important protective impact on the Polish economy during the crisis. European projects created jobs and supported education and training as well as enabled the modernisation of Poland in respect to transportation and new technologies.

Another negative consequence of the crisis was worsening of the public finance situation. The public deficit grew from 1.9 % of GDP in 2007 to 7.8 % in 2010, and the general government debt increased from 45.0 % of GDP in 2007 to 54.9 % in 2010 (Eurostat database, accessed on 14.02.2012). At the same time, the high public deficit has become an issue with the EU, which postponed the possible introduction of the euro in Poland. Public finance deficit also impacted the social protection system, especially in the area of pensions and health. Due to the crisis, the financial situation of health and long-term care clearly deteriorated between 2009 and 2011, because the health system did not receive sufficient support from the state budget. Also, a major reduction in the contribution rate to the funded part of the pension system was introduced in 2011 to lower the budget subsidies to the pension system and thus to lower the public debt. Moreover, the entitlement criteria (e.g. reduction in the number of privileged groups to an early retirement) have been changed in order to reduce the potential number of beneficiaries (Table 1).

However, the 2008 crisis influenced the situation of Polish households to a much lesser degree that in the rest of European countries. The number of households declaring that their income was not sufficient to satisfy current needs has decreased in comparison with 2009. In general, from 1993 to 2011, it decreased from 74 % to 26 % (Czapiński and Panek 2012: 57). Over the last 20 years, people tended to search for additional jobs less often, used their savings or incurred loans. On the other hand, the number of households receiving public assistance increased in from 1993 to 2011 from 7.5 % to 16.6 % as a result of changing regulations. Single or multi-member non-family households, married couples with three or more children and single parent families took advantage of social assistance much more often than the remaining groups. There are also substantial differences between individual provinces in this respect (Czapiński and Panek 2012: 60).

What helped to minimize the effects of the economic crisis was that the political situation was stable throughout the period with no major parliamentary or government changes. In 2010 Bronisław Komorowski from the ruling party was elected the new State President. In parliamentary elections on 9 October 2011, for the first time in the Polish post-communist history since 1989, the ruling coalition was re-elected and remained in power. The new government was formed by the same coalition of Platforma Obywatelska (Civic Platform) and Polskie Stronnictwo Ludowe (Polish People's Party) and was led by the same Prime Minister Donald Tusk. This created unprecedented stability in terms of political leadership, which

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Table 1 Government debt in GDP %

Government debt in % GDP	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
European Union (28 countries)	62.1	62.6	61.4	58.8	62.0	74.4	79.9	82.4	85.2	87.1
Euro area (18 countries)	69.6	70.2	68.5	66.2	70.1	80.0	85.5	87.4	90.7	92.6
Poland	45.7	47.1	47.7	45.0	47.1	50.9	54.9	56.2	55.6	57.0

Source: Eurostat

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allowed for the gradual introduction of reforms, which, while by no means sufficient, slowed some of the crisis-related processes.

4 Risks and Opportunities

4.1 Labour Market Policy

In recent years, due to the economic slowdown, the unemployment rate has been growing in Poland. In the fourth quarter of 2012, the professionally active group amounted to 56 % of the total population aged 15 and more. As in previous years, the professional activity ratio was higher among men (64 %) than women (48.3 %). The overall unemployment rate amounted to 10.1 %, and it was higher among women (11.1 %) as well as persons with the lowest education (18.7 %), and lowest among those with the highest education levels (5.7 %) (Central Statistical Office 2012) (Table 2).

The relatively large number of unemployed willing to work and uncertainty of demand for goods and services has modified the mode of employment, as employers have been aiming at a reduction of labour costs. The number of people performing work on the basis of contracts for commission and mandate agreements (so called “rubbish contracts”) has been increasing very rapidly-from 546.7 thousand in 2010 to 1012.9 thousand in 2011 (data of the Central Statistical Office presented during the meeting of the Parliamentary Commission for State Control on March 20th, 2013), and it is probably even higher at present, in 2014.

According to the State Labour Inspection, employees, who are hired in this manner, are in a much less favourable situation in comparison with full-time workers. Civil law agreements do not warrant the right to paid leave, a minimum salary, as well as protection against dismissal and regular notice periods. Employers, who offer jobs of this kind, reduce their costs by avoiding paying social insurance premiums for their employees. The same can be said about the self-employed, who run sole proprietorship companies (at present—1.3 million people), who are often forced by their employers to choose this mode of employment so they have to pay premiums themselves (Sendrowicz 2013).

Another issue is the large group of those performing unregistered work, creating a so-called “grey labour market”. According to existing estimates, in 2010, it amounted to 732 thousand people, including 475 thousand men and 258 thousand women. People decide to take up employment outside the formal system namely because of inability to find a formal job, difficult material situation, and the possibility to receive a higher pay without formal employment contract (Central Statistical Office 2011: 33).

The described features of the Polish labour market may explain why the number of people entitled to various benefits has been growing in recent years. The number of legally employed, who are not entitled to social benefits, was growing as well. There is also the problem of the constantly increasing group of retired persons. In total, among the 30 million persons aged 18 and above in 2011, about 60 % received

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Table 2 Unemployment rate by sex and age

Unemployment rate	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
European Union (28 countries)	9.3	9.0	8.2	7.2	7.0	9.0	9.6	9.6	10.4	10.8
Euro area (18 countries)	9.2	9.1	8.4	7.5	7.6	9.6	10.1	10.1	11.3	11.9
Poland	19.1	17.9	13.9	9.6	7.1	8.1	9.7	9.7	10.1	10.3
Poland, males	18.3	16.7	13.0	9.0	6.4	7.8	9.4	9.0	9.4	9.7
Poland, females	20.1	19.4	15.1	10.3	7.9	8.6	10.0	10.4	10.9	11.1
Poland, less than 25	37.7	35.8	28.3	20.0	15.2	20.2	22.4	23.6	24.1	25.4

Source: Eurostat

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various benefits, according to the reports of the Social Insurance Office, the Agricultural Insurance Office (KRUS), the Central Statistical Office (GUS), and the labour market institutions (Marczuk 2013).

Another problem is the issue of "fake unemployment" among the clients of the Labour Offices, in other words people who are not really searching for jobs but are registering to obtain benefits available for the officially unemployed—health security and unemployment benefit. On the other hand, there is a large group of people in Poland searching for jobs, who do not register as unemployed, but prefer to look for grey market job opportunities. Existence of grey labour market is convenient for employers (generating lower costs and risks) and has its benefits for employees who receive more money, because some components of their remuneration are not being deducted. Also employers are willing to take advantage of the unemployed or retired people who are in fact still economically active. This situation not only produces a false impression of real unemployment levels in Poland, but also means that instead of developing active forms of counteracting unemployment, labour offices concentrate on registering and looking for jobs for those, who in reality are not interested in their services (Rzemek 2013).

As social policy experts point out, the whole system of labour market support should be changed so it can concentrate on active prevention of unemployment instead of being a part of social support system. Recent analysis performed by labour offices shows that up to 30 % of registered unemployed are not interested in finding a job (Central Statistical Office 2014b). It results in a situation when labour offices have three times more people to "process", and are unable to take care of those, who really need their assistance. The Ministry of Labour and Social Policy, realizing the scale of the grey market and inadequacy of the data on unemployment is looking for possible systemic solutions in better cooperation between institutions of the local and the central level.

Another barrier in conducting occupational activation programmes is the negative perception of labour market institutions as a part of social assistance programme. According to the labour office representative, the unemployed are often perceived as being "lazy beneficiaries of social benefits" (interview with Warsaw Labour Office representative, 2013). Therefore many people searching for jobs are unwilling to take advantage of support offered by the office in order to avoid stigmatization.

4.2 Pensions

According to recent political debates the Polish pension system urgently needs reforms that would overcome the burden created by privileges given to different social groups back under communist system and later. The changing demographic structure of Polish society is the main reason why reforms seem unavoidable. Most people in Poland, both employees and self-employed outside agriculture, are covered by the general obligatory pension system. Apart from it, there are special schemes for farmers (social insurance scheme of KRUS—Kasa Rolniczego

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Ubezpieczenia Społecznego, Agricultural Social Insurance Fund, financed mainly from taxes), separate state provision, tax-financed schemes for "uniformed services" such as military, police and prison service, as well as state provision for judges and prosecutors. Within the general scheme, there are also special rules for miners. All mentioned groups are privileged in a sense of earlier retirement age and higher pensions.[3] The reform of 1999 did not solve the problem. The new general pension system consists of two pillars, both obligatory for all new members (at the start of the reform, those between 30 and 50 could choose whether to participate in both new pillars or to be entirely in the first one, and those above 50 remained in the old system[4]). The first pillar is an unfunded notional defined contribution (NDC) scheme, administered by the Social Insurance Institution (ZUS). The second pillar is a privately managed, but heavily supervised by the state, element of the statutory pension insurance in Poland. Thus, Poland has now a mixed system. Since January 1st, 2009, payment of the first retirement benefits according to the new system started. In the new retirement system, retirement benefits are to be financed from two sources mentioned above and the benefit amount depends on the sum of premiums paid by the insured person. The legislator has also foreseen the possibility of establishing the Employee Retirement Programmes, with individual accounts, which are voluntary and complementary to the universal retirement system.

The retirement system reform from 1999, remained largely unfinished—no standardization of the trade-specific retirement systems was conducted, and only the rules of collection of premiums, and not repayment of the funds, were specified. Numerous controversies were associated with the structure of the second pillar itself (the Open Retirement Funds), aimed—according to its creators—not only at financing retirement, but also at supplying the so-called financial markets, that is, mainly the exchange and listed companies.

Due to a lack of funds necessary to finance the retirement reform, the government has been financing the deficit in the retirement system by issuing an additional public debt, which is becomes too great for public finances. At the same time, there is the risk that dynamic growth of the accumulated costs of the retirement reform will lead to further pushing out of public expenditures for significant social policy programmes and necessary investments in education, care services or the labour market programmes. In 2013, The Ministry of Labour and Social Policy published a report, undermining the reasonability of existence of the ORF in the existing format (Ministry of Labour and Social Policy 2013). As a result, the government decided to introduce new regulations that resulted in reversing the privatization of retirement

[3] The general rules do not apply to privileged groups, served by trade-specific retirement systems: the uniformed services, miners, teachers, railway employees, prosecutors, judges and farmers. These groups are subject to entirely different rules of calculation of retirement benefits, the retirement age is lower and the employment period indicators are more favourable.

[4] People born before 1949, not being participants of trade-specific systems, receive their retirement benefits according to the rules specified prior to the administrative reform of 1999, where the main criteria for granting of these benefits is reaching of retirement age and having a sufficiently long employment record.

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system, channelling insurance premiums back to the Social Insurance Institution accounts. Another change introduced in 2013 was an increase in the statutory retirement age, by 4 months every year, to reach 67 years for men by 2020 and the same for women by 2040. At present, there is a big political resistance to the increase of the statutory retirement age, especially on the part of trade unions.

4.3 Health Policy

Despite its increasing costs the public health care system in Poland is considered to be poorly managed and permanently underinvested. Overall expenditures for health care, that is, current and investment expenditures in 2012 amounted to 107.8 billion PLN (99 billion PLN in 2010), constituting 6.8 % of the Gross Domestic Product (7 % of GDP in 2010). The proportion of public to private expenditures was similar in recent years: governmental and local institutions (including the National Health Fund) were responsible for covering 70 % of the costs, the private sector (including private households) for the remaining 30 %. Within the framework of public expenditures, 87.6 % were expenditures of the National Health Fund, while in the private sector, the greatest stream of expenditures originated from households (81 %), and these proportions varied, depending on the function implemented (Table 3).

Between 2003 and 2012, total expenditures for health care increased year after year, and in 2010 were higher by 88 % in comparison with 2003. In 2010, however, a visible slowing down of this growth could be observed. In other words, after 2009 the growth rate of health expenditures was lower then GDP growth rate (Fig. 3).

The main source of financing of the system is the health insurance managed by the National Health Fund (Narodowy Fundusz Zdrowia—NFZ). The citizens pay the obligatory insurance premium, constituting 9 % of their personal income (7.75 % deducted from income tax and 1.25 % covered by the insurer), which is paid to the health care insurance institution (NFZ). Additionally, some highly specialised services are financed directly from the budget of the Ministry of Health. Since January 1st, 2007, the state budget has also financed pre-hospital medical rescue services.

At the same time, individual insurance offered by commercial institutions is becoming increasingly popular in Poland (particularly among the inhabitants of large cities and corporation employees). According to estimates, in 2012, the value

Table 3 Expenditures on health care by sector and % of GDP, 2009–2012

Expenditures on health care	2009	2010	2011	2012
Public sector (including NFZ)	71.7 %	72.2 %	70.9 %	70 %
Private sector	28.3 %	27.8 %	29.1 %	30 %
Public health expenditures as % of GDP	4.8 %	4.7 %	4.5 %	4.4 %
Overall health expenditures as % of GDP	7.2 %	7 %	6.9 %	6.8 %

Source: Central Statistical Office (2014a)

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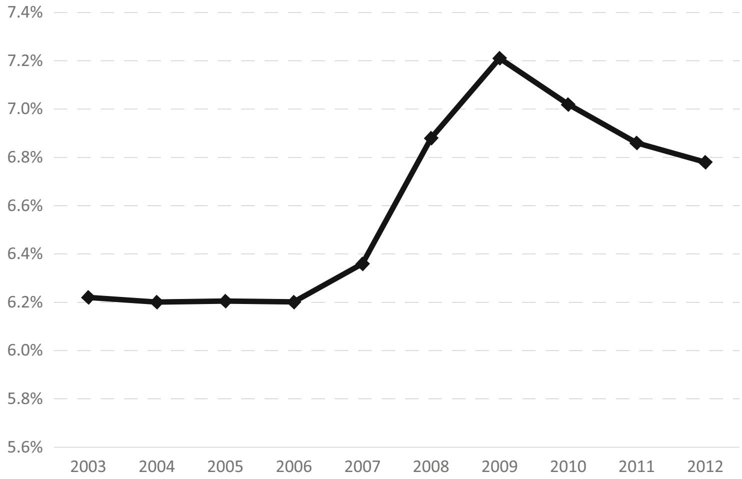

Fig. 3 Total expenses on health services as share of Polish GDP in 2003–2012. *Source*: Central Statistical Office (2014a)

of the market of private medical care in Poland amounted to 33.8 billion PLN. From 2013 to 2015, the market is expected to develop at the average annual pace of 5 %. The dynamics of growth will be similar in all years; due to the gradual improvement of the overall economic situation, it will be the highest in 2015. According to forecasts, additional health insurance, due to low base, will remain the fastest-developing segment in 2013–2015. Development of medical subscription services and health care insurance over the long-term perspective, however, will not be possible without a complex reform of the health care system in Poland, which would result in an inflow of funds into the system (PMR 2013).

The health care system in Poland has been facing serious difficulties for years. In the ranking of the European Health Consumer Index, Poland is on the 27th position among 33 countries (Björnberg 2012). These problems are indicated by hindered access to specialist treatment (particularly at hospitals) and long waiting lines for procedures and tests, insufficient quality of the health care services (e.g. high death rates due to post-surgery complications—exceeding 10 %, while the EU average is 4 %), low salaries in the health care sector and mass emigration of specialist medical staff to other countries of the EU, as well as financial debts of the public health care institutions (at the end of 2008 the debt of hospitals amounted to 3.5 billion PLN) (Wyborcza.biz 2012).

While the Polish health care system is subject to rigid state regulations, and the market of private health insurance is still very small, the main issue that asks for reforms is the level of management of hospitals which is poor and also contributes to the ineffectiveness of the system (Wyborcza.biz 2012). That is why the new law on health care activity was passed on April 15th, 2011, allowing for voluntary transformation of public hospitals into corporate units (corporatisation). The

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initiative can come from the government, the director of the hospital, or the workers. The law has included incentives for hospitals to take the decision, especially through the government's support in debt repayment. The government believes that such institutional change will support micro-efficiency of health care providers and thus improve functioning of health care. On the other hand, the corporatisation of hospitals is criticised both by the opposition (both left and right wings) and many health care experts. The critics argue that the law has opened the door to the privatisation of hospitals and constitutes a real threat to equal access to health care.

Another weakness of the Polish health system is the lack of coordination between institutions responsible for health care: central administration, local administration and the National Health Fund. It became visible when in 2011, due to the crisis, the financial situation of the health care further deteriorated as lower contributions and tax revenues meant that the National Health Fund received less money than in previous years. Another reform, aimed at improving information flow and access to medical treatment, was the introduction in 2013 of the Electronic Verification of Rights of Beneficiaries system (eWUŚ), allowing for immediate confirmation of the patient's right to health care benefit, financed from public funds.

Meanwhile, Poland has become a popular destination of 'medical tourism'. The main reason for this development is lower prices of medical procedures in Poland, due to lower remuneration of Polish medical staff, while offering a similar quality of service. The services most commonly used are dental care, including implants, plastic surgery and orthopaedic treatment. Also spa treatment in Poland is popular among foreigners. The biggest national groups using health care in Poland are citizens of Germany, UK and Sweden. Medical tourism to Poland has been already accepted by the Ministry of Economy as 1 of 15 'export specialisations', which should receive support, especially for promotion abroad. However, the crisis caused a 10–20 % decrease of visits by foreigners to Polish health care institutions 2011 witnessed a growth again, also due to weaker Polish currency, reaching about 300,000 patients.

Whereas the expenditure on pensions is high and thus decreasing expenditure in the long run was the priority of the pension reform in 1999, health care is rather underfinanced in Poland. Thus, there is a problem of sustainability of health care in Poland, especially in the longer perspective. Due to the crisis, which in Polish case meant not a recession but a decreasing economic growth, the financial situation of health care clearly deteriorated between 2009 and 2012, compared to the positive developments in 2007 and 2008. It was also caused by the resignation from the earlier government plans to increase the contribution rate for health insurance from 9 % to 10 %. In the years 2009, 2010 and 2011 the National Health Fund received less money than in previous periods. In 2010 the budget was lower compared to 2009 by about 2.71 %.

Private financing is relatively high in Polish health care, both in the form of official payments as well as under-the-table payments. According to the OECD health data 2011, out-of-pocket payments amounted to 22.2 % of total expenditure

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on health in Poland in 2009 (a decrease from 28.1 % in 2004), compared e.g. to 13.1 % in Germany or 14.4 % in Czech Republic (OECD 2011a). Unlike for pensions, public expenditure for health care is low in Poland in terms of GDP share. Health care clearly needs more public financing. Decreasing economic growth, as a result of the financial crisis clearly worsened the financial situation of the health care system.

Meanwhile, health care needs are growing, due to many factors, including ageing of the population, increasing living standards or development of medical technology. Additionally, there is a growing problem of medical staff shortage (especially of nurses), due to insufficient expenditure on health staff education, and emigration, especially after the EU accession. It has been estimated that about 5 thousand physicians have left Poland after May 1st, 2004 (to compare: there were more than 80 thousand physicians in Poland in 2008) (Murdoch 2011). Also, health promotion and prevention aimed at improving the health of the population and reducing sickness burdens, as well as increasing labour productivity and allowing for prolonged working lives, were not adequately addressed by the government policy till now (Żukowski 2012).

4.4 Long-Term Care

There is a growing awareness of the increasing needs for long-term care. Demography alone is a huge challenge. However, long-term care remains a very weak element in the Polish social protection system. Plans to introduce long-term care insurance, discussed for many years, have been postponed because of the financial difficulties due to the economic crisis. Nevertheless, long-term care will constitute one of the major challenges for the Polish social protection system in the nearest future.

Informal care plays the major role in Poland, which means that in most cases, long-term care is provided by family members at home. There are several reasons for that, the main being strong family relations, including the high share of elderly residing with their children (high ‘co-residence index’), and traditional gender roles division due to which women retired early (lower retirement age for women has been functional in this respect), also to care for their parents/parents-in-law (high ‘non-working women aged 55–64 index’) (Golinowska 2010: 5). Another factor was the insufficient institutional supply of publicly financed care, as well as a lack of affordable private care establishments.

However, the newest data for 2012 shows changes in the real retirement age of women and men, with women working longer than men. The average man retired in 2012 after 33.4 years of work while the average woman after 34.7 years. The findings are astonishing and strongly related to changes in regulations concerning pensions. The “early retirement” was giving opportunities to retire earlier and has been used especially by women who could retire at 55. After the ceasing of this regulation in 2008, women have to work longer to receive the right to a pension,

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while in several male-dominated professions (miners, uniformed services etc.) men could retire much earlier (Kostrzewski and Miączyński 2013).

Responsibility for the development, organisation, financing and management of LTC in Poland is divided between four groups of actors/stakeholders: the central government, the governmental health agency (health sector), governmental labour and social agency (social sector) and territorial self-government (Golinowska 2010: 13). Long-term care in Poland is funded on the public-private basis. Within the public sector, there are two sources: health insurance (LTC services in the health sector) and general taxation (social assistance homes).

Estimations of long-term care funding show that public expenditure on residential LTC constitutes only about 0.25 % of GDP in Poland. Cash benefits for the elderly with the function to finance nursing and care needs at home constitute another 0.5 % of GDP (Golinowska 2010: 20). Thus together, long-term care benefits, in cash and in kind, amount to 0.75 % of GDP. Only some 0.9 % of the Polish population over the age of 65 received long-term care in an institution setting in 2008, well below the OECD average of 4.2 % (OECD 2011b).

The present state of LTC in Poland has been assessed as not satisfactory due to fragmentation and lack of coordination, underfinancing, inefficiency of public spending, paltry offer of services, and low incentives for development of market elements. The system urgently needs a radical change, necessary in the context of fast growing numbers of persons in need of long-term care.

In April 2011 the work of the Senate on a new law on 'nursing vouchers' was announced. Such a voucher could finance care either delivered by a private care person at home, at a day (semi-residential) centre or at a residential care home (centre). It was proposed that the value of such a voucher, financed from the state budget, would be between 650 and 1000 PLN (150–240 euros), depending on the level of long-term care needs. Although the voucher would not be sufficient to cover the full costs of care, it would be a significant help to the families with long-term care needs. According to the planned solution, the family would still play a role of care organizer or supplier, but the voucher could be used to pay for specialised caring services or as enumeration for the family member acting as a caregiver. The new system should start in 2014, although its full implementation would be of a longer duration.

Two main arguments for the introduction of this new solution were presented. Firstly, the needs for long-term care will grow due to the rapid ageing of the population (see Fig. 2). According to estimates of the Central Statistical Office, the number of older persons in need of permanent care will grow from about 1 million at present to 2.5 million in 2035. Secondly, whereas families now provide care for their elderly, it will change dramatically due to the decrease in the number of young persons, longer working lives and also because of higher retirement age. The 'nursing vouchers' would be a very valuable strengthening of long-term care in Poland. The proposed solution is based on freedom of choice between care at home and semi-residential or residential care as well as between public and private establishments.

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4.5 Family and Children

Apart from activities aimed at providing financial assistance to families with children (through the family benefits system), the Ministry of Labour and Social Policy has engaged in works on solutions that would facilitate reconciliation between professional and family life, thus making it easier to combine labour market activity with having children. The results include the so-called Family Act, which has been in force since January 1st, 2009. The provisions of the new act include the gradual lengthening of maternity leave (obligatory part for women increased from 18 to 20 weeks and an additional facultative maternity leave up to 12 months was introduced) and the possibility of combining the additional maternity leave with employment (at least half of the full-time employment time), retaining their right to remuneration and the maternity benefits (including payments and social and health insurance premiums) proportionally to employment. Additionally, persons, who return to work part-time during the parental leave period are now protected against dismissal for 12 months. Also, in 2010, for the first time fathers became entitled to 1 week's leave, and starting from 2012—2 weeks of paternity leave. The act also introduced the gradual increase in social insurance premiums for beneficiaries of parental leaves, so the basis for the premium since 2012 is the last received remuneration (however, not more than 60 % of average salary).

The new act on childcare, applicable to children below 3 years of age came into force on April 4th, 2011 and introduced four forms of childcare warranting a greater number of families access to diversified childcare. According to the new law, the nurseries and child clubs can be established by communes, individuals, legal entities and organizational units with no legal personality, which should lead to an increase in the number of nurseries. Before, all the nurseries were a subject to strict Ministry of Health regulations that made it really difficult to establish a private or non-governmental caring facility for young children.

The solutions serving the reconciliation between work and family duties implemented by the government are largely proposed under social pressure (Czapiński and Panek 2012: 140), including the rising number of parents creating civil society organizations to lobby for better childcare solutions. However, the parents also expect increasing flexibility of working hours (appreciated, in particular, by men), as well as an improvement of access to institutional care of children up to 7 years.

4.6 Housing

Low level of satisfaction of housing needs and the outdated functional design as well as low urban life standards are characteristic for Poland in comparison with other European countries. The number of residential units per 1000 inhabitants and the flat area per person indexes are among the lowest in Europe. The quality standards of the housing base are also very low; at the same time, the renovation

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gap is growing. A recent government document on housing policy guidelines till 2020 estimated the real housing deficit in Poland to 1.4–1.5 million flats (Ministry of Infrastructure 2010). The share of housing expenditure of GDP is the lowest in Europe (0.06 % in 2010), and the level of satisfaction of special housing needs of the disabled, the elderly, residents of orphanages and other education and childcare institutions (the so-called protected flats) is dramatically low. This situation constitutes a barrier for both economical as well as social development, with the unregulated urbanization adding to the degradation of the environment and excessive use of energy. On the other hand, the lack of affordable housing results in growing emigration among young people (Siemieńska et al. 2011).

One of the most significant factors that influenced the slowing down of the dynamic growth of the Polish housing market was strict criteria applied by the banks in terms of granting of housing credits. Due to increasing prices, society was no longer able to afford expensive apartments, which forced the developers to lower the prices or to wait for the crisis to end and sell the apartments over the long-term perspective. At the same time, the number of municipal flats has been decreasing due to their buyout by those tenants, who have the sufficient financial means. Some of the municipal flats were renovated and returned to the secondary market; and their sale was often associated with the violation of the applicable legal provisions and social norms (Siemieńska et al. 2012). Despite growing pressure from the tenants and urban movements, no satisfactory long-term policies have yet been introduced in the housing area. Two government programmes supporting young people (Flat for Young—Mieszkanie dla Młodych) or families of people under 35 (Family on their own—Rodzina na Swoim) now exist, offering 10–15 % refund of the apartment price to people meeting the criteria. However, as financial analyses show, the main beneficiaries of those programmes were the developers who managed to sustain higher apartment prices despite the economical crisis, and the banking system, that channelled the money through credits, much less the official addressees of the programme.

5 Conclusions: Pathways of the Polish Welfare State

Due to strong legacy of state paternalism, Poland seems to be unable to provide fertile ground for both liberal and social-democratic social policy regimes. The effect is a dual social policy model, comprised of public and market-based sectors, which significance changes constantly. Unfortunately, it seems very unlikely that such an economy could provide the means to secure an expected level of social benefits and quality of social services, which is why more wealthy Poles, in search for better quality and access, turn to private, individually paid solutions both in health and social security sectors. However, even in times of high economic growth one should not expect the far-reaching marketization of social policy in Poland.

On the other hand, in a democratic country, in which about half the population does not fare well in the market economy, priority must be given to the maintenance of at least a minimum level of social benefits and services. In other words, one

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should not expect any significant decrease in the social costs of work, as liberal economists require. However, it is also impossible to significantly increase these costs, as Polish economy must remain competitive and attractive for foreign investors.

As social research show, the paternalistic state, and not the community or individuals, is still regarded as principally responsible for the satisfaction of basic needs and for the attainment of at least modest quality of social services. The majority of the Polish population is entitled to some social benefits and use social services more or less frequently. Even when they decide to buy themselves better quality services or try to avoid paying required social security contributions or taxes, they still evaluate politicians by their ability to secure the satisfactory standard of living for the population as a whole.

The growing budget deficit, caused, among other things, by demographic changes and slowing down of economy in recent years have forced the government to reform the social benefit system. The subsequent governments and parties have delayed these changes, fearing to lose voters' support in elections, and knowing that a significant part of the population has enormous expectations of the state. A great majority of Poles believe the tasks of the state include making sure that everyone has at least the minimum income (95 %), free access to healthcare (95 %), free university education (88 %), and housing (84 %) (CBOS, BS/104/2013). Reforms of the social benefit systems aimed at limiting the number of beneficiaries as well as the allowance amount lead to increased social dissatisfaction, which had a potential to destabilise the political system. The key reforms introduced in recent years were not well received, for example, most Poles (87 %) are reluctant to accept an increase in the statutory retirement age (CBOS, BS/77/2012). The present pro-family policy has been assessed more negatively than ever, since 1996. Only 9 % of all respondents were satisfied with the state activity in this regard, while dissatisfaction was declared by a half of adult Poles (51 %) (CBOS, BS/67/2012). The opinion about functioning of the state health care services is almost unanimously negative, and disappointment with health care is accompanied by the belief that the health care budget is not being managed properly (CBOS, BS/34/2012). As a result of the lack of long-term solutions in Polish welfare system, huge amounts of money are being spent on various types of money transfers to families and individuals, while the value of individual benefits is usually too low, to bring about the sufficient change in their lives.

In Poland the state retains high responsibility for the satisfaction of various social needs for the majority of citizens and at the same time tries to exert strict control over private and third sector actors dealing with activities connected with those needs satisfaction. As a result of the interaction between the above-mentioned currents and actors, we can presume that three distinct models of basic needs satisfaction will emerge in Poland in the near future. The first, based mainly on market solutions, restricted to the affluent minority, the second, based on state responsibility, for the low-income strata, and the third, based primarily on state responsibility, but with more or less frequently used escape routes to paid

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alternatives in the search for better benefits or for higher quality services, for middle-income strata (Księżopolski 2013).

To conclude, most probably the future Polish social policy model will depend on the outcome of efforts aimed at improving the quality of public services. Otherwise, further spontaneous privatization would be inevitable. Moreover, the state seems to be reluctant to introduce effective measures strengthening a citizens' capacity to be responsible for their welfare and social security. In turn, the major path-dependent feature of the socialist model of social policy has been the state responsibility for societal wellbeing and social security of citizens. Despite several attempts to substantially limit the leading role of the state, public authorities, and not citizens, are still held responsible for the resolution of social problems and for the satisfaction of social needs. The preference for a paternalistic state was clearly visible from the consecutive public opinion polls in the years 1992–2010. The clear majority considered public responsibility for the fulfilment of social needs as one of the major features of democracy. While state budget yields under the pressure of public expenditures and growing needs of an aging population, the majority of Poles still regard the state as being fully responsible for the social welfare of its citizens.

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The Portuguese Welfare System in a Time of Crisis and Fiscal Austerity

José António Pereirinha and Maria Clara Murteira

1 Introduction

The Portuguese welfare system is usually classified as part of the "*southern*" model of social welfare (Ferrera 1996). Although sharing some common characteristics with other southern European countries, its historical development has created an hybrid welfare system, with specific characteristics combining the corporatist elements inherited from its origins in *Estado Novo* (in the early 1930s and its reform in the 1960s) with social democratic elements of universal character and more egalitarian orientation introduced after the April 1974 democratic revolution (Pereirinha et al. 2009). Furthermore, the accession to the ECC in 1986 created a new context for social policy that has influenced the orientation of new social policies and reforms of the welfare system.

Although with a modern welfare system, in terms of social rights, institutional arrangements and share of economic resources allocated to social expenditure (25.5 % of GDP in 2010), the Portuguese welfare system is a *fragile* one (Pereirinha 2013): low old-age pensions (lack of *adequacy*), low redistributive efficiency of social transfers and high risks of financial unsustainability (lack of *sustainability*). This gap of social sustainability is the result of several factors: weak economic support for adequate social rights (low *per capita* national income), low wages and short contributory careers, a low rate of employment growth and the trend of demographic ageing.

With 2008 global financial crisis, the context for the definition of social policy has dramatically changed placing the Portuguese fragile welfare system under

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significant strain. After a brief phase of fiscal expansionism (in 2009 and the beginning of 2010), during which social compensation measures have been strengthened in order to face the consequences of rising unemployment, Portugal has entered the "age of austerity". Since the second semester of 2010, and particularly after the signature of the Memorandum of Understanding (MOU) with the European Commission, the European Central Bank and the International Monetary Fund (*troika*), in May 2011, the government has committed to the objectives of reducing the deficit and bringing the debt-to-GDP ratio on a downward growth path.

In June 2011 a right-wing coalition came into power. The new government has attributed the blame for the "fiscal crisis" to the former, presenting the crisis as the consequence of excessive spending and increasing public deficits and debts. The government has adopted entirely the political agenda inscribed in the MOU. Therefore, austerity has been advocated as a necessary condition to guarantee sound public finances and make the country credible and appealing to investors in order to assure the return to the financial markets. Following the demands of austerity established in the MOU, the government has immediately imposed severe cuts in public expenditure—namely in the wages of public servants, pensions and a set of other social benefits—and tax rises.

Thus, now the fundamental question regards the possibility of keeping the quality of social rights and to conciliate it with the serious constrains that result from the economic crisis (since more resources are required to guarantee social rights but less resources are available as recession destabilizes the revenue side of social security budget) and from the constraints that come from the need to meet fiscal consolidation criteria required to fulfil the commitments to the eurozone rules. The two main questions discussed in this chapter are the following:

1. What are the main challenges the Portuguese welfare system had to face from 2007 to the present times and which are to be expected in the near future?
2. Which reforms have been conducted so far in reaction to such challenges and which are to be expected to come in the forthcoming years?

The structure of the chapter is as follows: Sect. 2 is devoted to the analysis of demographic variables, which have been evoked as the main concern of economic policy and calling for social security reform. The major population trends and their determinant factors will be analyzed as well as their expected consequences on the welfare state. Section 3 focuses on economic and financial issues that explain current welfare state fragility in Portugal. We start by discussing the common diagnosis of the present crisis as the consequence of government profligacy, which has helped to legitimate austerity policies, thus reducing the political resistance to unpopular measures. Next, we outline the adverse effects of austerity on the functioning of the economy, on the aggravation of demographic trends, on the financial imbalances of social security and on the shaping of social policy. Given that the ability of the welfare state is under stress, in Sect. 4 we analyze with more detail the main challenges, risks and policy responses in the domains of labour

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market, pensions, health policy, long-term care, family and children. The chapter ends with some concluding remarks.

2 Demographic Change and Population Ageing

The two major trends of the Portuguese population since 1960 are: the continuous decline of the fertility rate and an irregular trend of migration flow as Fig. 1 shows.

Such trends in migration are responsible for the occurrence of periods of population growth, which alternates with periods of population decline: the second half of the 1960s, the second half of the 1980s, and after 2010. In parallel, there was a fast rise in population ageing due to declining fertility and the rise in life expectancy at birth.

The migration flow, since the early 1960s, is characterized by four distinct periods: the first period is of net emigration in the 1960s, mostly to Europe, attracted by higher wages in other countries (namely France and Germany); the second period (in the mid-1970s) is of large immigration flows from former Portuguese colonies after their independence following the April 1974 democratic revolution; the third period (mid-1990s to mid-2000s) is of net immigration from non-European (Africa and Brazil) and eastern European countries attracted by higher wages and better labour conditions offered in Portugal, benefitting from good legal conditions for immigration to this country; more recently (since 2011) a reversal of migration trends is evident, with the returning of immigrants to their home country and high

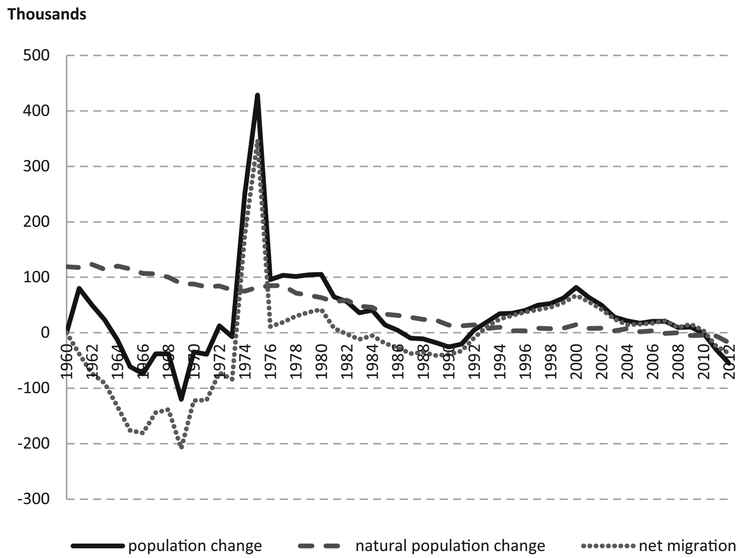

Fig. 1 Population change in Portugal. *Source*: Instituto Nacional de Estatística

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emigration flows, mainly of young and high skilled people, attracted by better jobs and higher wages offered abroad and few job opportunities in Portugal.

2.1 Demographic Behaviour and Population Trend

The natural growth of population has steadily declined in the last decades, from about 120,000 in 1960 up to zero, and then becoming negative, since 2007. The major factor responsible for this decline was the reduction of the fertility rate, a long-term trend in Portugal that contrasts with the average rising trend in EU-27 (Fig. 2).

This is concomitant with the rising mean age of women at childbirth, mainly in the last decade (it was 26.5 in 2000 and increased to 29.5 in 2012), and a high (and rising) women participation rate (45.5 % in 1986 and 55.3 % in 2012), presently one of the highest in the EU-28. This was accompanied by a rise of the education level of the Portuguese population, willing to improve the academic and professional profile for success in the labour market, thus postponing the decision for marriage, the number of children and the time of the first birth. Moreover, policies to support families are rather scarce and limited. As a compensatory factor for this behaviour, the infant mortality rate in the last five decades, has declined significantly, falling steadily from 77.5 ‰ in 1960 (a very high rate, one of the highest in Europe at that time) down to 3.1 ‰ in 2012 (a very low rate, one of the lowest in Europe). This has been one of the most successful outcomes of public health policies in recent decades in Portugal.

Such demographic trends explain the fast rise in population ageing: the ageing index (ratio population 65+/population 0–14) rose from 27.3 % in 1960 to 102.2 % in 2001 and 129.4 % in 2011. Portugal is presently a country with one of the highest ageing ratios in EU-28. This was accompanied by the rise in the share of very elderly people: the index of longevity (ratio population 75+/population 65+) also rose from 33.6 % in 1960 to 41.4 % in 2001 and 47.9 % in 2011.

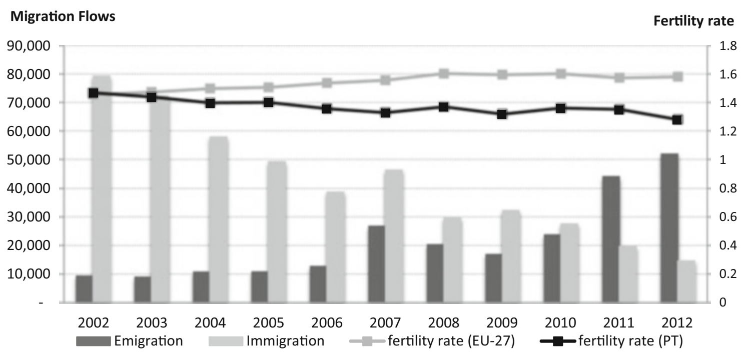

Fig. 2 Migration flows (PT) and fertility rate (PT and EU). *Source*: Eurostat

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In the last decade there was a reversal of the net migration flow (immigration minus emigration), which became negative after 2010. Since the early 1990s, Portugal had become an attraction country for nationals from eastern European countries (mainly Moldavia and Ukraine), from Brazil and Asia (mainly China). The net migration flow has become positive since then, and reached its peak in 2000: 67,000 people. In 2010 immigrants represented 4 % of the resident population in Portugal. Since then, the economic recession has caused both a return of immigrants (eastern European countries and Brazil) to their home countries and a rising flow of emigrants. The number of emigrants reached 121,000 in 2012, a figure similar to that reached in the peak of emigration in the 1960s. It is, however, a different type of emigrant: mostly young, high skilled people who cannot get adequate jobs in Portugal.

2.2 Population Forecasts

Data from Eurostat (Fig. 3) forecasts the Portuguese population to decrease in relation to EU-27 population during the next five decades. The expected trend in population crucially depends on the behaviour of the fertility rate and the trend on migration flows. It is expected that fertility rates will remain low, around 1.5 or even lower, and life expectancy at birth will continue to grow (EC 2011: 152). This means that population ageing will continue, and the old age dependency ratio (i.e., the ratio population 65+/population 15–64), that showed a growing trend in recent decades, is expected to grow from the present 29 % up to 53 % in 2050 (EC 2011: 152).

It is uncertain what will happen to migration flows, which are very much dependent on the situation of the labour market. Currently young university

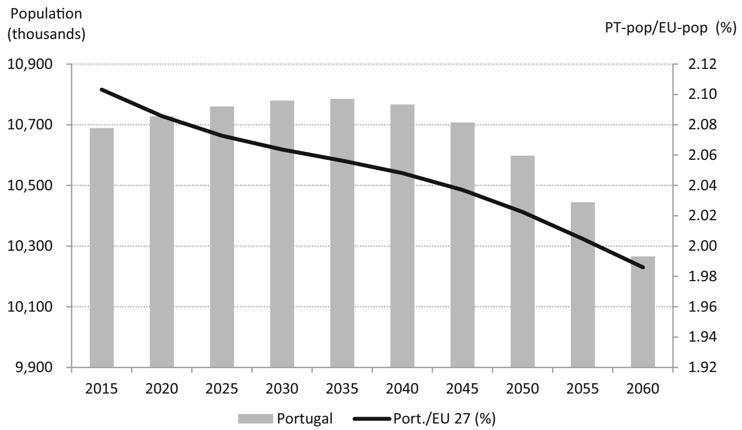

Fig. 3 Portugal in EU-27: population forecast. *Source*: Eurostat

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students have generally quite low expectations and a common feeling that their lives would be more successful abroad.

2.3 Consequences for the Portuguese Welfare State

The major expected trends of the Portuguese population, as stated above (low fertility rate, high emigration, namely of young and educated people, decline of population, rise of life expectancy, population ageing, with higher old dependency and higher longevity), create big challenges for social policy.

The lack of a family policy addressing the support of young couples with children is a serious constraint to reverse the present trend of low fertility rate. The reconciliation of work and family responsibilities will continue to be a great challenge in the future, and the government has not prepared adequate policy responses. In addition, the lack of properties available to rent acts as an additional constraint, since it pushes young couples either to buy their own home, with adverse consequences by creating an early run into debt, or to keep them living with their parents. These two areas of social policy (family policy and housing policy) are crucial domains with potential impacts on demographic behaviour, and the government has devoted little attention to them.

The emigration of a large number of young educated people is a matter of great concern either for education policy (that should devote closer attention to the role of non-university high education to the preparation of skilled labour force) or the employment policy. The present economic environment of recession is a constraint that limits the efficacy of such policies in the short term. But, on the other hand, the scarcity of high skilled labour force as the outcome of such emigration flow is a serious limitation for promoting economic growth. Only a shift from an austerity-focused economic policy, as it is now, into a growth-oriented economic strategy might, in the future, steadily remove such constraint.

The risk of decline of the Portuguese population is accompanied by the continuation (and eventually aggravation) of the present trend of demographic desertification of rural areas, with negative economic and social impact in inland regions. This desertification trend has caused the reduction of the social facilities and infrastructures (primary schools, health centres, courts, mail services, etc.) and their concentration in less rural areas. This has, in some cases, serious negative impact on the welfare of the old age population.

The rise of life expectancy, accompanied by the increase in the old-age dependency ratio, has consequences on higher demand of health care, and care of the elderly. Although the Portuguese National Health Service (NHS) is well organized and the right to health care is very well designed in Portugal, the policy of fiscal consolidation has worsened the quality of health services. This higher demand of health care services will call for devoting additional economic resources to health care, requiring some national consensuses on the sources of financing, an issue where there are diverse opinions.

An area that has already been frequently adjusted to demographic changes is social protection, of PAYG type, mostly as a response to the increase of life

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expectancy and the rise of the old-age dependency ratio. Social security accounts are permanently under scrutiny and the expected demographic changes are repeatedly invoked to justify the need of further reforms. This will be the most challenging topic in the future and one of the most controversial.

However, it is worth underlining that demographic variables are not exogenous variables. In fact, fertility rates, life expectancy and migration flows are much dependent on the working of the economy and also of social policy. High levels of employment, secure jobs and incomes and generous family policies tend to improve demographic trends. The particular demographic path observed in Portugal after 2010, characterized by negative natural growth and negative net migration, is due to the worsening of the economic and social situation that followed austerity policies.

3 Fiscal and Economic Crisis

The common diagnosis of the present debt crisis in Portugal, as in other peripheral countries of the Eurozone, describes it as the result of absence of discipline in public finance, which has translated into excessive public deficits and debts. This diagnosis has been used to justify austerity policies that have been imposed on Portugal.

However, the claim that excessive expenditure is the cause of the debt crisis in the peripheral countries of the Eurozone is debatable. Several authors consider that this claim should not be over-emphasized (De Grauwe 2010), pointing out that most of the crisis countries, as is the case of Portugal, only started to present large budget deficits after the onset of the financial crisis in 2008. Thus, the origin of the Eurozone crisis should be found in macroeconomic divergences between member states (De Grauwe 2010; Boyer 2012; Palley 2013; Arestis et al. 2013). Before the launching of the euro, significant macroeconomic imbalances prevailed within the Eurozone—namely as regards trade and current account deficits—which have widened ever since. The origin of present public finance crisis should be found in these macroeconomic imbalances.

3.1 The Public Finance Crisis

Before acceding to the euro, member states had to fulfil a set of conditions such as exchange rate stability, low inflation and the public deficits and debt ratios to GDP. At the time Portugal joined the euro, the criterion for membership as regards the overall public debt was fulfilled since it did not exceed 60 % of GDP (Fig. 4).

In the second half of the 1990s, the public debt to GDP ratio declined due to the strong economic growth, the decrease in interest rates and the use of revenue from privatizations to reduce debt. Since 2000, this ratio has always increased. However, up to 2008, the indicator has grown moderately. The public debt to GDP ratio started to increase very fast only after the financial crisis in 2008. The same

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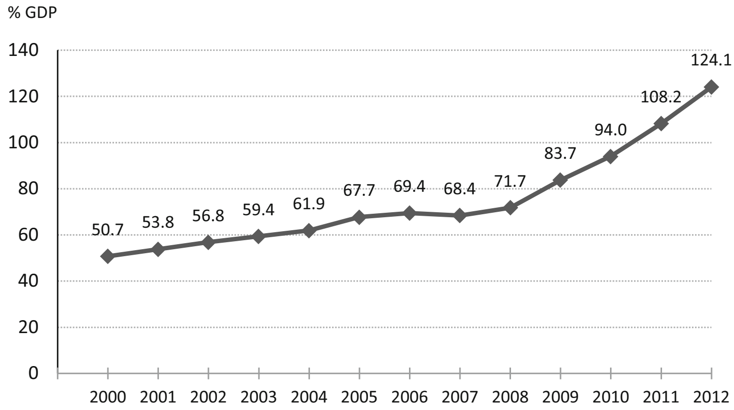

Fig. 4 Portugal: general government gross debt in % of GDP. *Source*: Eurostat

occurred in all the crisis countries of the eurozone. According to Thomas Palley, Portugal is one of the crisis countries that "exhibited a high degree of fiscal responsibility in the 6 years preceding the crisis" (Palley 2013: 41). Only with the onset of the financial crisis did these countries (except for Greece) start to present large budgets deficits (Table 1).

The aggravation of this ratio in Portugal was due to the decrease of the GDP, the effects of recession on public finances imbalance (the decrease in fiscal revenue and the increase of social transfers, in particular unemployment benefits), and some measures adopted in the beginning of the crisis to stimulate economic activity. The budget performance has also been affected by the decision to support the financial sector. The figures in the previous table do not sustain the claim that the public debt crisis is due to the absence of discipline in public finance in Portugal. The data "definitely rules out fiscal irresponsibility" (Palley 2013: 42).

Nevertheless, the European institutions and the IMF have defined the crisis as a public debt crisis, i.e., as the outcome of government fiscal indiscipline. Once this diagnosis had been accepted, harsh austerity policies were imposed on Portugal with the justification that it was the only way to reverse the misguided trend of excessive public expenditure. It is worth underlining that, as Fig. 4 depicts, following the pro-cyclical austerity policy adopted with the signature of the MOU, in May 2011, the public debt to GDP ratio has constantly worsened. Even so, the demand of additional expenditure cuts in the near future, particularly on social functions of the state, continues to figure on the *troika* political agenda.

3.2 The External Debt as a Central Problem

A different interpretation of the origin of the present crisis focuses on the macroeconomic imbalances prevailing amongst the eurozone countries before the launching of the euro, in particular, trade and current account positions of different

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Table 1 General government deficits in % of GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Ireland	0.9	−0.4	0.4	1.4	1.6	2.9	0.2	−7.4	−13.7	−30.6	−13.1	−8.2
Greece	−4.5	−4.8	−5.6	−7.5	−5.2	−5.7	−6.5	−9.8	−15.7	−10.7	−9.5	−9.0
Spain	−0.5	−0.3	−0.3	−0.1	1.3	2.4	2.0	−4.5	−11.1	−9.6	−9.6	−10.6
Italy	−3.1	−3.1	−3.6	−3.5	−4.4	−3.4	−1.6	−2.7	−5.5	−4.5	−3.8	−3.0
Portugal	−4.8	−3.4	−3.7	−4.0	−6.5	−4.6	−3.1	−3.6	−10.2	−9.8	−4.3	−6.4

Source: Eurostat

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countries (De Grauwe 2010; Arestis et al. 2013). Those imbalances have increased ever since and should be taken into consideration in order to understand the process that led to the public debt crisis.

At the time the euro was launched, it was recognized that European countries presented a significant divergence as regards their productive structures, incomes and other economic issues, but it was expected that economies would converge after the implementation of the Monetary Union. Some asymmetries were expected to reduce: exchange rate fluctuations would disappear with the creation of the single currency and both interest rates and inflation were expected to converge. In fact, despite the nominal convergence that followed the launching of the euro, the real divergence between countries has increased, starting a process of polarization between Northern and Southern European economies: the former have improved their trade surpluses, while the latter have worsened their trade and current account deficits.

Several authors have underlined that in the diagnosis of the crisis as a public debt one fails to realize its fundamental cause. De Grauwe (2010), amongst others, considers that the fundamental cause of the debt problems is the unsustainable external debt accumulation (mainly private) prior to the debt crisis.

In Portugal the expansion of private debt prior to the crisis was significant (De Grauwe 2010: 7), due to the aggravation of the competitive position of the country after the introduction of the single currency. Like other countries with more fragile productive structures, which had weaker currencies before accessing the euro, Portugal had to face huge difficulties to deal with a common currency overly appreciated in a context of external trade liberalization.

The external competitiveness of the country has gradually weakened (Artus 2010), thus aggravating trade and current account (trade account plus net income including interest payments) deficits (Table 2). It has been estimated that Portuguese loss of competitiveness (as measured by unit labour costs) is around 25–30 % since the creation of the EMU in 1999 (Arestis et al. 2013: 5).

As a consequence, a significant share of private investment has shifted from the production of tradable goods to the production of non-tradable goods, particularly in the services sector. A visible consequence of this move is the change in the structure of employment by sector of activity that has occurred since 2000 as Table 3 illustrates.

However, the external imbalance has been sustained because Portugal was borrowing significantly from other countries to cover the trade deficits. During the 2000s it has been easy to fund the trade deficit. As Arestis et al. (2013) have noticed: "The creation of a single market, the removal of barriers to capital movement, the removal of exchange rate risk for borrowing between members of EMU meant that it was rather easier for current account deficit countries to borrow capital to fund their deficits through the 2000s" (Arestis et al. 2013: 2). Moreover, when Portugal joined the eurozone it benefited from a significant fall in nominal interest rates (Palley 2013) and to an abundant capital inflow that has favoured the expansion of credit.

The strategy of borrowing to cover the trade deficit has caused "rising debt and rising interest payments on the debt, and then a tendency for the current account

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Table 2 Current account balances in % of GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Germany	0	2.0	1.9	4.7	5.1	6.3	7.4	6.2	6.0	6.2	6.2
Ireland	−0.6	−1.0	0	−0.6	−3.5	−3.5	−5.4	−5.7	−2.3	1.1	1.1
Greece	−7.2	−6.5	−6.5	−5.8	−7.6	−11.4	−14.6	−14.9	−11.2	−10.1	−9.9
Spain	−3.9	−3.3	−3.5	−5.2	−7.4	−9.0	−10	−9.6	−4.8	−4.5	−3.7
Italy	0.3	−0.4	−0.8	−0.3	−0.9	−1.5	−1.3	−2.9	−2.0	−3.5	−3.1
Portugal	−10.3	−8.2	−6.4	−8.3	−10.3	−10.7	−10.1	−12.6	−10.9	−10.6	−7.0

Source: Eurostat

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Table 3 Portugal: structure of employment by activity sector (% of total)

	2000	2012
Agriculture, forestry, fishery	12.7	10.5
Manufacturing, construction, electricity, gas and water supply	34.5	25.6
Services	52.8	63.9

Source: Instituto Nacional de Estatística

(. . .) deficit to rise" (Arestis et al. 2013: 2), allowing the persistence of these real imbalances. This explains the fast build-up of the debt. The process of rapid increase of the debt may be described by the indicator usually considered to represent the net position of the economy domestic sectors vis-à-vis the rest of the world. In general, the net position of a country is measured by the "International Investment Position", i.e., the financial assets minus liabilities of a country vis-à-vis the rest of the world. Thus, the indebtedness levels of a country may be assessed by the symmetric values of the "International Investment Position" which may be labelled "net external liabilities". Figure 5 shows the fast growth of "net external liabilities" in Portugal over time.

The real divergence of Portuguese productive structure in relation to the ones of stronger economies of the EMU has been hidden, as it has been possible to sustain aggregate demand by increasing indebtedness (credit-led growth). Indeed, both firms and households have had easy access to credit with interest rates much lower after the launching of the euro and an abundant capital inflow.

After the onset of the financial crisis, the model of credit-led growth could not persist. When there was an abrupt rise in the price of credit default swaps (CDS) over the Greek public debt, the crisis was diffused to Portugal as to other peripheral countries. From the moment these countries came under the scrutiny of financial markets and the quality of sovereign debt levels was questioned, indebtedness levels could not be sustained. A more realistic assessment of risk significantly pushed up interest rates. Thereafter, the continuation of borrowing by deficit countries faced major difficulties.

3.3 The Policy Response to the Crisis

After the global recession in 2008, Portugal, like other peripheral countries of the eurozone faced huge difficulties of financing in the markets due to the high returns demanded on government bonds. The perception of credit risk associated with Portuguese debt instruments worsened significantly from autumn 2009. In April 2011, following the huge deterioration of financing conditions in financial markets, in terms of cost and amount of credit, the government requested financial assistance from the EC, ECB, IMF (*troika*). The financial support was provided on the basis of a programme that required economic policy conditionality (ECB et al. 2011).

According to the understanding of European leaders and the IMF, the problem of Portuguese fiscal imbalances was caused by government fiscal indiscipline. As

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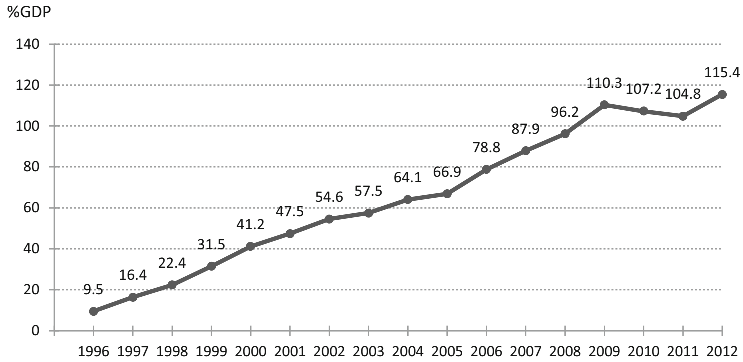

Fig. 5 Portugal: net external liabilities (in % of GDP). *Source*: Eurostat

regards the problem of current account imbalances, the divergence of competitiveness between countries was attributed to "structural rigidities". Therefore, the policy response to the crisis of leaders of the EU was the imposition of austerity. According to their understanding, the crisis could only be overcome through a combination of fiscal austerity and structural reforms in labour markets and welfare systems intended to promote "internal devaluation" considered necessary to improve external competitiveness. The conditionality imposed MOU included goals of *fiscal consolidation* (reducing the deficit and bringing the debt-to-GDP ratio on a downward growth path) and *structural reforms*. A labour market flexibility agenda aiming to reduce employment rights and unemployment protection has been adopted, while social insurance schemes have come under permanent strain as social spending became a major target of budget consolidation.

3.4 Austerity and the Economy

Following the demands of austerity established in the MOU, the current government has imposed severe austerity measures: increasing taxation and deep cuts in expenditure, namely in the wages of public servants, pensions and a set of other social benefits. Pensions, both of the private and the public sector, have been particularly affected as they represent the largest component of welfare spending. Additionally, the austerity programme has harshly hit the provision of public services, like healthcare and education, which have suffered significant reductions in spending.

Public spending cuts and increasing taxation have caused a significant fall in the disposable income of households, which, in turn, has caused a significant fall in aggregate consumption. Private investment has been severely limited by recessive policies and the increasing difficulty of acceding to credit.

As regards public finance imbalances, austerity has not been successful: both the reduction of the taxation basis due to a strong contraction of output (Table 4) and

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Table 4 GDP real growth rate and unemployment rate

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP real growth rate (%)	3.9	2.0	0.8	−0.9	1.6	0.8	1.4	2.4	0.0	−2.9	1.9	−1.3[a]	−3.2[a]
Unemployment rate (%)[b]													
Total	4.5	4.6	5.7	7.1	7.5	8.6	8.6	8.9	8.5	10.6	12.0	12.9	15.9
Female	5.2	5.4	6.4	7.7	8	9.1	9.3	10	9.2	10.5	12.2	13.2	15.8
Under 25	10.5	11.5	14.3	17.8	18.9	19.8	20.1	20.4	20.2	24.8	27.7	30.1	37.7

Source: Eurostat
[a]Provisional; [b]Estimated data, from 2000 to 2010

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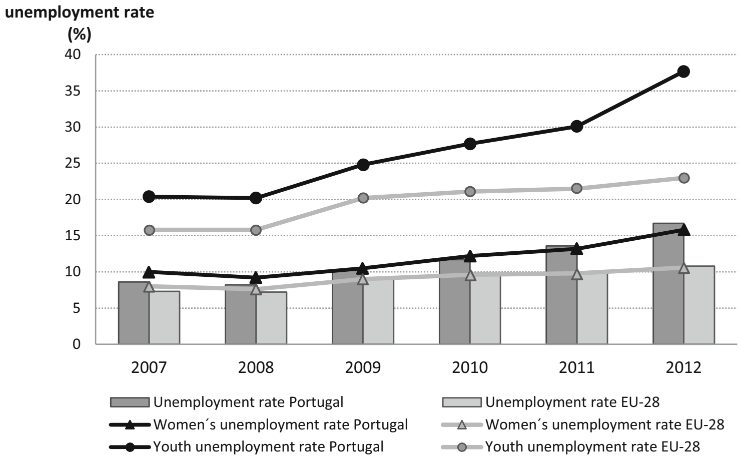

Fig. 6 Portugal: unemployment rate. *Source*: Eurostat

the increase in social spending associated to the effect of automatic stabilizers have contributed to the deterioration of public finances. Indeed, the budget deficit decreased from 9.8 % in 2010 to 4.3 % in 2011. But, this was due to the transfer of pension funds from the banking sector to the state, which amounted to 3.5 % of GDP. Both the recessive effects of austerity and the bad budget performance have contributed to the continuous worsening of the public debt to GDP ratio as is shown in Fig. 1.

As regards external trade, the balance was achieved very quickly. This was due mainly to the dramatic decline in the disposable income of households that caused a significant drop in imports. In turn, exports have increased, though moderately. However, the external demand dynamism has not been enough to offset the dramatic decrease in domestic demand. Sectors that produce non-tradable goods, those which are dependent on domestic demand dynamism, have been more affected by austerity and have had a major contribution to the abrupt rise of unemployment (Table 4), widening the gap with the lower unemployment rates in average EU-28 (Fig. 6). The youth unemployment rate has substantially increased reaching very high figures in 2012 (about 38 %).

4 Risks and Challenges

In the early phase of the crisis, spending on a set of social benefits was increased in order to minimize the social consequences of the aggravation of unemployment. The role of unemployment compensation has been strengthened: exceptional and transitory schemes of insurance were introduced, the duration of payment of the social benefit was increased, the means-test required for eligibility became less

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restrictive and the qualifying period was reduced; the amount of the insurance benefit paid to people with dependents increased.

However, in the second phase of the crisis, after the second semester of 2010, this policy was reversed. The concern with fiscal consolidation led to the adoption of measures intended to reduce a set of social benefits, despite rising unemployment and social protection needs. In fact, major changes have been introduced in the rules governing unemployment schemes (insurance and assistance) and social insertion income. A stricter conditionality has been imposed for eligibility and maintenance of several means-tested benefits of the non-contributory scheme, etc. After the signature of the MOU, in 2011, the welfare system was under permanent strain. The policy of fiscal consolidation involved direct spending cuts (instead of revenue-side measures), such as reductions in public sector wages, pensions and other social benefits, and introduced reforms of healthcare and education systems. Table 5 shows the trends on the number of recipients of the main social benefits and the corresponding expenditures (which reflects both the number of recipients and the amount of the benefits): the budget cuts in 2011 are evident from this Table.

Therefore, a political agenda favourable to social rights retrenchment has been framed and implemented, reducing a range of social protection benefits and putting at risk the quality of public services. While social security and social protection schemes are contracting, the focus is shifting from income security and poverty prevention to the provision of safety nets.

4.1 Labour Market

In the first decade of the 2000s, Portuguese labour laws changed significantly as regards employment protection and unemployment insurance and assistance schemes.

Employment protection has shifted from strict regulations to increased flexibility. Labour law reforms conducted in the period have favoured the generalization of temporary contracts with fixed term and the reduction of workers' rights and protection. Public sector employment regulations for public servants changed in 2008. The labour code, which had already been reformed in 2003, was revised in 2009. As a result, the level of regulation on regular contracts has been dramatically reduced. Temporary employment with limited rights became frequent. The Portuguese labour market may now be described as a dual market: many workers still have permanent contracts and benefit from a certain level of employment protection, while an increasing number of other workers are on flexible temporary contracts with limited rights.

After the signature of the MOU, labour legislation was revised again and the labour code was amended in order to make employment regulations even more flexible and promote the decrease of unit labour costs. A wide range of measures has been introduced in this domain (see Leite 2014). New rules regarding dismissals have been set, severance payments have been reduced, working time arrangements have been reformed and collective bargaining framework has been changed. By

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Table 5 Recent trends on social benefits in Portugal: expenditure, number of recipients, level of benefits

Social benefits		2008	2009	2010	2011	2012
Old-age pensions—Social Security General Scheme	Average pension (euros)	454.24	472.08	477.03	481.69	404.41
	Minimum pension—career >30 years (euros)	326.81	374.36	379.04	379.04	379.04
Unemployment (insurance and assistance benefits)	Expenditure (rate of annual change) (%)	−9.4	30.8	9.1	−5.4	25.7
	Number of recipients (rate of annual change) (%)	−6.7	28.8	5.2	−14.1	24.4
	% of unemployed receiving unemployment benefits	64.5	66.1	62.0	53.6	55.2
Paid sick leave and supplements	Expenditure (rate of annual change) (%)	−4.9	5.1	−0.9	0.8	−8.0
	Number of recipients (rate of annual change) (%)	0.3	6.5	−6.6	0.9	−10.0
Family allowance	Expenditure (rate of annual change) (%)	24.0	21.5	−3.2	−30.3	−1.6
	Number of recipients (rate of annual change) (%)	1.4	1.9	−1.5	−25.5	−4.2
Social insertion income	Expenditure (rate of annual change) (%)	14.3	19.3	2.4	−20.3	−6.4
	Number of recipients (rate of annual change) (%)	9.9	16.3	8.3	−15.0	−6.0
	Number of families (rate of annual change) (%)	15.40	19.70	7.50	−16.30	−7.30
	Average level of monthly benefit per recipient (euros)	86.74	91.53	91.07	88.15	86.57
	Average level of monthly benefit per family (euros)	255.01	259.38	250.96	254.95	243.45
Social assistance (excluding administrative expenditure)	Expenditure (rate of annual change) (%)	5.0	9.1	1.4	−5.0	0.7

Source: IGFSS (2013)

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reducing overtime pay, setting non-paid additional work (the annual leave lowered, a few national holidays were abolished, long weekends were suppressed, etc.), etc. labour costs have been lowered.

Unemployment protection has also changed significantly in the last decade (Silva and Pereira 2012). It includes an *insurance* scheme (*subsídio de desemprego*) that provides earnings-related benefits for workers of the private sector who fulfil the required qualifying conditions and an *assistance* scheme (*subsídio social de desemprego*) that provides means-tested and flat-rate benefits for the unemployed non eligible for insurance benefits or for those who are no longer entitled to insurance benefits.

In 2006, the insurance scheme was amended and the shift towards activation principles was accelerated. Active labour market policies were expected to contribute to the increase of employment rates and the reduction of structural unemployment rates by promoting the fast integration of the unemployed into the labour market. The new activation measures have put the emphasis on *incentive reinforcement* by imposing stricter conditionality for eligibility to the benefits and new entitlement rules. The measures were intended to encourage active job search by beneficiaries of unemployment benefits, requiring that they commit themselves in improving their employability, and restricting the circumstances in which the unemployed might refuse job offers. In turn, passive policies should have just the required duration to allow the return to the labour market. Moreover, the role of Employment Centres has been reinforced both in *employment assistance,* (personalized assistance of the jobless as regards placement services, counselling and job search) and in creating opportunities of vocational training (so called *human capital investment*).

After the onset of the crisis, in 2009, following the significant aggravation of unemployment, exceptional and transitory schemes of unemployment benefits were introduced in order to strengthen protection of the long-term unemployed. The duration of payment of the unemployment social benefit was increased, the means-test required for eligibility became less restrictive and the qualifying period was reduced. The unemployment insurance benefit paid to people with dependents was increased.

However, in the second semester of 2010, the objective of fiscal consolidation has led to the reversal of this trend leading to the approval of several measures of cost containment. Therefore, exceptional and transitory regimes of unemployment benefits were suspended and other restrictive rules were introduced in the scheme of unemployment insurance (definition of thresholds for the benefits granted, stricter conditionality as regards the acceptation of job offers, possibility of accumulation of partial unemployment benefit with part-time work). These measures were presented as activation measures intended to strengthen the employability of those who received unemployment benefits.

In 2012, the emergence of mass unemployment has led to another revision of unemployment schemes. Two measures were intended to strengthen social protection of the unemployed: temporary increase of insurance benefit for couples with children, when both parents are unemployed or for single parents; reduction of the

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qualifying period required for benefit eligibility. Other measures were aimed at cost containment: cutbacks in benefits after 6 months of payment and in the duration of payment; reduction of the maximum amount granted. These measures were presented as a tool to encourage active job search and reinforce the employability of the unemployed.

The policy direction followed in Portugal during the crisis, as regards the option for "activation-oriented policies" in the face of massive unemployment, arouses three observations. Firstly, it seems fundamental to question the true aim of recent "activation" measures. The political project of the current government includes severe cuts in social spending—both in cash benefits and in kind benefits—as these programmes have been described as a cost and an obstacle to economic growth. Therefore, the reinforcement of activation-oriented policies during the crisis may be interpreted as re-commodification move, inspired by the neoliberal 'workfare' view (Bonoli 2012) aimed at cost containment. Secondly, it is worth questioning the effectiveness of activation measures during recession. These measures are supposed to foster employability and promote the return to the labour market. The activation strategy aims to tackle the effects of unemployment insurance schemes and other social protection schemes on individual behaviours and attitudes, namely their presumed detrimental effect on labour supply. By providing "work incentives" (cutbacks in benefit levels and duration, stricter qualifying and entitlement conditionality, etc.), this strategy intends to reinforce individual responsibility for wellbeing, "making work pay" and increasing labour supply. However, in a context of mass unemployment, with very few market opportunities for the jobless, these measures will be ineffective as regards the employment level and will downgrade the protection of workers (and citizens), in particular those who are more severely hit by the economic crisis. The third question is whether policies based on activation principles are appropriate in tackling the abrupt rise of unemployment that has occurred in Portugal since the approval of the austerity package. The recent rise of unemployment is basically the result of insufficient aggregate demand. Actually, major reductions in employment have occurred especially in sectors that produce non-tradable goods, like the services sector and the construction sector (INE 2013), that are more dependent on domestic demand. The decrease of employment in services results not only from its major weight but also from the significant reduction in the disposable income of families, which has deeply depressed domestic consumption. The reduction of employment in the construction sector resulted from the combined effect of the dramatic reduction in public investment and credit restrictions. The current situation in Portugal calls for reopening the discussion on the appropriate policies to combat unemployment.

4.2 Pensions

The concern with growth of future expenditure on pensions has raised pressures to reform the pension system in Portugal. Therefore, in 2007, a major reform was introduced. The main rule changes may be summarized as follows. Firstly, a

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demographic adjustment factor was introduced in the pension formula ("sustainability factor"), in order to reduce pensions by a certain percentage as life expectancy in society increases. To avoid the decrease in pensions, workers may choose to extend their working lives or to increase their voluntary contributions to a new complementary public plan of individual accounts. Secondly, pension levels are calculated on the basis of the average earnings of the entire career rather than the earnings of the 10 best years of the final 15 as before. Thus, the new pension formula strengthens the link between lifetime contributions and expected benefits at the individual level, and thus reinforces the contributory nature of the scheme. Thirdly, new rules for indexing the benefits were approved. The maintenance of the real value of all pensions is not guaranteed, since the adjustment takes into account both the consumer price index and the rate of economic growth. The minimum wage is no longer used as reference for determining minimum pension levels. Additionally, new rules were introduced to encourage "active ageing": higher penalties for early retirement and incentives to extend working life.

The 2007 reform was presented as the appropriate policy response to fiscal pressures of structural nature resulting from population ageing with the main purpose of containing future spending on pensions. Actually, in the years preceding the pension reform, social security has been characterized by a significant fiscal destabilization. However, budgetary problems then identified were only partially explained by demographic developments. To a great extent, they resulted from the bad performance of the Portuguese economy, since the beginning of the 2000s, as regards growth and employment as the official diagnosis recognizes: "[a]s a consequence of a set of negative factors, like the slowdown of economic growth, a parallel increase in unemployment, the maturation of the system and the consolidation of schemes of anticipation/flexible age of reform, we have assisted, in the last 5 years, to an increased deterioration of the financial balance of the Social Security system particularly evident in the explosive growth since 2000 in spending on pensions and benefits associated with unemployment" (MTSS 2006: 14).

Actually, the aim of containing future spending on pensions has been attained. The reform led to a revision of the previous projections of pension expenditure in Portugal, which was approved by the Economic Policy Committee in October 2007. The increase in pension expenditure between 2004 and 2050 was revised from 9.7 % of GDP to 5.5 %. This change led to the reclassification of Portugal from the high-risk group in terms of sustainability of public finances, to medium-risk (BP 2011: 123). According to the EU projections, the expected increase in spending on pensions for Portugal is only 2.1 % of GDP between 2007 and 2060. Since the introduction of the new legislation, pension expenditure growth rate has reduced in the private sector scheme (from the average growth of 8.6 %, between 2000 and 2006, to 5.2 %, between 2007 and 2010) and in the public sector scheme (from 9.5 % to 6.2 %). It is worth underlining that the slowdown in pension expenditure was not reflected in the decrease in the ratio of pension expenditure to GDP, due to weak economic growth (BP 2011: 125).

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The reduction of the risk of fiscal unsustainability, however, had significant effects as regards the adequacy of benefits. Actually, benefit reduction caused by the new rules, though gradual, is significant. OECD (2007) has estimated that, in general, future benefits are expected to be cut more than 30 % below what people would have been entitled before the reforms. In 2008, the estimated values of the net replacement rates for males, medium earners and low earners, were under the OECD averages values of these groups (OECD 2011: 124–125).

Although the reform has been presented as merely parametric, aimed at improving financial sustainability while preserving the overall logic of the system, it has introduced institutional discontinuity. Indeed, a significant change in social objectives and the principles of the pension system are implicit in the new rules of calculating and adjusting the benefits (Murteira 2013): the main objective shifted from income maintenance to guaranteeing a modest income protection in retirement; the organizing principles of PAYG have changed, as the scheme abandons redistributive principles, intended to guarantee income maintenance, to become more reliant on actuarial principles (strengthening the link between contributions and benefits) and activation principles (intended to maintain the elderly in the labour market, like disincentives to early retirement and incentives to postpone retirement).

Since the beginning of the economic crisis, the social security budget has been extremely destabilized. This time the problem is associated with the economic cycle. The revenue side has been affected by massive unemployment, wage cuts in the public sector and downward pressures on wages in the private sector due to unemployment, which all translate into lower contributions. The expenditure side has been affected mainly by the rise in unemployment. Moreover, the particular demographic path observed in Portugal after 2010, characterized by negative natural growth and net migration (see Sect. 2) is due to the worsening of the economic and social situation that followed austerity policies. Despite the fact that present fiscal pressures are linked to the economic cycle, they have been used by the government to justify additional cuts in pensions and the need to rethink the pension system.

4.3 Health Policy

The Portuguese National Health Service (NHS) guaranteeing the universal access to health care financed out of general taxation with a major role for public provision of care was created in 1979. The service came late compared to other European countries. However, the projected rising trend of health expenditure soon became an issue of concern. For this reason, since the 1980s, the discussion on the appropriate border between the state and the private sector has been opened.

In recent decades, several legislative changes have been introduced aiming to obtain additional resources (including the contribution of patients to health care funding) or to use existing resources more efficiently. Models of management diffused in other European countries started to be spread in Portugal as well as

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new models of financing, regulation, and provision of health services. As a consequence, the functioning of the NHS changed significantly. Important measures have been introduced, particularly in the last decade, which have redefined the border between the public and the private sector in the provision of health care. The main lines of change were (Silva 2012): separation of the financing and the provision of health services (by setting contracts between the state and public hospitals, etc.); introduction of competition between public and private hospitals (inclusion of private hospitals in the public network, new models of management, etc.); reduction in the role of the state in the delivery of health services (private provision of health care services which used to be carried by public institutions, development of public-private partnerships, etc.); several measures intended to limit spending (increasing user charges, lowering public contribution in the cost of pharmaceutical products, enhancing the use of generic pharmaceutical products, etc.).

According to OECD (2013), total health spending in Portugal in 2011 accounted for 10.2 % of GDP, around 1 percentage point above the OECD average. However, Portugal spent less that the OECD average on health per capita in 2011 (adjusted for purchasing power parity). Health spending in Portugal is mainly funded by public sources (65 % in 2011, less than the OECD average of 72 %). In real terms, health spending has increased by 2.3 % per year on average between 2000 and 2009, and 1.8 % in 2010 but was cut down by 6.7 % in 2011 following the demands of austerity expressed in the MOU (OECD 2013).

A new phase of health policy has been launched since then. The MOU detailed a number of measures to reform the NHS in order to attain significant savings on health care. The objective was achieved mainly by reducing costs in hospitals and in the pharmaceutical sector, wage cuts in public services, increasing the level of user charges, and decreasing expenditure for primary care and public health sub-systems. Although the reforms in the health care sector have covered multiple areas of intervention, the measures have been focused on some major areas. One of main areas of concern is that of pharmaceuticals. The MOU has defined targets for reducing public expenditure on medicines. Savings have been made by setting administrative control of prices and revising the existing reference-pricing system, promoting generic pharmaceutical products and changing prescription practices (defining clinical guidelines, electronic prescribing, prescription monitoring) (Barros 2012). Another area of policy concern is that of user charges, called "moderating fees", which should be used not as a financial resource (not exceeding 2 % total health expenses) but as an incentive to an ideal differential use of health services, increasing user charges in some services, ensuring that primary care moderating fees are lower than those for outpatient specialists care visits and lower than emergency visits. In January 2012 citizens' co-payments for some health services (both as regards primary care and emergency services) have increased, alleviating the burden of the public sector but placing an increased burden on households. The scope for exemption from moderating fees was enlarged, supported by strict means-testing procedures. Exemptions are also granted to people with disabilities or chronic illnesses (for visits related to the illness), children, etc. Another area of concern is the reduction of operational costs of

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hospitals, including reduction of management staff, reorganization and rationalization of the hospital network, new rules to facilitate mobility of healthcare staff, and less spending on overtime compensation. In addition, a budget reduction is aimed to the still existing sub-systems of health care for civil servants (ADSE for civil servants, ADM for military and SAP for policemen). Moreover, the existence of such sub-systems, and/or how to design its relation to the universal NHS, is questionable and is under discussion as far as ADSE is concerned (Fernandes and Barros 2012).

4.4 Long-Term Care

Long-term care in Portugal has mostly been provided, until recently, by informal providers and mainly with the contribution from family support and neighbours networks, with little provision by public services. In 2010 Portugal's public expenditure for long term care (health) was 0.14 % of GDP while it was 1.6 % in average OECD, and in 2011, 1 % Portuguese population over 65 received long term care in institutions (4 % OECD average), and 0.4 % received care at home (7.9 % is the OECD average).

The main institutional participation in social care was that provided by *Misericórdias*, non-profit independent institutions, with a religious background, and a long tradition in the Portuguese society, dating back to the fifteenth century. Since the early 1980s there has been an improvement of care services by developing a private/public mix of care provision by non-profit organizations (IPSS, *Instituições Particulares de Solidariedade Social*, private institutions of social solidarity). During the 1990s several national programmes addressed at age dependency were launched by the government. The main traits of the creation of such programmes have been the strengthening of cooperation between the state, local governments, organizations of civil society and non-governmental organizations to improve the service provision for families. Such institutions are financially supported by the state by a flat-rate subsidy for the care of the elderly by such institutions. Such financial support is based on agreements between the state and the representatives of such organizations and the result of annual negotiations between them. In 2006 about 5.6 thousand institutions provided social facilities to the families, of which 72.7 % were non-profit organizations (Santana 2010).

In the last 10 years the government policy was designed with the purpose of increasing the number of services and to improve their quality (Santana 2010). In 2006 the National Network for Continuous Integrated Care was launched, intending to fill the gaps in care provision that results from the population ageing and the scarce supply of services. This is a network of care providers (based on the existing structure of providers, what includes community services, hospitals, health care centres, etc.) that, under the coordination of the ministries of Health and Social Solidarity provide health care and social assistance to the elderly and other dependent persons. These ministries have the responsibility of financing such services, with co-payment by the care recipient according to the individual's or family's

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income, mainly addressed to long-term and palliative care of elderly people facing high dependency, by promoting individual autonomy and strengthening family competences for elderly care.

4.5 Family and Children

There is not any institution with the role of the coordination of family social policies in Portugal (Wall 2013: 135). Therefore, the major areas of policy that can be assessed as family policies are those that may have (direct or indirect) impact on the welfare of the families, in the following domains: economic support to the families, the taxation policies (and the difference in taxation rules for different family configurations) and those policies addressed to the conciliation of family life and work (Wall 2013: 135–147).

Family allowances (*abono de família*) are one of the most important income transfers to provide economic support to the households, with an old tradition in Portugal (since 1942, Portugal being one of the first countries in the world to introduce such kind of income transfer). The subsystem of family protection was changed in 2002. The new model adopted the principles of differentiation and selectivity in the allocation of social benefits. Family allowances paid to families (dependent on the number of children and with an amount per child that is decreasing with the family's income), have been reduced in the recent past, either the number of families receiving this allowance or the public expenditure. This is the result of the cumulative effect of two factors: changes in means test conditions and the reduction in the number of beneficiaries due to emigration and the reduction in birth rate (Wall 2013: 50–63).

The Guaranteed Minimum Income (*Rendimento Social de Inserção,* RSI, or Social Insertion Income) is another much more recent (1997) income transfer, and that has a larger effect on the reduction of severity and intensity of poverty. The recent policy of state expenditure reduction has consisted on cuts in several income transfers, and RSI has been one of them. Several decisions were made that restricted the access to RSI, so that the number of families receiving it has fallen since 2010 and consequently government expenditure on RSI has also fallen. Such policy measures have had a significant detrimental effect on families with children, having reduced the number of children receiving RSI transfers (Wall 2013: 63–70).

The Solidarity Supplement for the Elderly (*Complemento Solidário para Idosos*) is another policy measure, decided in 2006, that is intended to complement the income of the poor elderly people (initially who were above 80, after reducing the age of access to 70 and presently to 65) if the households they belong to have low income. The number of beneficiaries markedly increased since its creation in 2006, but has been falling since 2011, as the result of the government decision to reduce the income level below which one has access to this income transfer. Moreover the decision made by the government in 2013 has been to reduce spending on this benefit, as part of the policy of expenditure cuts (Wall 2013: 71–74).

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The unemployment benefit is another income transfer with relevant impact on household income in case of rising unemployment rate. The policy decisions, as described above on this income transfer (Sect. 4.1) are, however, of ambiguous effect on household income: some may have a positive effect (reduction of the qualifying period or increase in unemployment benefit), while others may have a negative effect (reduction of the maximum amount of the benefit or its duration).

The tax policy is another area where decisions were made with effects to improve the family's welfare. Income taxes have risen since 2011 as part of the policies of fiscal consolidation, either creating supplementary taxes, changes in income brackets and, therefore, on tax progressivity, or tax deductions. Some protection was made of the lowest income earners (middle income classes had a higher incidence of such austerity measures), and to the households with more children (Wall 2013: 105).

The conciliation of family and labour life is another area of public policy with relevance for family welfare. Although not enough in view of social needs, the number of nurseries continues to rise after the implementation, in 2006, of the programme PARES (Programme of Enlargement of Social Responses, *Programa de Alargamento das Respostas Sociais*), that reached 35 % of coverage in 2010, being expected to rise in the next years given the positive policy orientation of the government. The same applies to the pre-school attendance (for the ages 3–6 years old), also linked to the programme PARES, whose coverage is about to reach 90 % (Wall 2013: 113–131).

5 Concluding Remarks

The size of the welfare system is presently an issue of public discussion in Portugal for two main reasons. On the one hand, it is part of the wider discussion on the size of government and the need to reduce public deficits and debt. Government expenditure on social policies is a significant part of public expenditure and, therefore, it is under the focus of fiscal consolidation. Different ideological orientations will have different answers to the basic question underlying the role of the state: who pays what to provide social rights to the citizens? This is presently under wide scrutiny in Portugal. On the other hand, the fiscal sustainability of social security is still another matter of policy concern and, by invoking the population ageing as the main factor, the former government has justified (and the current is about to do again in the near future) the introduction of parametric changes in the schemes strictly taking into account the demographic variables.

Some of the challenges that Portuguese welfare state is presently facing are similar to those of other European welfare states. The demographic trends are one of them. But the economic factors, which undermine the working of the intergenerational transfers and other redistributive mechanisms, are more relevant in Portugal. The behaviour of the demographic variables is to a great extent economically explained, as it is endogenously determined. Moreover, the progress on social rights, rooted in the historical pathway that shaped its present traits, was unable

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to improve their adequacy, because of the weak economic basis required for its financial support. Although Portugal is a modern European welfare state, its fragile character means that without economic development it is not expected that social rights will be guaranteed in conditions of financial sustainability. The weak prospect of economic growth of the country is perhaps the major challenge for the Portuguese welfare state.

The present crisis and the austerity measures adopted created an additional dilemma. The question is: how to manage the tension between assuring the quality of social rights and attaining fiscal consolidation objectives established in the present and the stricter ones that should be attained in order to meet the requirements of the Fiscal Compact? It was in the European context that the Portuguese welfare state was created and has worked as reference for its shape. It is, now, also in the European context, that of the Eurozone, that the most crucial constraints for its survival are being created.

The matter of legitimacy of the Welfare State is crucial on this issue, as that it might explain to what extent, and how, the social sphere of the public action might be reduced accompanying the imposed reduction of the size of the government.[1] This is a matter of political bargaining among social partners, and the ideological orientation of the policy makers also matters to foresee the social policy orientation.

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[1] The European Social Survey (wave 2008) has addressed several questions that permit the highlighting the main attitudes of the Portuguese population on some basic questions relevant to this subject. When inquired about the opinion about the role of the state in relevant areas of social policy, it is observed that, just before the emergence of the crisis (2008), the Portuguese were not satisfied with the government action, but strongly agreed that the government has strong responsibilities in the guarantee of social rights in several relevant domains: health care, child care and family support and, as well on policies addressed to the elderly.

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The Romanian Welfare State at Times of Crisis

Livia Popescu, Valentina Ivan, and Cristina Raţ

1 Introduction

The crisis caught Romania largely unprepared. After the ad-hoc social measures of the early 1990s, aiming largely to "repair" (Zamfir 1999; Popescu 2003, 2004) the precarious social provisions of the state-socialist regime and respond within an "emergency welfare state" (Inglot 2008) to new social risks of the emergent market economy, the beginning of the 2000s was marked by shaky balancing-actions between liberal retrenchment advised by the World Bank and the International Monetary Fund, and the vision of "Social Europe" promoted by the Lisbon Agenda. While EU accession was softly, yet firmly conditioned by reforming child protection and addressing the problems of multiple deprivation and marginalization of the Roma minority,[1] the inherent inequalities within the reformed parental leave and childcare benefits (Popescu 2006; Inglot et al. 2012), pensions and healthcare system (Rebeleanu 2006) hardly entered the political agenda. By 2007, we witness

[1] See the Opinion of the European Commission on the Membership Request of Romania, EC, Doc/97/18, http://ec.europa.eu/enlargement/archives/pdf/dwn/opinions/romania/ro-op_en.pdf (accessed in June 2011).

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the abandonment of universalistic social policies (except from the universal child allowance, a persistent reminiscence of paternalistic state-imaginaries) and accentuating turn towards conservative insurance-based differential protection, combined with tightly controlling last-resort benefits (Stănculescu and Pop 2009; Rat 2009).

After a notable economic growth on the verge of the 2007 EU accession (8.1 % GDP growth rate in 2006) that was induced mostly by the growing domestic demand backed by remittances from labour migrants (Sandu 2010), Romania registered a negative GDP growth in 2009 (−6.6 %) and 2010 (−1.1 %) and began to recover by 2.3 % in 2011 and 0.6 % in 2012 (INS, 2014a; European Union Social Protection Committee 2014: 417). The period of sharp economic downturn coincided with the implementation of welfare measures envisaged in the previous years of growth, with the intention to prevent the outmigration of qualified labour and to counter the steady decline of fertility rates. Thus, in 2009 the flat-rate childcare leave was reformed so that parents could benefit from a more generous earnings-related scheme,[2] the Guaranteed Minimum Income (GMI) was revised to ensure better adequacy and coverage, and a minimum state pension of 85 €/month was introduced, with the promise of a gradual increase. Moreover, the country was still paying a 200 € grant for every first marriage and 87 € birth-grant and trousseau for a newborn, while the minimum national gross wage was about 142 €/month. The austerity package (O.U.G. 117/2010) came abruptly soon after, in May 2010, and it contained several important cuts of social benefits, jobs and wages in the state-sector, along with increasing taxation and an expansion of the range of imputable income. The strong political discourse on the "undeserving" beneficiaries "on the dole", at times criminalizing the poor and accusing welfare authorities of tolerating fraud, strengthened after 2009 and culminated with the formal proposal of president Băsescu to withdraw from the Constitution article 47 affirming state responsibilities in the domain of social citizenship.[3]

While EU integration, even at times of crisis, meant the availability of various funding opportunities, weak state capacity to apply for and handle complex development projects, combined with rigid bureaucratic structures and inefficient communication between various state authorities led to a very low absorption rate of EU funds. In the case of the European Social Fund, eligible non-governmental

[2] The replacement rate of the earnings-related childcare leave benefit was 85 %, with a baseline set at 600 lei (150 € in 2008) at the time 12 % higher than the minimum gross wage, thus it encouraged low-income parents to opt out of work.

[3] "The crisis has shown us that the social state cannot function anymore in Romania, in the sense that we use the term *social state*. We will have to define what the *social state* means here, for us, in the Carpathians" [Criza ne-a arătat că statul social nu poate funcţiona, în Romầna, în înţelesul pe care noi l-am dat expresiei stat social. Va trebui, dacă avem forţă s-o facem, să definim ce înseamnă stat social, aici, la noi, în Carpaţi]. Declaration of Traian Basescu, president of Romania, 18th of January 2011, Bucharest.

See http://www.politicaromaneasca.ro/traian_basescu_statul_social_nu_mai_este_un_termen_viabil-2748 (20.03.2014).

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organizations faced not only the twofold bureaucratic requirements of Romanian and EU authorities, but also problems of financial sustainability due to the tedious cash-flows and the lack of favourable credit options. In May 2012, the absorption rate of EU social funds was only 7.73 %; following the creation of a Ministry for European Funds in 2013, the absorption rate increased to almost 30 % by February 2014 (Ministry of Labour, Press Release 2014). The new EU "social investment" agenda, diffused at expert meetings and accompanying the promotion of every project financed from the European Social Funds, was nonetheless hardly transposed into policy practice, as early education services remained underdeveloped in rural areas (where 45 % of the population resides) and vocational training courses for the unemployed were curved during the years of austerity. Instead, Romania focused on the right to the free-movement of the labour force within the EU, and implemented domestic policies in favour of the emergent urban middle class.

The present chapter discusses the evolution of the Romanian labour market and welfare policies within the context of the global financial crisis, investigating the demographic, macroeconomic, and political dimensions that shaped this evolution. Particular attention is driven to the consequences of high labour migration from Romania to other EU countries, which amplified the sensitivity of domestic markets to evolutions in the economies of destination countries. We also focus on the situation of the Roma ethnic minority facing severe deprivation and marginalization, and the financing of the public pensions' scheme, allegedly threatened by the ageing of the large cohorts born between 1967 and 1970, following the coercive pro-natalist policies of the communist regime.[4] These features bring a distinctive character to the Romanian politics of crisis and explain, at least partially, the nature of its policy responses.

2 Demographic Change and Population Ageing

The main focus hereby has been on population ageing, a shrinking domestic workforce and a growing number of pensioners. Romania currently faces serious demographic problems: low fertility rate (1.3 in 2012), the highest infant mortality rate in EU-27 (9‰ in 2011), and a sizeable out-migration (crude rate of net migration 12.9 in 2011). The very high, slightly fluctuating labour migration abroad, makes Romania the second-largest sender of temporary intra-EU foreign workers after Poland,[5] with altogether close to 2.37 million Romanian citizens working abroad (Sandu 2013; INS 2014c).

Demographic prospects indicate several threats to the sustainability of social expenditures. The total population of Romania is expected to decline significantly

[4] Following the decree O.U.G. 770/1975 on the prohibition of abortion and the commercialization of contraceptives, the cohort born in 1967 was twice as large as the previous ones.

[5] According to European Commission (2014: 54), 95 thousand economically active Romanians were residing for up to 2 years in another EU country in 2012.

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by almost 16 % by 2050 as a result of low birth rates and a high level of net emigration (Eurostat 2008). First, an ageing population requires higher public spending on the pension system (forecasts for 2060 estimate 15 % of the GDP, which would be a significant increase from the current level of 8 %). Second, migration had a noteworthy and continuous impact on demographic developments since 1990, when cohorts of Romanians started to leave the country for "the West", a trend that increased after 2002, on the verge of EU accession. Nevertheless, low productivity rates (currently just above one-third the EU-27 average) and the low employment rates at the national level suggest that there is room for structural improvement in the economic sector.

This section describes the main demographic trends concerning fertility, life-expectancy and migration (Sect. 2.1), that led to population ageing and decline (Sect. 2.2) and posed challenges to the Romanian welfare state (Sect. 2.3).

2.1 Demographic Development

Fertility, life expectancy and migration are the three basic determinants of demographic developments. Fertility rates in post-socialist Romania decreased dramatically from 2.20 in 1989 to 1.34 in 1995, and since then have been fluctuating around 1.3, with a slight decrease to 1.25 in 2001–2002 and an increase to 1.4 in 2009 (Transmonee 2013). The (mean) age of women at the birth of first child also changed, from 22.4 in 1990 to 26 years old in 2011 (Transmonee 2013). Romania and Bulgaria record the lowest age, about 26 years, but this cannot be associated with a high fertility rate. In fact, in 2012 there were 51 % fewer children born than in 1989 (INS 2014a: 2).

Life expectancy for the EU-27 in 2008 was 76.4 for men and 82.4 for women, but significant differences among member states (the range was 13 for men and 8 for women) were recorded. Life expectancy for men in Romania stood at 65.9 in 1993 and at 70 in 2011 (with the EU-27 average at 76.4 years), while for women 73.4 was the 1993 level and 78 in 2011 (with the EU-27 average at 82.4 years). The gender gap has decreased between 1993 and 2011 in the majority of EU countries, with one exception: Romania, where the difference between the sexes increased by 0.1 years, with life-expectancy reaching 78 years for women and 70 years for men (Transmonee 2013). At the end of the communist regime (1989), life expectancy was much lower in Romania (70 years) as compared to the OECD countries (76 years), with a large discrepancy between women (72.4 years) and men (66.5 years). Under 5 mortality is 12.5 % and infant mortality is still high at 9 % in 2011, yet the decrease from the 1989 value of 26.9 % is notable (Transmonee 2013).

Old-age dependency ratio (population 60 and over to population 15–59 years, %) has increased from 25.1 % in 1989 to 32.5 % in 2012 (see Fig. 1) and is estimated to further increase by 2060. Similarly to other EU countries, Romania is searching for solutions to maintain economic growth and sustain social spending in the context of population ageing.

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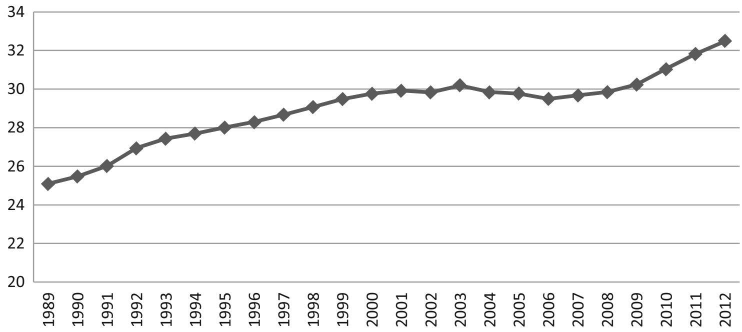

Fig. 1 The evolution of the old-age dependency ratio in Romania between 1989 and 2012. Source: Transmonee (2013). Authors' figure

According to the 2010 Demography Report of the European Commission (EC) in 2008 the EU-27 member states received nearly two million *migrants* of other EU nationalities. Romanians were the most mobile (384,000 Romanian citizens), followed by Poles and Bulgarians. After 2008, emigration from Romania decreased gradually to 170,000 persons in 2012 (Eurostat 2014a), yet overall the number of Romanian nationals residing in other EU countries remained the highest among EU sender countries, with 2,377,000 emigrants (Sandu 2013). The most popular destination countries had been Italy (47 % of all Romanian emigrants) and Spain (34 %) throughout this period, mainly due to already established migration networks, the availability of labour-intensive jobs in construction, tourism and long-term care, and language similarities (Sandu 2010; Anghel and Horváth 2009; Ciornei 2012). The average age of migrants increased from 29 years old in 2002 to 33 years old in 2012 (INS 2014c).

Most of the EU-27 member states reported more immigration than emigration, except the three Baltic States, Germany, Poland, Romania and Bulgaria where emigrants outnumbered immigrants.[6] Romania also registers the lowest share of non-national residents: less than 1 % of the resident population. According to EC 2010 Demography Report, emigration from Spain intensified on average by 33 % per year[7] between 2006 and 2009. Moreover, from 2008 to 2009 the number of EU nationals who left Spain doubled; among them, Romanians constitute an important share (Ciornei 2012; INS 2014c).

[6] See European Commission (2011b): *Migrants in Europe*. Brussels: The EU, p.18. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-31-10-539/EN/KS-31-10-539-EN.PDF (Accessed: 20.03.2014).

[7] See http://epp.eurostat.ec.europa.eu/portal/page/portal/population/documents/Tab/report.pdf (Accessed: 20.03.2014), p. 102.

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2.2 Population Forecasts

The first census that covered the current Romanian territory was carried back in 1948 when a population of 15.8 mill. was recorded. There are two recent population forecasts: the one performed during the 2011 census (which was published in mid-2013) and the one that was published by the national statistics office in 2008. Forecasts are given until 2060. There are additional forecasts such as the ones provided by Eurostat and other European institutions.

The post-war baby-boom witnessed by all European countries was moderate in Romania. The birth rate started to increase between 1949 and 1955, followed by a significant drop between 1957 and 1965. The 1965 Population Census revealed that Romania had the second lowest fertility rate (1.9) among CEE countries, and the communist leadership quickly adopted a set of coercive pro-natalist policies, prohibiting abortion and the commercialization of contraceptives (Kligman 1998; Popa 2006; Roth et al. 2009; Doboș 2010; Soare 2010; Ducatti Flister 2013). The cohorts born in 1967 and 1968 were double those of the previous generations (Mesaroș 1977; Doboș 2010). Clandestine abortions but also poorly equipped public hospitals led to infections, sterility and worrying rates of maternal mortality (UNICEF 1997). After the change of the political regime, the liberalization of abortions, and the maintenance of free medical services for maternity, both maternal (25.5‰) and infant (9‰) mortality have decreased considerably, but not yet down to their EU average values (Transmonee 2013).

As elsewhere argued (Inglot et al. 2012) concern for differential fertility (higher in the case of women with lower educations qualifications, see Gheţău 2004) remains a persistent topic on the Romanian family policy agenda, leading to measures that covertly penalize irregular workers and low-income families with (allegedly “too many”) children, and provide generous child-rearing incentives for the middle-class (such as earnings-related childcare leave benefits and crèche vouchers, along with the universal child allowance). These fertility concerns are often targeted at ethnic Roma (Rat 2010) living in deeply deprived, marginalized settlements, subjected to discriminatory attitudes (UNDP/WB/EC and FRA 2011; Vincze 2013).

Nonetheless, the population dropped by 12 % between 2002 and 2011, mainly due to the low birth rates and labour migration towards “Western” countries. By June 2013, the population fell to 18.6 million (INS 2014a), about the same as 1960 level, and forecasts show an acceleration of the ageing process (see Table 1).

At present, the proportion of the population aged 65 or over is comparatively low, while projections indicate a slow increase until 2020 and the speeding-up of the phenomenon afterwards. According to the forecast, the share of the population aged 65 or more will reach 35.0 % in 2060, a level which will place Romania ahead of the EU-27 average (see Table 2).

By 2060, the fertility rate is estimated to reach 1.55, while the replacement rate is expected to score a rate of 2. The rise in the fertility rate is seen to be increasing on a moderate rate (European Commission 2011a) and Romania is expected to remain below the EU-27 average (see Fig. 2).

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Table 1 Projection of the total population (in millions) in Romania

Total population (annual average)						% change		
2010	2020	2030	2040	2050	2060	2010–2020	2020–2060	2010–20160
21.4	21.0	20.2	19.4	18.4	17.2	–2.2	−17.8	−19.6

Source: Eurostat, December 2013

Table 2 Forecasts on the share of older population in Romania

	Percentage aged 65+			Percentage aged 80+			Old age dependency ratio (%)	
	2008	2035	2060	2008	2035	2060	2008	2060
EU-27	17.1	25.4	30.0	4.4	7.9	12.1	25.4	53.5
Romania	14.9	22.9	35.0	2.8	6.2	13.1	21.3	65.3

Source: Eurostat, December 2013

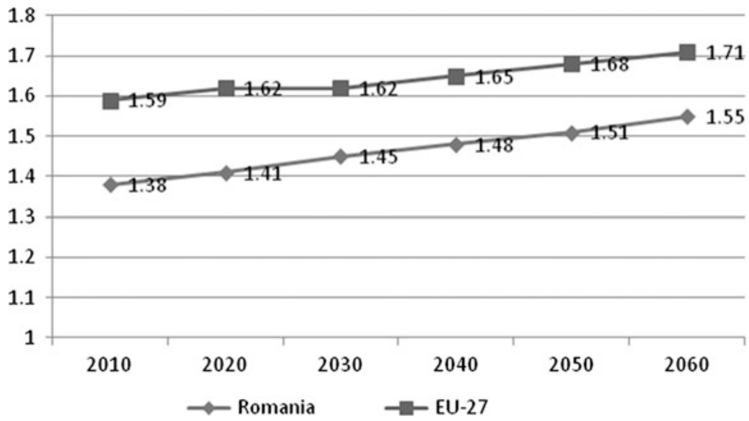

Fig. 2 Fertility rate, 2010–2060, Romania vs. EU-27. Source: European Commission (2011a), The 2012 Ageing Report

With fertility rates lying constantly behind the replacement rate, Romania cannot prevent the sharp decline of its population by 2060. Eurostat data indicates a statistical correlation between economic growth and the fertility rate. Analyses of Romanian demographers have shown that economic factors play an important role in the fertility behaviour of the better-educated segments of the population, and the postponing of the first child diminishes the probability of having more children (Hărăguș 2008; Rotariu and Mezei 2012).

2.3 Consequences for the Romanian Welfare State

Romania's demographic developments reveal growing pressures on the *pension system*. In 2007, Romania introduced a three pillar model recommended by the World Bank and experimented by other CEE countries as well: the first pillar is the

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public pay-as-you-go system, the second is the compulsory private scheme and the third the optional private top-up (existing since 2004). The fiscal responsibility of collecting contributions for the first and second pillar belongs to the state, and the flow of contributions from the public towards the private insurance funds has been gradually increased from 2 to 4.5 % in 2014, deepening the deficit of the public system.

The large number of young workers abroad (an estimated number of 2.37 million, with an average age of 33 in 2012, see Sandu 2013; INS 2014c) drained the *labour market* of qualified, often highly-skilled individuals. The loss of human resources impacted not only the manual-industrial sector, but also public services such as healthcare, education, social assistance services, leading to increasing personnel shortages. Moreover, migration often correlates with postponing or renouncing having children, further diminishing fertility rates, which were already falling due to the difficult socio-economic conditions of post-socialist transition. Poverty among families with numerous children represents an important challenge to *family policies*. The scarcity of affordable childcare services limits drastically the equal opportunities dimension of this welfare component as well as the social inclusion of children from low income/vulnerable families. The problem of children left at home by migrant parents adds a new challenge to the child welfare system. *Permanent care needs* were severely neglected and Romania has actually a major shortage of publicly funded residential and community care facilities (Mureșan et al. 2009). With private services being hardly affordable, elderly care is usually performed by family members. Nevertheless, providing these services at home raises several issues: most family carers are older women themselves, who may opt for early-retirement in order to fulfil their caretaker roles, or they lack the necessary skills for performing these tasks. Concerning morbidity, for years Romania has recorded unfortunately high rates of the incidence of tuberculosis (68.3 per 100,000 in 2011, see Transmonee 2013) and mortality by cervical cancer (13.1 per 100,000 women, in 2010).[8] With the lowest health expenditure per capita in the EU, the Romanian health system has been persistently under-financed and therefore both human and logistic resources are inadequate.[9] The collection of health-insurance contributions is flawed by its low base and the shrinking of the working population. The corruption phenomenon (informal payments) is sizable and impacts negatively the equal access to health care (Popescu 2009). *Rural-urban disparities* in terms of poverty and local development pose specific challenges for public policies, and *regional differences* are similarly high. Romania hosts the county with the lowest GDP/capita in the EU (Vaslui); 5 other counties are among the 20 poorest in the EU, whereas Bucharest has the GDP/capital 11 % higher than

[8] World Health Organization (2014a), European HFA Database, http://data.euro.who.int/hfadb (17.06.2014)

[9] World Health Organization (2014b), World Health Statistics 2014. Indicator compedium, http://www.who.int/gho/publications/world_health_statistics/whs2014_indicatorcompendium.pdf?ua=1 (20.09.2014).

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the EU-average (Eurostat 2013b). In these areas, educational and nutritional programmes for children, subsidized medical services and social economy initiatives could provide important boosts for local development (UNDP 2013).

3 Fiscal and Economic Crisis

Romania recorded a steady economic growth between 2000 and 2008. In 2007, when Romania joined the EU, its growth rate was high (6.3 %). GDP continued this trend and reached a record 8.3 % in 2008. At the same time, the inflation rate decreased while continuing to be significantly higher (6.57) relative to the EU average. Foreign capital has increased investments and fuelled consumer spending.

Romania entered a negative economic trend in the third quarter of 2008. The GDP continued to decrease in the next period and reached its lowest level in the second quarter of 2009, with 8.7 % contraction relative to the second semester of 2008.[10] The market decline that was foreseen for 2009 led eventually to an official recognition of the economic recession. The GDP dropped by 7.1 % in 2009 and again in 2010 by 1.3 % (INS 2014b; see Fig. 3). The deficit/surplus peaked at 9.9 % of the GDP in 2009 to gradually decrease at 3 % in 2013 (see Fig. 4). The consumer price index exceeded 5 % in both years while the evolution of the net earnings did not fully cover the inflation rate.[11] The crisis manifested initially as a simple consequence of the Euro-zone one, but Romania's own economic weaknesses and imbalances added specific elements and triggered further issues in a second phase (Constantin et al. 2011:159). Stoiciu (2012:6) highlights that payroll costs in the

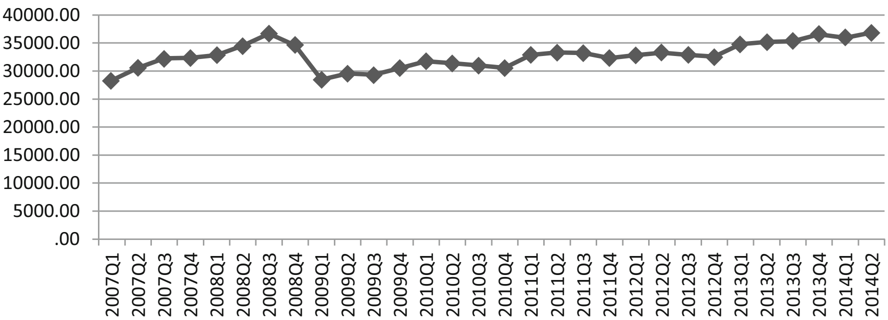

Fig. 3 Romania: GDP and main components—current prices, quarterly evolution, seasonally adjusted data. Source: Eurostat (2014a)

[10] http://discutii.mfinante.ro/static/10/Mfp/pdc/Programconvergenta_ro.pdf (02.04.2014).

[11] http://www.InstitutulNationaldeStatisticase.ro/cms/files_buletine2010/bsl_1.pdf; http://www.InstitutulNationaldeStatisticase.ro/cms/files_buletine2011/bsl_1.pdf (02.04.2014).

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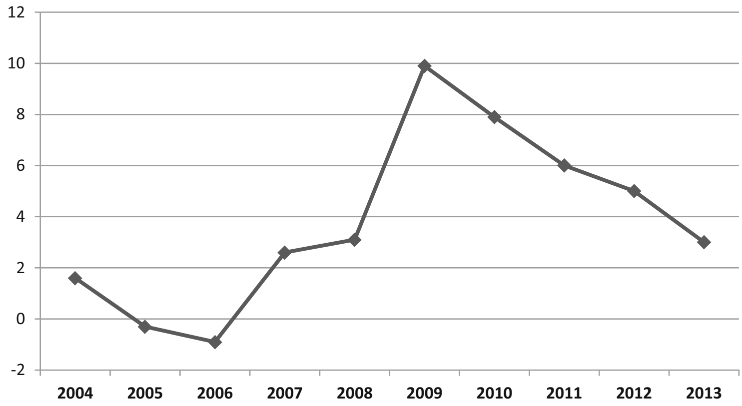

Fig. 4 Transitions from the deficit/surplus to the change in debt (% of GDP) in Romania between 2004 and 2013. Source: Eurostat (2014b)

public sector almost doubled in Q4 2008 as the parties in power attempted to gain popularity during an electoral year.

When the government faced both a dangerously high budgetary deficit (5.7 % of GDP in 2008 and as high as 9 % in 2009 according to Eurostat[12]) and an increasingly limited access to financial markets, it turned to the IMF and EU for financial assistance. In March 2009, a 12.9 bn € loan from the IMF was granted, as part of a coordinated financial support package of 20 bn €.

Constantin et al. (2011: 161) asserts that the loan has served mainly as a macroeconomic stabiliser, instead of a stimulus package to stop the economic decline. Following the agreement with IMF and EU, the government and parliament adopted an Austerity Package, which became effective in 2010. It comprised several measures such as: a 25 % cut in wages for all public sector employees; an increase in VAT[13] from 19 to 24 %; 15 % cut in pensions, childcare leave benefits and unemployment benefits; introduction of the payment of social contributions on several forms of freelancer contracts (such as copyright) and other types of earnings from self-employment; the extension of health-insurance contribution payment for income from rents, interests and dividends; all public employees were sent on un-paid leave for 10 days while taxation was imposed on crèche, meal and food vouchers. Romania has undergone one of the most drastic cuts in the EU, with a significant impact on the welfare system.

Even before the crisis, the *labour market* was confronted with a low employment rate, high unemployment rate among youth and a large share of employment in the underground economy. The crisis has aggravated these issues. The scaling down of

[12] See Eurostat (2014b) http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00127&plugin=0 (02.04.2014).

[13] O.U.G./28.06.2010, http://www.financiarul.ro/wp-content/uploads/Ordonanta-modificare-Cod-Fiscal.pdf (20.03.2014).

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Fig. 5 ILO unemployment rate (%), annual average, 2007–2012. Source: Eurostat (2014a)

production capacities has led to significant layoffs, especially in sectors such as industry, construction and services. The layoffs in these sectors amounted to 315,000 at the end of 2009, mainly over 85 % of total redundancies in the economy. A 6.8 % unemployment rate was scored at the end of 2010, yet the youth unemployment increased from 18 % (2008) to 24 % (2011) (see Fig. 5). Fulton (2011) examined how women in Latvia, Romania, Ireland and Spain had been affected by the crisis and austerity measures, and concluded that all public sector workers experienced a drop in pay in 2010, but women were slightly more affected in public administration as well as health and social care. In Romania, the gender public sector pay gap has increased from 7.8 to 12.6 % since women are concentrated in the public sector, particularly in health, social and education. The 2010 EC Industrial Relations Report points to the gender dimension of the austerity measures. Whereas men were primarily affected in the first phase of the economic crisis, when the private sector slowed down, the public sector wage cuts affected women at a higher proportion than men (Virga et al. 2012).

Based on Eurofound data, Stoiciu (2012) shows that in 2010 job-loss significantly affected Romania, with 78,700 redundancies, representing 21 % of all phased out jobs in the EU as a whole that year. According to government data,[14] the number of employees in the public sector decreased by about 14 % from the end of 2011 to December 2008, from approx. 1,400,000 to approx. 1,200,000. Nevertheless, out of this total number of 200,000 job losses, we do not have percentages for the number of redundancies due to the restructuring process. Ghinăraru (2010) asserts that the government might have acted hastily under the pressure of both its

[14] http://www.mbuget.gov.ro/buget/numarpersonal.html?pagina=buget2013&locale=ro (01.07.2014).

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Table 3 The evolution of social inclusion indicators in Romania, 2008–2012

	2008	2009	2010	2011	2012
At-risk-of-poverty or exclusion (% of total population)	44.2	43.1	41.4	40.3	41.7
At-risk-of-poverty (% of total population)	23.4	22.4	21.1	22.2	22.6
At-risk-of-poverty threshold (PPS single person)	1838	2056	2126	2134	2106
Poverty gap (%)	32.3	32.0	30.6	31.8	30.9
Persistent at-risk-of-poverty (% of total population)			18.2	16.7	
At-risk-of-poverty before social transfers excl. pensions (% of total population)	30.7	29.1	27.5	29.1	28.0
Impact of social transfers (excl. pensions) in reducing poverty (%)	23.8	23.0	23.3	23.7	19.3
Severe Material Deprivation (% of total population)	32.9	32.2	31.0	29.4	29.9
Share of people living in low work intensity households (% of people aged 0–59)	8.2	7.7	6.8	6.7	7.4
Gross Household Disposable income adjusted for consumer prices (growth %)	22.6	−11.8	−1.3	−3.2	
Income quintile share ratio S80/S20	7.0	6.7	6.0	6.2	6.3
GINI coefficient	36.0	34.9	33.3	33.2	33.2
Early leavers from education and training (% of population aged 18–24)	15.9	16.6	18.4	17.5	17.4
NEET: Young people not in employment, education or training (% of total population aged 15–24)	11.6	13.9	16.4	17.4	16.8

Source: Eurostat, December 2013

external creditors and the internal highly volatile context, and little room was left for finding alternative policies.

The crisis had a negative impact on households' gross disposable income that dropped by 11.8 % in 2008, yet initially it was accompanied by a diminishing of inequalities; only after the second wave of the crisis in 2010 the quintile ratio and Gini coefficient increased gradually (see Table 3). The rate of in-work-poverty is also among the highest in Romania: 24 % in the case of households with dependent children, 14 % in the case of childless households, and 29 % in the case of single-parents with dependent children (with higher rates only in Italy, Luxemburg and Greece). Those in temporary employment are four times more likely to face poverty than those with a permanent job, and those only in part-time employment 2.8 times more likely (European Union Social Protection Committee 2014: 83–84). In terms of job mobility, Romania clusters together with Greece, Poland and Finland amongst the countries with low work-to-work transitions and low exits from poverty (EU-SPC 2014: 89).

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4 Risks and Opportunities

The specific responses of the Romanian welfare state to the economic crisis might be discerned by examining the evolution of social protection expenditures (see Table 4). During the period of EU integration (2003–2007) social expenditures increased significantly for all categories of provisions (except unemployment, as more jobs became available) and for the first year of the economic crisis (2009) this trend was maintained. In 2010, we could register a moderate and uneven decrease affecting mainly disability benefits and to a smaller extent spending on pensions, families and children. In 2011, following the austerity measures of 2010, social expenditures dropped significantly for all categories except old age pensions. Expenditures on benefits for families and children decreased from 91.8 €/inhabitant in 2009 to 77.6 € in 2011 and unemployment provisions from 21.7 € in 2009 to 14.1 € in 2011, as many long-term unemployed no longer qualified for financial benefits. Social assistance measures that tackle poverty and exclusion dropped from 17.3 €/inhabitant in 2008 to 13.1 € in 2009. Following the upgrading of the GMI programme in July 2009, these expenditures increased again at 16.5 € in 2010, but fell back at 13 € in 2011, after new rules that tighten eligibility were introduced. The following sections provide more detailed discussions over these changes.

4.1 Labour Market Policy

The neoliberal turn in Romanian labour market policies (Stoiciu 2012) was amplified by the crisis and even the social-liberal coalition,[15] that replaced the democrat-liberals[16] in 2012, continued the quest to deregulate labour relations and keep uniform taxation of revenues. The new Labour Code of 2011 (Law No.40/2011), part of the agreement with the IMF, eroded labour security by allowing employers an unlimited turnover on "testing periods" and Law 52/2011 legalized occasional work for "daily labourers" in certain labour-intensive domains, with the

[15] The social-liberal coalition USL was formed in February 2011 by the Social Democratic Party—PSD and National Liberal Party—PNL, also in coalition with the smaller Conservatory Party. USL won the parliamentary elections held in December 2012.

[16] The Democrat Liberal Party—PDL won the parliamentary elections in December 2008 and the presidential elections in 2009.

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Table 4 The evolution of social protection expenditures by function, in Euro per inhabitant (at 2005 constant prices) between 2003 and 2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sickness/health care	108.68	111.33	140.45	139.22	176.68	202.84	224.86	234.43	219.61
Disability	37.70	35.89	40.61	46.47	63.42	79.24	87.70	83.96	78.89
Old age benefits	157.79	182.40	197.34	221.21	275.54	372.56	433.34	424.31	428.69
Survivors' benefits	16.56	18.04	20.18	24.10	25.60	35.56	42.63	41.24	40.42
Family/children	43.87	53.16	68.85	75.27	83.74	85.23	91.85	88.47	77.61
Unemployment	17.76	18.02	15.27	14.05	13.47	11.56	21.76	29.75	14.14
Housing	0.00	0.00	0.00	0.00	0.00	1.30	1.27	1.18	1.14
Social exclusion n.e.c.	6.66	7.59	11.46	12.78	22.02	17.37	13.16	16.52	13.39
Total	***389.02***	***426.44***	***494.17***	***533.10***	***660.48***	***805.68***	***916.57***	***919.86***	***873.88***

Source: Eurostat (2014a)

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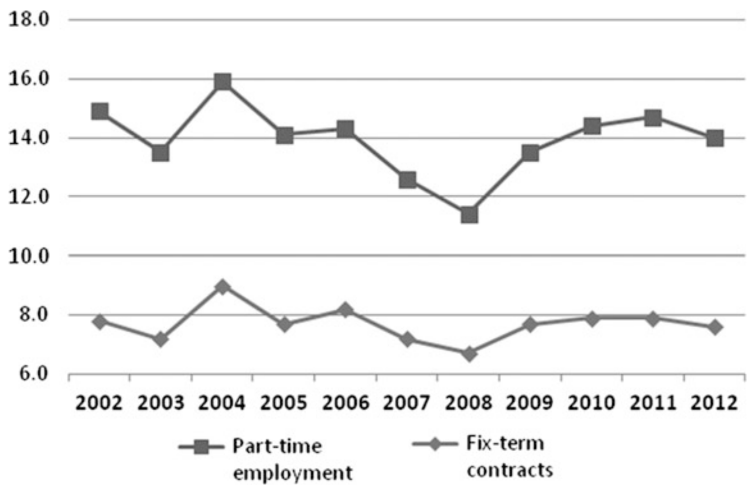

Fig. 6 The evolution of fix-term contracts and part-time employment in Romania between 2002 and 2012 (% of total employment). Source: Eurostat (2014a)

obligation of contractors to pay workers' income taxes but not their social insurance contributions, which were to be paid by the daily-labourers themselves (Fig. 6).[17]

While permitting this exemption from the payment of otherwise compulsory social contribution, the government introduced within the austerity package the taxation of food and crèche vouchers (previously untaxed), which led to a decrease of living standards especially for low wage earners. In the public sector, wages were cut by 25 % and social benefits diminished, with tightened eligibility. The minimum gross wage increased gradually from 600 lei/month in 2010 to 700 lei/month in 2012 and 850 lei/month in 2014, yet the ratio between the minimum and the average gross wage remained constant at around 32–33 %. In 2012, around 12 % of employees were working for the minimum wage (INS 2014a).

[17] Following the New Labour Code adopted by Law 40/2011 (see *Monitorul Oficial*, Partea I, No. 225, 31 March 2011) the legislation on day-labourers ("zilieri") was introduced by the Law 52/2011 (published in *Monitorul Oficial*, Partea I No. 276, 20 April 2011). Companies in certain labour-intensive economic domains, with high seasonal fluctuations (such as agricultural activities, fishery, forestry, artistic production, cleaning services etc.) may contract day-labourers and pay them with a gross hourly wage between 2 and 10 lei/hour. The duration of the working day cannot exceed 12 h, and the payment should correspond to at least 8 h. Contractors of day-labourers ought to keep a registry of their workers and pay 16 % flat-rate income tax for their earnings, but no social insurance contributions. This means that a day-labourer working 8 h for the minimum of 2 lei/hour, receives net earnings of 268.8 lei/month, i.e., half of the statutory minimum gross wage. Day-labourers are supposed to pay their own health-care and social security contributions. They are entitled to receive GMI benefits, but they should perform the compulsory community work. Law 277/2013 modified slightly the regulations, allowing work as day-labourers for adolescents aged 15–16 with the consent of their parents (initially, the minimum age requirement was 16 years) and prohibiting work during the night for those under 18 years old.

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Compared to other EU countries, Romania has a large rural population (45 %, see INS 2014a) and a sizeable agricultural sector (employing 29 % of the active population, but providing only 6 % of the GDP) that, similarly to the shabby years of the 1990s transition, provided some buffers of subsistence agriculture under the crisis. Whereas in urban areas 91.3 % of employed persons are wage earners, in rural areas they represent only 37.5 %, slightly outnumbering the self-employed (34.6 % of employed persons from rural areas) (INS 2014a). Moreover, throughout the last two decades every second women had the status of "unpaid family worker" (19.6 % of women were unpaid family workers in 2012), as compared to only around 7 % of men. These rates are higher in rural areas, where 27 % of the total working population has the status of unpaid family worker. These correspond to the percentages of self-employed: 24.1 % of men are self-employed, as compared to 12.3 % of women. While unpaid family workers are formally "occupied", they do not benefit from coverage in the public insurance system, thus they are not entitled to paid maternity or childcare leave, unemployment benefits or state pension, and hold public health insurance only insofar they are the co-insured with their spouses. Child-poverty is also much more frequent in the case of families of unpaid workers or self-employed in rural areas (Rat 2012).

The regulatory framework on the social protection of the unemployed has undergone only incremental changes as a reaction to the economic crisis and the increasing rates of unemployment, consisting mainly in larger subsidies for employers and exemptions from the payment of social contributions. The revised Law 76/2002 grants a flat rate of 75 % of the national social reference indicator[18] (NRI) as unemployment benefit (until 2009, the benchmark was the national minimum gross wage which, unlike the NRI, had been regularly indexed since then) with a bonus of 7–10 % of previous average earnings in the case of those with an uninterrupted work record of 5 years or more; the latter are also entitled to a longer period of receipt, i.e. 9–12 months as compared to the regular 6 months. Employers of fresh graduates and long-term unemployed from vulnerable categories have been receiving a state subsidy equal to the gross minimum wage since 2002 and starting 2010, also a second subsidy that covers the compulsory social contributions paid by employers (O.U.G. 108/2010). Following the Minimis Scheme introduced in 2008 (O. 308/2008), employers from the private sector who create new jobs and hire for at least 1 year persons who had been unemployed for at least 3 months are exempted from the payment of social contributions for 6 months. Nonetheless, no back-to-work bonus is granted for those leaving the GMI programme. Compensatory payments for the loss of job following large-scale restructuring of companies (introduced 15 years ago, during the post-socialist transition) function mostly as income-replacement benefits, and only seldom as

[18] The new law on social assistance (Law 292/2011) recalculated each social benefit as a function of the *National Reference Indicator* (NRI), which was introduced in 2008 with the amount of 500 lei/person (at that time, equal to the minimum gross wage). Although the national minimum gross wage, subject to tripartite negotiations, increased significantly from 500 lei in 2008 to 850 lei/month in 2014, the NRI has not been indexed since 2008.

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financial capital for entrepreneurial activities. Labour unions criticized the state for being a bad negotiator in the contracts with large foreign companies and for failing to safeguard the interests of workers (see the cases of Mechel or Nokia). While there are some successful examples of innovative mentoring and social economy programmes,[19] the discussion of a comprehensive law on social economy in parliament has been recurrently postponed. The 2007 public sector job creation programme was amended in 2010, while the Minimis Scheme is hardly ever used. Active measures consist mainly of job mediation, counselling, and job-shops. In the first 9 months of 2013, only 22 % of the unemployed who benefited from these measures managed to find employment (Ministry of Labour, *Statistical Bulletin* 2013: 8). Within the EURES programme, designed to facilitate young persons' labour mobility within the EU, only 704 persons found jobs abroad, and the majority of those were in low-qualified manual labour in agriculture or tourist services (Ministry of Labour, *Statistical Bulletin* 2013: 16–17).

4.2 Pensions

Throughout 2009 and 2010 many analysts and government officials declared persistently that financial sustainability of the public scheme is at serious risk due to the high level of expenditure and budgetary deficit. This approach was very much consistent with the government discourse aiming at de-legitimizing social rights while justifying cuts in social protection, arguing that the Bismarckian logic could hardly stand the demographic pressures for the years to come, especially when the larger cohorts of 1967–68 would reach retirement-age (Preda 2009). The economic crisis together with the budgetary constraints stipulated in the government agreement with the IMF and EC have decided the social policy agenda in Romania, including the outlines of pension reform.

Overall expenditure for public pensions as a percentage of the GDP decreased from 6.0 % (2004) to 5.3 % (2005) and increased continuously afterwards up to 8 % in 2009 (or 39 billion €)[20] and remained at that level until 2011 (European Union Social Protection Committee 2014: 411). It makes up around 40 % of social expenditures and a quarter of total public expenditures, but its share is expected to further increase to 10.4 % in 2030 and then to 14.8 % in 2050, as the large cohorts of 1967–68 enter retirement (Preda 2009; European Union Social Protection

[19] See, for example, the Social Company from Campia-Turzii (Combinatul Social Campia Turzii), www.ajofmcluj.ro (15.04.2014) and the 2013 joint report of UNDP, DRI, ACR and CADI, *Social economy and Roma communities: challenges and opportunities*, http://www.undp.ro/libraries/projects/Economia_Sociala_si_Comunitatile_de_Romi_Provocari_si_Oportunitati.pdf (15.04.2014).

[20] http://www.cnpas.org/images/data/cnpas/statistics2/17martie2010_S1/niv_chelt_anual; http://www.sar.org.ro/art/publicatii_/pwr__ewr/raport_anual_de_analiza_si_prognoza__2010-436-ro.html (accessed: 20.03.2014).

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Committee 2014). The deficit relative to the GDP, which reached 1.31 % in 2009, is likely to increase at a higher pace during the economic crisis.[21]

As described in Sect. 2, the old age dependency ratio had an incessant growing trend, which will continue in the next decades at a higher pace. The estimations indicate an increase from 21.4 % in 2010 to 30 % in 2030 and 54 % in 2050 (Eurostat 2008).

The reform of the public system was perceived as imperative when public deficit became critical. The main changes in the public pension legislation were strongly motivated by fiscal constraints. The reform had five objectives: a. integrate the special regimes into the main system; b. enlarge the mandatory coverage; c. restrict the early retirement; d. equalize the retirement ages for men and women and e. weaken the link between income pension and national average wage (SAR 2010). While the solutions to the first objective might impact fewer women than men, the others have a direct relevance for the female population and for gender equality. In order to increase the sustainability of the pension system, priority was given to the discouragement of early retirement and the equalization of retirement age for men and women.

A last moment opposition by the country's president prevented the enactment of the proposed equalization by setting the retirement age for women at 63 years. However, the full contributory period was increased for men (35 years). The increase of the retirement age from 60 to 65 years will occur gradually between 2014 and 2030. The same calendar applies to the 5 years rise of the full contributory period. The eligibility conditions for the two categories of early retirement are not made stricter, but penalties for anticipation increased from 0.05–0.50 % to 0.75 % per month.[22]

The 2010 law changes radically the formula to calculate the yearly increase of the pension point value, by gradually reducing and eventually abolishing the link with the national average wage. For the next 10 years, increase in the pension income will fully cover the inflation rate and 50 % of the real average salary increase. Beginning with 2021, the rate of the average salary increase will be reduced by 5 % each year. Pensions will no longer follow the level of the salary increase from 2030.[23]

A non-contributory benefit was introduced in 2009 to counteract the foreseeable impact of the crisis on the elderly with very low pensions. The guaranteed minimum pension aimed at preventing poverty among the oldest pensioners, mostly women. The benefit is provided to pensioners of the public scheme who fall under the level established yearly by the government. It is financed by taxation (from the general

[21] http://www.cnpas.org/images/data/cnpas/statistics/grafice/deficit_pib.gif (Accessed: 20.03.2014).

[22] http://www.cnpas.org/content/cnpas/others/presedinte%20cnpas/PARCALAB_CNPAS/2010/legea%20263_2010/LEGEA%20nr.%20263-2010%20cu%20modificari%20si%20completari.doc

[23] http://www.cnpas.org/content/cnpas/others/presedinte%20cnpas/PARCALAB_CNPAS/2010/legea%20263_2010/LEGEA%20nr.%20263-2010%20cu%20modificari%20si%20completari.doc

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budget) and calculated as a difference between the official minimum level and the contribution-based pension of the person.

Later on, the provision was affected by austerity measures as well. It was renamed *social indemnity for pensioners* and thus lost its guaranteed component.[24] The amount of social indemnity is decided based on the evolution of the macro-economic indicators and the budgetary resources and therefore it is no longer automatically indexed with the inflation rate. [25] In spite of this, the social indemnity compensates to some extent the disadvantage of those who had long career breaks or had worked in former communist cooperative farms. Finally, it reduces the poverty risk among the oldest pensioners (75+), most of them being women.

4.3 Health Policy

Health care is insurance based. In order to benefit from it, residents are required to register with a family doctor and prove that contribution to Health Social Insurance Fund was paid continuously for the last 5 years. Contributions are paid from public funds for the unemployed receiving benefits and recipients of guaranteed minimum income benefit. Up to a certain ceiling, the contributions of pensioners are subsidised from the Pension Fund. Children below the age of 18, as well as young people in formal full-time education up to the age of 26 are entitled to universal coverage. Family members without personal income can get the co-insured status. This is certainly the case of housewives and unpaid family workers, mentioned in Sect. 4.1. In 2007, the legislation integrated a social inclusion provision which allows persons who had no income during the last 5 years to pay contribution only for the preceding 6 months in order to be insured.[26] Private health insurance has relatively low coverage, and the prevalence of out-of-pocket payments for medical services raises serious issues of affordability and equity (WHO 2012).

Prior to the crisis, the allocation of financial and human resources to the health system placed Romania on the lowest level within the European Union. The total expenditure relative to the GDP was 5.5 in 2005 and remained under 6 % in 2009 (Eurostat 2013a). Similarly, Romania ranks last with regards to the density of the physicians. The austerity measures prevented any improvement of the situation.

During the 2009–2011 economic crises, all policy changes aimed at cost containment and expanding imputation of health care contribution to non-wage income (see Sect. 3, par. 5). The government started to tax pensions above a certain

[24] The Law 118/2010 changes the name of the minimum guaranteed pension (introduced as a statutory right of all old-age pensioners by O.U.G. 6/2009): the term "pensie socială minimă garantată" is replaced with "indemnizaţie socială pentru pensionari" (social benefit/indemnity for pensioners). This allowed the government to set the value of the pension according to the *national social reference indicator*.

[25] http://www.mmuncii.ro/ro/articole/0000-00-00/pensia-sociala-minima-garantata-1080-articol.html

[26] http://www.cnas.ro/norme-de-incasare-a-contributiei

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threshold, introduced co-payments and reduced the subsidized medical services package. The latter two measures hindered the access to health services for the poorest and most vulnerable categories of the population. While the expected health care reform is likely to turn the system towards more market opening and privatisation, it is unclear how this will affect the situation of irregular workers and impoverished segments of the population, who could hardly afford even paying for the state-subsidized system.

In 2011, a national strategy to curtail the in-patient care expenditures was issued (Ministry of Health 2011). The consequent reform of the medical care services led to the closing of 71 hospitals, for the most part situated in small towns. A plan to transform them into residential facilities for the elderly was hardly implemented as available funding remained inadequate.[27] In addition, restrictive measures are envisaged in health care such as the "negative list" of medicines and medical tests.[28] They aimed at paving the way for a reduced basket of medical services and drugs, which might be particularly detrimental to low income patients. Also in 2011, the exemption threshold for contribution payment to health insurance funds was put at the level of the average pension. Following the change of government, this measure was reversed in 2012.

4.4 Long-Term Care

The long-term care system is a mixed private-public responsibility and mainly a service based one. A personal allowance is provided exclusively to a person who is certified as severely disabled. In the public sector, clients are required to cover the cost of maintenance in residential care by paying up to 60 % of their net income. The cost is subsidized from the county or local councils if neither the resident nor his/her spouse or other legal caretakers have the financial capacity to pay the set amount (Popescu 2011).

In spite of recent increases in capacity, mainly due the use of EU structural funds and the outsourcing of services to private voluntary (often faith-based) organizations, neither residential nor community services come close to the actual demand of care. The capacity of the residential services corresponds to 4.5 % of the minimal estimated number of persons. Informal employment of carers, predominantly women, is very common, although there is no systematic data about the phenomenon. Both the underdeveloped service network and the prevailing traditional values prevented any sizeable "de-familiarization" of long-term care provision (Saraceno 2004; Popescu 2011).

[27] http://www.ms.ro/?pag=208

[28] http://www.mediafax.ro/social/ritli-ladislau-vom-avea-o-lista-negativa-cu-medicamente-si-analize-care-nu-vor-fi-platite-de-stat-8908637/

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4.5 Family and Children

The first "austerity package" announced by the government in 2010 eliminated two universal benefits for the newborn: the birth grant and the trousseau for infants, with a cumulative value of about 80 €. The government maintained the earnings-relatedness of the childcare benefit during parental leave (available for working parents with children below the age of two) yet cut its values by 15 %, which were still rather generous (baseline at 150 €/month and upper ceiling set at around 830 €/month). The reduction was in place until May 2012, when the interim social-liberal government[29] returned to the initial 85 % replacement ratio within the same lower and upper limits. However, the tight conditions on work record[30] still limit drastically the coverage of the benefit: one-quarter of infants below the age of two are raised in families where parents are not entitled.[31] Until 2013, paid childcare leave was only granted for the first three children, thus infants were treated differently, based on their rank within the family. As the benefit is paid from the central state budget, and not from the social insurance fund, its earnings-relatedness is subject to question. The minimum amount of the childcare leave benefits has been roughly equal to the minimum wage, providing an incentive for low-income parents to prefer staying on childcare leave throughout the legally granted maximum 2 years. While the generous upper-ceiling of the benefit was maintained only for parents who opted for a 1-year parental leave and considerably lowered otherwise, O.U.G. 166/2012 upgraded and extended the monthly bonus (stimulant) paid for parents who return earlier to the labour market.[32] Nonetheless, public childcare options are limited and private services considerably expensive (almost twice the minimum wage): in 2011, only 3 % of children below age 3 were enrolled in crèches and 81 % of those aged 3–6 in kindergartens (Eurostat 2014a).

When none of the parents is entitled to paid childcare leave, families receive only the modest universal child allowance: 50 €/month until the child reaches the age of two (or three, in case disability), and 10 €/month after that. Low-income families may claim a means-tested support allowance for families (O.U.G. 105/2003), which grants slightly higher amounts for single-parent families

[29] Following the political crisis of January 2012, when large-scale anti-government protests took place in the major cities of Romania, the democrat-liberal government led by Emil Boc resigned and it was replaced by the social-liberals, with Victor Ponta as prime minister.

[30] There are certain situations that can be assimilated to working status: full-time students, registered unemployed during the first 6–9 months, while still receiving benefits, parents on maternity or child care leave, parents on sickness leave, receiving invalidity benefits or state pensions (Law 240/2009, modified by Law 118/2010 and O.U.G. 111/2010).

[31] Authors' estimations based on data provided by the Ministry of Labour, *Statistical Bulletins*, 2013.

[32] They receive a monthly grant of 115 € (until their child reaches the age of 2 (or 3, in the case of disabled children). This amount is very generous, when compared to the net minimum wage of 125 €/month. Before October 2012, it was offered only to those parents who originally opted for a one-year paid leave and returned to work before their child turned one.

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but levels out after the fourth child (i.e. the fifth and any subsequent child does not receive any supplementary allowance). In 2008, 36 % of children were living in families receiving the support allowance, and there was a big discrepancy between rural (54 % coverage) and urban areas (18 % coverage) (Ministry of Labour 2009). Following the austerity measures, the support allowance for needy families was reformed in December 2010. Law 277/2010 restricted eligibility by lowering the threshold from 470 lei/month (the value of the net minimum wage) to 370 lei (approx. 86 €/month). The allowance became fragmented, according to the income-range of the family, and its amounts proportional with the number of children.[33] In addition, a financial penalty was introduced for unjustified absences from school: a cut of 20 % for more than ten absences during one semester, and a cut of 50 % for 20 or more. The penalty applies for three consequent months, and affects the whole family, not only the absentee pupil. In December 2013, the means-tested support allowance for families with children was received by 250,588 families, and the average value of the benefit was 18 €/month. Earnings-related paid childcare leave was granted for 170,585 families, with an average benefit of 175 €/month.[34]

Following the agreement with the World Bank and the IMF on the liberalization of the prices of electricity and fuel, in May 2013 a governmental ordinance O.U.G. 42/2013 indexed the amount of GMI by 8.5 % and that of the means-tested family allowance by 15 %. It also expanded eligibility for the latter by raising the threshold from around 90 €/month/family member to 125 €/month/family member,[35] starting with July 2013. In January 2014, GMI increased by further 4.5 % and the means-tested family allowance by 15 %. Nonetheless, in October HG 778/2013 tightened the means-test, yet it allowed the cumulating of the two benefits (previously, Law 166/2012 imputed the support-allowance from GMI).

4.6 Adjacent Social Policy Fields

Despite a nominal commitment to prevent poverty and social exclusion, in particular among the historically-discriminated Roma minority, and the early

[33] Between 2010 and 2012, two-parent families with incomes below 200 lei/month (approx. 50 €) received 7.5 €/month (but only for maximum four children!), and those with incomes between 200 and 370 lei, 6 €/month. Single parent families with incomes below 200 lei/month receive 12 €/month, and those with incomes between 200 and 370 lei 10 €/month. The benefits were upgraded by 15 % in May 2013.

[34] Source: Ministry of Labour, Family, Social Protection and Elderly Persons, http://www.mmuncii.ro/j33/index.php/ro/transparenta/statistici/date-statistice (20.03.2014).

[35] The value of the monetary at-risk-of-poverty threshold in Romania, according to the Eurostat methodology.

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embracement of the OMC-mechanisms,[36] Romania still has among the highest poverty rates in the EU (41.7 % according to the AROPE indicator and 22.6 % for the at-risk-of-poverty relative income threshold) and the lowest poverty-reduction effects of social transfers (fluctuating around 23 % between 2008 and 2011 and dropping below 20 % in 2012). The small decreases of the relative at-risk-of-poverty rate (−0.8) and gap (−1.4) between 2008 and 2012 (led mainly by the reduction of middle-class earnings) should be assessed along with the persistent decay of households' gross disposable income within the same period.

Whilst the severity of housing deprivation, especially among Roma families, and its salience as a dimension of poverty, separately discussed and highlighted in the reports[37] of the European Commission (2010), in Romania the *Social Inclusion Unit* within the *Ministry of Labour, Family and Social Protection* has almost no competences in the field of social housing.[38] "Regular social housing" and "emergency housing"[39] remain in the sole competence (planning, financing, administration, etc.) of local authorities, which most often have little incentives,[40] low expertise and tight budgets to prioritize social housing. Local authorities are expected to request EU structural funds for urban regeneration and social housing, and implement projects in partnership with non-governmental organizations; yet, there are considerable regional differences in the commitment of municipalities to apply for and carry out such programmes. Moreover, for the 2010–2014 programmatic period structural funds were available only for the rehabilitation of public buildings, not for constructing new social housing estates. The criteria of access to social housing is set by the local councils, and they usually favour those with a solid work record or severe disability. However, there are municipalities that put heavy emphasis on educational degrees, thus indirectly excluding the poorest segments of the population, and among them the Roma.

Inadequate housing, residential segregation and environmental risks represent probably the most striking and persistent dimensions of deprivation in the case of

[36] As part of the EU accession process, Romania issued its first National Strategy for Social Inclusion in 2002.

[37] *Getting out of Poverty. Publication of the European Commission at the Closing Conference of the European Year of Combatting Poverty and Social Exclusion* (European Commission 2010).

[38] The only *National Programme* in the field of social housing is the *ANL Programme* of the *National Agency for Housing,* which nevertheless only targets young persons below the age of 35, most importantly those coming from institutions of public child care and those with a high level of education and secure income.

[39] According to the Law 114/1996 on housing, social housing ought to respect strict criteria of adequacy; however, the law allows for exceptions in emergency situations.

[40] According to the Law 116/2002 on combating social marginalization, local authorities may collect an additional local tax on the second owned dwelling, in case that the owner does not rent it out, and use the collected taxes in order to finance the construction/reparations of social housing.

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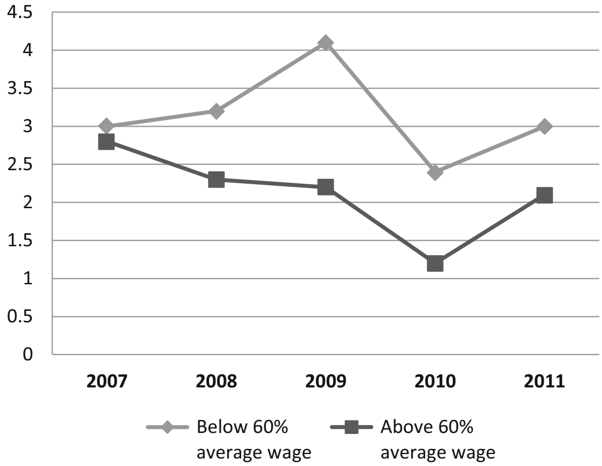

Fig. 7 Percentage of households living in an accommodation rented at a reduced rate or provided for free in Romania. Source: European Parliament, Directorate General for Internal Policies (2013): 28

Roma families,[41] not only because of overt discrimination,[42] but also because of the scarcity of public housing in Romania in general. Based on EU-SILC 2009 (*European Panel Survey on Income and Living Conditions*), Eurostat (2011) reports that the percentage of population living in owner-occupied housing was 96.5 % in Romania, much higher than the European average of 73.6 % (including those with a mortgage loan).[43] During the financial crisis demand for subsidized housing increased, while the available stock did not significantly expand: the share of social housing as a total of newly constructed dwellings was just 7 % in 2008/2009, a drop since 2003/2004 (EP, Directorate General for Internal Policies 2013: 22). The share of households living in subsidized accommodation, after a modest increase between 2007 and 2009, also shrunk significantly: from 4 % in 2009 to 2.4 % in 2010 in the case of households with incomes below 60 % of the national average wage, and from 2.3 % in 2009 to 1.3 % in 2010 in the case of those with incomes above the threshold (see Fig. 7).

[41] According to the UNDP/WB/EC Regional Roma Survey and the FRA Pilot Roma Survey (2011), in Romania 81 % of Roma live under the Eurostat poverty line (as compared with 40 % of non-Roma who reside in the proximities of interviewed Roma families), and 86 % lack basic household facilities (electricity, sewage, or both). 22 % of Roma children aged 7–15 do not attend school, and 55 % of those aged 4–6 are not in preschool. 52 % of adult Roma do not hold health insurance, and only 32 % are formally employed.

[42] On discriminatory declarations of Romanian politicians, see the report of the US State Department Human Rights Commission (2010). For a critique of the implementation of the Romanian *National Strategies for the Roma* see Moisă et al. (2013).

[43] Similarly, The *Panel for the Evaluation of Public Policies in Romania* (2009) points out that only 0.4 % of respondents live in social housing (both “regular” social housing and housing for young professional provided by the National Agency for Housing, ANL), as compared to the average EU-27 of 13.5 % who benefit from state-subsidized or free accommodation (Eurostat 2011).

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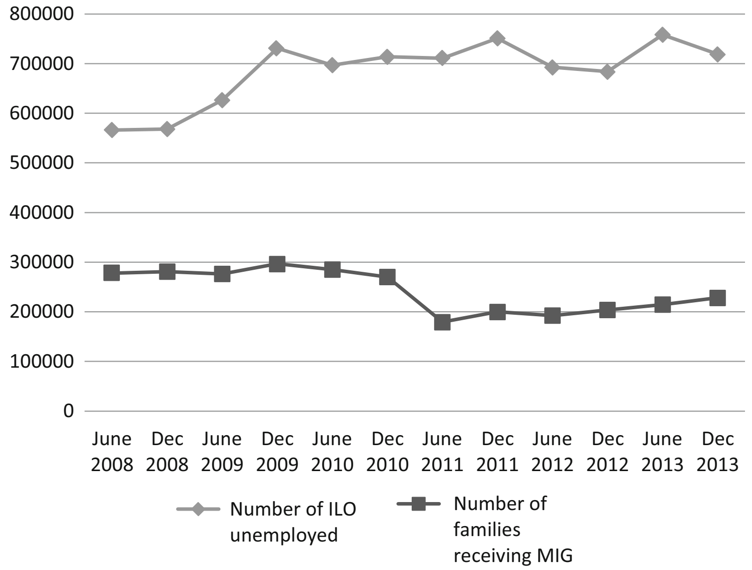

Fig. 8 The evolution of the GMI beneficiary families and unemployed persons between 2008 and 2013. Source: Authors' figure based on data provided by the *Statistical Bulletins* of the Ministry of Labour, 2008–2013

Improper, overcrowded housing and polluted, unsafe surroundings have particularly severe consequences on the wellbeing of mothers with small children, amplified by the scarcity and difficult access to day-care facilities,[44] which could provide a more suitable environment for the early development of children and allow mothers to find employment.

The tightening eligibility to GMI and its conditioning by the absence of public debts of the family led to a significant decline in the number of beneficiary families from round 300,000 in June 2008 to just around 200,000 in June 2011, despite the increasing number of the unemployed and the diminishing real incomes of families (see Fig. 8). In December 2013, GMI covered 228,222 families, with an average benefit of 50 €/month.

While the modification of the law on the Minimum Income Guarantee (GMI, L.416/2002) so as to exclude the support allowance for needy families from the imputed income improved slightly the effects of the programme, other restrictive prerequisites (such as imputing potential income from informal seasonal work in

[44] For example, in the city of Cluj-Napoca (third largest city after Bucharest and Iasi), only 5 % of all places available in crèches are granted based on "social" criteria to families with a difficult socio-economic situation. See the criteria of access presented by the Administration of Creches, Cluj Napoca Municipality: http://www.creseclujnapoca.ro (May 2011). In public crèches, the cost is 1.5 €/day/child, whereas in public kindergartens approx. 2.4 €/day/child. Private services are much more expensive, approx. 7.5 €/day/child.

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rural areas and denying benefits for those owning two horses or cattle) led to low coverage and weak poverty-reduction effects. The measures to prevent social marginalization, legislated by L.116/2002, apply exclusively to GMI beneficiaries and contain more explicit labour-market and housing measures only in the case of those below the age of 35; nonetheless, the implementation and financing of the latter social measures fell under the responsibility of local administrations, who often lack the budgetary resources or the political will to carry them out.

5 Conclusions

To summarize, Romania reacted to the crisis by scaling-back the state, deregulating the labour market and increasing the taxation of non-wage income, property and consumption, and bringing within the crisis-frame social problems with deeper historical roots: the marginalization and impoverishment of the Roma, child-poverty in rural areas, the spectrum of ageing of the larger cohorts born after the 1966 anti-abortion decree and the pressure they will presumably put on the pension system. The initial austerity package proposed an equal cut of 25 % of all payments from the state budget, including salaries of state employees and all social benefits, with the exception of pensions. A similar measure targeted pensions, but it was ruled out as unconstitutional. Under political pressure, the actually adopted anti-crisis measures maintained some important privileges for the middle-class (generous earnings-related childcare leave benefits), while they tightened eligibility for the means-tested family allowance and froze GMI and the minimum state pension at their 2009 levels. The national social reference indicator, which has been used as a benchmark for the calculation of social benefits since 2008, has been kept un-indexed since its introduction (approx. 120 €/month). In the public sector, six out of seven vacancies were made unavailable and 132,000 employees lost their jobs in the public sector in 2011. Redundancies affected predominantly local public administration, education and health services.[45] While the 25 % cut of state employees' wages was gradually fixed, the prohibitively strict conditions for job creation in the state sector were maintained. The VAT was increased from 19 to 24 % in June 2010.

Before the crisis, public opinion polls[46] depicted the population as having mixed-feelings towards the welfare state: while people tended to agree that "social benefits prevent widespread poverty" (42 %), they also considered that welfare expenditures "place too great a strain on the economy" (41 %) and "make people lazy" (33 %), while admitting that they "make it easier to combine work and family life" (31 %) (European Social Surveys—ESS dataset 2008, authors' calculations). On the scale from 0 (extremely bad) to 10 (extremely good), the efficiency of health

[45] www.consiliulfiscal.ro/raportanual2011.pdf, pp. 18–19.

[46] Romania participated in two successive waves of the European Social Survey (ESS) in 2006 and 2008, but unfortunately in none of the subsequent waves (see www.socialsurvey.org).

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care provisions received, on average, 4.48 points, while the affordability of childcare services (3.72) and youth employment opportunities scored significantly lower and the standard of living of pensioners (2.94) and unemployed (2.61) the lowest scores (authors' calculations based on ESS 2008 dataset). Consequently, as austerity measures ought to be implemented during the financial crisis, the government aimed to reduce the political costs of welfare cuts by fuelling already-existing contestations of state redistribution (as being ineffective) and de-legitimizing claimants. In parallel, a new governmental ordinance denied welfare benefits to all those having debts in paying their taxes or public fees, and controls of local welfare authorities by the newly established National Agency for Benefits Payment and Social Inspection (O.U.G. 113/2011) intensified.

The large-scale public protests from January 2012, which erupted initially in support of the head of the national medical emergency services upon his resignation to oppose the intended privatization of these services, reframed the position of social issues on the political agenda and pushed leading politicians to scale back their anti-welfare rhetoric. Following the resignation of the liberal-democrat cabinet in February 2012, the subsequent social-liberal coalition governments were much more balanced in their approaches towards social provisions, and restored several facilities for pensioners and families with children, which were slashed within the austerity-pack.[47] Nonetheless, these piecemeal improvements fall on the background of yet unsolved challenges within the functioning of the welfare state. The 2012 *Eurobarometer* shows that less than 20 % of the population were satisfied with health care provisions (as compared to EU-27 average of 62 %), and even fewer (10 % or less, as compared to 25–30 % EU-27 average) with pensions, unemployment benefits, the affordability of housing, living costs and the ways in which inequality and poverty were addressed (Eurobarometer 2012).

During the crisis of 2009–2010, the international political stakes of implementing measures to improve the situation of the Roma lessened, as the European Commission was rather hesitant to formulate a joint EU policy concerning the Roma and Sinti minority, and sufficed to recommend nation states to address the situation of Roma poverty within their *National Action Plans for Social Inclusion*. The adoption by the European Council of a *European Framework for National Roma Integration Strategies* on the Council meeting in 24–25 June 2011 represents a significant step ahead,[48] but it is difficult to anticipate its actual impact on domestic and EU-wide policies. Existing reports are overall rather critical, especially concerning access to adequate health-care services and decent housing, yet they acknowledge the success of educational programmes based on

[47] Activity report of Mariana Campianu (Liberal Party) issued upon her resignation as the Minister of Labour, Family, Social Protection and Elderly Persons, following the peak of the social-liberal coalition, 27.02.2014.

[48] The *European Framework for National Roma Integration Strategies,* see http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/lsa/122100.pdf. (20.03.2014).

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private-public partnerships and social-economic initiatives (Moisă et al. 2013; ERRC 2013).

Despite the fact that Romania has continued to score among the lowest social expenditures in the EU, decreasing from 17.4 % in 2010 to 16.1 % in 2011 (as compared to EU-27 average of 28 %, see Eurostat 2014a), the welfare state has been recurrently contested by the liberal-democrat government of 2008–2012, who nonetheless maintained the privileges of the middle-class even at times of economic downturn. The political crisis of January 2012 imposed a change of discourse on social matters, and incremental improvements, such as upgrading the amounts of benefits, were indeed performed by the new social-liberal cabinet.[49] However, no paradigmatic-shift could be observed on the horizon, and the quest for post-crisis recovery might be used in an attempt to legitimize further retrenchment, increased conditionality and more privatization of welfare. How these intersect with the re-launched European social agenda and its increased emphasis on social dialogue, "investment" in children and the youth, active ageing and the social inclusion of the Roma, is yet to be seen.

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[49] See the report of Mariana Câmpeanu, resigning liberal Minister of Labour, 27th of February 2014, www.mmuncii.ro (retrieved March 2014).

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The Serbian Welfare State: A Transition Loser

Natalija Perišić

1 Introduction

1.1 Structure of the Chapter

The focus on the current challenges to the Serbian welfare state frequently requires understanding of events in the past, before the current world economic and financial crisis, since the majority of negative trends in the welfare state are not a mere consequence of the crisis. The reason for this is mainly the long-lasting (conceptual and practical) crisis of the national welfare state itself, whose roots are very deep. The main idea behind introducing the background information in Chap. 1 is to give a rough presentation of the main processes and triggers of changes until the 2000s, to which the references are made in the course of the text that follows, for the purpose of understanding current challenging developments. The maturity of the national welfare state called for its modernization already in the 1980s, but the reforms were not made. Because of the delay in reforming,[1] Serbia could not afford many options and lost many opportunities, consequently putting its welfare state beneficiaries in an unfavourable position. A general research hypothesis of the chapter would be that the adequacy and sustainability of the national welfare state programmes and measures are under great threat both currently and in the future.

The main characteristic of demographic changes, which are a huge challenge in the national context as presented in Chap. 2, is ageing of the population. Based on available scenarios, its pressure on all segments of the welfare state will increase in

[1] Serbia started the so called "de-blocked" transformation only in 2000. Until then, many ex-socialist countries passed a long way from socialism to capitalism and passed over many transition "diseases".

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the future. Population size and age structure are under the unfavourable impact from all factors of population dynamics: fertility, life expectancy and net migration.[2] The current (and future) situation of ageing, and consequently unfavourable dependency ratio, challenge the national welfare schemes founded on current financing in terms of a shrinking contributors' base and an increasing number of recipients.

Along with demographic changes, another, even bigger challenge to the national welfare state is the economic situation in the national context. The economic situation before the crisis (2000–2007) was characterized by macroeconomic stability and growth, liberalization of prices and foreign trade, advanced tax and labour market, as well as structural reforms. Despite those positive developments, the main indicators of the labour market before and after the crisis reflect more than just the impact of the crisis. They actually point to the vulnerability of the development concept in the period before the crisis. It is the transition and privatization which has extreme negative impacts on the labour market trends. Chapter 3 explores the basic indicators of the labour market in the period of the crisis and focuses primarily on the anti-crisis measures directed towards the welfare system.

In the context of ageing and poor economic indicators, unsurprisingly the risks and weaknesses in all spheres of the national welfare state are more pronounced than its opportunities and strengths. Therefore, in Chap. 4, pension, labour market, health, social care, family, as well as long-term care policies are taken into consideration. The national welfare state is traditionally designed along the so-called old social risks, with negligible orientation of its policies toward the new ones, except for social exclusion (only recently and mainly due to its aspirations to join the European Union). Furthermore, the benefits are prevailing but services are being reduced. There is no concept of social investment albeit some of its elements exist. Consequently, the welfare programmes are rarely preventive. Educational, housing and ecological components of the national social policy are very hard to find.

1.2 Background—Ideological Staggering

The development of a socialist society (1945–1989) in the former Yugoslavia required major changes in previously existing political, economic and social structures. The ideological fundamentals of reforms, contained in Marxism, and subsequent modifications with a specific socialist self-management concept, resulted in the so-called soft socialism, especially compared to the real-socialist concept implemented in other Central and Eastern European countries. During socialism, social policy was defined extensively in terms of its (at least declarative) orientation toward the "totality of living and working conditions of the population"

[2] Throughout the whole chapter on the Serbian welfare state, Eurostat databases were used where available. Otherwise, the national databases were used.

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(Lakićević 1991: 12). Albeit the welfare state was based on the Bismarckian principles of social insurance, it was strongly redefined by the elements of redistribution and egalitarianism, with the dominant role of the government in the welfare provision and monopolistic position of public agencies. The key promoter of social policy was the working class. Therefore, the practice saw over-protection of the employed and yet inadequate care of those on the margins of society. At the same time, especially from the 1980s, when surpluses of fictively employed and low productivity could no longer be hidden, the socialist society started to reveal numerous crises. The social policy commenced its transformation into a buffer for economic challenges and ceased thus to present a relevant factor of changes in society. The relation between social and economic policies during socialism was extremely complex. For most economists "social policy was some kind of a residuum and therefore they were underestimating it" (Šefer 1991: 19) while the decision makers in the area of social policy rarely took into account economic constraints.[3]

From the 1990s, the process of welfare state reforms was an unavoidable consequence (and a part) of a complex transition of the whole society. The introduction of a multi-party system and market economy, which transformed the political and economic systems, was a frame of overall changes in the period that followed. Very soon, some external pressures (such as war in the immediate vicinity and the sanctions of the United Nations) and related internal unfavourable trends (sharp drop of economic activities and hyperinflation, unemployment and poverty) required strong social policy mechanisms. However, stabilizers of social policy, already severely weakened during the last years of socialism, became additionally aggravated after Yugoslavia's disintegration. The dominance of market principles has become undisputable in society. "In the first transition years, there was a form of over-reaction to and refusal of the past, including its values and institutions. This refers also to its social policy which was its least artificial and least harmful sub–system. However, that policy had a strong support of the population, an important role in the reduction of pre–war poverty, first of all through full employment and the existence of almost universal social services" (Vajs 1994: 168). However, the two ideas (of absolute market vs. absolute state) were not competing at all times, but their simplification resulted in their parallel existence during the 1990s. This translated into significant controversies of the theoretical fundamentals of social policy, with consequent creation of a voluntaristic social practice. The 1990s presented a real paradox of controversial trends and forced changes in social welfare. The socialist welfare state was disintegrated and a grotesque model was created as "an extraordinary example of 'a group of different political discourses' that produced during the time 'hybrids, paradoxes, tensions and incompatibilities'" (Clarke 2004, quoted per Arandarenko and Golicin 2006:

[3] "Due to that, economic and social policies were managed separately of each other, and also theoretical fundamentals of economic development and economic policy were developed independently of social development and social policy" (Šefer 1991: 19).

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255), as a consequence of random and ad hoc reforms of the system. The actual inability to effectuate the entitlements and long delays in benefits' payment created alternative and additional, however unofficial forms of welfare provision, despite the absence of legal changes. The role of families revived, but their capacities and resources were devastated by the long-lasting crisis of the 1990s. The government was implementing measures declaratively motivated by the welfare of its citizens, but their long–term effects were actually the aggravation of the social situation.[4]

As of the 2000s, public discourse has become dominated by the advocates of neo–liberal concept, whose positions were strengthened by constant financial constraints in the country, limiting the orientation towards the alternative reform paths. During this time, the aspirations of the country to join the European Union became a further obstacle to the reinstallation of stronger welfare mechanisms, since policy makers have constantly used the EU as an excuse for the reduction of social entitlements and cuts in social benefits. So far, the scope of privatization in the welfare sector has been limited. However, it will present a key factor in considerations whether the welfare state is jeopardized by market modifications. Furthermore, a public–private mix has not been clearly designed and it is frequently in the "grey zone".

2 Demographic Trends and Their Implications on the Welfare State

In the twentieth century, the trend of demographic growth in Serbia was interrupted for the first time during the census period from 1991 to 2002.[5] According to the latest census of 2011, the population of Serbia further decreased to 7,186,867 (RZS 2013).

Low fertility rates present the basic demographic challenge in the national context. Reproductive norms of the population have been modifying for decades to result in their approximation and comparability with fertility rates in the majority of other European countries. As of the second half of the 1950s, the fertility rates began to be below the reproduction threshold and became stabilized at low levels (currently at 1.45 in 2012) (Eurostat 2014). Life expectancy has been increasing from 60.4 and 58.7 to 76.8 and 71.6 years of life for women and men respectively in 1953 and 2011 respectively (RZS 2012). In combination with low fertility rates, increased life expectancy nevertheless resulted in significantly changed demographic structure, in terms of increased ratio of elderly people. In 2013, 17.6 % of

[4] For example, the problem of the high unemployment rate was "remedied" by the introduction of an early retirement scheme. This only deferred the unemployment problem, while the public pension funds have continued to face even more serious financing problems due to massive numbers of newly retirees.

[5] In 1991 the population of Serbia was 9,779,991; in 2002 it was 7,498,001 (RZS 2011a). The methodology applied in the census of 2002 was partially changed compared to that of 1991 and therefore the data are not directly comparable.

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the population was aged 65+ contrary to 14.4 % of the population aged under 15 years (Eurostat 2014).

According to the estimations of the Republic Statistical Office, the trend of ageing will continue in the future, regardless the demographic scenario taken. The only difference would be the speed of ageing. Based on the most probable scenario, the proportion of persons aged 65+ will be 26.7 % in 2050. All scenarios forecast the reduction in the proportion of working age population (ranging from 5.5 % to 7.6 %, depending on the scenario), as well as an increased proportion of elderly employees in the working age population, but also the proportion of elderly aged 80 + in the population of elderly (RZS 2011b). The depopulation process also seems unavoidable.

Since the past official estimations have proved to be too optimistic, Zdravković et al. (2012) looked for alternative scenarios, relying on the expertise of the International Organization for Migration on the impact of demographic and migratory trends on Serbia up to 2041. "This projection also undoubtedly points to the continued demographic ageing in Serbia, and it can be argued with complete confidence that the pressure of elderly people on the working age population up to 2050 will be at least 40% higher than today, and most probably even 73%. Similar to that, the proportion of elderly people is likely to increase at least by one fourth and most probably even by 54%" (Zdravković et al. 2012: 22–23) (Table 1).

Migratory trends were intensive especially during the 1990s: On the one hand, forced migrants[6] presented 5.1 % of the total population in Serbia in the census of 2002, when 379,135 refugees and internally displaced persons (RZS 2011a) were recorded in Serbia. Thus immigration alleviated depopulation during this period, but the migrants did not change the age structure, since it was rather similar to that of the domestic population. On the other hand, contrary to that, a lot of young to middle aged people emigrated from the country ("brain drain")[7] without any official data on their numbers.[8] Finally, on its way to joining the EU, Serbia signed Re-admission Agreements with the EU based on which numerous false asylum seekers have been returning to Serbia. Being traditionally an emigrant country, Serbia cannot readily expect to grow based on the migration component. The changes in the direction of migratory flows cannot be expected without improved economic trends. Events after 2000 have shown that the expected progress of Serbia toward the complete political, economic and social stabilization has not happened and therefore also rapid growth in the living standard and employment opportunities has not taken place. Consequently, instead of emigrants returning, there are some indications of further intensification of emigration trends, especially

[6] At the beginning of the 1990s, refugees from former Yugoslavian states inflicted with civil war came to Serbia and in 1999 internally displaced persons from Kosovo came to Serbia.

[7] The World Economic Forum's report puts Serbia in the group of the first 10 countries impacted by brain drain (Pejin Stokić and Grečić 2012).

[8] "According to the estimations of certain authors, nowadays between 2.2 million (Grečić and Lopušina 1994) and 3.1 million of Serbian emigrants live outside Serbia and countries of the region (former Yugoslavian states)" (Nikitović 2010: 98).

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Table 1 Forecasted indicators of demographic ageing in Serbia, 2010–2050

	Share of elderly (65+) in the total population (in %)					Dependency ratio (65+/15–64)				
Forecasting period	2010	2020	2030	2040	2050	2010	2020	2030	2040	2050
5 %	–	19.11	20.22	20.48	22.72	–	29.52	32.00	33.05	37.51
Median	16.81	19.66	21.42	22.80	25.95	24.67	29.88	33.15	35.76	42.66
95 %	–	20.11	22.78	25.19	30.13	–	30.25	34.29	38.92	49.48

Source: Zdravković et al. (2012)

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in the population of young, highly qualified people, after the economic crisis outbreak. At the moment, institutional mechanisms for the integration of those returned to the country based on re-admission agreements into society are to a large extent absent. One additional challenge is the highly unfavourable internal migration, i.e., migration from rural to urban areas, and from smaller communities to the larger ones, especially to the capital city, leaving certain areas almost de-populated. In the areas characterized by negative net migration, underdevelopment, poverty and social exclusion have been present (Pejin Stokić and Grečić 2012).

Ageing of the population is one of the most important pressures to the pension system reforms, with strong implications on the policies regulating labour market, health care, long-term care and social and family care. However, except for small-scale qualitative studies, there are only a few forecasts of the impact of demographic trends on the national welfare state.

Low and still falling ratio of employees to retirees is the core problem both for the labour market and pension policies.[9] In addition to the potential problem of an insufficient labour force (despite high unemployment rates), the workforce is increasingly getting older—the largest age group within the working active population are those between 40 and 50 years (Radivojević 2006), while ageing is most prominent in agriculture. Therefore, policies should be focused on boosting employment rates in general and especially for women, life-long learning programmes, etc. The public pension system has been continuously facing severe shortages in collected contributions, and pension expenditures from the GDP are challenging public finances. In the future, they will rise significantly, surpassing the highest levels in OECD countries (World Bank 2007). In addition, because the number of pensioners is expected to reach 1.82 million in 2050 (Zdravković et al. 2012), provided that there are no changes in the rules regulating pensions, that the activity rates of the elderly remain stable and that the growth of pension expenditures continue to be on average 4.3 % per annum (as it was the case in the period 2005–2010), the share of pension expenditures of GDP will account for 16.4 % in 2020, 20.3 % in 2030, 24.8 % in 2040 and 31.2 % in 2050 (Zdravković et al. 2012). The public health care system is challenged by increased costs for the elderly, due to chronic diseases and multi-morbidity in this age group. It can reasonably be expected that the burden will be increasingly present. Primary health care would have to cope with increased number of visits per patient and the secondary and tertiary health care with increased rates of hospital stays. Special health care facilities for palliative and end-of-life care, which practically do not exist at the moment, would also need to be developed. The dimension of long-term care of the elderly has also been neglected in Serbia. In terms of that, residential care and services specific for elderly people will need to be developed. "In the mid and long-term, governmental expenditures for long-term care will unavoidably increase [. . .]. The change of family models will contribute to the growth of

[9] In 2013, the old age dependency ratio was 25.9 (Eurostat 2014).

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expenditures, as well as increasing number of households of elderly living alone and the reduced possibilities of relying on the family, especially having in mind the emigration trends both on the local and national levels" (Matković 2012: 16). The social care system will face increased pressure on benefits and services for elderly people. The low employment rates point to a lower dependency of elderly people on retirement benefits in the future and an increased dependency on cash welfare benefits. At the same time, social care services for the elderly should be more clearly designed and developed all over the country. Especially the supporting services would need to be more diversified in order to meet the needs of the elderly with specific disabilities.

3 Aspects of the Crisis and the Government's Responses

3.1 Impact of the Crisis

The global economic and financial crisis severely affected the Serbian economy (Bartlett and Prica 2011; Arandarenko 2011; Praščević 2013; Arandarenko et al. 2013) and its impact on economic hardships has been decisive in the national context. However, some structural problems characteristic of the period of economic growth before the crisis made the Serbian economy highly vulnerable to these new developments.

Already in the last quarter of 2008, the period of dynamic economic growth (2001–2007) was interrupted. In 2009, GDP declined by 3.5 %, but 2010 and 2011 saw a modest economic recovery, as well as GDP growth of 1.0 % and 1.6 % respectively. The negative GDP growth of 1.5 % in 2012, was followed by a growth in GDP of 2.5 % in 2013 (Eurostat 2014). Public debt, total external debt, and payment operations are some of the economic indicators which have been severely aggravating as of the end of 2008 (Table 2).

Since that period the already low employment rates have been severely declining. Until 2010, when the number of employed reached its minimum of about 2,400,000, the employment rate dropped from 44.4 % to 37.9 %. Data for 2011 (35.8 %) and 2012 (35.3 %) pointed to further drop in the employment rate, however at a slower pace. Finally, there was a slight recovery of the employment rate in 2013 (36.3 %). Labour Force Survey longitudinal data show that unemployment rates have been gradually increasing (13.6 % in 2008; 16.1 % in 2009; 19.2 % in 2010; 23.7 % in 2011 and 25.5 % in 2012), with the exception of 2013 (24.1 %) (Table 3) (RZS 2014). Unemployment rates would be certainly even higher provided that not so many people became discouraged and entered the group of inactive on the labour market. Furthermore, both official data and qualitative studies point to an extreme shrinking of the informal labour market since the crisis outbreak.

Regarding gender, unsurprisingly women were less affected by the crisis; in the period 2008–2011 employment rates in women and men decreased by 7.5 percentage points and 10.1 percentage points respectively. Despite that, the employment

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Table 2 Key macroeconomic indicators

	2007	2008	2009	2010	2011	2012	Q1 2013	Q2 2013
Real GDP growth (in %)*	5.4	3.8	−3.5	1.0	1.6	−1.5	2.5	
Consumer prices (in %, relative to the same month a year earlier)	11.0	8.6	6.6	10.3	7.0	12.2	11.2	9.8
NBS foreign exchange reserves (in million euros)	9634	8162	10,602	10,002	12,058	10,914	11,844	10,673
Exports (in million euros)	8686	10,157	8478	10,070	11,472	11,913	2958	3537
Growth rate in % compared to a year earlier	25.0	16.9	−16.5	18.8	13.9	3.8	17.4	16.7
Imports (in million euros)	−16,016	−18,843	−13,404	−14,643	−16,627	−17,211	−4077	−4448
Growth rate in % compared to a year earlier	33.8	17.7	−28.9	9.2	13.6	3.5	0.9	2.9
Current account balance (in million euros)	−5053	−7054	−1910	−1887	−2870	−3155	−627	−276
As % of GDP	−17.7	−21.6	−6.6	−6.7	−9.1	−10.5	−8.4	−3.4
Unemployment according to the survey (in %)	18.1	13.6	16.1	19.2	23.0	23.9	n.a.	24.1
Wages (average for the period, in euros)	347.6	402.42	337.9	330.1	372.5	364.5	370.8	394.8
RS budget deficit/surplus (in % of GDP)	−1.7	−1.7	−3.4	−3.7	−4.2	−5.7	−6.0	−5.2
Consolidated fiscal result (in % of GDP)	−2.0	−2.6	−4.5	−4.7	−4.9	−6.4	−4.4	−4.8
RS public debt, (external + internal, in % of GDP)	31.5	29.2	34.7	44.5	48.2	59.3	62.5	60.6
RSD/USD exchange rate (average, in the period)	58.39	55.76	67.47	77.91	73.34	88.12	84.61	85.90
RSD/USD exchange rate (end of period)	53.73	62.90	66.73	79.28	80.87	86.18	87.43	87.41
RSD/EUR exchange rate (average, in the period)	79.96	81.44	93.95	103.04	101.95	113.13	111.70	112.15
RSD/EUR exchange rate (end of period)	79.24	88.60	95.89	105.50	104.64	113.72	111.96	114.17
Memorandum GDP (in million euros)	28,468	32,668	28,954	28,006	31,472	29,932	7446	8181

Note: Data marked with asterisk are taken from Eurostat (2014); other data are taken from the National Bank of Serbia (2013)
Sources: Eurostat (2014); Narodna banka Srbije (2013)

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Table 3 Activity, employment and unemployment rates, 2007–2011

	2007	2008	2009	2010	2011
In numbers					
Total	6,356,632	6,350,328	6,350,328	6,317,887	6,297,560
Active population	3,241,209	3,267,107	3,119,419	2,964,966	2,924,352
Employed	2,655,736	2,821,724	2,616,437	2,396,244	2,253,209
Unemployed	585,472	445,383	502,982	568,723	671,143
Inactive population	3,115,423	3,083,221	3,230,909	3,352,921	3,373,209
In percentages					
Activity rate	51.0	51.5	49.1	46.9	46.4
Employment rate	41.8	44.4	41.2	37.9	35.8
Unemployment rate	18.1	13.6	16.1	19.2	23.0

Source: RZS (2012)

rate of women is still far below that of men (29 % vs. 43.1 % in 2011). On the other hand, because economic sectors with higher participation rates of men have been more affected by the crisis, unemployment rates for both genders have become similar (23.7 % and 22.4 % for women and men respectively), however with significantly higher inactivity rates in women compared to men. Along with low activity rate in women (38 %), low activity rates of the young (aged 15–24) and older workers (aged 55–64) contribute to generally low activity rate of 46.4 % (RZS 2012). Consequently, regarding the age, the young and elderly proved to be the most vulnerable on the labour market. Flexible working arrangements mostly connected with young people, could be one of the factors of their vulnerability. Contrary to that, vulnerability of older workers could be attributed more to the transition processes, than to the crisis itself (Arandarenko 2011). 'Geography' of vulnerability points to rural areas of South-Eastern Serbia as those worst hit during the crisis. Qualitative studies of Roma, persons with disabilities, refugees and internally displaced persons point to their economic hardships, however, the absence of data about them for the pre-crisis period (Krstić 2010) makes reliable comparisons difficult.[10]

"Cumulative job losses in 2008–2010 amounted to approximately 12.5%, while GDP decreased in the same period by 4.7% (cumulative). This means that for each percentage point of GDP lost during the recession, employment fell by as much as 2.6%. In most other countries of Central and Eastern Europe, the employment elasticity of growth since the start of the crisis has been in the typical range of 0 to 1, meaning that the relative drop in employment has been less severe than the drop in output" (Arandarenko 2011: 24). Furthermore, despite GDP growth and certain but weak improvements in macroeconomic indicators in the previous years,

[10] *The First National Report on Social Inclusion and Poverty Reduction* of 2011 points out: "the first hit of the crisis additionally aggravated the labour market position of vulnerable populations, especially young people, persons without school qualifications, rural inhabitants, refugees and internally displaced persons" (Vlada RS 2011: 111).

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employment rates have been continuously falling and unemployment rates have been continuously rising. It can be concluded that the situation on the Serbian labour market will not be automatically improved with the production recovery[11] and consequently the living standard can be expected to continue to deteriorate. The average wages have had a clear contribution in its aggravation. In 2009–2010, they dropped by app. 20 percentage points compared to 2008. For the most part, this reduction was probably the consequence of decreased and frozen wages in the public sector during the 2 years (2009–2010). After that, average wages started to oscillate negligibly around 370 euros, which is still below the pre-crisis period (Table 2). In 2009, the absolute poverty rate accounted for 6.9 %, contrary to 9.2 % in 2010 (Vlada Republike Srbije 2011).

3.2 Government's Measures Aimed at the Crisis Overcoming

The government's statement on "full affirmation of the social character of the state (but in compliance with actual possibilities of the state)" (Vlada Republike Srbije 2008: 7) in its first strategic document directed at overcoming the crisis,[12] announced clearly its orientation toward planning and consequential implementation of austerity measures in the welfare system, with a view to making it sustainable. The measures ranged from the budget deficit target of 1.5 % GDP, cuts of salaries in the public administration and freezing of pensions in the period 2009–2010. The *Government's Plan for the Economic Stability of Serbia* and the *Social Protection Plan* both of 2009 were a combination of restrictive and stimulating incentives for the welfare state. They included prohibiting new employments in the public sector; intensifying active labour market policies; paying old-age and disability contributions for the employees whose employers did not pay them in the period 2005–2009, etc. However, the economic policy of this period, along with the measures directed towards the welfare state were moderately successful, since they were not effective in preventing a sharp deterioration in the government budget balance over the period 2008–2010 (Bartlett and Prica 2011: 27). The *Revised memorandum on the budget and economic and fiscal policy for 2011 with projections for 2012 and 2013* introduced the reduction of social expenditures for 2.5 percentage points of GDP for social protection until 2013, and significantly decreased expenditures for, *inter alia,* health care and education (Table 4). Generally, the reduction of this segment of expenditures was

[11] It cannot be expected that there will be a huge and immediate improvement in the employment situation, partly due to many redundant employees in the public sector. It is not certain that these redundant numbers could be absorbed by the employment in the private sector. A part of the explanation can be also found in the situation on the labour market during the 2000s: "Rapid growth of real salaries resulted in decreased demand for labour force [. . .] due to reduced resources available to companies for the investment purposes" (Pavlović 2006: 270).

[12] *Economic crisis and its impact on the Serbian economy with a framework programme of measures directed towards the reduction of the effects of crisis* was endorsed in December 2008.

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Table 4 Functional classification of expenditures of consolidated state sector, in % GDP

	Realized		Projected			
Public consumption	2008	2009	2010	2011	2012	2013
Social protection	16.8	18.1	17.9	17.3	16.5	15.6
General public services	4.3	3.8	4.4	4.2	4.1	3.9
Defence	2.3	2.3	2.1	2.1	2.2	2.4
Public order and security	2.3	2.1	2.2	2.1	2.1	2.0
Economic affairs	6.3	5.4	5.6	5.2	5.0	4.6
Environmental protection	0.3	0.3	0.3	0.3	0.3	0.3
Affairs of housing and communities	1.6	1.6	1.6	1.4	1.5	1.5
Health care	5.9	5.9	5.9	5.6	5.3	5.1
Recreation, sport, culture, religion	1.0	0.8	0.8	0.7	0.7	0.7
Education	3.9	3.7	3.2	3.4	3.3	3.1
Total	44.6	44.0	44.0	42.3	41.2	39.3

Source: Vlada Republike Srbije (2011)

supposed to range from 17.6 % GDP (2011) to 16.6 % GDP (2012) and 15.9 % GDP (2013) (Vlada Republike Srbije 2010).

As of 2009, an important modification to the economic policy with significant consequences for the welfare state programmes were agreements concluded with the International Monetary Fund. A stand-by arrangement which encompassed the financial support of 2.9 billion euros, concluded already in 2009 (Praščević 2013: 26), went with the conditions of the previously mentioned reduction in public and private sector consumption and freezing pensions and public salaries. Signing of subsequent arrangements with the IMF resulted in changes in the legislation on pensions and partial rationalization of employment in public services, while health care and education reforms were still in the early stages.

The national welfare system has been marked as one of the most important areas of mid-term state reforms. Along with the promotion of sustainability measures, the government also declared its commitment to overall human resources development primarily in terms of pursuing active labour market programmes, promoting equal opportunities for women and men on the labour market and reducing regional differences and informal economy. However, apart from the papers and declarations, little has been done so far.

4 Risks and Opportunities of the National Welfare State

4.1 Pension Policy

The pension system in Serbia comprises of the public pillar, established at the beginning of the twentieth century and organized on the principles of current financing and intergenerational solidarity, and the private voluntary pillar introduced in 2005.

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Parametric changes (public pension insurance reform) which commenced in 2001, have comprised of redefining contribution rates, raising the retirement age for women and men as well as minimal age for retirement, changing the calculation and indexation formula, introducing more stringent conditions for drawing disability pensions, etc. Despite constant reforms, unresolved problems in the public pension system have remained: On the one hand, adequacy of pension benefits has been jeopardized in recent years, but it will be additionally jeopardized in the future; on the other hand, the share of pension expenditures of the GDP challenges the financial sustainability of the pension system. Therefore, the professional public mainly point to the need to introduce radical reforms, in order to disable additional aggravation of existing problems. Difficulties in paying pensions primarily refer to low contributory rates and consequentially high budgetary costs. The pensions are the biggest consumer of social transfers and long-term financial unsustainability of the pension system is seen as its main disadvantage. The prevailing view is that in order to reduce macroeconomic imbalances and boost growth, radical reform of the pension system should be started as soon as possible. Desirable and recommended directions of pension reforms are therefore limiting the options for early retirement, reducing the amounts of benefits for early retirement, increasing retirement age and better administration of benefits (Svetska banka 2009). It appears that the pension reform is urgently needed both to preserve adequacy of benefits and to restore sustainability of the system. Without the reform, problems can only get worse in either of the two scenarios—first, allowing further increase in the share of pensions in GDP, and another, involving drastic pension cuts to contain that increase. If pension spending is allowed to balloon they would bring macroeconomic instability which would undermine the entire economy. If pension spending would be contained mostly through limiting the benefits, over time pensions would become only sufficient to alleviate extreme poverty, but not to support income. In both scenarios, workers would be discouraged from paying pension contributions, which would represent a further source of instability for the system (Arandarenko and Perišić 2013). Certain measures have already been introduced in the new Law of 2010 and the government anti-crisis package. Consequently, certain savings will be made, however, the crisis of pension system financing will continue, while the living standard of pensioners will come under threat.

Another path of reforms was the introduction of voluntary pension insurance in 2005. In the 10 years since, this pillar has been underdeveloped with highly concentrated market. Out of nine private pension companies, two have been "major" players, and another two the "middle" ones, covering together 97 % of the market (Arandarenko and Perišić 2013). Underdevelopment of the private pension insurance can be demonstrated via small numbers of actively insured persons and low share of net assets of private pension funds in Serbia's GDP. The most remarkable growth of the number of beneficiaries was from 2008 to 2010. The reasons for this have been primarily the low purchasing power of the population, macroeconomic instability and partially inadequate information. The main precondition for the development of this sector, economic growth and development, has been missing to a large extent in Serbia. In its anti-crisis package of 2009, the

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government introduced stimulating measures with a view to strengthening the private pillar (increased tax free amounts, the funds paid to private pension plans serves as a guarantee for buying an individually owned residential property, etc.), however without any significant effects.

Simultaneously with the reforms in the public system (I pillar) and introduction of the voluntary private pension system (III pillar), an option of the mandatory private pension system (II pillar) was taken into consideration. However, it was abolished, for an indefinite time period. Explanation of decision makers ranged from high and long-standing transitory costs and underdeveloped financial market (Mijatović 2008), to inadequate control mechanisms and supervision of private pension funds (Vuković 2009).

4.2 Labour Market Policy

Unemployment insurance in Serbia is organized in the mandatory form. Unemployment contributions must have been paid for a minimum length of time before an unemployed person can receive benefit. Those who have never worked cannot claim insurance based benefits, but only social care benefits. On average, only about 10 % of all unemployed have actually claimed benefits (NSZ 2011), and the majority of unemployed have stayed outside the system of unemployment insurance. When it comes to unemployment benefits, the system is not very generous, both in terms of the level and the duration of benefit payments. The latest legislative changes of 2010 further slightly reduced the generosity of benefits which consequently "have become similar to an average level in comparable countries of Western Balkans as well as Central and Eastern Europe" (Arandarenko 2011: 188).

Active labour market programmes (ALMP) have been introduced only recently and they were intended mainly to refer to the so called vulnerable groups on the labour market (refugees and internally displaced persons, long-term unemployed, older workers, disabled, Roma, etc.). In 2009, they have been redesigned so as to include mediation, professional orientation, counselling, subventions, trainings, support measures, etc.

Within the unemployment insurance system, a very large proportion of revenue collected from contributions (87–96 %) is paid out as unemployment benefit, while very little is used to support active labour market programmes. "Costs of active measures have accounted for only 0.1% GDP so that these limited funds, even in the case of their optimal effectiveness and maximum impact could not essentially change total outcomes on the labour market" (Vuković and Perišić 2011: 242). Additionally, current active labour market programmes cover only 5 % of unemployed in Serbia (OECD 2008). The most frequently implemented active labour market measures have been the services of mediation in employment and professional orientation, due to the lowest cost per beneficiary. The coverage with training programmes was rather limited in the period 2002–2009, along with some other shortages: they were less focused on people with low qualifications and more on those with persons with university degrees, their character was less practical but

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they were held in classrooms, etc. 2009 brought intensification of two ALMPs: Those aimed at youth (training) and long-term unemployed (public works). Because of the modest effects, the funding of the programmes was significantly reduced already in 2010.

The reform of unemployment policy was at the margins of overall social reforms and it started only in 2003. The labour legislation was primarily in the focus of decision makers with a view to creating a more flexible labour market. For the same purpose, private employment agencies were introduced. However, many adverse effects of a liberal law in an economy with decreasing number of jobs were not avoided. The core of the labour market policy problems is in the high and rising unemployment rates of the population in general as well as precarious employment. The crisis did not bring any significant shift from passive to active labour market measures. Even though there was a strong need, and also a motivation of decision makers (at least at the declarative level) in the previous decade, to minimize the role of passive measures, in practise there were many obstacles to that (Vuković and Perišić 2012). The main reasons for this are low employment rates and consequently small contributor base, i.e., insufficient funds are collected. Apart from deficient funds for active labour market programmes, the National Employment Service has too little capacity to carry out programmes and is also rather rigid in its work.

An enactment of a new labour law which was conceived at the end of 2013 was postponed due to elections in Serbia. The draft law was criticized by unions for its intended extreme flexibility in labour relations, being worker-unfriendly.

4.3 Health Policy

The health system in Serbia is predominantly public, however, private health practice was introduced in 1989 and the voluntary health insurance in 2005. "National decision makers were the most hesitant to reform the health care system and therefore many measures were taken on an ad hoc basis. Due to that, they have less space to manoeuvre and currently the weaknesses of the system seem rather more pronounced than the strengths" (Arandarenko and Perišić 2013: 21).

Even though the dominance of primary health care in the public sector has been recommended in all strategic documents, it is not the case in practice, resulting in the overburdening of higher levels of care and unjustifiably high costs. In order to decrease the costs, preventive health services should be developed to the highest possible extent, but the problem of their systematic negligence in the Serbian health care sector is striking, despite the strategic orientation of decision-makers toward its establishment as a gate-keeper. The share of health expenditures in GDP is at the level of other transition countries, but the outputs are lower (FREN 2010). Mandatory health care insurance is financed from contributions, (very low) co-payments and the state budget. Its coverage is 94 % of the population (Vlada Republike Srbije 2011), but there are problems in practice when it comes to access and quality of

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health care. Reforms in the health sector only started in 2003, but the reform aims have not been still realized (Vuković 2009).

The key challenge within the public health system is in the sphere of its financing (European Commission 2008; Mijatović 2008; Vuković 2009; Svetska banka 2009). The suggested solution by decision-makers, made in consultation with the World Bank, was to change the payment system in order to increase the efficiency of all three levels of health care. The latest changes refer to the introduction of a capitation system in primary health care in October 2012, while the introduction of diagnosis-related groups at the secondary and tertiary levels of care has just been piloted. Efforts to contain costs and create a sustainable health care system have at least ambiguous effects. First, the new payment methods "did not generate expected results despite several projects of the World Bank and the European Union" (RFZO 2013: 12). Currently, both technical and allocative efficiency of the system is still low and adequate incentives for the improvement of health care quality are missing (RFZO 2013: 12). Second, the reduction of the number of employees as of 2006, based on an agreement made with the International Monetary Fund, eventually resulted in an acute shortage of certain medical professionals (such as anaesthesiologists, radiologists, general practitioners, caring nurses). Contrary to these shortages, the number of unemployed healthcare workforce has been increasing, partially due to the uncontrolled inflow of all medical profiles from educational institutions. International experts estimate 3–4 times more health care professionals are being educated in Serbia than the demand requires (Arandarenko and Perišić 2013). Limiting budgetary expenditures and insisting on spending cuts are contrary to the declared goals and obligations of the state.

The private health sector has been steadily increasing its scope and activities. With the exception of pharmacies and dental surgeries, which represent the biggest share of private health care activities, their significant part is performed at the level of specialised health care. The latest legal changes of 2008 envisaged the introduction of three types of voluntary health insurance: parallel, supplementary and private.

The public and private health sectors exist independently of each other, with complete lack of cooperation and coordination, despite the proclaimed reform aims in respect of "increasing the participation of the private, profit and non-profit sector in rendering health care financed by the Republic Health Insurance Fund" (Ministarstvo zdravlja 2003: 25). Further, insurance companies and the Republic Health Insurance Fund (only parallel and supplementary health insurance) can operate a voluntary health insurance scheme. However, one decade after the proclamation, apart from papers, there have hardly been any developments (Arandarenko and Perišić 2013). The number of insured based on voluntary private health insurance is low.

Regulations on mandatory health insurance seem to be rather unclear, which is an obstacle to its development. Furthermore, private expenditures for health have proved to have devastating effects on the living standard of the population (Arsenijević et al. 2013).

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4.4 Social Care Policy

Contrary to the social insurance system, the social care system is financed from taxes. In the last two decades, numerous changes were gradually made to the legislation on social care with a view to decentralizing and modernizing the system.

The main intention of social services reform was its diversification, focus on the local level and privatization to a certain level. Deinstitutionalization was also planned and there is evidence that even though the processes of social service reforms have not been completed, a lot has been done. Regarding cash benefits, the most striking change was introduced in 2004 when the rights of able-bodied recipients to cash benefits were limited to 9 months during a year with the intention of decreasing the number of able-bodied recipients and their activation. The amounts of social care benefits are generally low and they are below the poverty line. The concept of social inclusion has been introduced only recently (in 2009) and the first steps have been taken in defining national indicators and policies, while in 2011 the first national report on social inclusion was released. Currently, there are no major breakthroughs in terms of its implementation.

The social care system does not seem to be unsustainable at the moment due to the extremely small coverage of the population (2 %) with low benefits (Vlada Republike Srbije 2011). But the main challenge would be to expand the system so as to include more poor people and to increase the level of benefits.

Activation principle in social care system so far means automatic exclusion of able-bodied recipients for 3 months during the year, without actual development of pre-conditions for such regulations. One of the intended objectives of the new Law of 2011 was the proactive role of beneficiaries, i.e., their activation through education, training and employment. However, there are concerns in part of the public that the activation of beneficiaries is opposite to the activation of the state and that the victims are blamed for their situation, because of the inability of the state to create new jobs and offer them real possibilities for advancing their skills. The economy cannot absorb, i.e., employ social care beneficiaries due to their low qualifications, and active programmes for persons with low qualifications are underdeveloped. The same applies to life-long learning programmes, to an even greater extent. Therefore, the unemployed population is inclined to work in the grey economy. A study by Petrović (2011) on employment performance of social care beneficiaries points to a negligible employment rate among them—only 3 % of them were employed, mainly in the grey economy, while only 41 % were seeking jobs (Petrović 2011). Since the outbreak of the economic crisis, the perspectives of finding jobs for persons with low qualifications have been increasingly severe, due to the reduced informal economy and the strong effect of the crisis on sectors in which they have managed to work in the past. Even though in the latest changes to the Law of 2011, the basis of the social care benefit amount[13] has risen, it accounts for about 17 % of an average salary, i.e., 35 % of a minimal wage.

[13] In July 2013, the basis of the benefit amounted to RSD 7530 (MRZSP 2013), while the average salary and minimal wage in the same period amounted to RSD 44,182 and RSD 21,160 respectively (Paragraf 2013).

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4.5 Family Policy

The child protection system was reformed in 2002 diverging from the previously universal right to child allowance. It was transformed into a social policy measure, directed towards poor children and therefore the main criteria for the realization of this right are earnings and incomes of households. The amount of child allowance is extremely low; the standard amount being RSD 2535 and increased amount RSD 3295 (MRZSP 2013), representing thus 5.7 % and 7.4 % respectively of the national average salary.[14] Apart from that, the amount is the same regardless the age of children or their number. The error of exclusion and inclusion, as suggested by recent research conducted by (Matković and Mijatović 2012), is high and the programme's adequacy and effectiveness with regards to compensating the costs parents have in connection with their children, should be reviewed (Vlada Republike Srbije 2011).

At the same time, parental allowance was designed as a population policy measure and at first it was directed toward the second, third and fourth child in a family. Since 2006, this right has also included the first born child. The amount of parental allowance is rather high (in comparison to the average salary in Serbia) and the principle of their progressive increase from the first to the fourth child in a family is designed. However, the positive effect of the benefit was somewhat reduced when this measure transformed from 1-time payment to 24-installment payment. On the other hand, the allowances are indexed twice a year according to the living costs, which is arguably less favourable for the purchasing power of beneficiaries.[15]

Leave arrangements exist primarily in the form of maternity leave, since it is predominantly, though not exclusively, organized around motherhood. So far, proposals for changes to the legislation regulating leave arrangements do not include the introduction of paternal leave. Such a solution reinforces the widespread traditional division of work and care in the national context and can be especially a problem for single-parent families which in Serbia are predominantly headed by women. Contrary to child and parental allowances, leave arrangements are conditional upon employment history. Although only employed mothers are entitled, there are supplementary measures established on a local level intended for unemployed mothers. When they do exist, which is rather rarely, they are most commonly flat-rate payments of unequal amounts among the local communities. In 2014, many local communities ceased to pay those entitlements to unemployed mothers, under the pretention of lack of resources in the budget. The contribution of companies to family policy, in terms of employers offering mothers additional benefits, is almost unknown.

The arrangements of day-care for children aged 1–6 are not adequate from the point of view of the number and distribution of day-care facilities and the coverage

[14] The calculation refers to the amounts of average salary and child allowance in July 2013.

[15] See for example European Commission's *The 2009 Ageing Report* of 2009.

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of children. Even though it is still not satisfactory, the coverage increased from 32 % in 2002 to 47.37 % in 2009. However, the coverage of children in rural areas is 14.4 % compared to 45 % of those in urban areas. Also children from households with lower educational levels have lower coverage (only 16 %), as well as the children from marginalized groups (Vlada Republike Srbije 2011). In general, family policies have a relatively low profile, requiring a lot of individual effort by parents, especially mothers. There are indications that the situation gets worse with higher numbers of children and in better educated mothers oriented towards professional careers (Višić 2013).

4.6 Long-Term Care Policy

Long-term care (LTC) is not a separate part of the welfare state programme in Serbia. The competencies for LTC are divided between the social care and health care systems. At the end of 2010, certain elements of LTC were reintroduced into the system of old-age and disability insurance. LTC is partially transferred to the sphere of private provision, by engaging private, both profit and non-profit sectors. But, despite all these developments, the most important role is still played by families.

The period of reforms has "bypassed" LTC, particularly its segment belonging to health. Legal reforms in health care in 2011 enabled the introduction of home treatment and services of medical and palliative care for elderly people in local communities. Based on this reform, such services are expected to be soon offered in bigger cities like Niš, Kragujevac and Novi Sad.

LTC in the social care system was modified in the direction of non-institutional services and provision of services for the elderly in their homes. The latest reforms in the social care sector of 2011 made it possible to establish facilities for those in need of long-term care services, but in practice there are no such facilities of integrated care. Integrated social and health care of elderly people was piloted on a local level (in Kragujevac and Novi Sad) on the project basis.

Coverage and access to services differ substantially, depending on whether they are related to the social care or health care schemes, whether they belong to services or benefits, etc. However, sustainability of long-term care provision can be estimated as the most underdeveloped objective in the national context (Kozarčanin 2008: 82).

National strategic documents related to ageing, poverty, LTC elements in social care and health care systems show the recognition of the challenges relating to LTC by the government. Furthermore, they are consistent, to a certain extent, with the objectives of European policies, in terms of striving to realise an accessible, quality and financially sustainable LTC. More precisely, the Council for Ageing and Old-Age of the Serbian government identified numerous problems regarding the current concept of LTC in Serbia and most notably in terms of providing funds for the implementation of a more organised integration of health and social care sectors into a single LTC concept and policy programme. However, there are only formal

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activities and no practical evidence of the mentioned objectives, with the absence of an integral model of social and health care as the most obvious example as well as consequent absence of LTC specific funds.

National experts have been moving their focus on LTC only recently, arguing for the need to better research the area and pointing to demographic challenges in the national context. The integral model of LTC is seen by many of them as a more favourable solution, compared to the existing division of responsibilities between the social care and health care schemes.

5 Conclusion

Welfare provision in the national context is one of the areas of public policies determined by economic decisions to the highest extent and it is faced with fundamental demographic and economic challenges. Future trends of ageing point to the need for fundamental changes in the welfare state. This is especially the case with mandatory old-age and disability insurance but also the public health insurance system, long-term care schemes and social care system. Concerns regarding the national capacity for handling the demographic change are very high: it is not certain that Serbia will be able to respond to the ageing consequences (World Bank 2007), and the space for introducing policies aimed at mitigating the demographic crisis has been shrinking, due to constant delays in implementing reforms.

The world economic and financial crises revealed serious weaknesses in the development model in the national context, but the austerity measures and fiscal consolidation were given priority over stimulating government's measures. The current crisis has intensified voices on the need to provide financial sustainability of the welfare state programmes and has repositioned the discussions on welfare provision into the sphere of privatization and self-reliability. So far, there were no radical cuts. However, it is not sure, whether this situation will continue in the future. The main reform directions have been and will be determined by deficits in the government budget, i.e., the need to reduce the share of social transfers within GDP, and their sustainability. Even though accessibility and quality of services have been declared equally important reform objectives, effects of reforms point to fiscal constraints as the most important concern of decision makers.

Reliable evidence about the efficiency, effectiveness and justice of the national welfare state programmes are frequently hard to get due to unavailability of the majority of data from the national statistics and even more from international statistical sources. When there are available data, they are frequently discrediting for the national welfare state; for example social protection benefits *per capita* accounted for 752.03 euros (in 2010) and 738.69 euros (in 2011) in Serbia contrary to 6524.69 euros and 6464.24 euros in EU27 in the same period (Eurostat 2014). Furthermore, there are no holistic qualitative and quantitative evaluations of the programmes, both by decision makers and national and foreign experts. However, existing documentary evidence and small-scale researches point to fundamental shortages in current programmes and measures. Surveys of public opinion have

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been very rare and of a limited scope, but evidence shows an insufficient level of social protection, based on the statements from respondents. After the crisis outbreak, increasingly louder voices of pensioners, sick, unemployed, poor, ethnic minorities, etc. can be interpreted so as to mean that the welfare state programmes and measures actually mean diswelfare for them.

The sustainability of the public pension system is already under great threat. In the coming years, the pension adequacy will also come under pressure. The health care system also faces some fundamental challenges to access (low access in practice, especially of certain groups, aggravated affordability and unequal geographical accessibility) to quality (lowering satisfaction of patients and professionals, lagging behind the EU regarding health indicators) and to sustainability (low health care expenditures which yet jeopardize the GDP). These obvious weaknesses regarding access, quality and sustainability of health care are made worse by those indirect: e.g., limitation of health care "basket" covered by the public insurance system, rather low quality standards, etc. The labour market measures are of extremely low coverage as well as the social care benefits. Family policies are clearly lacking a more active approach.

Even though the role of the state was reduced in all welfare state programmes, its further reduction is expected. Adaptability of the national welfare state to new social risks is hard to expect in the near future, due to strong path dependency because of many obstacles to make its essential transformation towards the concepts of activation and social investing. The welfare state programmes and measures have become exhausted by the severity of social problems and numbers of recipients, which in turn has been reducing the scope for its orientation towards a more active approach. Shift in priorities can be seen only in transferring the responsibility to the private and informal spheres, in the areas in which the state capacities are weaken to the level of aggravated functioning. The widening of the market provision will result in decreased valuation of solidarity and mutuality in society, which will additionally irreversibly narrow the scope of the welfare state.

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Still Awaiting the Storm? The Swedish Welfare State After the Latest Crisis

Sven E.O. Hort, Lisa Kings, and Zhanna Kravchenko

For a decade Sweden could plausibly claim to be Europe's most successful economy [. . .] figures not only outshine Britain and the euro zone; they also eclipse America. The government's achievements go deeper still. It has overturned Sweden's old image as a high-tax, high-spending Socialist nirvana.

(Economist September 13–19, 2014)

1 Introduction: A Quasi-social Democratic Welfare State?

2014 is a key moment in the annals of the evolution—construction, deconstruction and/or reconstruction—of the Swedish welfare state. In monetary terms, it may be a time of waiting, but politically, the September general elections as well as the EU Parliament election in May confirmed a pattern from the last decade of the twentieth century that has long been visible to dispassionate observers: the lost world of Social Democracy, and, thus, the end of the national Social Democratic party (Rothstein 2014). The old regime definitely belongs to history, and whether it is just a political regime change or a full-scale overturn of the welfare regime, it has cast some doubt over the recent optimism about the welfare system lately expressed by well-known social science scholars (Svallfors, forthcoming).

In October 2014, after 8 consecutive years of non-Social Democratic rule in Sweden, a coalition government led by the leader of the Social Democratic party came to the helm. During those 8 years, the longest such period since the

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Parliamentary breakthrough almost a 100 years ago, the Nordic welfare model was "conquered" by the New Labour- or Moderate-led right-of-center four-party Alliance (Hort 2009). Today, the new government is a weak one without a majority backing in Parliament—the poor showing by the Social Democrats in this election was not much better than the devastating 2010 result—and what was once considered the outstanding national party is finally gone. Of course, history as future may always surprise its inhabitants as well as its interlocutors, and may even change track back to a bygone—exceptional—era.

In the years to come this party will have to rely on support from other center-left political forces such as the Green Party, the Left Party and even one or two of the former middle-of-the-road members of the former Alliance. Moreover, the social welfare policy agenda may become less internationalistic as an outspokenly nationalistic and pro-welfare state party—the Sweden Democrats—entered Parliament in 2010 and advanced significantly in the latest election to reach far into the territory of the traditional Social Democratic working class electorate (Teitelbaum 2014). Thus, the incoming government has much to cope with: both a history of welfare measures and paths taken by the outgoing cabinet during its comparatively long rule, and challenges ahead, posed not least by the strong showing of the new and unconventional opponent. The imagined welfare community is still there, but no grand political coalition is in sight, the four-party Alliance is most likely in tatters as a credible governmental alternative, and the anti-immigration party, partly excluded by the establishment, may pose major problems for the future of the Swedish welfare state, in particular regarding issues related to public budgets, employment, social integration and migration policy.

2014 is also a key year in the annals of equality. In the canon of comparative welfare state research, Sweden is frequently referred to as an equality-promoting social welfare state (Hort and Therborn 2012; Leibfried and Mau 2008). It is not a big state (notwithstanding its sizeable territory), but it is definitely one of the biggest welfare states according to most measures. For a long time, the jewel in the crown of this state was its active manpower policy, later replaced by its gender equality and fertility-promoting child- and family-friendly policies with paid parental leave including "daddy months" and more or less free child day care as core elements. It is still a welfare state on the periphery—in the Far North—but it is not yet a peripheral welfare state. Both international scholars and domestic practitioners have constantly returned to this case, most recently in the context of the "Nordic Model" of social and system integration. In the academic literature, this social democratic welfare "regime type" has even been presented as a "bumblebee" (Steinmo 2010), popularizing an expression used by the Swedish prime minister, while in the mainstream media it is part of the next global "supermodel" (Economist 2013). In recent years it is the transformation of the welfare system that has been the focus of global interest, whereas in the past it administered the delivery of public benefits, now its services have become increasingly marketized. Notwithstanding the publicly financed system of free education as well as heavily subsidized health and personal social services, the *consumer* has nevertheless come to overshadow the *citizen* in Sweden. Most important, exorbitant profits

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from welfare delivery have left the country for overseas tax havens and given rise to a controversy over pros and cons of the new market system and its inequalities (Roine 2014).

With the aim of examining how the Swedish welfare state has evolved after the credit crunch of 2008 and the ensuing eurozone crisis, this chapter focuses on several major challenges: the government's reaction to the fiscal and economic crisis and its outcomes, the (re)balance of welfare policies addressing risks and opportunities, and the demographic challenges of social and system integration.

2 The Fiscal and Economic Crisis

During the last 25 years, the Swedish welfare state has had its ups and downs. For a long time the welfare system in Sweden was characterized by constant though not linear growth (Flora 1987). This was the welfare state that, from 1990 onward, became one of the wonders or "worlds" of welfare capitalism still emulated by friends and foes around the globe (Esping-Anderson 1990). Rather paradoxically, just as it was reaching its highest academic standing this state began to crumble, and was even on the verge of financial collapse a few years later. Its welfare system was pruned and brought under strict budgetary discipline at both the central level—employment policy, housing and social security—and at the equally significant local level. In the latter case and on par with the constitution, county councils/regions and municipalities became responsible for education, health and most, nowadays often tailor-made, personal social services (Kings 2011).

Hence, a slimmed down version of the postwar welfare state construction is what was left after the crisis of the 1990s. This was the imagined welfare community which regained strength at the end of that decade when Stockholm, before the bubble burst, became a global dotcom hothouse, its Kista another Silicon Valley and the innovativeness of the Swedish school system praised as young start-up entrepreneurs created new business and employment opportunities. As an ideological supplement to its system, the welfare state as a figure of thought was stronger than ever at the start of the new millennium, and has in many respects remained so. But its accumulation regime has cracked occasionally, although never seriously enough to alter the Swedish status as a de facto high social welfare spender. Imperfect as such an indicator is (Obinger and Wagschal 2010), expenditures on social protection are still above the average, but the gap between Sweden and the EU average is closing in; compare the 2005 difference of almost 4 % with the almost indistinguishable difference 6 years later. However, these figures do not include public spending on education (Fig. 1).

The crisis of the 1990s still haunts the Swedish welfare state, which had its books in order, a budgetary surplus and a decreasing public debt, when after 12 years there was a change of government. Since 2006 Sweden has been ruled by a right-center coalition, and during this time the 2007–2008 credit crunch turned into the American financial meltdown. This is the crisis that is still—in 2014—felt in most of eurozone. Sweden had its share of it soon after 15 September 2008 and the

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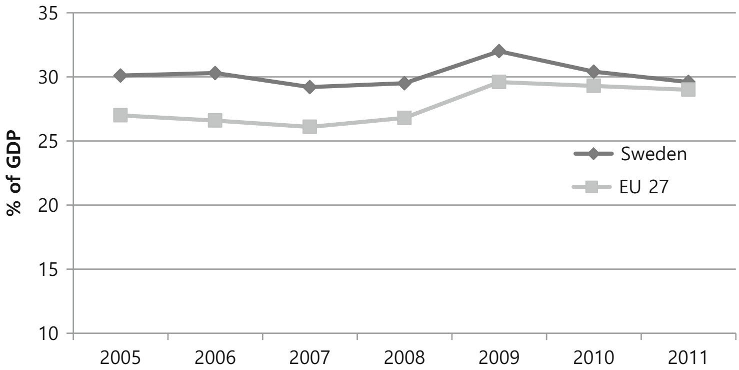

Fig. 1 Expenditure on social protection (% of GDP). *Source*: Eurostat (2013)

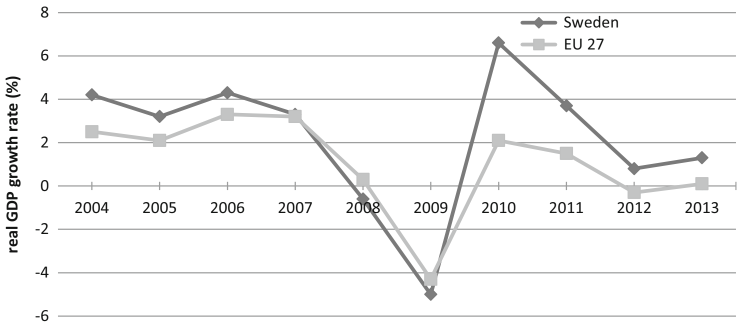

Fig. 2 Real GDP growth and retraction 2004–2014. *Source*: Eurostat (2013)

Lehmann Brothers crash, which exposed its large commercial merchant banks operating in key semi-foreign markets such as Iceland and Latvia. Sweden, like other European countries, saw a huge drop in GDP, however, the country also experienced a remarkable jump upwards the following year (see Fig. 2).

Sweden's initial emergency response to the 2008 economic crisis was similar to that of other countries, and included such measures as investing in jobs, introducing new tax measures, lowering interest rates, supporting banks or companies and providing guarantees on savings. In one important respect though, its approach differed somewhat from that of most member states of the European Union. Out of pure self-interest, the Swedish Ministry of Finance and the Central Bank of Sweden were actively involved in organizing and contributed substantially to a joint package also underwritten by the IMF and the EU to save the nearby and recently "westernized" (former Soviet) Latvian economy, where three out of four major Swedish banks had made major investments and offered generous loans to houseowners in particular. In 2008 most working Latvians found themselves unable

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to repay, or to pay interest on, such loans as their income dwindled (see chapter "Latvia: Both Sides of the Economic Recovery Success Story" on Latvia). From a Swedish fiscal perspective, Swedbank in particular suffered tremendously from the 2008 crisis, but it was nevertheless able to continue its operations in Sweden as well as Latvia due to this joint rescue package. The Swedish banks were rescued, maybe also the nation's welfare citizens-cum-consumers, and the storm never fully arrived, while indebted Latvians experienced a much harder "second transition" of their country's newly acquired and still rather primitive accumulation regime.

To meet the financial aspect of the crisis—which, in 2008, was expected to become more serious and prolonged than it turned out to be in the end—the Swedish government introduced policies directed mainly at stabilizing the financial markets. Several circumstances made the Swedish banking system especially vulnerable to financial pitfalls: high concentration of resources in the hands of few banks and their large share in the country's economy, its strong connections with foreign and in particular Baltic banks, and finally, its dependency on short-term financial schemes. The measures were not as diversified as in other European countries; apart from circumventing bankruptcy, they lowered interest rates and guaranteed savings. A stabilization fund was established as a long-term measure. Most significant among the factors that contributed to successful implementation of the outlined measures was probably the relatively recent experiences of facing the financial crisis of the early 1990s (Hort 2014).

In another instance, the roads taken in the Far North of Europe were also decisively different following the peculiar strength of elected local and regional governments in Sweden and throughout Scandinavia (Alestalo et al. forthcoming). At the end of 2008 and beginning of 2009 the crisis was also described as acute and almost uncontrolled, with direct effects on the labor market. Elected regional political leaders were appointed as central government crisis coordinators alongside the rather powerless figureheads of the county councils. Thereby, in particular, the more expansive urban municipalities had more of an impact over the decisions taken and resource utilization at the local level at a time when the once almighty National Labor Market Board had dissolved its previous regional apparatus (Statskontoret 2011). Thus, the powerlessness of a major postwar welfare institution became apparent, illuminating the transformation towards a new quasi-central welfare regime type in Sweden. The central state's active manpower policy was no longer the jewel in the state crown, its glory depending on payouts—and pay-ins, Sweden is a hidden net contributor—from an EU institution.

In hindsight it is possible to conclude that the economic crises mostly influenced the private sector of the labor market; the effects were uneven across the country, striking first and foremost the counties that depended upon the auto industry and its subcontractors (e.g. South-western Sweden, Blekinge, Småland, Sörmland and Värmland). The construction sector was also strongly influenced, although it did not have such a distinctive regional effect; Stockholm was not at all in crisis. In addition to the general financial mechanisms compensating for capital shortage and under the pressure of increasing unemployment, regional and national investments were directed toward vocational training programs, with special support from the

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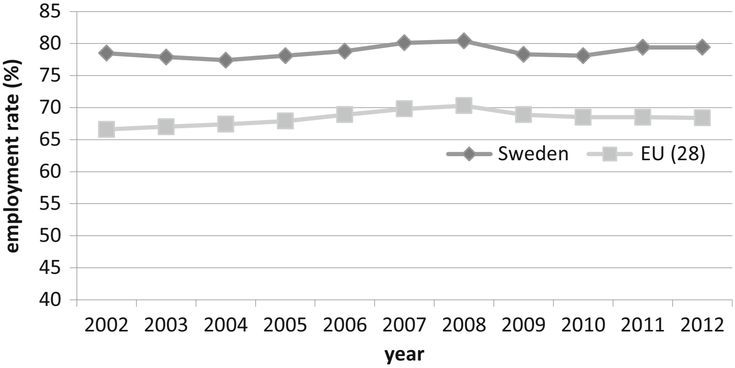

Fig. 3 Employment rate (20–64). *Source*: Eurostat (2013)

European Social Fund. According to a central state think tank, Growth Analysis, about one billion SEK was allocated for such programs in 2009, and almost three times that amount in 2010—most of the money coming from the EU Social Fund. In 2011 these programs were gradually phased out as industrial demand went up, and so did employment to some extent (Tillväxtanalys 2013: 51). As of 2013, the employment level has come back on track; although it has not yet reached its 2008 peak, it is very close (Fig. 3).

Approaching the mid-2010s it is under the umbrella of the Nordic Model that Sweden has come out of the current fiscal and economic crisis relatively unhurt in macroeconomic terms (Jonsson and Stefansson 2013; also Kvist et al. 2011). In particular, it was helped by Norwegian demand for heavy industry products—investments in the oil and construction sectors there are facilitated by the proximity to Swedish industry—as well as a consumption spree. Individual Norwegian households along the border—the Oslo region in particular—do a lot of shopping in the vicinity of the crossings. The open Nordic labor market—along with Norway, Denmark, Iceland and Finland are also part of this passport- and labor-permit-free union—also contributes to the relative stability of everyday life in Sweden; remittances from Norway and Denmark are not an unusual type of family income in parts of southern and western Sweden. Furthermore, proximity to the German market and industrial demand there has facilitated the return to business as usual in Sweden. Moreover, Sweden is the major iron ore exporter of Europe, and demand from far off markets in Asia is less influenced by the 2008 crisis. China in particular has contributed to making northern Sweden an Eldorado for business and new mines, if not to the same extent for employment and the environment.

Finally, public provision of welfare benefits and services is financed through taxation, not public borrowing, and the public debt has been decreasing over time in contrast to most EU member-states (see Fig. 4). The 1990s saw a penetrating analysis of the tax system which resulted in a fairly simple and straightforward outcome. Regional and local governments in Sweden must balance their budgets, which cover a fair share of social expenditures, on an annual basis. The tax bases

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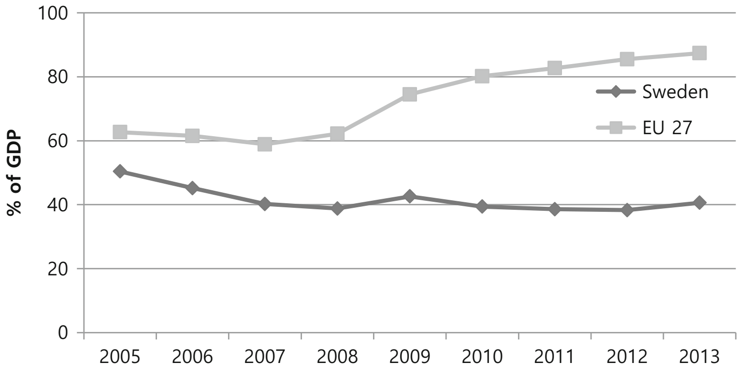

Fig. 4 General government gross debt (% of GDP). *Source*: Eurostat (2013)

are distinguished by level of government, and the central state tax authority collects all money for central and local-regional authorities, from individuals and companies alike. The high esteem the public holds for it sets it apart from other central state agencies (Statskontoret 2014; also Lundqvist and Pedersen 2010).

3 Risk and Opportunities: Social Investment and Social Compensation

The Swedish welfare system is a modern common pool resource institution, an imagined welfare community consisting of distinct local as well as regional entities (Ostrom 1991). Figure 5 shows social protection expenditures by function in 2011 and compared to the EU-28 average. Sweden is similar to other member-states of the EU in that most money is spent on old age pensions, 42 % in Sweden as compared to an average of 40 among all EU member-states, while the latter spend more than Sweden on health and sickness benefits, almost 30 % as compared to just above 25 % for Sweden. Before investigating health and sickness spending, it is worth emphasizing that Swedish pension income is taxable income, and since 2007 the tax on this type of income has been higher than the tax on employment earnings due to a series of "job-tax deductions" implemented between that year and 2012. This was neither a crisis measure nor an austerity measure. It was already outlined in the 2005 election manifesto of the four Alliance parties and inaugurated as a government program in October of the following year and implemented over a series of years. Otherwise, the incoming government of 2006 declared that it stayed firmly behind the 1998 pension deal struck between the main political parties. Health expenditures, on the other hand, have been closely followed by regional (services) as well as national insurance accountants. The austerity measures implemented in 2007–2008 became a drag on the government in the election campaign of 2010, and contributed to its dependency on the Sweden Democrats during its second period at the helm, but the tightening of eligibility criteria to

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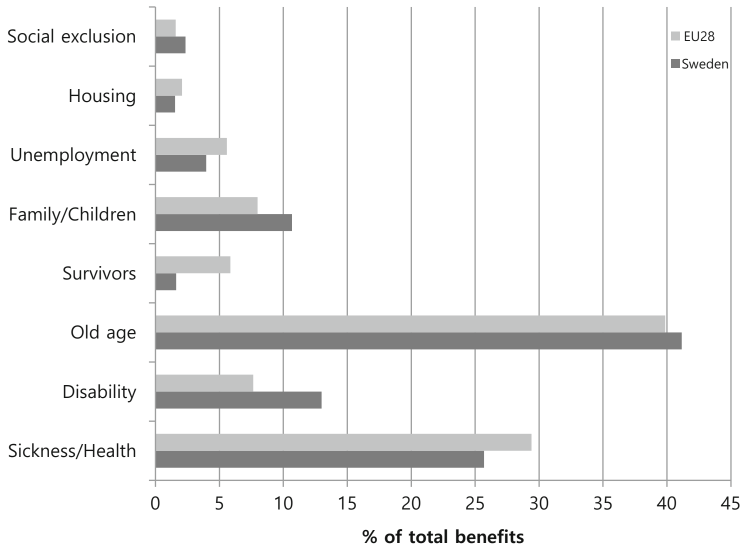

Fig. 5 Social protection by function in 2011 (% of total benefits). *Source*: Eurostat (2013)

collect sickness insurance was a follow-up of measures taken by the previous government, though harsher (Blomqvist et al. 2014).

The EU-28 social protection average is also higher for unemployment and housing benefits; the latter were more or less scrapped in Sweden in the early 1990s (although they remain for low income families) while the former became significantly less important as a source of household income when the work-first principle was strengthened with the advent of the new Alliance government from 2007 onwards. With the tightening of eligibility criteria and increasing membership costs of unemployment insurance—fees being no longer tax-deductible—more than half a million employees left the voluntary but highly tax-supported benefit societies (Lindgren 2010). The election manifesto of 2005 had promised a compulsory system, but no proposal saw the light of day during this government's 8 years in power (Littorin 2010). Whether this issue contributed to its downfall is probably too early to tell, but most trade unionists would probably argue that that is the case. Again, it would be wrong to say that it was a policy initiative since it was undertaken under the pressure of the 2008 crisis.

In contrast to housing and unemployment, Sweden spends much more money on two items that could be advertised or analyzed under the umbrella of child- and family-friendly policies (for an analysis, see below). Not only does the Swedish welfare state spend more money on "pure" family and child benefits, it provides under the heading of "disability assistance" numerous social benefits that makes family life easier to cope with special needs, providing cash support as well as in-kind support. In analyzing these figures for disability spending it is necessary to closely scrutinize the other case where Sweden stands out: survivors' programs (Lindqvist 2012). While disability benefits in Sweden are almost double the EU

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average, social programs for survivors amount to less than a third of the EU-28 average. Tracing the social budget composition by function also partly illustrates the changing role played by the state in the imagined community or civil society. However, the fairly clear division of responsibility—central rather than local and regional—cannot be detected from Fig. 5. Roughly 75 % of local government expenditures are covered by direct income taxation, "its own tax or common pool resource money" spent on personal social services, and the figure is even higher for regional expenditures on health in particular. An intricate equalization system makes not only the central state but also richer municipalities and county councils responsible for the fairness of the Swedish welfare system throughout the country, by placing all local authorities and imagined welfare communities on an equal footing.

However, the welfare system—its employment, income maintenance and social service policies including education and health—is nonetheless up for scrutiny as the worldwide economic downturn has taken a toll, in particular on employment prospects for young people and immigrants. Other imbalances have to do with increasing urbanization and post-industrialization in no-growth regions giving rise to popular uncertainty and political shake-ups of established alignments. The loopholes in the current tax and welfare system—in the former case, pensioner income pitted against working-age income, in the latter, issues from urban homelessness to male youth joblessness—are other bones of contention.

While the social investment paradigm is seen as a novelty in other national policy contexts, its domestic roots can be found in the economic and social policy model developed by Myrdal, Sterner, Rehn and Meidner in the late 1940s in Sweden (Morel et al. 2011; also Ekdahl 2001, 2005). Since then numerous new welfare programs developed as local communities took advantage of opportunities to extract considerable resources through raising income taxation often also supported by specific central state grants to prioritized welfare programs. Some interventions, productive as well as prophylactic, were more successful than others from the start (Hort 2014, 2015). During its course the social investment approach came under the spell of the new public management ideal, even blended with neo-liberal belt-tightening through the crisis of the 1990s.

Today, the revitalization of this socio-political paradigm and its insistence that social problems can be solved by enhancing economic performance is associated with the EU2020 agenda—despite internal tensions and financial constrains (Lundvall and Lorenz 2009). The current political debate on social investment is dominated by the issue of youth unemployment, which is not directly linked to the latest crisis and is also a more general issue of structure of opportunities in the transition from education to work. This is not to say that long-term unemployed adults are left behind; in most cases they are still offered a combination of retraining courses organized by publicly funded private providers as well as unemployment insurance benefits under the auspices of the national employment agency and the unemployment insurance benefit societies—and their inspectorate. The Swedish activity rate for working adults, at least for those born within the EU, is still rather favorable (see Figs. 3 and 6). But in particular, newly arrived adults have been

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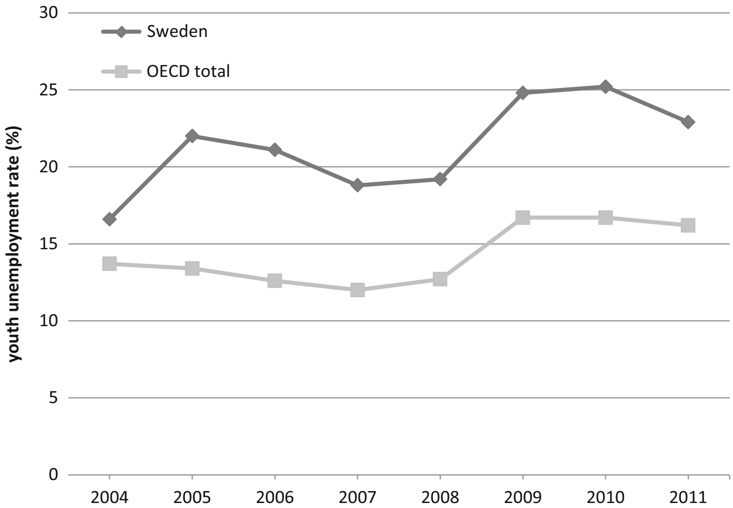

Fig. 6 Youth unemployment rate (15–24). *Source*: Labour market statistics: Labour force statistics by sex and age: indicators, OECD Employment and Labour Market (2012)

forced to rethink their participation in welfare-to-work programs, and to adjust to the recent emphasis on the work-first principle. What has followed in the wake of the 2006 government is a change from cash transfers to tax deductions (Blomberg and Kildal 2011). Those able to buy domestic services on the private market have been given considerable support through generous deductions. The sellers of such services have seldom taken advantage of these provisions themselves, and often lack opportunities to do so.

The magnitude of the youth unemployment rate—for two decades well above 20 %—may sound astonishing given Sweden's previous reputation as a country of full employment and active labor market policy measures. Analytical reports for national agencies associated with labor market policies, however, support the evidence from international studies that Sweden has one of the highest rates of youth unemployment (see Fig. 6). Moreover, the Swedish Trade Union Confederation (LO) emphasizes the diversity of groups included under the "youth" label and their experiences of unemployment. The problem is caused not only by the incapacity of the labor market to accommodate unskilled youth but also by the inability of the education system to retain them in educational programs and prevent young adults (under 19) from entering unemployment. Nevertheless, currently there are various targeted programs for young people focusing on specific needs of the long-time unemployed (*Unga till arbete*), or on people with disabilities (*Ung kraft*) (Arbetsförmedlingen 2013).

About 70 % of the participants in labor market programs have been tied to the job and development guarantee (*jobb- och utvecklingsgarantin*) and to the job guarantee for young people. To qualify for the JDG program (which is targeted to people up to the age of 25) a person has to have spent 300 days on unemployment

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insurance, or 14 months if not covered by the insurance. Young people are also required to spend 3 months actively seeking work within any 4-month period and must take part in Work Introduction programs for 1 month. Young people are also included in the "New start jobs" program that targets people who have been unemployed, inactive, on sick leave, and/or on financial assistance for at least 6 months (Räisänen et al. 2012).

One set of measures is aimed at making young people more attractive labor force participants. The measures include reducing the employer's social security costs and sales taxes for restaurants when they employ someone under 26 years of age. A special central state job guarantee for the young with benefits in the amount of 6500 SEK when unemployed young people decide to return to studies was also implemented by the former government. Before the 2014 election the opposition called for more active measures that would strengthen job security for the employed young people, as, according to LO, one in every two young employees has a temporary contract and can easily be let go as an adaptive strategy in times of recession (Bardh 2009). Therefore the current political debate is set around the law on job protection (*lag om arbetsskydd*), temporary internship placements and applied education programs.

Immigrants, especially newly arrived immigrants, represent another important target group for the current labor market policies. Nineteen percent of Swedish citizens born outside of the EU are unemployed (see Fig. 7), which can be compared to only 7 % for the general Swedish population and the EU average of 16 % unemployed among the non EU-born in EU-28. The similarity to the unemployed young people is that newly arrived immigrants, like high-school dropouts, often lack the level of education, training and skills demanded by employers. However, their situation is more complicated as they may also be subjected to structural

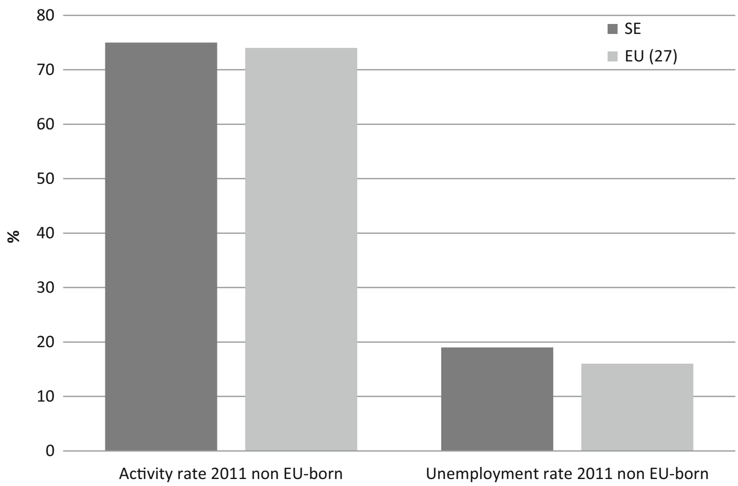

Fig. 7 Activity and unemployment rate non EU-born. *Source*: Eurostat (2013)

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discrimination, and may lack language skills and access to social networks. A new program was launched in 2010 that actively matches immigrants' skills to the demands of the labor market; the program is conducted in cooperation between the Swedish Public Employment Service and the municipalities, as employment opportunities become the basis for settlement (Hultman 2014). In toto, social investments in upgrading skills as well as compensatory measures have been employed in tandem to prepare young people as well as newly arrived immigrants to participate in the Swedish job market, and thereby to contribute—as taxpayers—to the overall financing of the welfare system.

Privatization of (a part of) the public sector service provisions has been considered a way to deal with the challenge of sustainability as it not only allows diversifying the sources of financing and forms of organization, but also increases the quality of services and the clients' input on their provision. Concerns are raised about increasing fees and unequal access to those services, as well as about the challenges to the very value of public—that is, collective as opposed to individual—decision-making in welfare (Statskontoret 2012). Moreover, measuring the quality of service is rather problematic, whether it concerns provision of early childhood education, elder care, or health and medical care. For instance, the number of teachers per number of pupils is higher for the pupils with more privileged backgrounds.

One of the biggest limitations in increasing the role of competition as a means of improving the quality of services is the ceiling established for fees, which means that the main way to increase profits is not by balancing the price and quality, but by decreasing spending (Vlachos 2011). Privatizing some areas of service indeed became a challenge as it proved to be difficult to identify who exactly the client or consumer was. For instance, in the case of (forced) institutional care for children, youth and adults, including people with drug addictions, the services are usually heavily regulated and completely subsidized by the state. It not only makes the argument about freedom of choice irrelevant, but more importantly, it has been proven that the consequences of increasing efficiency by decreasing spending are detrimental to the quality of treatment (Vamstad and Stenius, 2015; Hanspers and Mörk 2011; Wiklund 2011).

The process of involving private providers in vocational training had started in the 1990s. At the end of 2007 a reform was launched that also opened an opportunity for the public Employment Office to outsource coaching services and subsidized employment. The share of job seekers taking part in private training programs has decreased since 2003 from 34 % to merely 8 % in 2009, which, together with data demonstrating the increase in the number of private providers, also indicates a significant increase in the number of state-run programs (Lundin 2011). One of the more controversial changes was the abolition of employers' obligation to report vacancies to the Employment Office, thereby reducing the Office's control over privately delivered state-subsidized employment, delegating more responsibility to the individual jobseeker and providing entrepreneurs with opportunities to abuse the program for profit.

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4 Demographic Challenges

The issue of demographic change was recognized early in the history of the Swedish welfare system and it, in fact, became one of the driving forces behind the establishment of the model, highlighting investment in the productivity of the population not as an alternative but as a complement to a social rights perspective (Lindh 2009). Over several decades, Swedish society has undergone an important demographic shift that has combined a decrease and postponement in fertility, diversification of partnering practices, a decrease in marriage rates, and an increase in divorce. These trends put new pressures on the welfare state that have had both immediate and long-term effects. Not only are they not as dramatic as the effects of financial instability, the demographic challenges cannot be solved with standardized measures and direct financial regulations. The range of social policy resources considered to respond to the demographic challenges includes family policy investments, specifically measures aimed at reconciling work and family roles (parental leave regulations, and early child education and care).

While the latest economic and fiscal crisis stimulated targeted programs in various social policy sectors (housing allowances, youth unemployment programs), tax reductions and privatization in the service sector, family policies remained the sphere that attracted more spending instead of reductions. With the population aging and the natural increase falling, the labor force has a tendency to shrink and the share of the population drawing a pension increases. On the one hand, women, especially those living without a partner, run a higher risk of poverty as they reach older age and depend more on the publicly subsidized part of their pensions as their opportunities to accumulate funded pensions are limited by childbirth-related career breaks, part-time work patterns and broader patterns of gender inequality on the labor market. On the other hand, the need to increase public financial and service provisions increases the tax pressure on the working population.

Notwithstanding a decrease in fertility over the last century, the Swedish birth rate is still relatively high, and immigration has compensated for the shortage of labor to some extent since the 1960s. In this context, providing equal access to social security for women through employment extends beyond the issue of gender equality and becomes one of the means of redistributing social risks between generations (Hort 2013; Kravchenko 2008). The Swedish family policy rests on the normative idea of a dual-earner/dual-caregiver family model, providing earnings-related parental leave benefits, financed largely by the employer and predominantly managed by the National Social Insurance Agency; it offers affordable and broad childcare services as well as financial support that combines direct cash payments and tax deductions. Several new initiatives have been introduced in recent years. A care allowance (*vårdnadsbidrag*) and a gender equality bonus (*jämställdhetsbonus*) were introduced in 2008 (Regeringskansliet 2007). The equality bonus is intended not only to encourage a greater number of fathers to take more parental leave, but also to facilitate equal distribution of leave between

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men and women: the size of compensation is increased in proportion to the number of months parents take.

While the introduction of the equality bonus was considered to be an “interesting” idea even by the government’s political opponents, a heated debate surrounded the care allowance. It is provided at the municipal level and as of 2014 it has already been introduced in 113 municipalities (out of 290), 5 municipalities introduced and subsequently abolished it (Vamstad and Stenius, 2015). According to Statistics Sweden, 1.9 % of all children aged 1–3 years were cared for at home with support from the care allowance. This corresponds to 3.7 % of children in the selected age group who reside in the municipalities that offer the allowance (Statistics Sweden 2012a). The parliamentary and public discussions are based on differences in conceptualizing the problem of fertility: while for proponents of female employment the problem lies in the gender-neutral rigidity of labor contracts and a lack of security, the opponents identify the problem as women’s lack of choice between paid employment and caregiving (Kravchenko 2012; Thalberg 2003). Thus, the former consider commodification as the solution to the problem of lack of decommodification, while the latter advocate withdrawal from the labor market. Finally, there is one more form of financial support that is aimed to be beneficial for dual-earner families with children—tax deductions for purchasing domestic services, such as cleaning, babysitting, etc. It was demonstrated that this measure has mainly attracted wealthier and single people, especially women in the upper age brackets (Vamstad and Stenius, 2015).

The aging society is an issue of a different magnitude. A major concern with an aging population is related to the fact that much of the total care expenditure during a lifetime is concentrated in the last few years of life. While today the proportion of the population aged 65 and over is higher in Sweden than in the EU on average—18.8 % and 17.8 % of the population respectively—the old-age dependency ratio projected for 2060 will be lower in Sweden than the European average—46.2 % and 52.6 % respectively. It is the inertia of demographic change that makes projections reliable rather than a stable explanatory model produced by the abundance of demographic observations. Despite relatively stable and high fertility rates over the past couple of decades (the rate rose with some fluctuations from 1.7 in 2002 to 1.9 in 2012 (Eurostat 2013), the issue of reproduction of the labor force and sustaining the living standards of the retired in the future requires a systematic approach. Retirement age is flexible: while the normal retirement age is 65, the benefits can be withdrawn from age 61 (Barr 2013). Sweden is one of the countries with high replacement rate of PAYG pensions, which is expected to fall below 60 % in the future. Hence, the pension system faces the challenge of extending the role of privately funded pensions and/or considering the prospect of extending working life (OECD 2012). Sweden is already among the countries with a high level of coverage of privately funded pensions (nearly 100 % of the employed are covered by a mandatory private pension system, 27.6 % are also covered by voluntary pension schemes). The replacement rate of private pension schemes is nearly the same as the replacement rate for the PAYG scheme.

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As emphasized, another crucial demographic issue is the changing composition of the population, its citizens, denizens and residents. The migration patterns in Sweden have been changing over the last 50 years (Olofsson and Thomell 2012). While emigration was at its lowest low, immigration during 1950–1970 consisted mainly of foreign labor migrants and varied with the business cycle. Since the 1980s, however, refugees and persons coming to join family members living in Sweden have dominated migration patterns. The latter group has accounted for a significant part of the increase in immigration since the mid-1990s, with the exceptions of 2006 and 2009 when immigration of refugees accounted for the largest part of the upturn (see Fig. 8). The decreased immigration of family members was related to stricter requirements for identification documents. During those years, labor force immigration also increased, mainly from EU countries outside the Nordic region. The number of foreign students was increasing from the early 2000s until the autumn of 2011 when fees were introduced for students who are citizens of countries outside of the EU/EES13 (Statistics Sweden 2012b).

In 2009–2010, the number of migrants stood at 1.3 million people, 14.3 % of the entire population. The prognosis demonstrated that this share is expected to grow further, with almost 100,000 new arrivals in 2013. While the socio-economic crisis of the 1990s affected the migrant groups more severely than the rest of the population, the recent research has shown that this was not quite the case during the latest crisis (SOU 2010). At the same time, with economic downfalls, employers are less likely to hire immigrants, the hiring criteria become more stringent (especially with respect to language skills) and are also used to hide discrimination.

In 2010 responsibility for providing asylum seekers with housing was transferred from the municipalities back to the central state Employment Office, which assumed responsibility for social integration in the mid-1980s. This back-to-the-future measure was supposed to stimulate more effective matching between

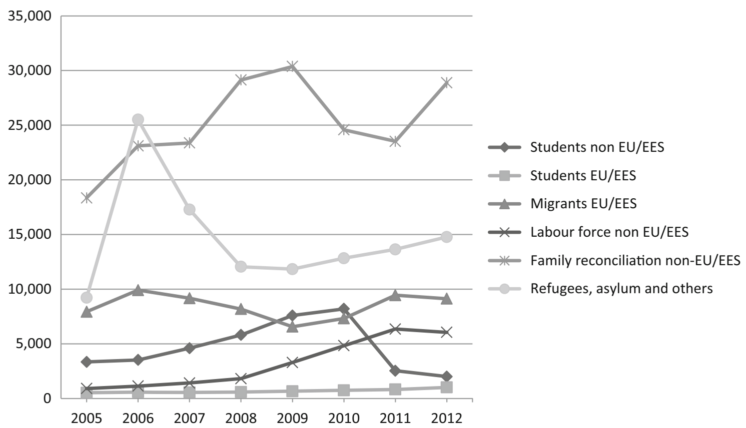

Fig. 8 Migration patterns, citizens from countries other than Nordic. *Source*: Statistics Sweden (2013)

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individuals' place of residence and employment opportunities (Sarstarnd Marekovic 2011). Ahead of this organizational turnover an additional financial stimulus to accept the residence and work conditions offered was implemented, and the level of financial support was made dependent on whether the asylum seekers accepted or not. However, in recent years the influx of migrants from war-torn areas such as Syria has increased the number of applicants to such an extent that any evaluation may be vulnerable to gross methodological errors. The killing fields of inequality—already visible in their vital aspects—are moving closer to the Far North of Europe (Therborn 2010, 2013).

5 Conclusions: Climate Change, or the Coming Storm over a Quasi-social Model of Social Policy?

Climate change is on the agenda, and has been for some time—and not only in environmental terms. The nature of the welfare system is also an issue to have in mind when pollution increases and the wind changes direction. What kind of welfare model is in sight after the market bonanza of the last decade and the freedom of choice revolution of the early 1990s? Of the three challenges discussed above, it is obviously *not* the financial sustainability of the welfare state that immediately comes to the fore. As the eurozone crisis in the south began to wither away in the summer of 2013, however, the international organizations cast their eyes in the direction of the northern winners. From a purely fiscal point of view, the situation is almost excellent, as the *Economist* noted as recently as September 2014: Sweden and the other Nordic countries are an international success story. The IMF also commended the countries for their ongoing reforms and sound financial policies, and welcomed measures that were set up to deal with distressed banks (IMF 2013). However, it noted that unemployment remains high in Sweden and that the government needs to stimulate demand for young and immigrant workers. It also urged Swedish authorities to relieve housing bottlenecks by providing incentives to invest in property construction and increasing land supply.

Housing is probably the larger issue in terms of economics, as the outstanding private debt is a prominent concern expressed in the monthly bulletins from the Central Bank. Overseeing a financial landscape that reaches into the weak states of the Eastern shore of the Baltic Sea, Finland and Sweden have overgrown banks that may be more vulnerable during the next western economic crisis than they were during the one that just ended. Politically, however, unemployment is an issue to be taken most seriously. In 2013, Sweden saw some of its more prosperous suburbs in flames, with a week of riots resembling those in the French banlieues in 2005. Young Swedes set cars on fire in Husby, just a few blocks away from Kista Valley, and for a day or two turned the suburb into an international media sensation (Schierup et al. 2014).

Nonetheless, cost containment and austerity measures, from unequal taxation, unfair treatment of those who have worked and paid taxes all their lives, to miniscule investments in services such as health and medicine as well as misuse

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of tax money, may have contributed to the ongoing reckoning of the welfare system. The withering away of what was once considered the jewel in the crown of the welfare state is another obvious candidate when an account and assessment of this social welfare system is released. The perception of full employment is long gone even though the employment level is close to the record level of the 1980s. Unemployment among young people, in particular young males and recent arrivals, has reached the top of the current agenda. The link between fertility and aging is in danger in the long run. But, as Keynes remarked, in the long run we are all dead, and it is the immediate issues that demand action and solutions. Demographic concerns have come to the fore to an unprecedented extent, having contributed to the downfall of one government and the installation of an even weaker one for the years to come. For how long is of course hard to say in a political system in which, even if the provision is seldom used, there is a possibility of extra elections during its regular 4 year periods. In the political class as well as in the financial elite there are those who dream of a grand German solution with the two major parties at the helm, but such a cabinet is rather unlikely, at least before an extra election.

Thus in Sweden no German-style grand coalition of old left and old right is in sight. Swedes are not yet living in the end times, though the recent rise of the anti-immigration nationalists seems to have come as a surprise to the great majority. What has happened in Sweden can actually be described as a climate change, in the sense that the ideological atmosphere has rapidly moved from an immigrant-friendly mood to one that takes a rather critical stance with regard to migration policy. Welfare states are vulnerable to external shocks, and the advanced world is still suffering from the latest crisis, which has to be viewed as more than simply a financial crisis. Politics are at play whether the issues lie within or go beyond the borders of individual nation-states. Added to this, persistent global macro-economic imbalances and growing inequality within most advanced states have been exacerbated by the deregulation of the credit market since the 1980s. Sweden is not immune to the effects of these changes. In some respects Sweden went against the grain, has continued to lower its public debt, and on and off has had a state budget surplus. Nevertheless, there are other risk factors such as a swollen banking sector and the possibility of a housing bubble—with private debt at an all-time high—which will make future navigation through troubled waters difficult for the incoming government. In itself, the new cabinet is a rather weak and inexperienced coalition. Despite the good news so far, it would be unwise to conclude that the future is bright for what once was a celebrated social policy model.

There are many actors involved at different levels, or scales, of civil society—from local to supranational—in the struggles over social policy and the welfare state (Kings 2010). Employment levels and the professional administration of the active labor market policy are at stake. The risks and opportunities associated with youth unemployment and migrant newcomers to the Swedish labor market have to be addressed much more carefully in the years to come. The conflict potential looms large. The export industry today is predominantly interested in the best and the brightest, otherwise Swedish business seems to go for low-skilled workers while

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the still visible trade unions do their utmost to promote the upgrading of human capital. The transition from education to the job market and measures to facilitate the prospects for a future generation of potential taxpayers cannot be left to the invisible hand. Otherwise the incoming government sooner rather than later will have to face a political backlash, which most likely will also have repercussions at the local level of government. So far, local authorities have mostly managed to step in and avoid the worst effects of local labor market breakdowns or sudden influxes of asylum seekers from war-torn regions of the world, but the more these common pool resource institutions are deprived of their fiscal resources, the less able they will be to alleviate poverty. Thus, the most recent privatization of welfare services also has to be reconsidered in a future social policy strategy: tax deductions for the wealthy at the expense of cash benefits for one and all. The anti-social aspects in the aftermath of the deregulation of public welfare have only recently come to the fore; these include anti-competitive practices, the lack of transparency, corrupt behavior, etc.

Recently a proposal that goes beyond the local limits of the national welfare state has come forward in the public sphere: to continue with the free Nordic labor market and create a new Nordic Union state both inside and outside the EU (Wetterberg 2010). The aim is to strengthen the four countries—or five if Iceland is included—on the global scene at a time when a new world is in the making and the coherence of the EU is at stake. This is an idea still in its infancy, and if a Nordic politician were asked about it, he or she would probably deny its existence. But when a fair number of Finns in a poll showed their approval, even the Finnish prime minister backed the idea and declared his willingness to discuss its pros and cons. A very real example of recent Nordic state cooperation can be found in Berlin: a brand new building that houses the embassies of the four Nordic countries. It is a testimony of the efficient use of tax money not yet taken to its ultimate logic of thin rationality. Institutions, including nation-states, may change and transform into something entirely different; this is a lesson learned after the implosion of the Soviet Union; Scotland provides a recent thought-provoking example. But the decay of established institutions and the appearance of new ones are issues larger than what was once supposed at the end of history.

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Slovenia: Continuous Gradual Change of the Welfare State?

Maša Filipovič Hrast and Anja Kopač Mrak

1 Introduction

In Slovenia the development of the welfare system started from a "state socialist welfare system" and was marked with gradualism. In the context of the transition from socialist to post-socialist society, the Slovene welfare system was developed as a dual model, combining elements that are the basic constitutive elements of both the conservative-corporate and the social-democratic welfare systems (Kolarič et al. 2009, 2011). First of all, the compulsory social insurance systems, which are based on social partnership and as such are the basic element of a conservative-corporate welfare system, are in Slovenia the primary instrument for the provision of social protection for employees and their family members. On the other hand, the strong public/state sector maintained the status of the main service provider of all types of services to which all citizens are equally entitled. Gradually a complementary relationship between public/state and the non-profit voluntary sector was established, as well as state support for the informal sector.

The formation of such a dual model of the welfare system was based on the decision of the Slovene leftist oriented political elite (contrary to political elites in the majority of other former socialist societies) to reject measures and recommendations for reforms based on the principle of shock therapy that were advocated by experts from international monetary institutions in the 1990s (Kolarič et al. 2009, 2011). The reforms followed therefore a 'gentler' path, retaining a strong state involvement in service provision and also in the regulation of the

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economy (also through state ownership of many companies and banks). Bohle and Greskovits (2007) claim that in Slovenia a neocorporatist regime was established after transition, characterised by a firmly institutionalised balance between marketization (i.e. liberalisation, privatisation and market-oriented institution building) and social protection (based on welfare system and economic protectionism), in that it was different from (embedded) the neoliberal type of capitalism emerging in the Baltic and Visegrad states.

However the well-developed social systems have been under significant pressure due to the recent economic crisis. Slovenia enjoyed strong economic growth before the crisis but faced one of the most pronounced recessions in the OECD in 2009. The crisis has revealed important weaknesses in Slovenia's pre-crisis economic performance, structural inconsistencies within the welfare system and limited ability for innovation (OECD 2011, p. 17). The current economic and financial crisis set Slovenia back in to the situation of the mid-1990s regarding the active labour rate and unemployment rates. The demographic changes present another important challenge to the transformation of the welfare state. In this context the present chapter will focus on the following challenges of the Slovenian welfare system:

– Ensuring the sustainability of the welfare system and protecting established rights under economic (and demographic) pressure
– Addressing the increasingly numerous precarious and flexible workforce (especially the young)
– Ensuring sufficient protection and quality of life of the older population through transfers as well as development of services
– Ensuring legitimacy of the reforms under conditions of political instability.

In the article we will address the issue of changing welfare systems in Slovenia after the economic crisis and how the state has responded to the risks and addressed challenges (and opened up opportunities). The structure of the article is as follows. First we present two major influences on the welfare state—the fiscal and economic crisis and the demographic pressure. Than we present the recent reforms of the welfare state in Slovenia in different fields, such as the labour market, pension system, health and long-term care, social and family transfers. We end the chapter by discussing the consequences of the presented changes and issues of legitimacy, as well as future challenges of the welfare state.

2 Fiscal and Economic Crisis

Slovenia faced one of the most pronounced recessions after the economic crisis started in 2008. The GDP growth after 2008 was negative and shows a slower recovery than in EU 27. The current situation is somewhat similar to the economic situation at the beginning of 1990s, i.e. at the beginning of transition. General government gross debt (as share of GDP) has been rising rapidly, and has more than

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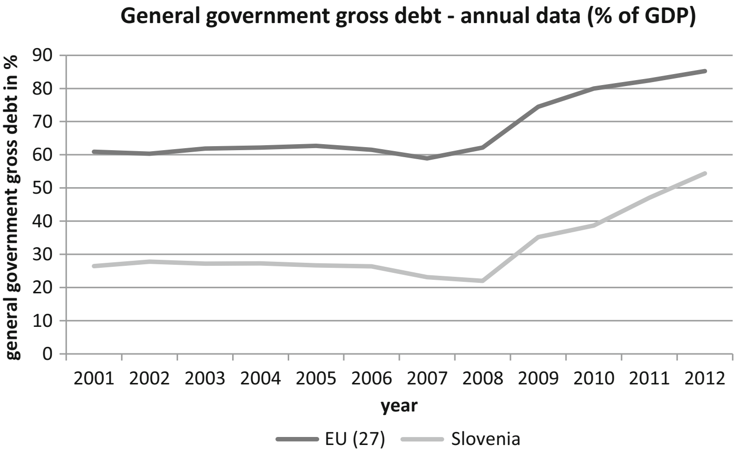

Fig. 1 General government gross debt—annual data (% of GDP). *Source*: Eurostat

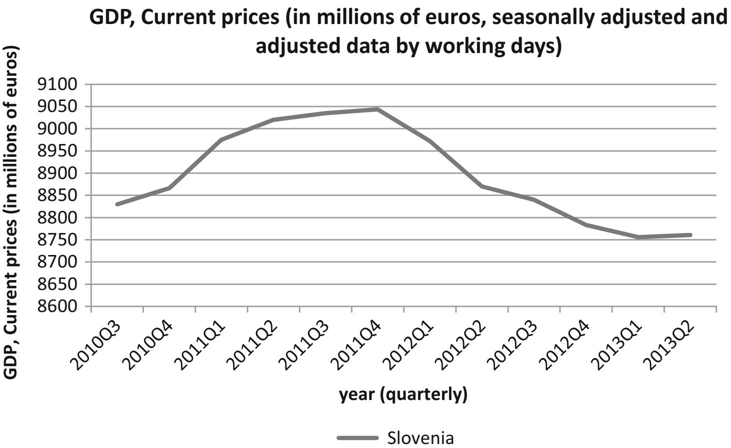

Fig. 2 GDP, current prices (in millions of euros, seasonally adjusted and adjusted data by working days). *Source*: Eurostat

doubled from 2008 to 2012. The most recent trends show no improvement, as GDP (in current prices) is falling since the last quarter of 2011. In 2012 structural changes were implemented to consolidate public finances, which showed result in a lower state deficit (the lowest since the onset of the crisis). However the government debt has been increasing and was 54.1 % of GDP in 2012, which is 32.1 % points higher than in 2008 (IMAD 2013). This debt has risen further in 2014 to 71.7 % of GDP (SORS 2014b) (Figs. 1 and 2).

The crisis in the economic system was also linked to the crisis in the banking system. The underdeveloped financial system, where a greater role is played by

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banks that mainly provide debt financing at shorter maturities, seems to be one of the reasons for the severity of the economic crisis in Slovenia (Hafner and Jagrič 2013). As stated by OECD "Slovenia is facing a severe banking crisis, driven by excessive risk taking, weak corporate governance of state-owned banks and insufficiently effective supervision tools" (2013). The largest Slovenian bank (Nova Ljubljanska Banka) is state owned and holds a large amount of bad loans (many are due to processes of privatisation in companies based on unprotected banking loans) and therefore needed assistance from the state. For the moment, even though this option was a possibility, Slovenia has not asked for foreign aid in solving the banking sector's problems. Based on the stress tests carried out in 2013, the government has recapitalised three of the largest Slovenian banks (2.8 billion euros) and carried out first transfers of assets to Bank Asset Management Company (IMAD 2014, p. 11). The creation of the Bank Asset Management Company to ring-fence impaired assets is important in gaining stability, but according to evaluations (OECD 2013) lacks transparency and potential political interference pose risks. Also, the sale of some national companies is envisaged.

The current global financial and economic crisis altered positive trends in the Slovenian economy and labour market, especially in the third quarter of 2008, when Slovenia achieved the highest activity and employment rates as well as the lowest unemployment (Fig. 3). The number of persons in employment decreased by 70,000, and the registered and LFS unemployment rates almost doubled (to 11.7 % registered unemployed in July 2012 and 8.2 % in the second quarter of 2012—LFS data) (Filipovič Hrast and Ignjatovič 2012). The most vulnerable group among the unemployed are young (under age of 25) (see Fig. 4), which is similar to the trend in

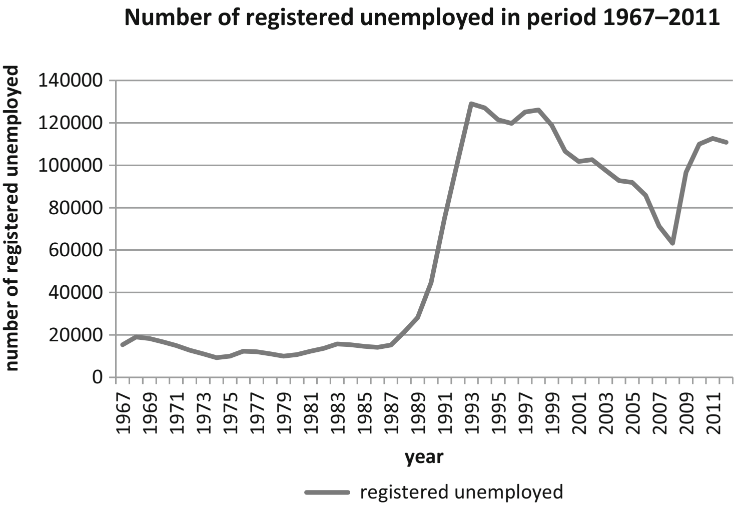

Fig. 3 Number of registered unemployed in period 1967–2011. *Source*: Employment Service of RS

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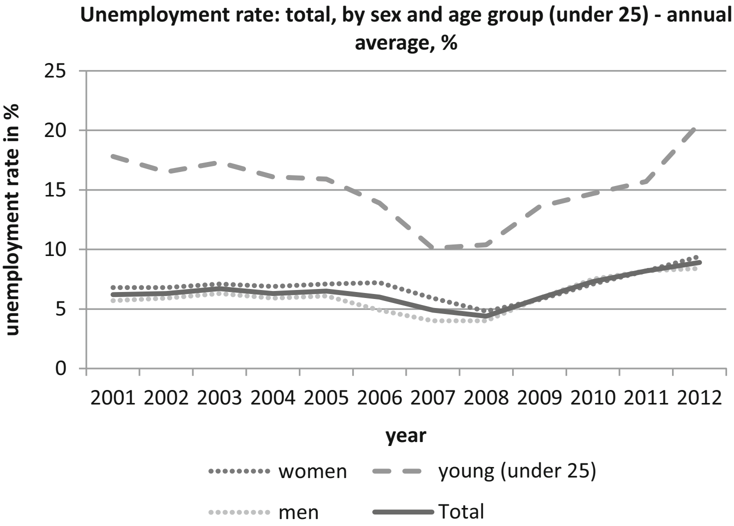

Fig. 4 Unemployment rate: total, by sex and age group (under 25)—annual average, %. *Source:* Eurostat

many other European countries. The problem of the labour market in Slovenia is therefore its strong segmentation (Kajzer 2011).

The at-risk-of-poverty rate[1] was kept low in the first years of the economic crisis, i.e. 2008 and 2009, however it has since increased. When observing the groups that have the highest at-risk-of-poverty rate the following stand out: the unemployed, elderly, single households and single parents (SORS 2013d) (Fig. 5).

Described developments produce an increased burden on the Slovenian social security system and the solutions that were taken in the past, such as early retirement (used in the 1990s) cannot be applied again, as they represent also a part of the current problem for the social welfare state.

The fiscal and economic crisis has resulted in several immediate policy responses, affecting welfare policies. There were two intervention acts that brought smaller adjustments, i.e. Intervention measures due to economic crises Act (OG RS 98/2009) and Act of Intervention (OG of RS 94/2010).[2] Both have temporarily limited the outflows from the public budget, budgets of municipalities, Health Insurance Institute and Pension Insurance Institute, by limiting the indexation of transfers and the salaries of public employees, as well as restricting the share of co-investments with municipalities (see chapter "The Welfare State in the Context of the Global Financial Crisis: Bulgaria—Between Financial Stability and Political Uncertainty").

[1] EU SILC definition; as is the percentage of persons living in households where the equivalised total disposable household income is below the threshold.

[2] http://zakonodaja.gov.si/rpsi/r03/predpis_ZAKO5733.html

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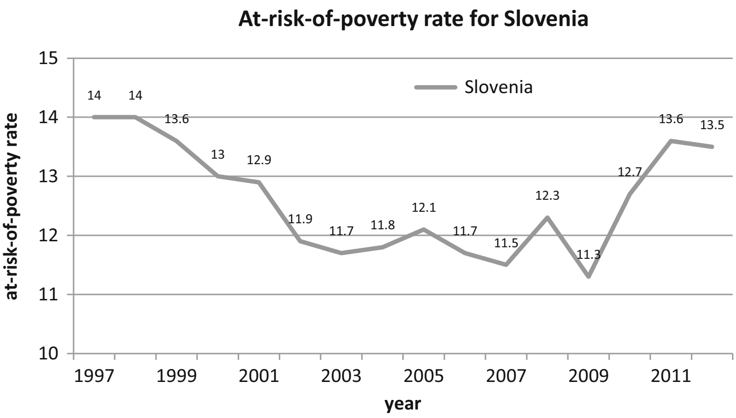

Fig. 5 At-risk-of-poverty rate for Slovenia. *Source*: SORS

3 Demographic Changes

Slovenia is a small nation, with approximately two million inhabitants (2,046,976 in 2010). Population projections indicate that the number of inhabitants will increase to more than 2,150,000 by 2025, and after that will began falling slightly (Eurostat 2013). Migration flows are not very strong. The immigration in the country increased until 2008, however it decreased rapidly after the crisis (in 2009). On the other hand emigration is increasing with some fluctuations, with the highest number of emigrants in 2009 (Eurostat 2013). Slovene citizens are most commonly emigrating to other EU 27 countries, most commonly Germany and Austria (SORS 2013c). Employment and joining family are the two most common reasons for immigration of foreigners (SORS 2013a). Slovenia has traditionally (especially in 1970s and 1980s) been a country of intense immigration particularly from the former Yugoslavia, and also current immigration is mainly linked to this area (SORS 2013b) (Tables 1 and 2).

The demographic change, linked to lower fertility rates and higher life-expectancy produce, as elsewhere in Europe a significant pressure on the welfare state. Fertility rates in Slovenia are below European average (of 27 countries); however a slight increase is evident in last decade (see Fig. 6). The share of the population aged 65 and over was 16.8 % in 2012. The old age dependency ratio was 24.4 % in 2012, which is slightly below the EU 27 average. However it is projected to rise to 57.6 % by 2060, while the projected old age dependency ratio for EU 27 is lower (52.5 %) (see Table 3).

The demographic change has put pressure on the welfare policies, which has been further accentuated by the fiscal and economic crisis. The most publicly discussed consequence is the pressure on sustainability of the pension systems. After several smaller amendments of the pension system to increase its

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Table 1 Population projections

	Slovenia
2010	2,046,976
2015	2,106,182
2020	2,142,217
2025	2,154,934
2030	2,154,609
2035	2,148,629
2040	2,141,070
2045	2,131,661
2050	2,114,985
2055	2,089,905
2060	2,057,964

Source: Eurostat

Table 2 Immigration/emigration flow

	Immigration	Emigration
2001	7803	4811
2002	9134	7269
2003	9279	5867
2004	10,171	8269
2005	15,041	8605
2006	20,016	13,749
2007	29,193	14,943
2008	30,693	12,109
2009	30,296	18,788
2010	15,416	15,937
2011	14,083	12,024
2012	15,022	14,378

Source: Eurostat

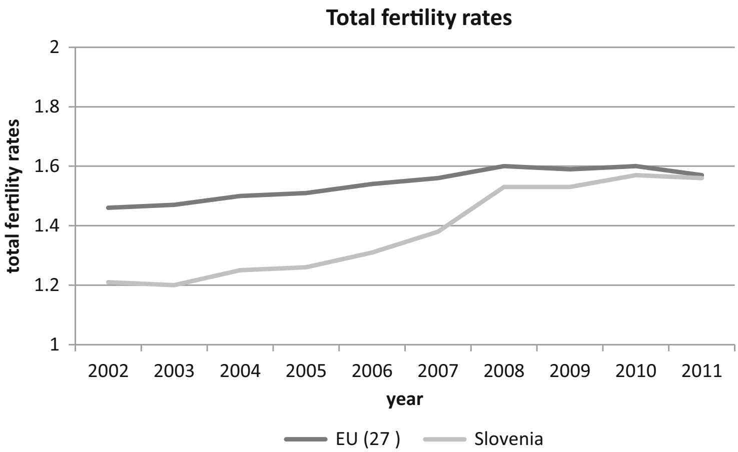

Fig. 6 Total fertility rates. *Source*: Eurostat

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Table 3 Old age dependency ratio

Time	EU (27 countries)	Slovenia	Time	EU (27 countries)	Slovenia
1990	20.6	15.5	2002	23.8	20.6
1991	20.8	15.8	2003	24.1	21
1992	21.1	16.1	2004	24.3	21.4
1993	21.4	16.5	2005	24.7	21.8
1994	21.6	17	2006	24.9	22.2
1995	21.9	17.4	2007	25.2	22.7
1996	22.3	18	2008	25.4	23.3
1997	22.5	18.5	2009	25.6	23.6
1998	22.7	19	2010	25.9	23.8
1999	23	19.4	2011	26.2	23.9
2000	23.2	19.8	2012	26.8	24.4
2001	23.5	20.2			

Source: Eurostat

sustainability in the short term a pension reform was adopted (in 2012, see next section). However the long-term sustainability is still questionable and further reforms will be needed in the future.

In addition to the pension system significant pressure is produced on health and long-term care systems. The latter has not yet been established integrally in Slovenia and that will present an additional immediate challenge. The services such as home care have been developing since 1990s and institutional care is (traditionally) well developed. However more flexible forms of care are still underdeveloped (such as day care centres, telecare, etc.) and support for family carers is slowly developing (see Filipovič Hrast and Hlebec 2009; Mali 2008). The health system is also in need of reform and this has been debated, however the issue has not been tackled up to now.

In the next section we present the development of the welfare state and changes implemented after 2007 in several policy fields.

4 Changes of Welfare Policies: Risks and Opportunities

Slovenia's social spending is near the OECD average as a percentage of GDP and it is well targeted on the needy. Expenditure on social protection fell until 2008; however as elsewhere in Europe, it rose in 2009 and also 2010. When observing the expenditure by function (as a share of GDP), the largest part is for old age, followed by sickness and health care. For both a rise is evident since 2008. Expenditure for other functions has however stayed constant (see Figs. 7 and 8).

In Slovenia the major driver of the recent welfare reform was the challenge of ensuring sustainability of the welfare system. There were several measures adopted by the government after the financial crises with the goal to stimulate the economy and open up opportunities (for economic development) as well as reduce negative

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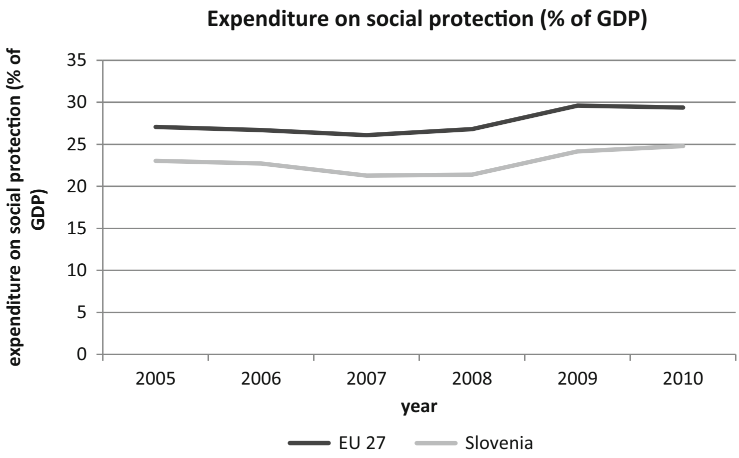

Fig. 7 Expenditure on social protection (% of GDP). *Source*: Eurostat (2014)

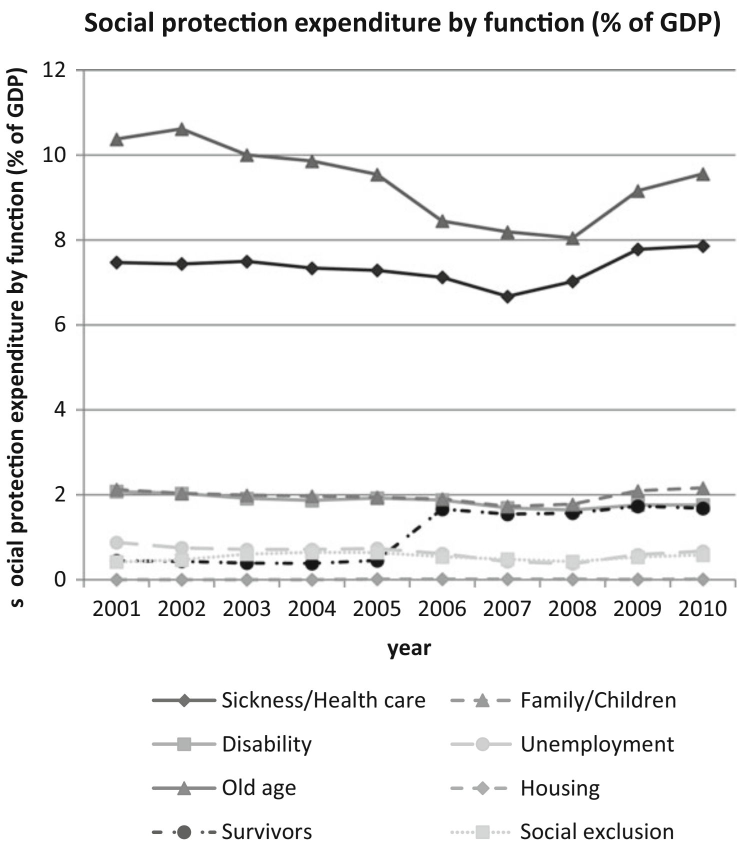

Fig. 8 Social protection expenditure by function (% of GDP). *Source*: Eurostat (2014)

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social impacts. The government's overall goal was first to absorb the economic shock (during 2009) and secondly to adopt structural change (during 2010 and 2011). In this first phase in 2010 a strategic document "Slovene Exit Strategy 2010–2013" was adopted, defining the goals and measures on how to exit the economic crisis. It defined economic policies (fiscal consolidation, decreasing of public debt, etc.), structural measures (changes in the pension system, of long-term care, health system and labour market) and institutional adjustments (in public administration, energy infrastructure) as vital. The Institute of Macroeconomic Analysis and Development has evaluated that in reality only a few adopted structural reforms were actually implemented due to their rejection on referendums (IMAD 2011).

The second phase of reforms, from 2011 to 2013, encompassed further changes that were adopted under the right wing government. In the third current phase, from 2013, the crisis in Slovenia has deepened and additional changes have been adopted by the new central-left government (described in detail in the next sections). However OECD (2013) has encouraged Slovenia to additionally restructure welfare spending as a way to achieve fiscal sustainability. And they evaluated that there is room to restructure the welfare state without undermining the quality of public services, e.g. by further tightening eligibility criteria.

Below we describe in more detail the reforms of the welfare state that are a response mainly to the economic crisis, but also to demographic and other pressures, such as changing conditions on the labour market, on the welfare system. We will describe the reforms in the following policy sectors: (1) labour market, (2) pensions, (3) health and long-term care, (4) family and children, and (5) social assistance.

4.1 Labour Market

The government responded to the deteriorating situation in the economy and on the labour market (the described rising unemployment rates) with two intervention acts aimed at preserving jobs and by enhancing active labour market policy (ALMP) programmes (IMAD 2012). The first was Partially Subsidizing of Full-time Work Act (OG 5/2009, 57/2009[3]), which provided the companies who put workers on shorter schedules (less than full time, but not less than 32 h a week) to receive subsidies for financing of salaries[4] and the second Partial Reimbursement of Payment Compensation Act (42/2009), which regulated partial reimbursement for payment of workers who were employed in companies which temporarily could not provide work for them and for reimbursement of costs of training of workers in

[3] http://www.uradni-list.si/1/content?id=90544

[4] The conditions for companies were that when receiving a subsidy, they would not lay off workers, they would pay wages and contributions, would not have organised work over time (in the business year of receiving the subsidy). The duration of the programme was limited (up to September 2010). During this time 904 contracts with companies were made. *Source*: http://www.mddsz.gov.si/si/delovna_podrocja/trg_dela_in_zaposlovanje/zdspdc/

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this period.[5] Participation in the two schemes was the highest in the middle of 2009, when around 4.8 % of all persons in employment were included according to the statistical register (see IMAD 2011, p. 88).

The number of persons included in the ALMP programmes also surged in 2009 and 2010. In 2009 it rose by 77 % compared to 2008, and by a further 38 % in 2010 (IMAD 2012, p. 88). In 2009 and 2010, the proportion of expenditures for active policy in total labour market policy expenditures surged (to around 38 %). In view of the efforts for the elimination of labour market imbalances, a higher share of expenditures for active measures than passive support was the right path (IMAD 2012). However, as some experts point out, the public expenditure on labour market policy is low in comparison to that in the EU (in 2010 Slovenia spent around 0.97 % of GDP), and the share of GDP allocated for active labour market has been decreasing steadily. Only after the crisis, with the increased need especially for passive labour market measures, the share increased notably in 2009 and stayed the same in 2010. But, again, the share of GDP allocated for active labour market policies remained relatively low, and after a temporary increase in 2009, it decreased again in 2010 (to 0.12 % of GDP). This shows that active labour market policies still do not have the material (financial) support that they should have (especially activities like education and training, different subventions and promotions of decent jobs) (Ignjatovič 2012).

Not only the rising number of unemployed presents a significant challenge for the welfare system, but also among the employed there is a high share of those on minimal wage, among which many families are entitled to social benefits. The minimum wage was introduced in 1995; however it has been quite low and even slowly decreasing since 2005 (as the share of average gross pay[6]). The new Minimum Wage Act (MWA), implemented in March 2010, set the new level of gross minimum wage at a higher level and the ratio of the minimum wage to the average gross wage in the private sector, which was 44.2 % in 2009, rising to 50.6 % in the first quarter of 2011. The increase of the level of the minimum wage has also increased the number of recipients[7] (Filipovič Hrast and Ignjatovič 2012).

Additional changes in the labour market were envisaged in 2010, and the proposed structural reforms were in the pipeline. The "LM package" included the new Labour Market Regulation Act, the Mini Work Act, amendments on Labour Code and Irregular work. The package tried to increase flexibility on the labour market on the one hand, and on the other provided higher security for those in a

[5] Also this programme ended in 2011. The employment office has received 1127 requests from companies for this measure and in the programme 946 companies and more than 19,000 employees were included. *Source*: http://www.ess.gov.si/obvestila/obvestilo?aid=266

[6] In the period from August 2004 to August 2005, the minimum gross wage reached 43.1 % of the average gross pay, but after that, it dropped annually to 41.1 % in 2008 (GINI report).

[7] The proportion of recipients of the minimum wage of all employees rose from around 7 % last year (averaged from March to December) to 7.7 % in the first quarter of 2011. In the private sector, the share of recipients increased from 8.5 % (averaged from March to December) to 9.5 %, while in the public sector, it increased from 2.5 to 2.9 %.

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disadvantaged position by increasing accessibility of unemployment benefits,[8] increasing the amount of unemployment benefits[9] and lengthening the period of receiving the benefit,[10] as well as the introduction of so called partial unemployment.[11] Higher security was supplemented with the proposed amendments of the Labour Code aimed at decreasing costs of labour dismissal. Nevertheless, the amendments were not approved by parliament. The proposed Mini Work Act,[12] along with Irregular work Act have not received support from the social partners and the public and were rejected at the referendums. Due to the inability of the government to carry out some of the structural reforms (as these could be halted by social partners through referendums) in 2013 there was also a change of the legislation and limiting of some of the rights, and a quorum was introduced for rejective referendums.[13]

After new elections in 2011 the new right-wing government adopted the Fiscal Balance Act in May 2012 (OG 105/2012) which lowered the maximal amount of unemployment benefit, and introduced changes such as the abolition of the right to sick leave among the unemployment benefit recipients, and reducing the amount of the unemployment benefit (50 % of the base instead of 60 %[14]).

However the new right wing government lost support and in 2013 a new centre-left government was formed. The new government adopted a new Employment Relationship Act (21/2013-ZDR-1), which in part addressed the challenge of protecting the rights of a more precarious and flexible work-force. The new act strove to reach a compromise in increasing the flexibility of the work force, which was the demand of the employers, and keep the security of the workers still at high

[8] As the conditions for receiving unemployment benefits are now being employed 9 months in last 24 months (previously 12 out of 18 months).

[9] It increases the amount for the first 3 months of receiving the benefit (80 %, previously 70 %) and shortens the period for establishing the basis for unemployment benefit (to 8 months, previously 12).

[10] The period of receiving unemployment benefit is lengthened for persons aged 50 or more (and 25 years insurance period) to 19 months and for persons aged 55 or more (and 25 years insurance period) to 25 months.

[11] If an unemployed person becomes employed at less than full time, they are entitled to the proportionate amount of unemployment benefit. http://www.mddsz.gov.si/nc/si/splosno/cns/novica/article/12106/6534/

[12] This proposed that social contributions must be paid also in more irregular forms of work (so called mini work, targeting therefore students, unemployed and retired), consequently making also these types of work contributing to security at old age. All periods of work (weighted in relation to the contributions paid) would contribute into the insurance period, however the received income will not be used for calculating the pension base.

[13] The quorum is 20 % for rejective referendums and they can now only be proposed by 40,000 voters (previously also by members of parliament). For consultative referendums and referendums on international treaties there is no quorum. Also, referendum cannot be carried out on certain issues (ratification of international agreements, laws on taxes, laws concerning urgent measures for defense of state and other). Constitutional act on changes of article 90, 97 and 99 of the Constitution (OG RS 47/2013).

[14] In the first 3 months of receiving unemployment benefit it stays 80 % of the basis.

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level and even increase security of a part of the workforce (i.e. those on the short-term contracts). The act received support both from the social partners (unions, employers) as well as all political parties. The main changes that the new act adopted were:

– Procedures for hiring and firing workers are simplified
– Reducing costs for employing workers on open-ended contracts (for first 2 years they are exempt of payment of contribution for unemployment), shorter notice periods, lowering the amount of severance pay
– De-stimulation for employment of workers on short-term contracts (introduction of severance pay also for short-term contracts, prevention of successive short-term contracts, and higher employer's contribution for unemployment for those on short-term contract).

In 2013 also a new act amending the Labour Market Regulation Act (OG RS, 21/2013) was adopted, which meant the extension of the rights and focused on increasing protection for the most vulnerable and flexible part of the workforce. Those entitled to the unemployment benefit are the unemployed who have been insured for at least 9 of the last 24 months, which meant important inclusion of the flexible workforce (young), as previously the minimum period was 1 year. The period of receiving the benefit depends on the length of insurance and can be from 3 months (for those insured up to 5 years) to 25 months (for those aged 55 years and over with an insurance period of 25 years or more). The new act also additionally broadens the right to unemployment benefit, targeting especially the young as the most vulnerable group on the labour market (2 months of unemployment benefit for the unemployed aged less than 30 years who were employed for at least 6 months in the last 24 months) and it introduces temporary and occasional work for retired persons. It also made some administrative changes (such as simplifying procedures for hiring workers, workers who received notice can already register at Employment Service, etc.). The young have been identified as one of currently most vulnerable groups on the labour market and for them a new scheme of active employment policy was introduced, as in many other EU countries, i.e. the Youth Guarantee, targeting young (aged 15–29 years) (adopted in January 2014) (MLFSA 2014a).

In 2013 the Prevention of Undeclared Work and Employment Act (OG 21/2013) was changed, introducing e.g. a voucher system for personal additional work, which is an effort to regulate this type of work. Employers will need to purchase the voucher and pay social taxes, while the employees will also need to register at the Health Insurance Institute of Slovenia. The goal is to reduce the grey economy and moonlighting and increase protection of workers. In summer 2013 the Act on Emergency Measures in the field of Labour Market and Parental Care (OG 63/2013) was also adopted, which introduced certain bonuses[15] for employers to employ young previously unemployed people (until age of 30 years).

[15] The employers are exempt of payment of social security benefits for 2 years for such employees.

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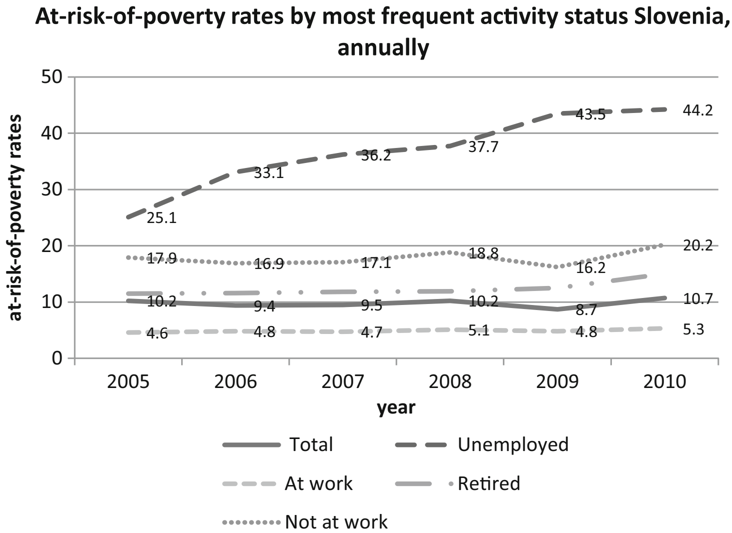

Fig. 9 At-risk-of-poverty rates by most frequent activity status Slovenia, annually. *Source*: SORS—Stat data portal

Even though several measures have been introduced in the labour market to stimulate employment and increase security of the unemployed, their position has been deteriorating since 2005. In other observed groups (according to their working status) there has been no such change and the-at-risk-of-poverty rate has grown only in the last part of the observed period, i.e. from 2009 to 2010 (Fig. 9). Due to the high at-risk-of-poverty rate among the unemployed one could state that the welfare state has not been completely successful in preventing the vulnerability of this group. We can link this high vulnerability of the unemployed partly also with the low share of unemployed who receive unemployment benefits. In 1992, the share of unemployment benefit and unemployment assistance recipients among all registered unemployed was 45.0 %. In 2000, it was only 29.1 %, and in 2008, this share dropped to 22.7 %; in 2009 this share increased to 31.7 %[16] (Employment Service of Slovenia 2012). Especially problematic was the access to the unemployment benefits of young people (see Kajzer 2011).

4.2 Pensions

The demographic change poses a significant challenge to Slovenia as demonstrated by demographic forecasts at the beginning of the chapter. The initial responses to the fiscal and economic crisis have included freezing the indexation of pensions

[16] This is likely due to a higher number of recently unemployed (as long-term unemployed are not entitled to this benefit).

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which effectively meant decreasing the pensions. In May 2012 the right-wing government adopted the Fiscal Balance Act (OG 105/2012) which again confirmed no adjustment of pensions, and has additionally lowered the pensions that are not based on contributions.[17]

A pension reform has been a long developing project which resulted in a first proposal of the reform, which was adopted (23. December 2010)[18] in this first phase under the left-wing government, however it was later rejected in the referendum (5.6.2011). After the unsuccessful pension reform in the first phase, the right wing government was successful in the second phase in adopting a new Pension and Disability Insurance Act (96/2012). The main changes that were adopted were:

– Increasing the pension age to 65 for men and women (with 15 years of service), early retirement possible at 60
– Pension base is calculated on the basis of 24 years (previously 18),
– New higher permanent bonuses for longer working periods, and permanent 'penalties' (malus) for early retirement,

The pension reforms were implemented mainly as a response to the challenge of sustainability of the system, however it partly also addressed the challenge of ensuring quality of life of the elderly. A particularly pronounced argument of the policy makers was that the new pension reform would reduce the decreasing of pensions, since after the reform in 2000, pensions were getting consistently lower, which was reflected also in high poverty rates among the elderly, compared to other age groups (see Fig. 10). After the new reform the act will stop the steepest fall of pensions, however they will still be falling. The evaluation of the reforms has shown that already in 1 year there have been effects in the direction of lower growth in the number of new retired people, and keeping the average pension at the same level as the previous year. However, a negative trend in the increasing number of those with lowest pensions has been identified (in 2013 22 % of new pensioners had their pension calculated on the basis of minimum pension base[19]) (MLFSA 2014c, p. 27). In addition, the state pension, which functioned as an income support measure for the elderly,[20] was abolished by the new Financial Social Assistance Act (OG 61/2010), which came into force in 2012. One could claim that women have suffered the greatest burden of the new pension reforms, with more significant increase in the retirement age and the abolishment of state pension.

[17] However this has later on been decided by the court to be discriminatory and has to be reversed.

[18] The first proposed pension reform [new Pension and disability insurance act (PDIA-2)] included as the main reforms: Progressively equalising retirement age to 65 years both for men and women (with exceptions), and lengthening the calculated period for the pension base (from 18 to 30 years). Changed would also be indexation of pensions (from 2012 to 2015—once a year, 60 % indexed on wages and 40 % indexed to inflation, later 70 % with wages and 30 % to inflation). http://www.mddsz.gov.si/si/splosno/cns/novica/article/1939/6519/37f5bfe53d/

[19] However the lowest pension base is higher according to the new act (compared to the previous).

[20] The condition is permanent residence in the Republic of Slovenia and the age of the beneficiary (65 years of age), as well as a minimum 30-year residence in Slovenia.

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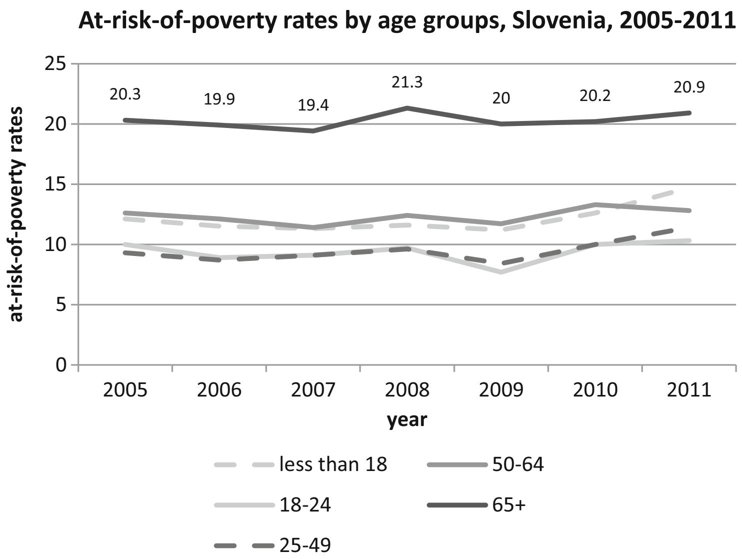

Fig. 10 At-risk-of-poverty rates by age groups, Slovenia, 2005–2011. *Source*: Eurostat, Social inclusion data

Further reforms will most likely be needed to sufficiently address the demographic challenge. As OECD has recommended in its report "bold additional reforms are needed to curtail the upcoming ageing costs and stabilise the public debt" (OECD 2013).

4.3 Health Policy and Long-Term Care

In Slovenia the health system is public and accessible to all, based on an obligatory health insurance scheme. Voluntary Health Insurance (VHI) covers payments for health services that are not covered by CHI (Compulsory Health Insurance). There is almost 100 % coverage with CHI, and also VHI covers a large share of the population. For the most vulnerable groups both are covered by the state (i.e. for those entitled to social benefits). With new Act Amending the Health Care and Health Insurance Act (Official Gazette, 91/13, 2013) some smaller changes were introduced, with the general goal to increase stability of the system by increasing the financial inflow. Along with the increase (in insurance for work-related injury and sickness from 0.3 to 0.53 %) also specific groups/forms of income that were previously exempt from payment of basic health insurance or paid only a minimum amount are now included in the insurance scheme.

There is a well-developed network of public community health centres and regional hospitals. However, privatisation has been increasing, especially private

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practice among specialists and dentists[21] (Kolarič et al. 2011). Due to the financial and economic crisis, the public health sector has been increasingly having financial troubles. Several of public hospitals have negative financial results, which is leading to the adoption of austerity measures and savings within these institutions to reduce their debts, which are accumulating from previous years and this presents a danger for the functioning and quality of the public health sector (Ministry of Health 2013).

To address the challenge of ensuring quality of life of the elderly, the service sector needs to be further developed and this challenge has yet to be addressed. The field of long term care in Slovenia is poorly coordinated and is currently still divided between the social and health sector. The institutional care for elderly people is well developed, and covers approximately 5 % of the population aged 65 and over. The majority of homes for the elderly (75 %) are public (Hlebec and Mali 2013). The public service of home care has started to develop in 1990s and the number of users is increasing. It is regionalised, i.e. the municipalities are responsible for the organisation of home care services and are supposed to finance these services (minimum of financing of costs of home care is set at 50 %). The service is carried out mostly by public centres for social work and public homes for the elderly, with rare private providers (Nagode and Lebar 2013). Due to this there are significant differences between regions in their availability and price (see Hlebec 2010, 2013; Smolej et al. 2008). The act that would integrally regulate this field is still in preparation, and its implementation is planned for 2016.

4.4 Family and Children

Slovenia has a well-developed system of child care and municipalities are responsible for the provision of child-care facilities. Since the end of 1970s pre-school childcare services have been widespread and highly subsidized[22] which makes them widely affordable (Stanovnik et al. 2006). The level of inclusion of children is high as 75.6 % of all children aged 1–5 years are included in kindergartens (in 2013). The majority of kindergartens are public (93 % in 2013) (SORS 2014a).

The family policy includes a parental leave scheme (365 days in total) with parental benefit and parental allowance,[23] and various child benefits/allowance

[21] Most private provision is carried out by non-profit organisations on the basis of concession agreements with the government, which means that they are tied to the public system by ways of financing (Kolarič et al. 2011, p. 296).

[22] Subsidies are minimally 33 % (and the share of subsidy is increased—relating to income of parents; for low income also paying full costs of care). In addition to this, the second child included in the pre-school care is universally subsidized (70 % of costs). The subsidy is paid from the municipal budget.

[23] Parental allowance is financial assistance to parents when, after the birth of a child, they are not entitled to parental benefit under the Parental Protection and Family Benefits Act. It lasts 365 days and is in its amount similar to social benefit.

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(for large families, for low income families, child-birth allowance), allowance for care of children needing special care and protection, partial payment of lost income,[24] right to payment of social contributions[25] and payment of contributions in case of leaving employment when having four or more children.[26]

In May 2012 the right-wing government adopted the Fiscal Balance Act (OG 105/2012) that lowered parental benefit,[27] lowered the ceiling for receiving child allowance, and limited some universal rights (such as large families allowance, child birth allowance became means tested), thereby trying to make the welfare system more sustainable. The new Parental Protection and Family Benefits Act (OG of RS 26/2014) has increased the parental leave reserved for fathers from 15 to 30 paid days, which means a total increase of parental leave from 12 to 12.5 months, and can be used in full or part time absence from work, thereby promoting gender equality.

Despite the transfers in place for the vulnerable groups, vulnerability among specific groups has been increasing—e.g. single parents. The share of those at-risk-of-poverty within this group has increased from 22.3 % in 2005 to 31.4 % in 2010 (Eurostat). The negative trend was evident already before the crisis. The new Parental Protection and Family Benefits Act responds to this risk by increasing the benefits for single parents.

The number of recipients of child benefits[28] remained above 400,000 until 2003, and after that began to diminish slowly, remaining constantly around 370,000 people until 2010. This corresponds with the lowering number of children in general in this period. It dropped further in 2011; however in 2012 it experienced

[24] Part payment for lost income is a monthly personal benefit to one of the parents when he or she terminates employment or begins to work part-time because of care and protection of a child with seriously disturbed mental development or serious physical handicap. The level of the part payment for lost income is the minimum wage (MLFSA 2014b).

[25] The right to payment of social security contributions is held by a person who files an application for exercising the right to part-time work. The employer guarantees the applicant the right to payment according to actual working duties, and the Republic of Slovenia guarantees payment of social security contributions based on full working time. The RS pays the contributions of the insuree and employer for compulsory pension and disability insurance, unemployment insurance, insurance for parental protection, health insurance and contributions for sickness and injury outside work, for the right to health services, payment of travelling costs, a funeral grant and death grant (MLFSA 2014b).

[26] One of the parents who leaves the labour market because of protection and care of four or more children has the right to payment of social security contributions based on the minimum wage, until the youngest child has completed 10 years of age. A person abandons the labour market if he or she ceases employment by agreed annulment or cancellation of an employment contract on their part, or if at their own request they are removed from the unemployment register (MLFSA 2014b).

[27] Decrease from 100 % of salary base to 90 %, and also introduction of a cap of two average salaries. However parental benefit, i.e. for those that are not entitled to parental allowance, has increased.

[28] Child allowance is targeted at low income families and its amount depends on the income of the parents. It differs also for single parent families (additional increase in the basic amount) and also in the number of children (different amounts for first, second and third child).

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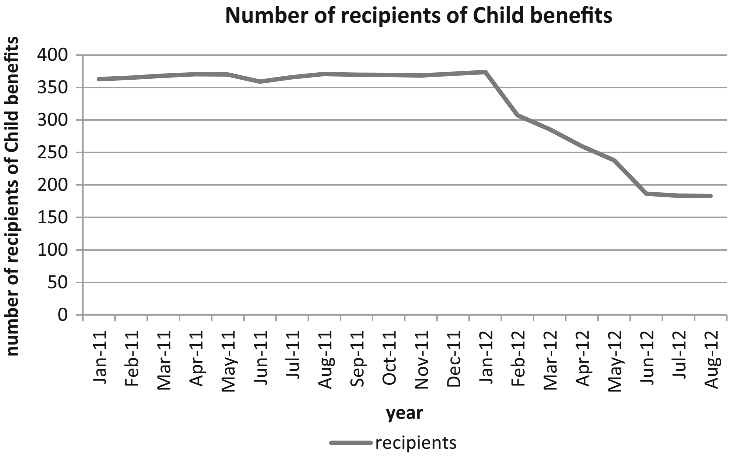

Fig. 11 Number of recipients of child benefits. *Source*: MLFSA (2014b)

quite a drastic fall. The major reason for this is the changed social system. While previously child benefits were also paid for children above 18, if they were in still in education, now the limit is 18 years (see Dremelj et al. 2013), which was one of the changes implemented by the Financial Social Assistance Act, adopted in 2010 and which came into force in 2012 (see next section for detailed description) to make this system more targeted. The increased scholarships were supposed to compensate the loss of child benefits for school children (see Kump 2011) (Fig. 11).

4.5 Social Assistance

Slovenia has a (national) financial social assistance scheme, and distinguishes between social benefits (means tested[29]) and exceptional financial social assistance.[30] In 2009, during the highest drop in GDP, the government additionally adopted the Special Allowance for Socially Disadvantaged Persons Act (OG 57/2009) providing additional financial assistance for those most in-need (i.e. recipient of social assistance, unemployment benefits, those on low pensions, etc.). The

[29] Financial social assistance provides the users with the means for meeting minimum needs in the amount guaranteeing their subsistence. From 1.8.2013 the basic minimum income amounts to 265.22 euros. Financial social assistance is initially granted for a maximum period of three months and can be granted again for a maximum period of 6 months; permanent financial assistance is granted to a person aged over 60 or permanently incapable of work, without any income, receipts or property and with no person obliged to provide for his/her subsistence and living at his/her home (MLFSA 2014a–c).

[30] Granted in exceptional circumstances. It can also be granted in cases where the ceiling set for financial social assistance is surpassed but the entitled person is in financial distress for reasons beyond his/her control.

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Financial Social Assistance Act (OG 61/2010),[31] which came into force in 2012, regulates in a new way the right to financial social assistance and to supplementary allowance.[32] The right to social assistance is limited by income and property status of a person, while the right to supplementary allowance is intended for those who are long-term unemployed or incapable of working or elderly (for women age limit is 63 years and for men 65).

The new Exercise of Rights to Public Funds Act (2010), which came into force in 2012, defines in a uniform way, criteria for accessing different benefits and for assessing income and property of households. This was supposed to ensure, according to the Ministry of Labour, Family and Social Affairs, a fairer distribution of social transfers and targeting the most deprived, which can be seen in part as a response to the challenge of financial sustainability of the systems, but partly also to insure the legitimacy of the welfare state systems in providing the targeted spending for those in need. Important novelties are one access point to all social transfers and having a clear regulation on the order of application for the social transfers, which can lead to reduced rights/transfers. However, the new legal framework has according to evaluations (Dremelj et al. 2013) increased vulnerabilities of certain groups, such as single-parent households, households with children aged 15–18 years (due to loss of stipends and a too small an increase in child benefits), large families and elderly people. However the position of students and those without income, savings and any means has improved.

The novelty, also discussed in public and among experts, is that the recipients of social transfers who own a dwelling will have no right to sell it or put any burden on it, which some see as an important limitation of rights of recipients of social benefits. This condition has received much media attention and a significant number of people rejected financial assistance in fear of losing their property.[33] The Exercise of Rights to Public Funds Act and Financial Social Assistance Act were both amended in 2013, trying to counteract some negative effects of these acts. The financial situation of beneficiaries will be more realistically evaluated (not according to the previous year's income but current income), some income will no longer be calculated on the basis of total household income (e.g. part of family benefits). One important change is also that the financial social assistance will not need to be repaid by the owners of a dwelling (e.g. through claim of the state on the own housing as described above) if financial social assistance will be received for a period less than 12 months.

What was the effect of the described changes among recipients of social assistance? The number of given financial social assistances per month rose quite significantly from 2001 to 2004 and remained high until 2006 when it started to

[31] http://zakonodaja.gov.si/rpsi/r09/predpis_ZAKO5609.html

[32] The financial social assistance is targeted at ensuring minimal income for living. Supplementary allowance is intended to support long-term costs of living (like upkeep of the dwelling).

[33] 16,100 elderly, who would be entitled to receive supplementary allowance, have rejected that right (Dremelj et al. 2013).

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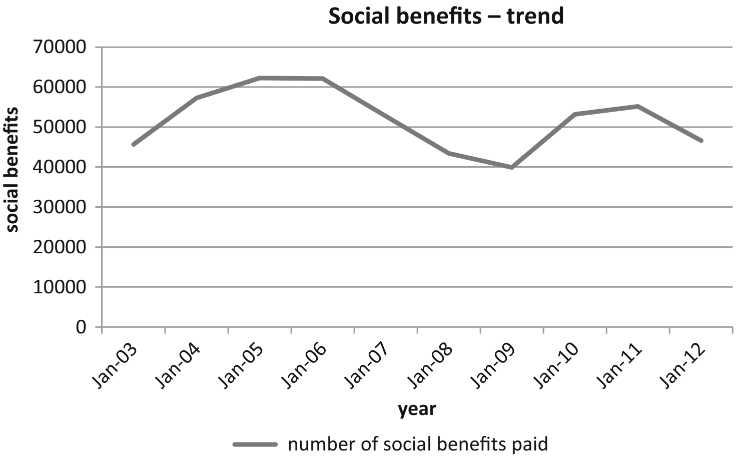

Fig. 12 Social benefits—trend

drop. However, beginning in 2008, it started to rise again until 2011, which reflects the impact of the crisis. In January 2011 the number of recipients was 49,409, which dropped to 44,749 in January 2012 and 43,068 in January 2013, but increased to 45,977 by September 2013 (MLFSA 2013). An analysis of the effects of new acts has shown that the amount of approved benefits are, in many cases, lower than before and the share of those not approved social benefits is larger (Dremelj et al. 2013) (Fig. 12).

5 Conclusion: Sustainability and Future Challenges of the Welfare State in Slovenia

Due to the deep economic crisis, the ageing population and a lack of structural reforms in the previous decade, the pressure on the existing welfare system has been growing in Slovenia. The limited ability of the welfare system to meet people's expectations is contributing to the rising dissatisfaction of people regarding the governance of common societal resources. There has been a clear rise in the perceptions of injustice in society after the economic crisis. The share of those that attributed reasons for poverty to too much injustice in society rose from 42 % in 2007 to 61 % in 2010 (Toš 2004). However, the income distribution is more equal than in the majority of other OECD countries, and the incidence of poverty has been low ever since the beginning of transition, but is rising among specific groups (such as the unemployed, single parents, elderly) (Filipovič Hrast and Ignjatovič 2012).

People still feel that the state must play a strong role in providing welfare to its citizens (see Filipovič Hrast and Ignjatovič 2012; Filipovič Hrast and Hlebec 2009); however how to provide welfare in a sustainable fashion is contested in the context of increasing mistrust among different societal actors and the public. As M. Daly

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(2011, p. 107) argues, in the changing circumstances of the welfare states, increasing welfare is less and less acceptable as a rationale for state activity and expenditure, and the state is expected to find its legitimacy elsewhere.

The economic crisis has stimulated several of the changes that were introduced in the past few years. In the article we have described the changes of welfare policies in several different fields. The changes in the labour market went in the direction of higher flexibility, and loss of some of the established rights (decreased protection of workers on open-ended contracts). However a very positive development has been the recognition of the vulnerability of certain groups (younger, employed on short term contracts, those receiving minimum wage) and advances to ensure their security within the labour market. Despite the introduced changes several challenges still remain, such as precarious work, rights of the unemployed, rising share of young people working on the time-limited contracts and rising numbers of unemployed graduates. There is also the problem of very low employment rates of older workers, which was addressed partly by the new pension reform.

Higher flexibility on the labour market must be accompanied by restructured social security schemes, which have to offer social security to the rising number of people working outside the traditional working relations. Here not only efficiency and successfulness of social transfers in combating poverty needs to be addressed (as poverty among specific groups such as the elderly, unemployed, single parents has been rising since the economic crisis) but the main ideology behind it also needs to be revisited—from reducing poverty and improving sustainability of the welfare system to ensuring human dignity and quality of life. Rights are increasingly targeted and there is a trend to reduce universalistic rights and make them more dependent on income (e.g. child benefits), which is welcomed as a positive trend that needs to be strengthened by external institutions (OECD 2013). As Sinfield (2005) warns, this is a negative trend in the general goals of the welfare state, which is under-debated. "There has been little acknowledgment that greater use of means-testing or targeting—the CECs main recommended instrument for achieving greater efficiency—tends to involve a shift away from certain goals such as compensation and the prevention of poverty" (Sinfield 2005, p. 17). As Walker (2005, p. 42) described this, there is a trend in the European social model towards a minimalist approach, one concerned with the reduction of poverty and preserving social cohesion, but not one that focuses on higher standards for all.

One aspect of the welfare state that has been addressed to a lesser degree however and forms a vital and distinctive part of welfare state regimes, are welfare services (see Jensen 2008). In Slovenia the service sector is still well developed, looking at e.g. education, child care services, health services, institutional care for the elderly. However, an additional field that needs to be addressed in Slovenia is the long-term care of the elderly, where the welfare state in Slovenia has yet to implement significant changes and therefore respond the new social risks of the care responsibilities (as defined by Taylor-Gooby 2004). Mandič (2012) stressed that in the field of care for the elderly, the welfare state has not been greatly involved and it is the area where the family is still among the main providers. This is however becoming increasingly difficult for the family (in the changed circumstances of the

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labour market, family and demographic change). Furthermore, sustainability of the welfare system is still under pressure, as even after the reforms e.g. of the pension system, the sustainability of these systems in the longer run is not ensured.

Additional issue in Slovenia is the problem of political stability and trust among social partners, also illustrated by the "collapse of social dialogue in 2010" (Guardiancich 2011). In Slovenia there is low level of trust in several important institutions, such as parliament, government and the legal system (see Toš 2007), which could be linked to the problem of corruption (at governmental level[34] but also local level governance). This is reflected also in high political instability (changes of governments in last few years) and increasing civil protests.[35] The changes of the welfare state in conditions of mutual distrust among social partners have been difficult and have led to delayed reforms (as described in the case of labour market reforms and the still delayed health reform).

The described changes still do not seem to be extensive but rather follow the gradual principle characteristic also of the first two decades of the welfare reform after transition, which have been usually described as not being paradigmatic (Kolarič et al. 2011, p. 304). This is in line with what Daly (2011, p. 105) has claimed holds true for the majority of the EU welfare systems, i.e. that the evidence on how much change in the welfare systems in the EU is mixed, and in general the reforms follow a more gradual change with old principles holding and the convergence of countries is modest. However increasing emphasis on targeted measures (in social and family policy) might also indicate a step change in welfare reforms in Slovenia. The changes in the welfare system were also not consistent, but mainly a mixture of measures that responded partly to the crises, partly to the demands from public and social partners, which corresponds to the estimates of changes of welfare states in transition countries as presented by Offe and Fuchs (2007). Some authors (see Guardiancich 2011) also describe Slovenian gradualism as inherent characteristics of its politicians' policymaking style and see the changes as mainly steady incremental fine-tuning of social policies to meet the demands for a leaner and more flexible labour market. "Gradualism helped Slovenia to ensure social peace, and maintain a high degree of social solidarity, at a time when the rest of the region embarked on painful benefit cuts and restrictions of individual rights. However, (. . .) lack of structural reforms and of much needed rationalization exacerbated the recent crisis, which hit the tiny country badly" (Guardiancich 2011, p. 337).

However, in general the presented changes of the welfare state systems have been in the direction of limiting some rights and increasing individual responsibility as well as control (e.g. having higher control of individuals' status and means in the

[34] The demonstrators demanded the resignation of the government, social justice, a social and legal state.

[35] The trade unions started to protest in 2009 (in November), but Slovenia faced some spontaneous rebels in certain enterprises (for example in Gorenje) even before (in spring 2009), while continuous rebels started at the end of 2012 and continued in 2013.

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social protection system). The consequences of this control and also of the potential need to return received financial benefits (in case of death of the recipient this falls on their family) was that people relied somewhat less on the welfare state and turned again more to the family, which can be linked to the trend of the increasing role of intermediary institutions (like family and community) in securing welfare (see Daly 2011).

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An Immature Welfare State Under Transformation: The Turkish Welfare Regime and the Crises

İpek Göçmen

1 Introduction

The Turkish welfare regime is generally included in the family of Southern European Welfare states because of the following: the fragmented and hierarchical nature of its social policy; a labor market structure in which self-employment, unpaid family labor and informal-employment practices are very common; the lack of universal health care and the centrality of the family in risk situations (Buğra and Keyder 2003). The social security institutions that form the backbone of the welfare system in Turkey were founded after the mid-1940s. These were the Social Insurance Institution, established in 1945 to cover workers; the Retirement Chest (*Emekli Sandığı*), established in 1949 for civil servants, and *Bag-Kur*, founded in 1971 to cover the self-employed. The main activities of these three institutions were limited to the healthcare provisions and old age benefits based on contributions by employees and employers. This exclusionary system of welfare provisions did not cover the unemployed or those employed in the informal sector. According to the State Institute of Statistics, the percentage of the population covered by one of the social security institutions was 46.5 % in 1980 and 54.6 % in 1985 (TUIK 2010). Due to the low levels of social security coverage, the centrality of informal mechanisms in social assistance and low levels of social protection expenditures, I refer to Turkish welfare regime as an immature one.

The transition from an import-substitution to a liberal, export-driven market economy has undergirded Turkey's socio-economic trends since the 1980s. The economic liberalization policies of the Özal era (1983–1989) transformed the Turkish economy (Arıcanlı and Rodrik 1990). Innovations in the economy not only caused the GNP and export rates to boom, but also resulted in a decline in living standards; losses in formal employment occasioned increased deregulation

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and privatization of state-owned enterprises (Yeldan 1994). In the period after the 1990s, when the transformation of Turkey to the global market economy gained momentum, the negative consequences of economic developments could not be shouldered by the existing formal social welfare schemes and informal support mechanisms such as families. The economic crises of 2000 and 2001 proved that reforms in social policy were inevitable (Buğra and Keyder 2006; Buğra and Adar 2008). Consequently, the post 2002 period has been characterized by major reforms in the welfare regime of the country.

The crisis in 2001 has been considered the most severe crises of the neo-liberal era in Turkey. The fiscal and balance of payment crisis, together with major structural problems in the banking sector, resulted in massive unemployment and a radical restructuring of the economy in line with the influences of World Bank, IMF and the EU (see Öniş 2000). The reforms in the immature welfare regime of the county were kicked off both by a result of the crisis as well as a response to the financial difficulties that the established welfare system has been suffering.

The post-2002 period was stage to welfare restructuring in both the social security and social assistance arenas in Turkey (Buğra and Keyder 2006; Buğra and Adar 2008; Buğra and Candas 2011; Göçmen 2014). The period is characterized by reforms that resulted in the expansion of social policy coverage in areas such as health and social assistance, which at the same time resulted in increasing inclusion of private actors and also importance given to traditional forms of solidarity such as religious forms of charity (Göçmen 2014). Increasing social security deficits have been marked as the catalyst for reforms introduced in health and pension systems. Transfers to social security institutions as a percentage of GNP increased from 0.2 in 1990 to 4.5 in 2004. The total deficit of the social security system was expected to be around 10.1 % by 2050 (ILO 1995). High deficit rates of the social security system were seen as the major problem in the failure to achieve the requirement of the stand-by agreement of a fiscal surplus of 6.5 % of the GDP. Nevertheless one should also realize that in addition to the structural problems of the social security system frequently brought to light by policy makers, the changing political atmosphere of the country during the post 2002 period was also a crucial factor in reshaping the welfare regime.

In conclusion, citing the financial crises of 2008 as a primary reason for the transformation of the Turkish welfare regime would be a gross misreading of welfare state literature in Turkey. In fact, Turkey was already in a period of ongoing welfare state transformation when the crises began. Unlike the mature welfare regimes of Europe, the Turkish welfare state was restructured under the influences of neo-liberal forces on the one hand, and national conservative liberal forces on the other. These two forces may be considered as (1) the increasing influence of global neoliberal forces—both neoliberal ideology that has been dominant in the welfare realm in the post 1980s period, and the influences of the supranational bodies such as World Bank, and IMF, and (2) the growing conservatism of the existing government in Turkey, which puts increasing weight on family and other forms of traditional solidarities as sources of welfare provisioning.

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The chapter will focus on the main reforms in the social security and social assistance systems of Turkey during the last decade. While looking into the areas of labor market policy, pensions, health, social assistance, and long-term and child care, the main questions will be:

i. What were the main reforms implemented in the specific policy fields during the last decade?
ii. What were the effects (if any) of the 2007–2008 economic crises on specific social policy fields?

Following the introduction, the second section of the chapter studies the fiscal and economic crises. The third section focuses on demographic changes and aging, and their possible effects on the future of Turkish welfare regime. Finally, the fourth section analyzes the risks and opportunities the financial crises triggered in the Turkish welfare realm. The timeframe of the chapter covers the developments after the outbreak of the financial crisis in 2007/2008. However, as mentioned previously, since the post-2000s was a period of reforms for the Turkish welfare state, the analysis, at times goes back to the early 2000s.

2 The Fiscal and Economic Crises

In the aftermath of the major economic crisis in 2001, the Turkish economy entered a phase of growth and relative stability. The post 2002 phase is defined as one of economic success for the Justice and Development Party. Scholars describe the performance of the Turkish economy during the decade as impressive in comparison to the country's history and in comparison to the economic performance of the region during the same period (Öniş and Kutlay 2013: 11). Between 2002 and 2012 GDP, the per capita increased more than three times, whereas Turkish trade increased fourfold (ibid: 9). It was also a period in which public finance was put in order and the country began to attract more foreign direct investment.

The economic success of the first term (2002–2007) of the Justice and Development Party (AKP) in office was hard to ignore. Öniş and Güven describe the first years of AKP rule as a return to neo-liberalism: "The banking system was restructured with a novel regulatory framework in place, central bank independence was reinforced, the debt management regime was overhauled, fiscal balances rapidly improved, and comprehensive reform plans were implemented in various areas of policy including public expenditure, agricultural subsidies and the social security system. Constrained by a strict IMF regulations and concerns with derailing the fragile recovery process, the AKP pragmatically committed to this inherited reform drive during the early years of its incumbency—a strategy that seems to have paid off." (Öniş and Güven 2011: 590).

When the levels of change in indicators such as GDP per capita, fiscal balance, exports, and direct investment between 2002 and 2007 are analysed, one can talk about a boom in the economy. The GDP per capita increased from 3.4 in 2002 to 8.9

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Table 1 General government gross debt as % of GDP and million EUR, Turkey 2007–2010

Year	Percentage of GDP
2007	39.9
2008	40
2009	46.1
2010	42.4

Source: Eurostat

in 2007. There was a clear improvement of the fiscal balance from −11.4 in 2002 to −1.6 in 2007. Exports increased significantly from US$36.1 billion in 2002 to US$107.3 billion in 2007 (TURKSTAT online). Nevertheless, scholars argue that although Turkey showed significant improvement in economic growth in this period, the growth was nonetheless problematic and, in some ways, unsustainable. The first indicator of unsustainability was the economy's dependence on foreign capital (Demir 2004; Yeldan 2006; Öniş and Güven 2011). The dependence on foreign capital made the economy extremely fragile towards external influences, the outcomes of which were substantial in the 2008–2009 crises. The decline in domestic savings between 2002 and 2008, a non-changing trend in unemployment, and a widening external deficit were indicators that showed "disconcerting elements" in the Turkish growth strategy (Rodrik 2009). As Table 1 demonstrates, the continuous rise in general government debt was also alarming.

The problems with the country's current pattern of growth over the last decade became evident with the palpable outcomes of the 2008 crises. The economic success of the country before 2008 lead many to erroneously conclude that the Turkish economy would survive the global crises without adverse effects—the ruling party at the time continuously claimed that the crises would not affect the Turkish economy. Owing to this belief in the strength of the economy, Turkey was late to respond to the crises. Önis and Güven describe Turkey's late response as exceptional to global policy trends (2011). By March 2009, 6 months after the crises start, Turkey was one of the two OECD countries without a clear fiscal stimulus package. When the package was subsequently introduced, it was one of the smallest among the developing members of the G-20 (ibid: 585). The outcomes of the "delayed, piecemeal and socially exclusionary response" to the crises resulted in "a sharp GDP contradiction in 2009, a steep rise in unemployment and acute impoverishment of the most vulnerable groups" (Fig. 1).

The drop in the real GDP growth rate in 2008 and 2009 demonstrates that the crises had a significant impact on the economy.

The significant rise in unemployment levels was one of the most remarkable outcomes of the 2008 crises. An already high level of unemployment increased to a record level of 12.5 %, and long-term unemployment increased to a level of 2.8 in 2009. A comparison of unemployment levels between Turkey and the EU-27 countries in years 2008, 2009 and 2010 demonstrates that unemployment was a significant problem in Turkey (Table 2).

As can be seen in Fig. 2, male, female and youth unemployment rates significantly increased from 2008 to 2009. After 2009, unemployment levels began to

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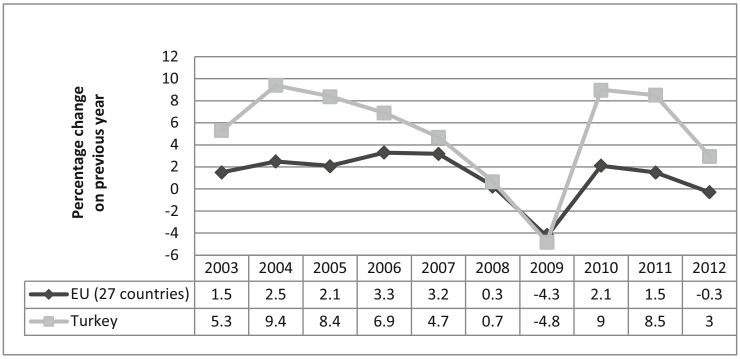

Fig. 1 Real GDP growth rate. *Source*: Eurostat

Table 2 Unemployment statistics

	Unemployment rate		Long-term unemployment rate	
Year	EU (27 countries)	Turkey	EU (27 countries)	Turkey
2006	8.3	8.7	3.7	2.7
2007	7.2	8.8	3.1	2.3
2008	7.1	9.7	2.6	2.3
2009	9	12.5	3	2.8
2010	9.7	10.7	3.9	2.8
2011	9.7	8.8	4.1	2.1

Source: Eurostat

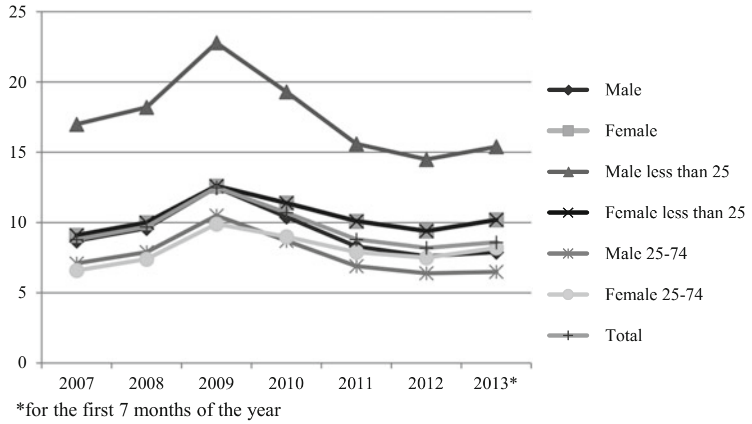

Fig. 2 Unemployment rate: total, by sex and age groups, annual average, %. *Source*: Eurostat

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decrease. Nevertheless, when we compare the unemployment levels of men and women (both in the age groups of below 25, and between 25 and 74) we see that men's unemployment levels recovered much faster than women's, which demonstrates that women were more severely hit by the crises.

In response to increasing unemployment levels, the government took several measures in 2008 and 2009 in order to increase flexibility and stimulate economic growth. The introduction of various types of flexible work contracts, vocational training programs and short-time working arrangements are examples that emerged from the employment package announced in 2008 (Yeldan 2009; Ercan 2010).

An important difference in the 2008 crises compared to the crisis 2001 was the disproportionate social impact of the crises on different segments of society (Öniş and Güven 2011: 288–289). The impact of the crises was especially destructive for the most disadvantaged. Unskilled and semi-skilled workers in small- and medium-sized enterprises felt the brunt of the crises. In addition to the increase in the rate of market exit, pay cuts, longer work hours became common practices between 2008 and 2009.

Research conducted on the effects of the 2008 global crises on the lives of people in five big cities in Turkey demonstrated that 75 % of families experienced income reductions between October 2008 and June 2009 (TEPAV et al. 2009). As Fig. 3 shows, in response to income loss, families reduced their spending in vital areas such as food, transportation, health care and education. The data prove that the effects of the crises on the urban poor were worrisome. Three out of four families in the five cities decreased their food consumption and 29 % reduced the use of healthcare services.

The data also demonstrate the inability of the welfare services to meet the needs of the urban poor. The support networks upon which urban households could rely provide further proof of the inadequacy of formal safety nets such as cash support

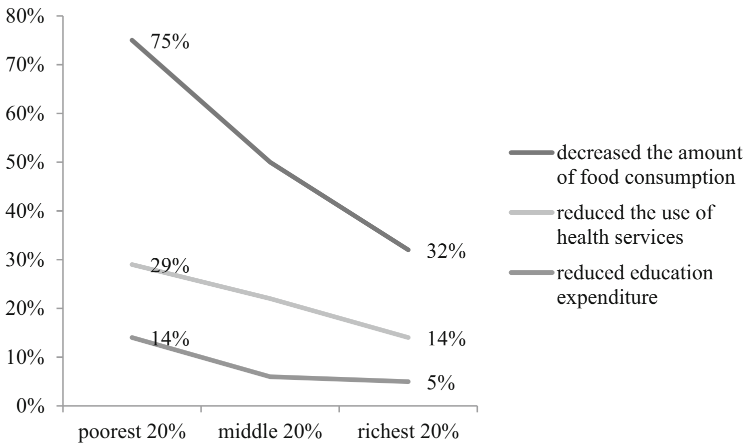

Fig. 3 Coping mechanisms by quintile (October 2008–June 2009). *Source*: TEPAV et al. (2009)

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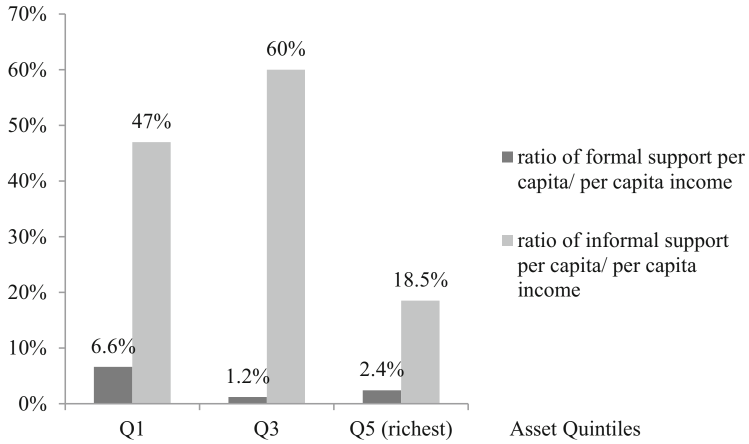

Fig. 4 Formal vs. informal safety nets (October 2008–June 2009). *Source*: TEPAV et al. (2009)

and in kind food and fuel support. Informal support from family, friends and borrowing from acquaintances are the main informal safety nets for the urban poor (Fig. 4). Yet the study reports that since these kinds of support mechanisms became more austere in times of crises, about one-fifth of the poor stated that they were left without any support at all.

The data from 2008 Household Budget Survey, which is representative for the whole country, also demonstrate that social assistance benefits such as cash transfers have relatively low coverage for the poor. About 60 % of the households in the poorest quintile received cash benefits in 2008 (TURKSTAT 2008).

As the picture presents, Turkish government put scant importance to social protection or infrastructure investment. Policies to protect the poor and to decrease the impact of crises on the population were not implemented by the Turkish government. Labor market policy was the only social policy area in which the Turkish government implemented reforms as a direct response to the economic crises of 2007–2008. Apart from reforms in this area, the response package of Turkey can be defined as a pro-business response package which included measures such as tax deductions on consumer durables (not on basic goods), corporate tax cuts and various other forms of entrepreneurial support (Öniş and Güven 2011).

3 Demographic Change and Population Ageing

Changing trends in the demographic behavior of Turkey has been high on the political agenda in the last years. As a response to decreasing fertility levels and ageing population, the current government is actively working on policy changes such as the extension of maternity leave, flexibilization of employment contracts for women, introduction of child support, and legal restrictions to abortion.

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Nevertheless, the question of whether these policy changes are necessary to respond to population ageing or whether they are reflections of "conservative liberalism" (Buğra 2013) of the current government that signal "official rejection of gender equality in social policy" (Candas and Silier 2013) is a point of discussion.

3.1 Demographic Behavior and Population Forecasts

Turkey has the youngest population in Europe. While Europe is experiencing population ageing and decline due to the low levels of fertility and a high share of population above the age of 65, the population in Turkey is still growing with a rate of 1.66 as of 2000. Nevertheless, the population growth rate in Turkey has decreased for the first time in its history, and the population over 65 years of age is increasing. The total fertility rate, which was 5.1 in 1970, dropped to 2.09 in 2012 (EUROSTAT). Nevertheless, as Table 3 shows, fertility rates in Turkey are still far above the EU-27 averages.

Life expectancy at birth has continuously increased in Turkey since the 1970s. The current life expectancy at birth is 75 years, which is 5 years lower than the OECD average.

The three population forecast scenarios in Turkey for the years 2013, 2023, 2050 and 2075 demonstrate that changes in the different age groups of the Turkish population may vary depending on the fertility rate (Table 4).

The first scenario assumes that fertility rates will decline in their natural growth patterns, reaching the lowest value 1.65 in 2050, and then begin to increase to reach a value of 1.85 in 2075. In the second scenario, it is assumed that the total fertility rate increases to 2.11 in 2020, and to 2.50 in 2050 gradually, and then remains stable between the years 2050 and 2075. The third scenario shows what will happen if women follow the advice of current Prime Minister Recep Tayyip Erdoğan and have three children. In this scenario the total fertility rate increases to 3 in 2050, and then remains stable to 2075.

The UN population projection for Turkey also looks like the second scenario of TURKSTAT. Accordingly, the changes in fertility rates and life expectancy will result in a rapid change in the age structure of the population. If the second scenario is materialized, the rate of children (0–15) vis-à-vis the whole population will significantly decline, while the rate of elderly (65+) will significantly increase. In comparison to the major changes in the share of elderly and young in the

Table 3 Total fertility rate 2008–2012

	EU-27	Turkey
2008	1.61	2.10
2009	1.60	2.09
2010	1.61	2.04
2011	1.58	2.03
2012	1.58	2.09

Source: Eurostat

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Table 4 Population projection for Turkey, by age groups (%)

Scenario	Age group	2013	2023	2050	2075
Scenario 1	0–14	24.5	21.2	15.7	14.6
	15–64	67.8	68.6	63.4	57.7
	65+	7.7	10.2	20.8	27.7
Scenario 2	0–14	24.5	22.0	20.7	21.4
	15–64	67.8	67.8	60.6	57.9
	65+	7.7	10.1	18.7	20.7
Scenario 3	0–14	24.5	22.4	23.4	25.5
	15–64	67.8	67.5	59.0	57.0
	65 +	7.7	10.1	17.6	17.5

Source: Eurostat

population, the share of population between the ages of 15–64 will remain relatively stable.

Due to its exceptional position in terms of population dynamics in Europe, some see Turkey as the only country that can contribute to solving the problems of the aging population in Europe. All of the scenarios above may be used to present Turkey as the future workforce for Europe. Yet there are also scholars who claim that from a demographical point of view, the idea to compensate for the drop in the European population or aging by the Turkish population is unrealistic (Behar 2006: 27).

3.2 Consequences for the Turkish Welfare State

The changes in the demographic makeup of the country will also influence the welfare regime, since social policy needs of different age groups differ significantly.

Studies on demographic developments in Turkey claim that Turkey will have a "window of opportunity" in the coming years between 2000 and 2025 when the share of its potentially active labor force will increase at a higher rate than its population in general (ERG 2007; Behar 2006). This will mean a potentially growing labor force and labor supply on the one hand, but a potential rise in youth unemployment in particular and employment in general if the right employment policies are not implemented. Additionally, since this group also includes the age group that is potentially enrolled in high school and university, education policies are of vital importance in order to make the best use of window of opportunity (ERG 2007). The education level of +25 age is still very low in Turkey. 17.2 % of the +25 were illiterate in 2000, 6.4 % literate but without any schooling, and 47.8 % are primary school graduates (ERG 2007). Total of these groups is 71.8 %. In order to make use of the demographic window of opportunity, the education level of this group should be raised in the coming years. Since the

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share of population in education is decreasing as a result of the demographic changes (share of age 3–22 was 40.8 % in 2000, it is expected to be 27.7 % in 2025), Turkey needs to implement educational reforms that increase the quality of education rather than quantity of schools (ERG 2007).

As the data also show, although at a much slower rate compared to the European countries, the share of the group above age 65 will significantly increase in the coming years. As put forward by Behar, "In contrast to its past policies imbued with a demographic outlook geared on constant growth and a permanently "young" population structure, Turkey must therefore now begin to imagine a set of new future policies relative to issues such as health, housing, education, social security, etc. in order to address the needs of a demographic structure of a totally new kind" (Behar 2006: 24).

Long-term care is one of the areas in which Turkey needs to invest in the coming years. There is no long-term care insurance system in the country; the number of public and private care homes is very limited and qualified caregivers with proper education are scarce. Recent reforms introduced in elderly care, which encourage home-based care of the elderly by their families, are very limited and may prove to be unsustainable when the demographic trends are considered. Currently, the coverage of care services for the elderly is limited to the most disadvantaged, who either do not have families to look after them or whose families' monthly income is below the minimum wage. Extending the coverage for elderly care, increasing the facilities for institutionalized care and increasing the number of schools, universities and vocational training centers for educating qualified caregivers should be prioritized by policy makers.

Higher life expectancy and increasing share of elderly in the population will also challenge the health system. Recent reforms increased the coverage of health system in Turkey, but the total share of health expenditure as a percentage of the GDP, the number of health personnel and the number hospital beds per 1000 are still below the EU and OECD averages in Turkey (OECD 2011b). The changing age structure of the population may require further enhancement of the health system in Turkey.

4 Risks and Opportunities

4.1 Labor Market Policy

High levels of unemployment, a high share of informal workforce in the economy and low levels of female participation in the labor market can be listed as the main challenges the Turkish welfare state in the post-crises period.

As a response to high levels of unemployment, reforms have been implemented to increase activation and flexibilization of the existing labor market. Employment promotion initiatives in 2009 are listed by Önis and Güven as "Temporary and part-time employment incentives; renewal of existing subsidies for female and youth employment; new scheme for temporary public employment, public internship, and

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vocational training" (2011: 595). The Public Infrastructure Employment Program, introduced as a short-term response to the crises, aimed to provide temporary employment, training and apprenticeships in exchange for public work/service (Yeldan 2009: 9). Short-time wage subsidies to reduce layoffs and vocational training are marked as the most important programs in the response package (World Bank et al. 2010). More than half a million workers benefited from short-term wage subsidies, and 150,000 unemployed people benefited from vocational training (ibid.).

In addition to the introduction of active labor market policies in response to the crises, coverage of unemployment benefits also increased from 5.3 % in October 2008 to 8.2 % in March 2009. Unemployment insurance is a recent phenomenon in the Turkish social security system; it was only introduced in 1999, and, as the numbers above demonstrate, its coverage is still extremely low. Inherent characteristics of the Turkish labor market such as "large numbers of unregistered workers, strict qualification rules and low benefits" limit the possible effects of unemployment insurance to protect workers (World Bank et al. 2010: 25).

The high share of the workforce in the informal sector is another important and defining characteristics of the Turkish labor market. As can be seen from the Table 5, the informal sector in Turkey continues to account for a substantial percentage of total employment.

The high share of informal employment in the labour market is not only a problem for financing social security; it also creates a duality in the labour market. Therefore, National Employment Strategy in 2011 presented reforms as incentives for decreasing the share of the informal economy. Campaigns aiming to increase awareness of the benefits of registered employment, the introduction of contribution incentives, measures in the inspection system and the bureaucratic downsizing and the decrease in social security contributions were some of the measures taken in order to increase the share of registered employment in the system (Karadeniz 2011). As a result of these measures, unregistered employment decreased from 33 % in 2005 to 26 % in 2011 (TURKSTAT 2011). Nevertheless, these measures presented as remedies for

Table 5 Share of the informal employment in total employment by gender, 2001–2012 (%)

Year	Total	Male	Female
2001	53.1	45.3	73.6
2002	52.1	43.9	72.5
2003	51.7	44.2	71.3
2004	50.1	44.3	67.1
2005	48.2	42.4	65.0
2006	47.0	41.4	63.0
2007	45.4	40.1	60.7
2008	43.5	38.1	58.4
2009	43.8	38.3	58.4
2010	43.3	37.2	58.5
2011	42.1	35.6	57.8
2012	39.0	32.7	54.2

Source: TURKSTAT

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increasing registered employment have also reduced non-wage labour costs for employers and introduced active labor market schemes and new, more flexible work contracts.

The 2011 Strategy also aimed to increase the employment of disadvantaged groups such as youth and women by subsidizing their employment (NES 2011). Nevertheless, female labor participation continues to be astonishingly low in Turkey. The gender gap in full employment rate is highest in Turkey compared with the EU and OECD countries. The OECD average is almost half of Turkey's gap (OECD 2010) (Fig. 5).

Unemployment and unregistered employment rates are also higher for women than for men. As argued by Ilkkaracan, the dissolution of agriculture and the resurgence of the "maternalist" ideology resulted in a decline in female employment rates after 2000 (Ilkkaracan and Tunali 2010). There was a 12.7 % decline in female employment between 1988 and 2008 (World Bank 2009). The decline in the already low levels of female labor participation rates has been on the agenda of both the women's organizations and the government. Nevertheless, women-friendly employment policies and social policies such as public daycare, parental leave and gender quotas are either not present or not functional in the case of Turkey. In contrast, contemporary changes introduced in social policies reflect a combination of neoliberalism and cultural conservatism of the governing party to affirm traditional gender roles (Buğra 2013). Recent reforms in the area of care (including care for children, elderly and disabled) de-institutionalize and re-domesticate care, preventing any progress towards gender equality in participation in the labor force (Candas and Silier 2013).

Instead of undertaking real policy reforms to increase female participation to the labor market, the contemporary government found ways to modify the numbers. According to The Turkish Statistical Institute, female labor participation increased to 29.5 % as of 2014. Nevertheless it would be a mistake to interpret this statistical change as a mere outcome of a rise in female labor participation. In reality, this

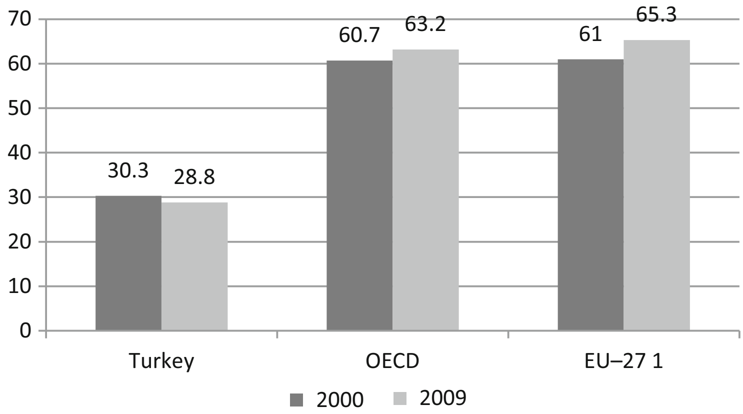

Fig. 5 Female labor participation rates. *Source*: OECD (2010)

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increase is due to an increase in the number of women receiving social assistance benefits in order to provide care for their elderly or disabled family members. With a new policy introduced in the area of care, family members caring for the elderly or disabled in their family are entitled to a minimum wage. As can be imagined, the majority of the beneficiaries are women. The women are paid the minimum wage by the government, but they do not have access to social security, since they are not insured and their benefits are not paid. Therefore, the registration of these women as active labor market participants increases the numbers in official statistics. Yet in reality the women are neither employed nor insured.

4.2 Pensions

Financial deficits of the pensions and health systems have been one of the main reasons for the reforms implemented in the Turkish welfare regime during the last decade. The fragmented welfare regime of the country provided old-age benefits through three institutions established after the Second World War. This system of various institutions providing pensions for different groups did not only create great inequalities but also experienced financial deficits since the 1990s. The Social Security Institution (SGK) was established in 2006 as a response to these problems of the system.

With the introduction of the SGK, the three institutions providing social security for the parts of population employed in the formal sector were merged into a single institution. Currently, The Social Security Institution (SGK) is the state institution that provides pay-as-you-go financed social security. Additionally, a voluntary pension system was also introduced in which the state contributes to private pension funds. The private pension system was introduced in 2001 with a tax incentive both for the employees and employers (Law no. 4632). The minimum age for retirement from the private system is 56 (ibid.).

The main reason for the introduction of reforms in the pension system was to remedy the financial deficiencies of the system. Nevertheless, the changes introduced in 1999 were not sufficient. Thus further reforms were introduced in 2008. The minimum retirement age further increased to 58 for women and 60 for men with this reform (Law no. 5510). The pension accrual ratio for 9000 days was lowered once more (to 50 %) which resulted in a further decrease in pension amounts (see Tan 2011). Despite all the reforms implemented since the beginning of 2000s and despite its much younger population in comparison to the European states, according to OECD data, Turkey spends 6 % of its GDP on public pensions, which is still higher than some liberal welfare states such as The United Kingdom and The United States (OECD 2011a: 154).

There are a couple of problems inherent to the contemporary pension scheme of the country. The first one of these is the possibility of an increase in the elderly poverty rate. Scholars demonstrate that the changes introduced to the pension system in order to cope with the financial difficulties may result in an increase in the elderly poverty rate, which is already high in Turkey (Karadeniz and Durusoy 2011). A second problem is the continuity of existing inequalities in the system.

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One of the main reasons of the reforms introduced, in addition to decreasing financial deficits, was the standardization of benefits for employees with different employment contracts. Nevertheless the chances for the full accomplishment of this goal was also limited when the heterogeneous labor structure of the country is taken into consideration with high levels of unregistered employment such as unpaid family work, seasonal employment in agriculture and other forms of employment in the informal sector. With the introduction of a new law in 2001, causal agricultural workers and home-based workers can voluntarily pay their contributions in order to get access to old-age benefits. However, scholars posit that when the amount of monthly income in these sectors is taken into consideration, it is quite improbable that these people will be able to pay the contributions to the pension system (Karadeniz 2012: 12).

A last but not least important problem inherent to the pension system is the existing gender gap. The gender gap in access to old-age pensions is still enormous in Turkey. A study on elderly poverty demonstrates that while 68.6 % men of retirement age receive old-age pensions, the ratio, however, falls to 15.4 for women (Karadeniz and Durusoy 2011). Scholars claim that reforms introduced in the social security system further increase gender inequality in old age (Gökbayrak 2011). The number of women contributing to the pension system is much lower than men due to the high number of women in un-paid work and informal economy. Employees in irregular forms of employment cannot contribute to the private pension schemes and this results in the exclusion of a high percentage of workingwomen from old-age benefits.

4.3 Health

In the period following the Second World War, Turkey had a fragmented and hierarchical health system that collected different levels of contributions from civil servants, workers and the self-employed. The quality of services offered by these institutions also varied to a great degree. The three institutions (Retirement Chest for civil servants, Social Insurance Institution for workers and 'Bag-Kur' for the self-employed) collected contributions from and provided services for people employed in the formal sector, whereas parts of the population that are unemployed or employed in the informal sector were not covered by the system. The Green Card scheme established in 1992 began to provide tax-financed, free health services to the indigent parts of population that fulfills the conditions for getting the Green Card. Nevertheless, the coverage of the health system was still limited.

The inherent inequalities of the health system and the financial difficulties that threaten its sustainability were the most important challenges during the period after the crises. The inherent inequalities of the previous system can be seen by looking at the differences between the amounts of health spending for persons covered by different social security institutions. For the year 2004, the health benefits that accrued to persons covered by the Social Security Organization was US$172 per person, for the self-employed covered by Bag-Kur it was $279 per

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person, and for those who were covered by the Civil Servants' Retirement Chest it was $363 per person (Buğra and Candas 2011).

The health transformation program was kicked off in 2003 in order to level the inequalities of the three-tiered welfare system and to broaden the scope of coverage. The establishment of the Ministry of Labor and Social Security Institution assembling the three existing social security institutions was one of the main institutional changes. Its establishment broadened the coverage of the system in order to provide universal health coverage through the premiums collected by the General Directorate of Social Insurance Contribution (see Yıldırım and Yıldırım 2011). Green Card holders have also been included in the new system since 2012.

As a result of the changes introduced, the state, along with the employees and employers, became contributors to the health system for the first time. One fourth of all health insurance premiums are paid by the state. Social assistance recipients and people below the age of 18 are not obliged to pay premiums in order to benefit from health services. If not included in these groups or employed by Social Security Institution, one has to contribute to the system for at least 30 days in order to benefit from the health insurance. The general contribution rates are 5 % of income for employees, and 7.5 % for employers (Law no. 5510).

The reforms implemented resulted in radical changes in the Social Security and General Health Insurance Law (SSGHI), and the Social Security Institution Law (SSI). Before the introduction of the General Health Insurance in 2008, 67.2 % of the population was covered by the public health system. The coverage rates increased to 96 % in 2010 (SGK 2010). The reforms have also expanded coverage in the poorest segments of the population; in 2003, for instance, only 24 % of the poorest had health insurance, whereas by 2008, 82 % of the poorest had coverage (SGK 2010: 21). Currently, nearly every citizen is included in the system in which the Directorate of General Health Insurance is the only institution that collects contributions and purchases health services from the public and private health institutions. The Social Security Institution is not the provider but rather the financier institution that signs contracts with the Ministry of Health Hospitals, university hospitals, private health institutions and pharmacies.

The most important accomplishments of the Health Transformation Project, which started in 2003 and implemented major reforms in the past decade, are the eradication of inequalities that was the result of multiple social security providers, and the extension of access to health services for the poor and previously uninsured parts of population. According to OECD data, access to health services increased from 2.8 times in 2000 to 8.2 times in 2011 (OECD 2013). Outpatient consultations in hospital also increased from 1.8 in 2000 to 4.6 in 2011. Additionally, the health expenditure as a percentage of GDP increased from 4.7 to 5.5. (OECD 2013). Recovering health indicators such as life expectancy at birth and infant mortality; protecting citizens from financial risks by decreasing out of pocket payments; financial sustainability of the health system; and increasing satisfaction with the health services are the four main outcomes of the reforms as presented by the Ministry of Health (Akdağ 2011).

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One of the most important problems of the current health system that needs further improvement is the number of health personnel. In 2011, there were 16.9 physicians and 15.7 nurses for every 10,000 people in Turkey. These numbers are far below the EU-27 average, which is 33 physicians and 82.5 nurses (KB 2011). As a solution to this problem, a legislation change opened up the way for the employment of foreign nurses and doctors in 2011. This change in the legislation triggered some criticism from the Turkish Physicians Union. Union members claimed that the main aim behind government's move is to exploit cheap labor (TTB 2011).

Despite its accomplishments, current reforms also introduced many risks for the future of health services in Turkey. Contradictions between the universalist aspirations of the Health Transformation Programme and the market elements it introduced to the new system can be marked as one of the most important of those risks. As argued by scholars, the Justice and Development Party's commitment to free market economy encouraged private investment in the health system (Ağartan 2012). Private health providers for the first time were included into the health benefit package. Due to the changes introduced to the legislation, private hospitals signed contracts with public insurance funds so that publicly insured patients receive care in private facilities by paying the difference between what the insurance funds paid for and what the hospitals charged. This encouraged the private sector to invest in health services. The number of private hospitals had a steep rise from 270 in 2002 to 365 in 2007.

A further change the reforms brought to the system is related to the way physicians in the public sector are paid. The salary-based system has been changed to a fee-for-service system. The Turkish Medical Association, which is the major organization of physicians in the county, criticized the reform policies by pointing out the risk that private sector will gradually replace the public sector in health services (Erus and Aktakke 2012: 339).

Scholars analysing the political processes and the history of the health reforms also point out crucial risks that the reorganization of the health sector may bring in the long term. As argued by Ağartan (2012), in this period of changing boundaries between public and private sectors, the Turkish heath care system should craft the right balance between marketization and universalism.

4.4 Social Assistance

Historically, social assistance has never been defined as an area of state action in Turkey. The establishment of an institution to care for the poor and the needy (Darülaceze) at the end of the nineteenth century and another for the protection of children (SHÇEK) in the early twentieth century were the only investments made by the Turkish state in the social assistance arena. Following the establishment of a social security system, the only changes made in social assistance were the establishment of the Social Assistance Institute in 1959 and the introduction of legislation on social disabilities and retirement pensions in 1976 (Buğra and Keyder 2006). The Social Assistance Institute attempted to care for the urban poor, the

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unemployed, children and teenagers, and support families in need. Nevertheless, its limited services could neither remedy increasing levels of poverty, nor change the belief that poverty should be alleviated through acts of charity from wealthy individuals and voluntary organizations.

Informal mechanisms of support by family, the state, and other social solidarity networks have filled the void in the social assistance arena in the pre-1980s period. Nevertheless, the period after witnessed what is called the "erosion of the informal pillars of developmentalist welfare" (Buğra and Keyder 2006: 220). This period signaled a shift in state-society relationships as informal channels for housing and access to state-subsidized rent began to buckle under pressure from economic, social, and political developments and the rise of "new forms of poverty" (Buğra and Keyder 2003: 19). Such changes set the stage for the introduction of reforms in social assistance for the following years.

Following the financial crises in 2001 and 2007–2008, the Justice and Development Party had to establish reforms in social assistance. There was an increase in government spending due to both increases in claimants and the restructuring of existing social assistance institutions in response to the increasing needs of the unemployed and impoverished parts of the population. Along with centralized state actions, provisions at the municipal and voluntary levels also followed suit in response to the increasing need for social assistance (Göçmen 2014). Common to the social-assistance mechanisms developed at the central, local and civic level is their ethos of charity fueled by the prevailing political atmosphere in Turkey (Buğra and Keyder 2006; Buğra and Candas 2011; Göçmen 2014).

One of the main social assistance institutions transformed during the post-crises period is the Social Assistance and Solidarity Fund. Both the fund's budget and field of activity expanded dramatically in the post-crises period. Currently there are over 900 foundations of the Social Assistance and Solidarity Fund in the country (SYDTF 2014). The main activities of the branches are conditional cash transfers to the poor, assistance programs for education and health, and development projects such as micro-credits. The local branches are connected to the Central Directorate in Ankara but are governed by local boards of trustees composed of local governors and two local philanthropists. In 2004, the fund was given the institutional structure of a general directorate called the Prime Ministry General Directorate of Social Assistance and Solidarity, mainly financed by off-budget funding from income-tax revenues, traffic fines and voluntary donations. Currently, the largest share of social assistance is composed of payments to the elderly and disabled and conditional cash transfers, which target the most vulnerable segments of population that do not have access to social security.

Social assistance provisioning did not increase significantly during the crises of 2008 and 2009, although the most disadvantaged were significantly hit by the economic downturn. The only area of social assistance where there was a significant increase in spending was the Green Card. 309,000 new beneficiaries were given access to health services through the distribution of Green Cards. There was roughly a 20 % increase in total social assistance benefits between 2008 and 2009. Yet, rather than being a response to the crises, it was mainly due to the sharp

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Table 6 Expenditures and beneficiaries from main social assistance programs and total spending (excluding municipal support)

		CCT	Green card	Elderly and handicapped	Home care subsidy	Total
2007	Beneficiaries (thousands)	2756	9355	1245	0.4	
	Spending (million TL)	312	3913	1620	0.5	6407
2008	Beneficiaries (thousands)	2978	9338	1266	1.8	
	Spending (million TL)	412	4031	1863	5.7	7243
2009	Beneficiaries (thousands)	2882	9647	1310	210	
	Spending (million TL)	483	4109	2166	959	8664

Source: World Bank, UNICEF, TEPAV 2010

increase in the amount of home care subsidies introduced for the care of elderly and disabled (World Bank et al. 2010: 25). The significant increase in home care subsidies compared to the slight increase in Conditional Cash transfers can be seen in Table 6. The research demonstrates that instead of increasing spending in conditional cash transfers that would have been a direct response to the needs of the poor and needy in a post crises period, the Turkish government preferred to continue implementing reforms in the area of care.

4.5 Care Services for Children and Elderly

Care is the area in which increasing conservatism of the governing party has been most visible in the last years. The reforms introduced in the last decade further deinstitutionalize and re-domesticate care with the aim of protecting the traditional family structure and preventing any progress towards gender inequality (Candas and Silier 2013). The policies introduced in the areas of child, elderly and disabled care promotes care-at-home services and emphasizes the role of family in care. All of these changes during the last decade are indicators of important risks for the future of welfare state in Turkey. The increasing familization of care policies does not only increase the burden on women and restrain their participation to the labor market, but also excludes groups who are not part of traditional family structures such as single parents and LGBT people. As put forward by scholars, some of the reforms implemented in care policies in Turkey are similar to changes in some European countries, though triggering factors such as population aging, low fertility rates, and empowerment of women are absent in Turkey (ibid.). The section on demographic challenges states that population aging and lower fertility rates are present in Turkey, although these trends are not challenging, as it is the case in most European countries.

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Institutionalized public care for elderly, disabled and children has always been limited in the Turkish welfare regime. No investment was made in the area of care apart from the establishment of an institution to care for the poor and the needy (*Darülaceze*) at the end of the nineteenth century and another for the protection of children (SHÇEK) in the early twentieth century. Historically, the main and only institution to provide institutional care for children and elderly was the Social Services and Child Protection Agency (SHÇEK) that was founded in 1983. The local institutions of the SHCEK included homes for children in need of protection, elderly homes, centers for disabled, social centers which offer educational programs to the socially and economically disadvantaged, family counseling centers and children's and youth centers.

As of 2006 SHÇEK had 200 children's homes, 44 children and youth centers, 66 society centers, 17 women's shelters, 66 rehabilitation centers for the disabled, 68 homes for the elderly, and 38 family counseling centers (Yazıcı 2008: 10). These numbers already demonstrate that for a population of around 80 million, the level of institutionalization in the area of care was quite low. Moreover, since 2005, problems of institutionalized care and the advantages of care in the family has been a topic frequently brought to the attention of the public by the governing party (see Yazıcı 2008). As a result of the government promoting deinstitutionalization and re-domestication of foster care, SHCEK was disestablished in 2011 and its services were transferred to the Ministry of Family and Social Services.

In line with the changes in foster care, important changes have also been introduced in the areas of elderly and disabled care. After the reforms in 2005, the social assistance system started providing support for the care of elderly, if there was no one legally responsible to look after them, and if they did not have pension benefits or moveable or immovable property. Elderly belonging to these groups could stay at the care homes without paying for the service. People who have a family member to look after them could only be accepted to the care homes if the income of the family was below the poverty threshold (Article 62/a, 2001). If elderly people were to have family members taking care of them at home, but the family income were below the poverty threshold, then the caregivers could apply for social assistance for elderly care. The total number of public and private care homes for the elderly is 295 as of 2011. 102 of these homes are public institutions connected to the directorate of Elderly Care in the Ministry of Family and Social Policies, whereas 120 of them are private institutions. The limited number of public care homes is also a sign of the dominant government platform that families should be the first responsible for the care of elderly.

A tax-financed social assistance support mechanism is also available for families of disabled people. According to the law passed in 2007, the Ministry of Family and Social Policies pays a monthly minimum wage to the family for the care of disabled person at home. If, on the other hand, the disabled person needs to be placed in a rehabilitation center, then two minimum wages is paid to the private care center. As of 2011 the total number of institutions providing disabled care, including ASPB Care and Rehabilitation Centers, ASPB Family Advisory and Rehabilitation Centers, and Private Care Centers is 185, and there are 14,844 disabled people

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getting services from these institutions. In comparison to institutional care, the number of disabled cared at home by their relatives is 339,186 (SHCEK 2011). This figure is a good indicator of deinstitutionalization and domestication of care policies with the reforms implemented. The Ministry of Health announces that the aim is to take care of all disabled people at home by 2015 (Akdağ 2011). As can be imagined, women who provide 7/24 care for disabled family members are the main targets of these tax-financed social assistance policies.

Scholars demonstrate that care policies such as payment of means-tested benefits for the care of elderly and disabled by their families also exist in Europe. Yet, in none of these European countries are institutional care possibilities as scarce as in Turkey (Candas and Silier 2013). This is one of the main reasons why I interpret the contemporary reforms in the area of care in Turkey as a main risk for the future of Turkish welfare state.

5 Conclusion

This chapter on the Turkish welfare regime change has focused on the main challenges facing the Turkish welfare regime and the reforms implemented in reaction to these challenges. Since the 2007–2008 crises was not a main breaking point for the Turkish welfare state, the chapter has a broader time frame in order to present a more comprehensive picture of the transformations that the Turkish welfare regime went through since 2002 when the Justice and Development Party came to power. As it is presented throughout the chapter, the immature welfare regime of the country has gone though significant restructuring under the liberal and conservative aims of the governing party. The reforms implemented, however, did not change the focus of the Turkish welfare regime from one of a risk prevention system, which deals with social risk policies such as pension and unemployment, to a social investment system, which opens up opportunities such as expanding childcare facilities.

As I mentioned in the introduction, low-level of social spending is one of the reasons for which I refer to the Turkish welfare regime as an immature one. Figure 6 demonstrates that the share of total public social expenditures in GDP in Turkey is still far below the EU-21 averages.

There has been a rise in public social expenditure levels over the last decade. Yet, as the data in Table 7 demonstrate, the crises did not lead to a major restructuring of social welfare in the county.

The main challenges plaguing the Turkish welfare regime during the last decade were the financial difficulties from which the social security system suffered, the fragmented and hierarchical social security system which creates inequalities and the incomprehensive social assistance mechanisms of the country, which leaves a large percentage of the population without coverage. After the 2001 crisis, the challenges of the existing system reached a level that made reform inevitable. The 2008–2009 global crises also caused a sharp decline in GDP growth levels and a significant rise in unemployment. Yet, when the question is whether it triggered

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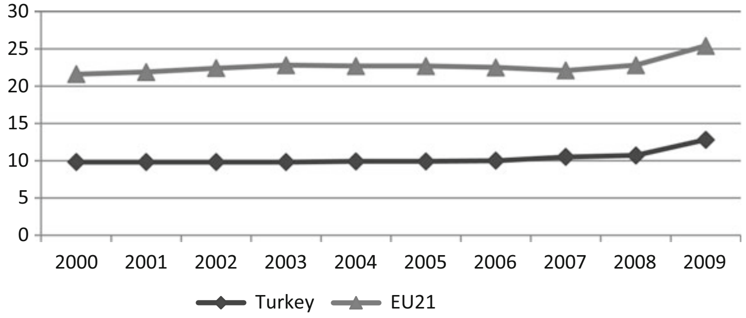

Fig. 6 The share of total public social expenditure in GDP 2000–2009 (%). *Source*: OECD (2014)

Table 7 Public sector social expenditure statistics, % of GDP

	2003	2004	2005	2006	2007	2008	2009
Education	3.28	3.26	3.21	3.06	3.19	3.36	3.92
Health	3.81	4	3.98	4.07	4.11	4.32	5.09
Social protection	7.17	7.03	7.29	7.12	7.38	7.22	8.23
Retirement pensions and other expenditure	6.4	6.32	6.54	6.37	6.66	6.51	7.4
Social aid and payments without contribution	0.28	0.27	0.38	0.41	0.41	0.51	0.71
Expenditure of direct income support	0.5	0.44	0.37	0.36	0.31	0.21	0.11
Total	14.26	14.29	14.48	14.25	14.68	14.9	17.24

Source: SPO (2011)

major reforms in the welfare arena or not, the answer is negative. The 2007–2008 crises hit the country following a period of major transformation in the social security and social assistance structures of the country. Therefore, with or without this crisis it was a time of reforms in the welfare regime of the country.

The main and only direct policy changes after the 2007–2008 crises were implemented in the area of labor market policy with the aim of increasing flexibilization and activation of the existing labor market. The reforms implemented in the other areas of social security such as health, social assistance, pensions and care were not specific responses to the negative effects of the crisis. Instead they were either a continuation of the reforms that kicked off in the early 2000s or an outcome of the conservative restructuring of the social policy in general.

The reforms implemented in the areas of health and pensions were put in place during the first years of the Justice and Development government with the aims of curing the financial deficiencies of the social security system. While on the one hand these reforms expanded the coverage and decreased the existing inequalities inherent to the previous system, on the other hand they introduced liberal elements

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to the health and pension systems. Therefore, increasing marketization and increasing inequalities are generally mentioned as important risks the new reforms are expected to bring about in the long run. Similarly, the reforms implemented in the area of care, which put great emphasis on the role of family, run the risk of deepening gender inequalities and denying citizens such as single parents and LGBT people the right to care.

In comparison to most other European countries, change in the demographic trends of Turkey is not the most important challenge for the future of the Turkish welfare state. The possible risks of decreasing fertility levels and aging population have been high on the political agenda during the last years. Yet, the policy changes implemented in the last years and the ones planned for implementation in the near future are problematic since they largely reject gender equality. Extremely low level of female labor participation is one the most important challenges for the future of the Turkish welfare state. Yet, the current reforms planned in the areas of maternity leave, abortion and flexibilization of employment contracts for women will neither improve gender equality in the labor market, nor open up any opportunities for women.

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The Financial Crisis as Game Changer for the UK Welfare State

Lavinia Mitton

1 Introduction

1.1 The Current Situation in the UK

The over-arching theme that currently characterises UK social policy is the impact of the government's efforts to reduce the budget deficit with the assumption that the private sector will generate the demand necessary to fuel growth. In October 2010 the recently elected Conservative-Liberal Democrat Coalition announced large-scale public spending cuts, with an average 19 % cut over 4 years in the budgets of government departments (other than health and overseas aid) (HM Treasury 2010). Nevertheless, the UK economy continued to shrink in the first two quarters of 2012 marking a 'double dip' recession until recovery took hold in late 2013, albeit a recovery that was far from evenly geographically spread (ONS 2013d).

The UK's public sector enjoyed a decade of plenty under the latter part of the New Labour administration (1997–2010). Labour's policies were dominated by increased public sector pay and reinvestment in and modernisation of public services. But under the Coalition deep cuts look set to bite. By 2015, when the next general election is due to take place, the Coalition probably will have reversed all of New Labour's increase in public spending as a share of national income. Public sector workers are facing a pay freeze, the loss of jobs, and deterioration in their pension benefits. A harsher social security regime is being introduced. Under the Coalition, work and benefit policies focus on working-age benefit recipients, reducing their benefit levels and enforcing efforts to return to work. One of the major issues for social security policy is that the number of working age people receiving benefits for reasons of long-term sickness and disability dwarfs the

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numbers of unemployed (Browne and Hood 2012). Recognising that if the expenditure on benefit claimants of working age is to be reduced, then unpopular cuts that affect people with disabilities will need to be made, the Coalition government has chosen to grasp the nettle.

The present government believes that the demographic and financial challenges the country faces call for a rapid expansion of the role of civil society organisations as partners with it (HM Government 2010a). Such a restructuring is being hastened by the opening up of contracts to provide public services to a greater range of providers, such as private and social enterprises, and the emergence of new forms of finance, including social finance and commercial investment. The Coalition's determination to shrink the state has resulted in a re-shaping of social policy. However, it is too early to assess fully the impact of these unfolding changes, especially where it is unclear how general proposals will be implemented in detail. In consequence, the policies of the former New Labour government that the present government inherited are outlined in this chapter, as well as the distinct emerging policies of the Coalition government. This chapter seeks to address how and why the UK welfare system has taken a new direction since the beginnings of the financial and economic crisis in 2008. It focuses on two questions:

1. What are the main challenges the UK welfare system has to face?
2. Which reforms have been implemented in reaction to these challenges?

In discussing recent developments to the UK welfare state, this chapter includes the following policy sectors: labour market, pensions, health, long-term adult social care, family and children, and housing. The chapter analyses the UK response to the two main challenges to European welfare systems that are given particular attention throughout this book. First, in Sect. 2 we describe demographic change, specifically immigration and population ageing, which have implications for the sustainability of pension schemes, the health service, long-term care, and housing. Second, the fiscal and economic crisis has presented particular challenges to the UK welfare system, and these are described in Sect. 3. In Sect. 4, the challenges the UK welfare state has to address in (re-)balancing welfare policies to address risks and opportunities are discussed.

1.2 A Brief Characterization of the UK Welfare System

The notion that the UK welfare state is 'in crisis' or 'unaffordable' is a longstanding one that dates back as far as the 1970s. The predominant response of social policy-makers for the last 30 years has been the encroaching 'marketisation' and 'contractualism' of welfare services (Mitton 2009). The Conservative governments of Margaret Thatcher (1979–1990) and John Major (1990–1997) embraced a market-liberal approach to welfare state reform, combined with individualism and self-reliance. They were attracted by market forces and a wider role for the private

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sector in welfare service provision as ways of improving the quality of services and squeezing out better value for money for the taxpayer. Shifting responsibilities between the state, the private sector, the non-profit voluntary and community sector (VCS), and unpaid caregivers—the 'mixed economy of welfare'—was continued by New Labour and is still the focus of public service improvement (Hills 2011). This involves commercial or VCS providers taking a role alongside traditional public providers. The assumption has been that this process will deploy competitive pressure to promote greater efficiency and responsiveness to the needs of those using the services. For these reasons services from social housing to medical procedures, from social care to running prisons, have been contracted out to private and voluntary sector organisations, with varying results. Another cross-cutting motif of the current UK welfare system is the diversity of autonomous providers intended to offer choice for service users. The choice agenda raises numerous issues (Brennan et al. 2012; Yeandle et al. 2012). In order for it to be really effective, welfare 'consumers' need to have insight into what is best for them and have access to information on which to base their 'choice'. Furthermore, the diversity and choice agenda is likely to lead to inequality in access to services as vulnerable service users do not always find it easy to engage with this form of personalisation. Targets, performance indicators, audits and league tables for public services are also favoured.

The Conservative governments of the 1980s and 1990s pursued retrenchment of many social benefits and services. Notably, the social security system came to be dominated by means-tested payments with only a minor role for earnings-related social insurance (except for the basic state retirement pension). The value of cash benefits relative to average wages was eroded. However, the costs of benefits soared despite the tightening of eligibility rules in favour of greater means-testing, because income inequality rose. Consequently the unemployment benefit system was further reoriented towards activation, although it was the subsequent New Labour governments that seriously developed this approach. During his term as Prime Minister Tony Blair (1997–2007) embarked on a broad strategy coined the 'Third Way'. The central feature of the social investment-led Third Way was a strong reliance on employment to address poverty, disadvantage, and social exclusion. This involved increased investment in the National Health Service (NHS) and education. The 'welfare-to-work' scheme was one of the government's key policies. Its reform agenda involved a radical recalibration of rights and responsibilities in such a way that social policy was to form a 'hand up rather than a hand out'. For example stricter conditions were attached to benefits, requiring the unemployed to actively seek work and participate in training, but there were more generous in-work benefits in the form of tax credits for those who took low-paid jobs.

UK policy has been influenced by developments at the supra-national level. Engagement with the EU has forced the introduction of certain social legislation. The macro-economic context for social policy is also affected by the enlargement of the EU and globalisation generally. The UK has responded to globalisation in

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two ways of late: flexible labour markets achieved by keeping down social security benefits and opposing extensions of workers' rights, and attempts to restrict immigration. Another important policy development affecting governance of the UK post-1997 has been the increased devolution of social policy to the 'home countries': Wales, Scotland and Northern Ireland. The specific powers and devolved matters differ between countries but generally include the following: health; education; local government; and housing. The result has been social policy divergence.[1]

Local authorities in England and Wales are funded by a combination of grants from central government, council tax (a local property tax) and business rates. There are nearly 400 local authorities in England and the structure of local government varies geographically. In London, the Mayor and his Greater London Authority (GLA) take responsibility for strategic issues. In many parts of England there is a two-tier system of local government with several district councils within a county council area. Nevertheless, the UK has a highly centralised system of government, and the powers of local government in welfare policy are largely limited to local planning of housing, social care, and implementing child protection measures. A hallmark of the New Labour government was increased central direction of locally delivered services through target setting and inspection regimes. Appointed bodies proliferated. They, with non-governmental agencies and private companies, have come to play a larger part in the delivery of public services. For instance, in many areas housing associations and arm's-length management organisations (ALMOs), rather than local councils, have assumed responsibility for providing social housing. In sum, local government powers and responsibilities were pushed both upwards to central government, and sideways and downwards to other local bodies over time. Latterly, however, the Coalition has moved decision-making away from the centre and towards local governments, so they are now faced with difficult decisions about how to implement austerity cuts in their neighbourhoods as they try to cope with the loss of over a quarter of their central government support by 2014. The English public are generally not convinced of the merits of 'localism', particularly when it results in varying standards of service delivery, the so-called 'postcode lottery'. The political culture in England traditionally looks to the national government to take the initiative on social policy issues.

[1] This chapter focuses on developments in the welfare system in England only. Since data are not all available across all geographies, whether data presented in this chapter refer to the UK, Great Britain (which comprises England, Wales and Scotland), or England only is specified in each case. A comparison of the policies of the four devolved administrations is provided by Birrell (2009), and Scottish social policy has been analysed by Stewart (2004) and Mooney and Scott (2005, 2012).

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Table 1 Social protection expenditure by function (amounts given in euros per inhabitant), UK, 2011

Function	United Kingdom
Old age	3168.39
Sickness/health care	2330.53
Disability	669.73
Family/children	471.65
Housing	427.03
Unemployment	189.15
Social exclusion n.e.c.	58.11
Survivors	36.07

Source: Eurostat (2014a)

2 The Demographic Challenges

Demographic changes and their implications are among the tests the UK welfare system has to face. The main issues are: the growing number of pensioners; the growing number of frail or infirm older people; and the consequences of immigration. Population ageing has been used as a powerful argument for reforms in pension policy and health and social care policy. As can be seen in Table 1, pensions already account for over 40 % of expenditure on social protection. In this section, we first describe the main trends in fertility, life expectancy, and migration, which are the three determinants of demographic developments. We then briefly discuss the challenges they present for the UK welfare system.[2]

2.1 Population Projections

The population of the UK was estimated to be 63.7 million in mid-2012. The estimated populations of the four constituent countries of the UK were 53.5 million people in England, 5.3 million in Scotland, 3.1 million in Wales and 1.8 million in Northern Ireland. As can be seen in Table 2, the fertility rate has been increasing in the UK since 2003. Nevertheless it is still below replacement level (ONS 2012c). Immigration is significant: The population increase in the UK in the year to 30 June 2012 was attributable to there being not only 254,400 more births than deaths (61 % of the increase), but also 165,600 more international migrants arriving than emigrants leaving (39 % of the increase) (ONS 2013a). Projections for total population numbers are shown in Table 3. The number of households in England is projected to grow to 24.3 million in 2021, an increase of 2.2 million (10 %) over 2011. 28 % of the increase in households is expected to be accounted for by one

[2] The figures given in this section are projections, not predictions or forecasts, and are based on assumptions about fertility, mortality, and migration. They do not attempt to predict the impact of changes in the political, economic, social and cultural realm that may affect demographic patterns and trends.

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Table 2 Total fertility rate, EU-28 and UK, 2003–2012

Year	European Union (28 countries)	United Kingdom
2003	1.47	1.70
2004	1.50	1.75
2005	1.51	1.76
2006	1.54	1.82
2007	1.56	1.86
2008	1.61	1.91
2009	1.60	1.89
2010	1.61	1.92
2011	1.58	1.91
2012	1.58	1.92

Source: Eurostat (2014b)

Table 3 Population projections, UK, 2015–2060

Year	United Kingdom
2015	64,147,689
2020	66,292,265
2025	68,350,294
2030	70,207,694
2035	71,873,751
2040	73,443,152
2045	74,962,147
2050	76,405,986
2055	77,724,647
2060	78,925,262

Source: Eurostat (2014c)

person households, mainly because of the longevity of widows and relationship breakdown. A further 15 % of the growth in total households is expected due to the growth in multi-person households, including student households and adults sharing accommodation. Lone parent households are also projected to increase by 2021 (DCLG 2013).

Ageing of the population is a result of past improvements in mortality rates at all ages, continuing improvements in mortality rates at the oldest ages, a overall past declines in fertility rates. However, ageing of the population should not necessarily be of concern, as many people in their 60s and 70s are fit and active, able to contribute to the community and take care of their families and grandchildren. Greater participation by the 'young old' in formal and informal work, coupled with decreases in the numbers of life years spent disabled, might in future decades increase the productivity of ageing societies (Taylor and Gill 2012). The percentage of persons aged 65 and over was 17 % in 2010, but it is projected to be 23 % by 2035 (ONS 2012c). The fastest population increases will be in the 'oldest old', which is a fact of concern as they make heavy use of health and social care services. Despite this, the UK has gone from being one of the most aged countries in Europe

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Table 4 International migration, UK, 2008–2011

Year	Immigration to UK	Emigration from UK	Net immigration
2008	590,242	427,207	163,035
2009	566,514	368,177	198,337
2010	590,950	339,306	251,644
2011	566,044	350,703	215,341

Source: Eurostat (2014d, h)

in the mid-1980s, to one of middle ranking among the EU-27 countries by 2010, and is projected to be one of the least aged countries in the EU-27 by 2035. One of the contributing factors for this was the relatively high fertility rate in the UK over the last decade compared with countries in central, southern and Eastern Europe (ONS 2012c).

There has been much recent immigration, as can be seen in Table 4. Of the 13 % (7.5 million) of residents of England and Wales in 2011 who were born outside of the UK, just over half had arrived in the previous 10 years. The three most reported countries of birth in 2011 were India, Poland and Pakistan (ONS 2012a). People born in Poland increased by as many as half a million between 2001 and 2011 following its accession to the EU (ONS 2012b). The economic downturn has had only transient effects on inflow, as most immigrants are not economic migrants. In response to public fears about immigration, and spurred by recent electoral victories of the anti-EU UK Independence Party (UKIP), the Prime Minister, David Cameron, has undertaken—rather rashly—to reduce net migration to the 'tens of thousands' by 2015. However, commitment to human rights, family reunion, and asylum conventions, and freedom of movement within the EU make it difficult for the UK to restrict immigration effectively. It is difficult to predict global events that drive migration, although enlarging the EU further would certainly increase immigration, as would future reliance upon immigrant labour in low-skill, low-pay occupations.

'Ethnicity' is a different concept from country of birth. It is self-defined and loosely related to country of birth, ancestral country, languages spoken, skin colour, national or geographical origin, racial group and religion. While 'white' continues to be the majority ethnic group, it has shrunk relatively over the last two decades. In 1991, the white ethnic group accounted for 94.1 % of the population. By 2011, it had decreased to 86.0 % (ONS 2012b). The ethnic minority population is growing substantially not only through immigration, but also relatively high fertility. It has been projected that ethnic minority populations will increase to 28 % of the UK population by 2031 (Coleman 2010). On existing trends the UK's ethnic minority population will also become more *diverse*, with implications for social policy.

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2.2 Implications for the UK Welfare System

Because the population is ageing, intergenerational justice has been a focus of popular debate, with observers contending that the 'baby boomer' generation has skewed the allocation of economic, social and cultural resources in its own favour and left younger generations facing a perilous future. Intergenerational tension may emerge against the background of the large and growing number of so-called 'silver voters', a group who have been shielded from the Coalition's austerity cuts that have fallen overwhelmingly on people of working age and children. Further, it is the perception of many of the UK-born that the current rate of immigration to the UK is incompatible with the sustainability of the welfare state at its current level of generosity because newcomers and 'health tourists' can immediately claim hand-outs. Overall, there is a widespread sense of uncertainty. Life may be OK now, but what about the future?

3 Challenges Arising from the Fiscal and Economic Crisis

Whilst demographic change is a concern, the age of austerity also presents a challenge to the UK welfare state's survival in its current form. In the period since 2008 it has become apparent that the financial collapse and ensuing crisis have affected countries differently. This section describes the features of the crisis in the UK and how decision-makers have chosen to react to it. In retrospect it is perhaps easy to see that aspects of the long economic boom with its dependence on credit, on an unsustainable property price boom and on rapid growth in the financial sector, would eventually lead to a severe correction. An early casualty of the financial crisis, the UK's crash can be traced back to October 2008 when the government part-nationalised three leading UK banks in a £37 billion rescue package. The government also pumped billions of pounds into the UK financial system after record stock market falls precipitated by the global 'credit crunch'. The UK was plunged into a deep and long recession. The statistics spell out the harsh reality of the economic climate: this can be seen in Table 5.

An early measure by The Bank of England in March 2009 was to cut the Bank Rate (interest rate) to 0.5 %. The government later announced a second package of measures to help the UK's ailing banks amid surging unemployment and deepening economic gloom. There was much public anger at the banking sector and the 'greed' of financiers as huge amounts were directed at bailouts (Farnsworth and Irving 2012). Although unemployment rose, the labour market was more resilient than output throughout the economic downturn and subsequent recovery. Growth in GDP in the second quarter of 2013 was accompanied by further advances in the labour market, with the number of people over 16 and in employment reaching a record high of 29.8 million (ONS 2013b). This was not entirely good news as it was achieved at the cost of falling real wages, part-time working, temporary contracts, and job insecurity for many. Finally the UK economy came out of recession when

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Table 5 GDP, market prices (in millions of euros, seasonally adjusted and adjusted data by working days), UK, 2007Q1–2013Q3

Year	United Kingdom
2007Q1	519,800
2007Q2	522,300
2007Q3	531,000
2007Q4	513,900
2008Q1	489,000
2008Q2	463,500
2008Q3	457,200
2008Q4	430,100
2009Q1	386,500
2009Q2	398,700
2009Q3	408,400
2009Q4	397,700
2010Q1	413,300
2010Q2	433,000
2010Q3	449,400
2010Q4	436,700
2011Q1	445,300
2011Q2	432,000
2011Q3	442,200
2011Q4	451,700
2012Q1	467,400
2012Q2	478,800
2012Q3	495,200
2012Q4	492,100
2013Q1	471,800
2013Q2	475,200
2013Q3	479,600

Source: Eurostat (2014e)

economic growth resumed towards the end of 2009, but at a slower rate than the period prior to 2008 (ONS 2013c).

At the May 2010 general election the Conservative Party won the most seats but failed to gain an absolute majority. Conservative leader David Cameron became Prime Minister at the head of a Coalition with the third-placed Liberal Democrats even though the parties have long disagreed on Europe, nuclear weapons, and the proper role of the state. The 2010 government has taken a radically different response to the financial crisis to its predecessor. It has an ideological commitment to neo-liberalism, but this sits comfortably with the pursuit of austerity measures that it presents as necessary for pragmatic reasons, not least to reinforce the confidence of foreign investors in the solvency of the UK government in the face of the burgeoning fiscal deficit (see Table 6).

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Table 6 Government consolidated gross debt as a percentage of GDP, EU-28 and UK, 2007–2012

Year	European Union (28 countries)	United Kingdom
2007	–	43.7
2008	–	51.9
2009	74.3	67.1
2010	79.8	78.4
2011	82.3	84.3
2012	85.1	88.7

Source: Eurostat (2014f)

Table 7 Unemployment rate: by sex and age groups (under 25)—annual average, %, UK, 2007–2013

Year	Under 25			Over 25		
	Total	Male	Female	Total	Male	Female
2007	14.3	15.8	12.5	3.6	3.7	3.5
2008	15.0	17.0	12.7	3.9	4.2	3.6
2009	19.1	21.8	16.0	5.5	6.3	4.7
2010	19.5	21.6	17.3	5.8	6.4	5.0
2011	21.1	23.5	18.4	5.8	6.2	5.4
2012	21.0	23.6	18.0	5.7	5.8	5.5
2013	20.7	23.0	18.2	5.5	5.7	5.2

Source: Eurostat (2014g)

3.1 The Impact of the Crisis

After many years of relatively low unemployment, the recession caused a rapid climb in unemployment rates. Long-term unemployment increased rapidly, as did youth unemployment. This can be seen in Table 7. Once recovery began, overall unemployment rates fell slowly despite a recovery in GDP growth and a rise in numbers employed. The government boasted that in 2013 there were more jobs in the UK economy than at any time previously. In this sense the labour market appeared to be performing better than in the past. However, whilst the policy of permitting a highly flexible labour market may have reduced the need for employers to shed jobs, it also led to reductions in take-home pay and worsening job security. Certainly, a cause of dissatisfaction among the public was that real average incomes in 2013 were 8 % below their 2008 peak (MacInnes et al. 2013). This was because of a twofold effect: whilst prices slumped during 2008–2009 leading to a boost in real earnings for workers, they then increased during 2009–2010, with energy prices making a notable price hike. Meanwhile nominal earnings rose very little, and certain workers faced pay freezes, leading to a fall in real hourly earnings that hit low-paid workers in particular (DWP 2013).

Trades unions found it difficult to negotiate pay rises. Employers argued that deterioration in business performance has left them with no option other than to pare labour costs. The kinds of post-recession employment practices that have come in for criticism include only offering part-time hours such that the employer does not have to pay national insurance contributions. This means that the employee will

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not be building up an entitlement to the state retirement pension. Major high-street retailers are alleged offenders. Another widespread practice is to use agency staff who are not guaranteed work, do not get sick pay or holiday pay, and may be paid less than the employer's directly employed staff. Some employers get around legislation by hiring workers on the basis that they are 'self-employed' contractors. Call centres and distribution, both large sectors in the UK, have been accused of exploiting workers in these ways. Campaigners for better working conditions have highlighted the rise of the zero-hour contract under which the worker is 'on call' but with no guarantee of work and no idea what days they will work or even if they will work from week to week. Furthermore, unemployment rates paint a partial picture of the labour market: *under*employment remains at a historically high level. In the first half of 2013 around 2.3 million were people inactive but wanting work, and 1.4 million were working part-time but wanting to work full-time (MacInnes et al. 2013). How to improve real wages and aggregate demand during this 'cost of living crisis' is a challenge.

At the regional level, the problem of worklessness is unevenly spread around the UK. Initial assumptions were that it was a 'banking' recession. But that is not the way things have followed through. The banking crisis caused a collapse in confidence and a drying-up of credit. Investment spending was hit hard, and consumers cut their spending on big-ticket items such as new cars. As a result the greatest job losses have been in older industrial areas where manufacturing was a key component of the local economy (Fothergill 2009). Private sector job losses following the crisis have not been concentrated on specific industries, but rather hit weaker businesses across all sectors. Prior to the recession much of the job growth in the UK's weakest regional economies was in the public sector. The loss of public sector jobs because of austerity measures looks likely to exacerbate unemployment in these areas and there are difficulties in relying on a private sector-led revival in places where there was little growth in the private sector even before the recession. Higher unemployment, especially among women, is still to come following further planned spending cuts in the public sector workforce, which is female-dominated. With the enormous pressures to curb public spending, public sector organisations will in future exploit outsourcing to reduce costs, and the private sector contractors used may well in turn lower their pay rates and other terms and conditions.

4 Reforms, Risks and Opportunities

The Coalition has presented the crisis in public finances as deep and urgent and has successfully attributed blame for its programme of cuts on what it contends was the previous New Labour government's 'profligacy'. This success can be seen in a range of measures that show that support for the welfare system has fallen dramatically over the last two decades (Duffy et al. 2013). People have become less likely to support greater spending on welfare, and more likely to believe that the system produces the wrong results. The 2012 British Social Attitudes (BSA) survey revealed attitudes towards welfare and welfare claimants had hardened. In 2001,

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43 % of the public had agreed that the government should spend more on welfare benefits for people in poverty, even if it led to higher taxes, compared with 32 % in 2007, and just 28 % in 2011 (Clery 2012). People were also more sceptical about whether benefit recipients deserved the help they received than during the previous recession in the early 1990s: in 2011, 62 % agreed that unemployment benefits were too high and discouraged work—more than double the proportion who had thought this in 1991 (27 %). Further, support for spending more money on disabled people, a group traditionally seen as more deserving, fell. These figures show that the public's view on welfare benefits spending was in line with the Coalition's talk of 'skivers' and 'spongers', which tapped into the view that those receiving benefits have it easy.

At the same time, the BSA revealed that many Britons were worried about the impact of spending cuts on public services they cherish, particularly schooling and health. It is unclear how the public will respond if cuts bite into the public services popular with the middle classes, above all education and the NHS. There has already been a strong backlash from both professionals and the wider public against the present government's determination to make competition a key organising principle for the NHS (O'Dowd 2011). Nevertheless, the government talks of immediate austerity in return for the promise of future growth. Public services are facing the stark reality of needing to decide what to cut. The current financial climate has increased the drive to reorganise public welfare services in the hopes of achieving more with fewer resources, as the following section explains. As already stated above, we argue that the 2010 government has taken a radically different response to the financial crisis to its predecessor. It has longstanding ideological commitment to neo-liberalism, but this fits well with the pursuit of urgent austerity measures that it says are necessary for practical reasons.

4.1 Labour Market Policy

New Labour introduced the New Deal, which targeted specific groups of unemployed people, most notably young workers aged between 18 and 24 years. The emphasis was on paid work, skills, and compulsory job search, with the aim of moving the unemployed from benefits into employment. The Blair government also initiated other policies in an effort to curb in-work poverty and promote employment, such as a national minimum wage (NMW) in 1999. Another element of New Labour's strategy to 'make work pay' was the replacement of the existing earnings top-up scheme with a more generous one later remodelled and extended as working tax credit (WTC) and child tax credit (CTC). The expenditure on this programme rocketed.

It is claimed by the Coalition that its flagship Work Programme is an initiative that will allow providers of employment services greater freedom to tailor the right support to the individual needs of each 'customer'. These programmes are being delivered by over 300 sub-contracted provider organisations from across the public, private, and third sectors. The present government is attempting to deliver

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activation responses to worklessness with good value for money for the taxpayer by basing payments to employment service providers largely on their success rates. The intention is that service providers will be encouraged by market incentives to develop interventions that most efficiently support clients back into work. This is a medium-term ambition, rather than a response to financial crisis.

Since 2010, benefits to support working age adults have been re-badged 'welfare' by the government, a term that connotes dependency on ill-deserved handouts. The focus has been to improve financial incentives to work under a new benefit regime, Universal Credit, which integrates six different existing welfare payments and requires a complex computer system to administer it. Claimants should immediately notify the authorities of changes to their wages to ensure benefit payments are adjusted quickly, thus avoiding perverse work incentives. This project relies on advanced information technology (IT) and unfortunately is proving much more expensive and time-consuming than was anticipated. Simplification of benefits was already in the pipeline before the crisis. More direct cost-cutting measures since 2010 have included a change in indexation that reduces the real value of unemployment benefits and an overall cap on the amount of money certain types family can receive, whatever their size or needs. Removal of employment protection has increased insecurity at the bottom end of the labour market. Further, the NMW, which is widely seen by employers as the 'going rate' rather than the bare minimum, has risen little.

4.2 Pensions

Policy towards future pensioners has developed incrementally, which might be expected given the very long-term nature of the issues involved. With its pay-as-you-go system, expenditure on the social insurance-based UK state retirement pension is set to shoot up. In response to projected rises in the proportion of the population over the State Pension Age (SPA), measures to increase the statutory retirement age and incentives to encourage people to stay in work for longer have been introduced. There has also been a debate about how to get the naturally myopic general public to save more into a pension for themselves. One problem has been lack of trust in pension funds. Therefore, in 2004, the then government established a fund to protect members of occupational pension schemes if employers become insolvent or pension funds became underfunded. The *Pensions Act 2008* made it necessary for employees to opt out of occupational pensions, rather than opt in as before. It also created a non-profit trust for those working in companies that do not offer occupational pensions. In addition, private pensions were regulated to ensure coverage for those without access to occupational pensions. In terms of measures to alleviate pensioner poverty, in 2000 the government introduced a means-tested minimum income guarantee for pensioners that was more generous than the former social assistance arrangement. In 2006, more generous qualifying rules reduced the number of years of work required to receive a basic state pension in order recognize years spent caring, a change that stands to

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benefit women in particular. The *Pensions Act 2014* brought forward the previously planned increase in the SPA to 67 to now take place between 2026 and 2028. It also makes provision for a periodic review of the SPA in the light of changes in life expectancy and other factors.

Automatic enrolment is a response to the issue of millions of individuals not saving enough for their retirement. It will require employers to automatically enrol eligible workers into a qualifying workplace pension scheme. Individuals will have the right to opt out of the scheme. Automatic enrolment is being staged in between October 2012 and February 2018 by employer size, starting with the largest employers. Once fully implemented the reforms aim to increase the number of individuals newly saving or saving more in a workplace pension by around eight million and increase the amount saved in workplace pensions by around £11 billion a year.

Current pensioners have been largely shielded from cuts to cash benefits and public services. There are two competing images of pensioners: that they are well off enjoying their leisure and gold-plated pensions in retirement, as opposed to pensioners as on the breadline facing poverty, isolation and ill-health. In fact, the majority of older people today are somewhere in between and old age is no longer a proxy for poverty. So, whilst the Coalition has, since 2010, 'triple locked' the basic state pension by deciding to index it by earnings, prices or 2.5 %, whichever is highest, such policies have given rise to resentment that older people have not been sharing remotely sufficiently in the pain of current deficit reduction. It has been argued that, post-crisis, blanket policies that favour them, such as their universal winter fuel allowance, should be reconsidered (Harrop 2013). But generations favour their own: younger generations are more likely than older groups to prioritise spending on child benefits, while older groups are more likely to prioritise pensions (Duffy et al. 2013). Therefore welfare for young adults is being cut more than welfare for pensioners because of crude politics: ageing baby boomers are electorally dominant.

4.3 Health Policy

Longer life expectancy will test health policy as people survive longer with diagnoses such as arthritis, Alzheimer's and Parkinson's diseases, disabilities associated with strokes, vision loss, cancers, and chronic obstructive pulmonary disease (COPD). The NHS was created on the principle that it provides a comprehensive health service, based on clinical need, not ability to pay, but 45 % of adults believe that the NHS will not be able to provide a service that is free at the point of use because of population ageing (Kneale et al. 2012). Nevertheless, claims that health and social care costs for older people are escalating unaffordably should not be uncritically accepted (Taylor and Gill 2012). It will be important in the future to understand the link between healthy behaviours and healthy ageing. This is of particular relevance in the current policy landscape of increased personal responsibility for health. In England, documents such the *National Services Framework for*

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Older People (DoH—Department of Health 2001) have placed emphasis on the benefits of individuals, their families and their informal carers taking an increased personal responsibility for maintaining their health to the best possible level, as opposed to relying on state intervention and treatment. Public health campaigns, such as the 'Change for Life' campaign, inform the public about the benefits of adopting healthy behaviour for long-term health outcomes.

The English NHS is organised around a split between the 'commissioning' (i.e. purchasing) and the 'providing' of health care. The core logic of this system is that it detaches decisions about service provision from the self-interest of providers, especially clinical professionals, and encourages competition between providers. This approach has been adopted in the English NHS for some 20 years, taking the form of purchasing of secondary, tertiary and community care by primary care organisations responsible for defined local populations. The Coalition aims to further reduce central control of the NHS, to engage doctors in the commissioning of health services, and to give patients greater choice. There have been major reforms to health services in England under the *Health and Social Care Act 2012*. This set out a vision of a much looser structure of competing organisations which will be 'accredited' to provide NHS services. The split between commissioning and providing services has been further entrenched by a major reorganisation that put in place Clinical Commissioning Groups (CCGs) led by General Practitioners (GPs) who have control of NHS budgets. There has been considerable critical comment about the value of separating commissioning and providing, focusing upon inadequacies of the regulatory structure, lack of competence of the managers concerned, and democratic deficit in the accountability of the providers (Checkland et al. 2012). Furthermore, experience indicates that private players find it difficult to compete successfully on either price or quality with the NHS (Taylor-Gooby and Stoker 2011). The reforms of the *Act* did not form part of the Conservative election manifesto and were rushed through, but seem to be ideologically driven, rather than simply an urgent cost-cutting measure.

4.4 Long-Term Care Policy

Greater numbers of people with long-term care needs, especially dementia support, can be expected. A review commissioned by the health think-tank, the King's Fund, projected that by 2025, there will be a 53 % increase in those with some need and a 54 % increase in those with a high level of need (Wanless 2006). Ten per cent (5.8 million) of residents of England and Wales provided unpaid care for someone with an illness or disability in 2011. Over a third of these people were giving 20 or more hours care a week (ONS 2012a). The government has pledged to do more to support carers (HM Government 2010b). Nevertheless, while the needs for long-term care, both in residential settings and in the community, will rise, families' willingness or ability to be unpaid care-givers is decreasing. This is attributable to higher employment rates for women; the growing number of pensioners who never had children or are living alone because of divorce or widowhood; the disinclination of women in a

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daughter-in-law role to provide unpaid care; more 'sandwich generation' women who are giving birth later, so still having dependent children at the time when their parents need support; and the propensity for families to be more geographically separated leading to the phenomenon of the 'commuting carer'.

Evidence indicates that up to half of all care home residents are currently denied good quality care (Care Quality Commission 2012). Many older hospital patients and care home residents could be better supported in their own homes if improved community-based services were available. However, the record on social and long-term care for older people with disabilities that limit their independence has been disappointing (Taylor and Gill 2012). The Wanless Review (2006) found that despite users' preference to stay in their own homes, local authority spending on care home placements had risen at a faster rate than that on home care. Furthermore, in directing resources to people with the most intensive needs, a substantial number of people with lesser but still significant needs, were not being helped in many cases. In the future there needs to be the establishment of efficient and effective support for people who are, at any stage in their lives, facing disabilities and lost independent living skills. Such provisions include well-coordinated health and social services to support home living so that people with complex care needs do not fall through the cracks that divide community and hospital care, NHS and social care.

Other common complaints about the existing system are that the charges levied penalise prudent people who have saved for their old age, that the financial products available to support people in meeting care costs are very limited, and that the risk of having to pay high care costs falls too heavily on the individuals affected. There is currently no safety net to protect people from losing almost everything they have saved up and worked for in their lifetime if they have high care costs. Following the 2010 general election, the government appointed an independent commission to consider the issue of sustainable funding for long-term care. Several of the recommendations in its report, the Dilnot Report (Care and Support Commission 2011), were taken up in the *Care Act 2014* (applicable to England only). The element of the *Act* that has captured most headlines is the introduction of a cap on the costs that people will have to pay for care and a universal deferred payment scheme so that people will not have to sell their home in their lifetime to pay for residential care. It is intended that the cap will be £72,000 when it is introduced in April 2016. The government will also provide new financial help to those with modest wealth. Currently, only people with less than £23,250 and low incomes receive help from the state with their residential care costs. The changes will mean that people with around £118,000 worth of assets (savings or property), or less, will start to receive some financial support if they need to move to a care home. The *Act* will result in more, not less, government expenditure on long term care. It was not a response to crisis. The measures within it have been under discussion for years and stand to benefit older middle class voters.

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4.5 Policy on Families and Children

The UK has a mixed economy of childcare and provision is by the public sector, small for-profit businesses, large chains, the voluntary sector, and very limited provision by employers. Informal care forms a significant proportion of childcare, with grandparents the most common informal carers. The impediments to using childcare have not so much been questions of availability, but lack of affordability, issues of quality, staffing, flexibility, the complexity of provision, and concerns about the general desirability of using full-time childcare.

Although the focus of New Labour social policy agenda was anti-poverty and pro-employment policy priorities, it also enacted many family policy measures, addressing children's early education and care, financial support for families and children, services to improve the quality of family relations in low-income areas, parental employment, and greater flexibility in work and family life. Early education policy was influenced by the growing body of research evidence on the importance of the early years for later development milestones and educational attainment. This led to initiatives that sought to improve service provision to families in the poorest neighbourhoods, for example the Sure Start programme, initially intended to be an integrated 'one-stop shop' for child- and family-centred services locally in disadvantaged areas. Sure Start was later redirected towards the expansion of universal provision through a hugely expanded number of pre-school services centres. The National Childcare Strategy combined the establishment of nursery places with subsidies for pre- and post-school childcare to promote measures that enable parents to balance paid work with the needs of their children. In the 2000s maternity, paternity, and adoption leave were extended, while the right of employers with caring responsibilities to request flexible working arrangements was granted. Nevertheless, overall in the field of family policy, the focus shifted towards promoting child development for the under-privileged and at risk, rather than on bringing more women into employment and enhancing policies to reconcile work and family life.

The main cash benefits for children are child benefit (CB) and child tax credit (CTC). As an austerity measure, from 2013 the formerly universal CB was not paid to families with a higher-rate taxpayer, in other words with a parent earning more than approximately £42,000 annually. Because many of the other general welfare benefit cuts involve benefits that go to families, the financial impact of this policy on families and on children will be particularly harsh (Joyce 2012). Given their emphasis on quality provision for disadvantaged children, the threatened closure of large numbers of children's centres because of cost-cutting could become an issue of concern that undermines early education policy as well as childcare policies.

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4.6 Housing

Housing policy issues are visible as property prices in the UK have sharply increased, putting house purchase beyond the reach of many. There are long waiting lists for social housing as there has been insufficient new build of such housing over the last few decades to meet demand. This has led to debates about the tensions between 'entitlement' and 'need' as well as about social cohesion more generally. Certainly, competition for housing is an area of tension between established households and new migrants, especially from the A8 (Cook et al. 2012). Demographic trends point to considerable need for smaller social rented dwellings to house a growing population of smaller households. In particular, it will be a challenge to support older people in maintaining their independence, who may find it difficult to secure suitable adapted accommodation.

A consequence of the financial crisis is that the private house-building industry will take time to recover. In addition, a legacy of the credit crunch has been less relaxed lending criteria and higher deposits that have prevented many first time buyers from getting on the property ladder, especially in London and south east England where housing prices are extremely high. This has accelerated structural change in the housing market from owning to renting. The group that rented from a private landlord increased from 9 % (1.9 million) in 2001 to 15 % (3.6 million) in 2011 (ONS 2012a). Such growth will increase demand for local authority services in respect of administering housing benefits, regulating the sector, and providing advice and assistance to tenants if difficulties with their landlord occur. The Coalition has been concerned about the means-tested rent cash transfers for public sector and private sector tenants—Housing Benefit (HB) and Local Housing Allowance (LHA). It has attempted to control expenditure on these benefits by limiting the amount that fit single adults under 35 years of age can receive, an overall cap on what a family can receive, and reducing subsidies for tenants with a larger property than they are deemed to need—dubbed by the opposition the 'bedroom tax'. Campaign groups are predicting that these changes will lead to an increase in the numbers of families that are unsuitably housed. The cuts to rent subsidies are an urgent cost-cutting measure, but the government has not so far seen it as its role to intervene in the underlying problem, which is a serious housing shortage.

4.7 A Social Investment State?

In the UK context the term 'social investment state' needs to be distinguished from the concepts of investment in social enterprise and socially responsible investment, both of which are being actively promoted. 'Social investment' is a contested term, but broadly, in the notion of the social investment social policy is not just a drain on the economy. It is a way of dealing with new social risks facing citizens, such as family instability, precarious employment, and changing career patterns. The aim is to prevent individual misfortunes by investing in people's capacities with an

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emphasis on increased labour market participation, employability, and the fostering of child development. The stress is on providing services, not cash benefits. These investments are aimed at long-term improvements rather than short-term solutions. Exponents believe that in contrast, the UK welfare state established in the 1940s remediated the detrimental effects of poverty and unemployment in the short-term, but frequently did not enable individuals to obtain better circumstances in the longer term.

Social investment policies, sometimes referred to as 'enabling' policies in the UK, shift the focus away from a needs and rights-based compensatory approach. Overall, activation policies have widely expanded, supported by a strong normative political discourse of 'individual responsibility'. New Labour's vision was one of human capital and infrastructure investment, and social justice through high quality public services. Currently national and local government are responding to the fiscal environment with vigorous liberalism that involves new partnerships, alternative ways of working, and a shift from the public sector directly delivering a multitude of services to an environment of enabling others, where appropriate, to deliver services for themselves.

The Coalition has successfully created a consensus around the 'fact' that there is no alternative to austerity (Farnsworth and Irving 2011, 2012). It has represented the collective values underlying the welfare state, especially cash transfers, as relics of a long-gone reality. A model of a small role for the state combined with greater individual responsibility is coming to be seen as the only viable option. The UK is moving towards policies that stress individual responsibility, incentives and opportunities, rather than direct state spending. It is witnessing an erosion of traditions of social provision and the encroachment of individualistic market values into social policy fields where concerns about fairness and equality have previously been influential (Taylor-Gooby and Martin 2010).

5 Pathways of the UK Welfare System

This chapter raised questions about what the main challenges the UK welfare system has to face are, what reforms have been put in place in response to these challenges, and what trajectory the UK welfare system has followed in recent years. Demographic change and its consequences can certainly be diagnosed to be among the largest challenges for the UK welfare state. The population of immigrants and ethnic minorities is expected to grow considerably in the next decades. When combined with the drastic changes in the age structure of the population, these processes will influence all areas of the welfare state. In addition the UK population are facing new risks that the welfare state has not traditionally catered for. For instance, precarious employment is rising and in-work poverty has overtaken out-of-work poverty. In 2011–2012, for the first time since 1980, there were more people in poverty in working families than in workless working-age and retired families combined (MacInnes et al. 2013).

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Have the financial crisis and austerity been game-changers as far as social policy is concerned? Certainly there are plenty of objectors, but overall, the Conservatives in Coalition government have been successful in selling voters the argument that the welfare state it inherited was ‘unaffordable’. It has persuaded enough of the public that increases in social policy spending caused a crisis in public finances that preceded the global crisis and recession. By a strategy of what Pierson (1994) has termed ‘blame avoidance’ for welfare state cutbacks, it has been to be able to push through its austerity agenda. No mainstream political party has risked stating that they would put up taxes to pay for the welfare state because history shows that whatever the UK electorate say about being willing to pay more tax to fund public services better, in the privacy of the polling station they vote for parties that promise to keep down taxes. New Labour’s 1997 promise not to ‘tax and spend’ and instead to be prudent and stick to the previous Conservative government’s spending plans was an important factor in its victory in the general election of that year.

On current projections public expenditure in the UK appears likely to fall below that in the United States by 2014 or 2015. This is unprecedented and, if fully implemented, indicates a radical new departure (Taylor-Gooby and Stoker 2011). But do the Coalition’s two main approaches—*spending cuts* and *restructuring*—amount to a new and distinctive ideologically driven way forward for the UK? Or are the Coalition’s policies best understood as short-term political manoeuvring for electoral advantage? The Coalition’s immediate objective is to set the UK on a trajectory of permanently lower spending, lower debt and market-led growth. The justification is a presumed need to reduce national indebtedness. Thus far, welfare state retrenchment has been realised. Many anti-poverty interest groups have argued that the welfare state is no longer providing an adequate safety net. They point to burgeoning food banks that dispense emergency food parcels, to the many people struggling to meet their basic needs as the cuts bear most heavily on the poor. Cuts to public services are being achieved by cutting infrastructure, staff and wage costs. This approach unlikely to lead to innovations and higher productivity in services and the most obvious ways of paring expenditure may already have been implemented, leaving little scope for further cuts without a deterioration to the quality of services.

Its longer-term ideological goal is to shrink the state, free up the market and set UK political economy on a new course. Taylor-Gooby (2012b) has argued that a permanent shift to a smaller state is intended. In this vision future pressures on the state will be contained through a shift of responsibility in many areas away from government to private providers, citizens or the community. These reforms will lead to provision from a web of semi-independent providers and a prominent role for the private sector. Market principles will permeate social welfare to a greater extent. As Prime Minister Cameron signalled in February 2011:

> We will create a new presumption—backed up by new rights for public service users and a new system of independent adjudication—that public services should be open to a range of providers competing to offer a better service . . . Instead of having to justify why it makes sense to introduce competition in individual public services—as we are now doing with schools and in the NHS—the state will have to justify why it should ever operate a

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> monopoly. These are practical reforms, driven by a clear rationale that the best way to raise quality and value for money is to allow different providers to offer services in an open and accountable way. (Cameron 2011)

It is currently unclear how exactly far the government intends to extend the principle of competitive tendering to 'any willing provider' across the public sector, but the likely outcome will be much greater variation in patterns of provision across the country and between services and social groups, with different providers pursuing different business models. Local variations in quality and scope of provision are likely to result, and, as commercial concerns, private providers will probably be unwilling to share their knowledge and insights in how to deliver a successful service with other providers in their sector. Nevertheless, what is clear, as Taylor-Gooby (2012a) has argued, is that the Coalition government's cut-backs and restructuring go beyond piecemeal responses to deficit reduction and form a coherent programme that is part of a larger strategy to set the UK political economy on an entirely new path.

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Part II

Comparative Analyses

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Opening Up Opportunities and Risks? Retrenchment, Activation and Targeting as Main Trends of Recent Welfare State Reforms Across Europe

Nikola Borosch, Johanna Kuhlmann, and Sonja Blum

1 Introduction

This volume analysed the challenges European Welfare Systems (EWS) have been facing since 2007, thereby focusing on the fiscal crisis, the demographic change and a new balance between policies of risk prevention and policies that aim at opening up individual opportunities. All in all, the country chapters in this book have shown that there is a huge diversity of challenges as well as policy responses in EWS. In order to systematize these policies, in this chapter we ask how EWS have adapted their social policies since the outbreak of the crisis.

Therefore, we group social policy developments in recent years, distinguishing between

a) Policies directed at an expansion or retrenchment of risk protection
b) Policies directed at an expansion or retrenchment of individual opportunities.[1]

[1] In a recent article, Van Kersbergen et al. (2014) make a similar undertaking. Analysing welfare state reforms during the crisis (2010–2012) in four countries, they operationalize these reforms as (a) "*social investment* if they aim to capacitate individuals and improve human capital", (b) "*compensation* if they compensate the (income) losses of individuals", (c) "*retrenchment* when it cuts back existing entitlements", and (d) "*cost containment* when it reduces [...] but does not cut back formal entitlements" (Van Kersbergen et al. 2014: 7). As will be explained later in this chapter, we partly depart from this operationalization.

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We applied this analytical distinction to all policy areas under investigation (i.e. labour market, pensions, health, long-term care, family policy and social assistance). It is important to note that we adopt a qualitative approach, basing our findings on the country chapters and further information from the authors. When talking about the social policies that were adopted in different countries, we always refer to the respective country chapters in our volume. We do not compare expenditure data (see Hegelich 2016) and also cannot make a statement as to whether, in absolute terms, expansion or retrenchment has been dominant in recent years.

Rather, the aim of this policy mapping is twofold: First, we want to give an overview on the diversity of policy responses that were adopted since the outbreak of the crisis. Second, we try to identify common trends. Although the findings are, of course, only preliminary and further research is necessary to theoretically and empirically underpin welfare state change and also the implications of change in different countries during the crisis, our findings give a first idea of how EWS have developed during the crisis.

To name results right at the beginning, the conducted policy mapping suggests three major dimensions of EWS change: *retrenchment*, *activation* and *selectivity*. Retrenchment and activation policies, while being increasingly adopted for decades, turn out to remain important drivers of reform processes during the crisis. Especially universal risk prevention programmes suffered cutbacks in many EWS. While retrenchment and activation policies come rather unsurprisingly, the growing number or extensity of selective measures would not have been expected. More specifically, we argue that a great share of these measures is targeting defined social groups or special needs.

In the next section, we will explain the theoretical background of our analytical framework, thereby explaining in more detail the underlying concepts of our analysis, i.e. “expansion”, “retrenchment”, “risk protection” as well as “opening up opportunities”. Then we will have a closer look at the already mentioned phenomena: First, we will analyse which policy measures in the area of *risk retrenchment* have been adopted. The following section deals especially with the expansion of opening up opportunities by analysing *activation and work-family reconciliation*. Adding to this section with a focus on opening up opportunities, we will also briefly show how the mechanism of *choice* is becoming more dominant in social policy. Finally, we will show how *social assistance and selective social protection measures* have become more important during the crisis.[2] In the conclusion, we summarize our findings and include some reflections on the implications of our results for comparative welfare state research.

[2] Although dealing with risks, it will be shown that this last section does not completely fit our analytical framework as it includes elements of both prevention and retrenchment.

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2 Theoretical Background

Although this chapter clearly has an empirical focus and it is not our main concern to fight a "terminological battle" (Vandenbroucke and Vleminckx 2011: 451) here, some conceptual clarifications are necessary if we talk about mapping policies between risk prevention and opening up opportunities. Thus, we briefly point out the dominant concepts in welfare state research before presenting our own terminology in more detail.

Since the late 1990s, the notion of a *new welfare state* has arisen. In the literature, there exist different but partly overlapping concepts for characterizing the emergence of this *new welfare state* in contrast to the *traditional welfare state* among which the most popular are *old vs. new social risks* as well as *social protection vs. social investment*.

Old social risks are those risks constituted by unemployment, old age, sickness/disability and giving birth to and raising children (Vandenbroucke and Vleminckx 2011: 452). Policies directed at old social risks aim at compensating for risks that have already materialized and are primarily based on monetary compensation (ibid.). They do, therefore, also qualify as social protection policies. *New social risks*, in contrast, are rooted in the transformation of the traditional male breadwinner principle as well as the tertiarisation of employment (Bonoli 2005: 433). According to Bonoli, new social risks include (a) the reconciliation of work and family life, (b) single parenthood, (c) having a frail relative, (d) possessing low or obsolete skills, (e) insufficient social security coverage (ibid.: 433–435). Although cash transfers can be a policy instrument for addressing these risks, social services play a more vital role here.

During the last years, the notion of *social investment* as opposing *social protection policies* has become dominant. Social investment policies depart from the rather passive logic of the welfare state by adapting policies "that aim at 'preparing' rather than 'repairing'" (Morel et al. 2012: 1). In the literature, notably Giddens (1998) and Esping-Andersen (2002) are identified as early key authors of this new paradigm. While different labels have been used (e.g. enabling state), social investment has become the most popular term. However, social investment is by no means a coherent concept, but highly ambiguous. Among policy scholars, there is no consensus what social investment policies entail (and what they do not). What is more, the term social investment is used at the same time as a term characterizing a political strategy (e.g. the EU's Lisbon Agenda 2000) and an academic framework (Nolan 2013). According to Morel, Palier and Palme,

> the social investment approach rests on policies that both invest in human capital development (early childhood education and care, education and lifelong training) and that help to make efficient use of human capital (through policies supporting women's and lone parents' employment, through active labour market policies, but also through specific forms of labour market regulation and social protection institutions that promote flexible security), while fostering greater social inclusion (notably by facilitating access to the labour market for groups that have traditionally been excluded). (Morel et al. 2012: 2)

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In this understanding, social policy is not considered as a (financial) burden, but as a "productive factor" (ibid.: 2).

The dichotomy of social protection and social investment partially overlaps with old and new social risks (see also Vandenbroucke and Vleminckx 2011: 451). It is, for example, manifest to associate old social risks with social protection policies. However, it is important to keep in mind that there is no clear correlation. Old social risks can also be addressed by social investment policies, and new social risks can also be addressed by social protection policies. For example, old age (being an "old social risk") can be addressed by active aging policies while single parenthood (being a "new social risk") can be addressed by higher cash transfers to this target group.

Some authors have tried to classify social policies as being oriented towards social protection or social investment (for an overview see Nolan 2013). However, although the differentiation between social protection and social investment might, at first glance, seem like a dichotomy, they should rather be seen as two sides of the same coin: Social protection can be considered as a prerequisite for social investment (Esping-Andersen 2002: 5). To push this argument even further, it is very difficult to think of measures that are pure "social protection" or "social investment" (Nolan 2013: 464f.).[3]

The concepts of old vs. new social risks and social protection vs. social investment are, in many aspects, similar to our concepts of *risk protection* vs. *opening up opportunities*. By the term *risk protection*, we refer mainly to what was called social protection policies above, thereby focusing on monetary compensation. Although risk protection, as already mentioned above, mainly focuses on the so-called "old social risks", by including monetary compensation measures for work-family-reconciliation or care for the elderly, also "new social risks" are included. By *opening up opportunities*, we refer mainly to what was called social investment above, thereby focusing on policies that are aimed at enabling people. These policies cover, for example, family policies intended to reconcile work and family. We also included active labour market policies (ALMPs) that are directed at training and qualification here.

Within the analytical framework, we also analyse if social policies are leading to expansion or retrenchment. Quite fundamentally, expansion covers measures that are leading to a greater degree of social protection or social investment, while retrenchment covers measures that are leading to a lower degree of social protection or social investment (Van Gerven 2008: 37). Important indicators for social protection are for example the expansion or reduction of the level of benefits, the scope of beneficiaries, the duration of entitlement and eligibility criteria (ibid.). Indicators for social investment might be an expansion or retrenchment of childcare facilities.

Although it cannot be denied that expansion does, also in times of crisis, take place, it is especially the concept of *retrenchment* that has been dominant in welfare state research in recent years (see Schubert et al. (2009) for an overview).

[3] For a critique on social investment (as a political strategy) see e.g. Cantillon (2011).

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Introduced into the debate in the late 1980s (Starke 2006), retrenchment has become a central field of state research especially since the seminal work of Paul Pierson (1994, 1996). However, among policy scholars, there is no consensus about what the concept of retrenchment entails and what it does not. According to Green-Pedersen (2004), two different conceptualizations of retrenchment are dominating: In the first conceptualization, retrenchment means (unpopular) cutbacks in people's entitlements. In the second conceptualization, retrenchment is seen in a broader context of institutional change (see also Van Gerven 2008: 29). Especially Pierson argued for a wider definition of retrenchment exceeding the literal meaning of the word, including "(1) significant increases in reliance on means-tested benefits; (2) major transfers of responsibility to the private sector; and (3) dramatic changes in benefit and eligibility rules that signal a qualitative reform of a particular program" (Pierson 1996: 157). In our policy mapping, however, we applied retrenchment primarily as cutbacks.

Like any conceptualization, also our policy mapping bears some difficulties. A critical factor is whether policies that include sanctions by cutting back benefits should be classified as a retrenchment of risk protection or rather as an expansion of opportunities. Both classifications are plausible: The first as cutbacks are introduced, the second as sanctions have become an important instrument in the context of the activation debate. However, even if it sounds paradoxical, we decided to summarize sanctions under expansion of opportunities because the normative aim of adapting sanctions is the activation of human capital by reinforcing work incentives (see also Cantillon and Van Lancker 2013: 556).

Another problem lies in the fact that our conceptualization does not allow us to draw conclusions about connections between policies. Indeed, many country chapters highlight a strong connection between policies that retrench risk protection while at the same time introducing policies that expand opportunities. An example is labour market policy where the level of benefits is often reduced while ALMPs are expanded. Here, it is important to keep Nolan's (2013) comment in mind that policies are never purely protective or investing (see above). Against this background, with our framework we do not aim to make any statement about the political rationale behind the introduction of measures and/or the combination of measures.

Above that, there might be problems with time lags: Depending on our period of investigation (since 2007), there might e.g. be expansionary measures on the opportunities side which are connected to previous retrenchment of risk prevention, which is no longer in the picture. As the country chapters focus on the time span since the outbreak of the fiscal and economic crisis, it is a matter of fact that, in some countries, important policy developments are not included in the table. This might partly bias the understanding of the particular character of a welfare system. The Czech Republic, for example, introduced measures in pension policy to expand opportunities by providing incentives for private provision. However, this development is also a result of the strong retrenchment of risk protection in pension policies that happened before 2007.

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Moreover, we can only say something about the direction of change in social policy in recent years, thereby ignoring different levels of social protection that can already be found in the different countries. Germany, for example, already retrenched its welfare state in the early 2000s by introducing the so-called "Agenda 2010", especially the "Hartz reforms" of labour market policies. Since then, we can observe slight risk expansion, but it would be mistaken to state that the German welfare system has not experienced cutbacks.

The country chapters also show that social policy in many countries is characterized by discontinuity which can, however, not fully be grasped in our analysis. In some cases, we observe developments that are diametrically opposed (often, but not always resulting from changes in power relations). In Bulgaria, for example, one can observe first a freezing of social benefits for mothers of small children and, after a new government was in office, an increase of benefits for the second year of the maternity leave. Another example is the Czech Republic were patient fees were introduced in 2008 but abolished in 2013.

Finally, we adapt our analytical framework also to policy fields that, at first glance, do not "fit" the analytical framework. Elderly care, for example, has so far been absent in discourses on opening up opportunities (Cantillon and Van Lancker 2013: 556). What is more, also health policies have, in recent years, rather been characterized by restructuration in terms of raising efficiency, but not by rising opportunities. Thus, by primarily looking at expansion and/or retrenchment of risk prevention and opening up opportunities, our policy mapping suggests that most reform activity was in the fields of labour market, pensions and families—which is not necessarily the case, but rather a result of our specific perspective.

3 Retrenchment of Risk Prevention

As has already been pointed out above, retrenchment is a broad phenomenon that can take various forms. If we understand retrenchment as cutting back benefits, important factors to look at are the level of benefits, the scope of beneficiaries, the duration of entitlement and eligibility criteria (see above). Although this section primarily deals with the retrenchment of risk prevention, partly also cases of the expansion of risk prevention will be portrayed in order to stress how retrenchment and expansion relate to one another.

Retrenchment can of course be identified all over Europe and irrespective of specific regions or "worlds of welfare" (Esping-Andersen 1990). However, this cannot be mistaken for convergence: Instead, national specifics are quite fundamental in determining the distinct *character* of retrenchment. What is more, retrenchment is *one*, but not *the* dominant trend in EWS. Rather, it can be seen as one side of the coin. Although our policy mapping does not allow us to draw direct connections, retrenchment often comes along with opening up opportunities (see also Sects. 4.1 and 4.2).

In our policy mapping, we identify especially two policy fields, namely labour market policy and pension policy, where risk retrenchment has been dominant in

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recent years. This is why these two policy fields, but also family policy (where retrenchment does take place, but is nevertheless not that dominant compared to labour market and pension policies) will be described in more detail below. We will only have a very quick look at health policy and long-term care. This is for the following reasons: Concerning **health policy**, it is not the reduction of benefits but rather a broader restructuration of the field which is dominant (that might, however, be described as retrenchment in the broader retrenchment concept, see above). However, general budget reduction as well as cost containment measures can be observed in several countries. More specifically, we can see a reduction of covered treatments in at least five countries (cy, es, is, it, and lv) as well as an increase in co-payments in at least six countries (es, gr, hr, it, lv, and pt), thus particularly dominating, but not being limited to Southern European and CEE countries. The specific organization of covered treatments and increased co-payments depends on national contexts. **Long-term care** is in many countries not a distinct field of the social security system. As for example described in the Polish country chapter, care is understood to be covered by the family, especially women. From our policy mapping, an uneven picture of the development of long-term care in recent years emerges: In some countries, where long-term care has already emerged as a policy field, we see a "re-familialisation" of long-term care (e.g. the Netherlands). In other countries we see slight tendencies of expanding the social security of family carers. In Austria, for example, free social pension insurance as well as non-contributory social health insurance has been introduced for family carers.

In **family policy**, we can observe both expansion and retrenchment. On the retrenchment side, first and foremost, the *level of the child/family benefit* was reduced in at least nine countries (cy, dk, fr, hu, ie, is, lt, lu, and uk). For example in the UK, since 2013 the formerly universal child benefit is no longer paid to families with a higher-rate taxpayer, i.e. a parent earning more than about £42,000 annually. What is more, a number of countries cut back by changing other characteristics of child/family benefits, such as the age limit, eligibility criteria, or stricter means-testing. For example in Austria, the age limit to receive family allowance was reduced from 26 to 24 in 2009.

It should be added, however, that also on the expansionary side the level of child/family allowances was increased in at least nine countries (at, be, de, gr, is, lv, mk, mt, and ro). In Iceland, for instance, the family benefits were increased by 30 % in early 2013, which can be described as a "major turning point" (Eydal and Ólafsson 2016) after the several crisis-related cutbacks that had been conducted before. Greece introduced an additional paid parental leave period of 6 months in the public sector in the case of twin births or more for each additional child and also extended paid parental leave to fathers for the period where parental leave is not exercised by mothers (Adam and Papatheodorou 2016).

Next to these increases and cutbacks in child/family allowances, a general trend of *targeting family cash benefits* towards families in need is discernible in a number of countries. This trend is comparable to the development in other social policy areas. In some cases, this might take the more 'negative' turn of applying (stricter) means-testing of family allowances (e.g. lt and pt). In other cases, targeting family

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Table 1 Selected reforms in pension policy since 2007[a]

early retirement			retirement age			level of benefits		
expansion*	retrenchment		expansion	retrenchment		expansion	retrenchment	
de	at	ro		bg	it	be	cy	si
fr	bg	rs		de	lt	uk	ee	tk
hr	dk	si		dk	lv	ee	gr	
	es			ee	mt		hr	
	hr			es	pl		lt	
	hu			fi	ro		lv	
	it			fr	si		mk	
	lv			gr	tk		pt	
	pl			hr	uk		ro	

* targeted to special groups (see section 5.2)

[a]As both Tables 1 and 2 present a summary of different measures related to a certain category, it occurs that a country has implemented both expansion and retrenchment measures. In French labour market policy, for example, we observe on the one hand the introduction of a complementary health insurance for all employees in the private sector, which represents an expansion of employment rights, while on the other hand also deregulation of employment rights by more flexible contracts took place. Indeed, the overall direction of national policies (general expansion *or* general retrenchment) is not always consistent and consequently not easy to identify

cash benefits seems to be more 'positive' in additionally granting benefits for poor families (e.g. gr and mt) (see also Sect. 5).

The area of **pension policy** is particularly striking: Indeed, *all* country chapters mention that risk prevention has been retrenched in one way or another. The most popular instrument to retrench pension policy is by changing the factor of age, either by restricting or even by abolishing early retirement or—which has been more frequently used in recent years—by raising the retirement age. The most frequent trends in pension policies between expansion and retrenchment are summarized in Table 1. In the table, it becomes obvious that retrenchment is far more dominant than expansion in pension policies.

Restricting early retirement can be found in at least 12 countries (see Table 1). This is especially done by increasing the age for early retirement (e.g. at and dk) and by increasing (financial) penalties in case of early retirement. In Latvia, for example, the amount of the pension was reduced from 80 to 50 % of the acquired amount in case of early retirement. Penalties are also an instrument in Croatia and Romania. At the same time, in some countries we see an increase of early retirement options (e.g. Germany where people with 45 contribution years can now retire with a full pension at the age of 63) and an exception of the retrenchment of early retirement for particular groups, e.g. employees with many contribution years (e.g. hr) or people that are employed in so-called heavy labour (e.g. at). In Hungary, early retirement was even completely abolished. Against the background that most other countries restricted early retirement but did not completely abolish it, the authors of the Hungarian country chapter talk of a "true *hungaricum*" (Lakner and Tausz 2016). Reflecting the "conservative nature" of the welfare state, however, Hungary introduced at the same time a new early retirement option for mothers.

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Raising the *retirement age* is mentioned as a retrenchment measure in roughly half of the countries under investigation (see Table 1). However, the pension age as well as the time horizons for implementing the rise of retirement age differ again considerably between countries. In many Eastern European countries (e.g. ro and si) and also in the three Baltic states the retirement age was increased to the age of 65 (from different initial levels, though). Many countries also increased their retirement age to 67 (e.g. de, dk, es, gr,[4] hr, pl, and uk). France is an outlier as the retirement age was increased from 60 to 62. A careful hypothesis would be that most countries that have different ages of retirement for men and women are trying to harmonize these. This tendency can for example be observed in Bulgaria and Latvia. The time horizons for raising the retirement age do also differ between countries and range up to 2040 in Poland (for women).

Apart from retrenching by changing the factor of age, the *level of pension provisions* has also been reduced in many countries. This trend is dominant in many Eastern and South Eastern European countries and Southern European countries (see Table 1). In this respect, for example Greece suffered severe cutbacks as basic pensions were reduced by 20 % for pensions exceeding 1200 €.

Only in very few countries do we see an expansion of old age pensions. When expansion can be observed, this is most of the time targeted towards special groups. An interesting case here is Macedonia where a family pension for (unemployed) mothers of four children after entering the retirement age was introduced (Mitev 2016). However, while this measure can be regarded as typical risk prevention, there are also counter-trends: In the Czech Republic, for example, a higher replacement rate for higher-income earners was introduced.

In **labour market policy**, we see retrenchment especially in three different areas: (1) the reduction of *unemployment benefits*, (2) the reduction of *employment rights*, and (3) the reduction of *public employment*. Again, the most frequent measures of expansion and retrenchment are summarized in Table 2, thereby again pointing out the dominance of retrenchment measures in relation to expansion measures.

The trend of reducing *unemployment benefits* is not related to a certain European region, but dominant all across Europe (see Table 2). It is especially the level of benefits that is retrenched in at least seven countries. Also eligibility criteria were tightened in at least five countries. We also see a trend in reducing the duration of entitlements in at least five countries. Some countries even adopted a combination of reducing the level of benefits and the duration of entitlements as well as tightening the eligibility criteria. We observed this in Ireland and Portugal.

Also the reduction of *employment rights* is striking—which can, although it does not mean direct cutbacks, also be considered as retrenchment because it lowers social security in the long run. At least 15 countries deregulated employment rights (see Table 2), for example by lowering dismissal protection.

[4] For people with at least 40 years of work, the retirement age increased from 60 to 62 in Greece.

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Table 2 Selected reforms in labour market policy since 2007

level of benefits	
expansion	retrenchment
fi	gr
hr	ie
	lt
	pt
	ro
	rs
	uk

eligibility criteria	
expansion	retrenchment
ee	cz
fr	fi
lt	hu
	ie
	pt

duration of entitlements	
expansion	retrenchment
de	de
lv	hu
	ie
	lv
	pt

employment rights		
expansion	retrenchment	
bg	cz	pl
fr	es	pt
it	fr	ro
se	gr	rs
si	hr	si
	hu	tk
	it	
	lt	
	nl	

public sector employment	
expansion	retrenchment
hu	cy
lt	es
rs	gr
	hr
	lv
	pt
	ro
	rs

public wages	
expansion	retrenchment
	es
	gr
	hr
	lt
	lv
	ro
	rs

We can observe a (partly temporary) reduction of *public sector employment* in at least eight countries as well as a reduction of *public wages* in at least seven countries. We can carefully conclude that while the reduction of unemployment benefits as well as employment rights can be found all across Europe, public employment is especially retrenched in Eastern European as well as Southern countries that were especially hit by the crisis. A striking example for reducing public employment as well as public sector wages is Romania: Here, public wages for all public sector employees were cut by 25 %. In addition to that, six out of seven vacancies were made unavailable and 132,000 employees lost their jobs (Popescu et al. 2016).

Similar to pension policy, an expansion of risk prevention in labour market policies takes only place in a few countries. There are some instruments that can relatively frequently be observed: First, the introduction of *minimum wages* which took place in at least five countries (cz, de, hr, mk, and si), and second, the **targeting** of unemployment benefits for certain groups. This was the case in at least four countries (cy, fi, it, and si). In Slovenia, against the background of the high youth unemployment rate, the unemployment protection was extended for this target group: A special regulation was introduced for the unemployed aged under 30 years, granting 2 months of unemployment benefit for those who had been in employment for at least 6 of the last 24 months (where, in general, it would have to be at least 9 months of employment) (Hrast and Mrak 2016).

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4 Between Workfare and Social Investment? Labour Market Activation and Work-Family Balance

Our aim in this section is to map policy reforms since 2007 in the areas of labour market activation and work-family balance. In family policies, we will therefore particularly focus on childcare policies, which mainly rest on the two pillars of publicly provided childcare and parental leave regulations (Szelewa and Polakowski 2008: 115). These policies are very much related with labour market activation, as they have been increasingly discussed as important to shift care obligations from within the family to public welfare providers, to support mothers' labour market participation, and partly also to enhance fathers' participation in care work. While labour market activation has been primarily discussed in the context of workfare, and work-life balance rather in the context of social investment, the respective divisions between 'retrenchment' and 'expansion' are not clear.

4.1 Labour Market Policies and Activation

Overall, the area of labour market policies is marked by a high diversity of post-crisis pathways. There are numerous individual measures that only appeared in one or two country cases. Nevertheless, there are certain reforms which many countries have implemented in similar ways and which shall therefore be portrayed here in more detail.

Of outstanding importance was the expansion of **qualification** measures, including training, coaching, retraining, or apprenticeship. Reforms in this area were conducted in more than half of the countries under investigation, at least 18 countries (at, be, bg, cy, ee, fr, hr, hu, ie, is, lt, lu, lv, mt, nl, rs, si, and tk). For example in Belgium, training opportunities for people excluded from the labour market have been expanded substantially: Amongst others, they can now participate in the so-called IBO programme ('Individuele Beroepsopleiding') which provides on-the-job training for the less skilled (Marx and Schuerman 2016).

In many countries, **incentives for employers** were set to hire personnel, for example by additional grants, or reliefs in taxes or contributions (e.g. be, bg, es, is, mt, ro, se, and tk). In Sweden, like many other countries struggling with high youth unemployment rates, a set of measures has been introduced to make young people a more attractive labour force. For example, the employer's social security costs—and sales taxes for restaurants—are reduced when a young person under 26 is employed (Hort et al. 2016).

Some countries, however, reported also **decreases in active labour market policies** since the start of the fiscal and economic crisis (be, bg, dk, es and mk) or targeted access to these measures (mk and lv).

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Table 3 Selected reforms in family policy since 2007

child/family allowance		leave policies		U3 childcare*	
expansion	retrenchment	expansion	retrenchment	expansion	retrenchment
at	bg	be	lu	at	dk
be	cy	bg	lt	be	it
de	dk	mt	si	de	uk
gr	fr	pl		gr	
is	hu	si		lv	
lv	ie			lu	
mk	is			ro	
mt	lt			si	
ro	lu				
	uk				

* Childcare: Participation of children below 3 in formal childcare in 2008 and 2012 (in per cent), included if change of 5 percentage points and more (Source: Eurostat)

4.2 Family Policies and Work-Family Balance

In the following, we will describe the most important expansionary and retrenchment measures, which were to be found in a number of countries in family policies and, more specifically, childcare policies and work-family balance. The following table gives an overview of reforms in selected areas, namely child/family allowances (described in more detail in Marx and Schuerman 2016)", leave policies and childcare for children under the age of 3 (U3).

Regarding **leave policies,**[5] both retrenchment and expansionary reforms were reported (see Table 3). In two countries—Bulgaria and Slovenia—leave policies were retrenched in the first post-crisis stage, and then expanded again in a later stage. In Portugal, paternity leave was expanded and parts of it (10 days) even made compulsory for the father to take after the birth of his child.

Next to the expansion (or cutback) of leave benefits, there are a number of particular measures in different countries that aim at creating a more **gender-equal leave** or stipulating mothers' employment. General expansionary reforms towards more gender-friendly parental leave were detectable in several countries (see Table 3). In Romania, a monthly bonus is paid to parents who return earlier to the labour market. Also in Denmark and Poland, incentives and new possibilities were introduced for combining parental leave with (part-time) employment.

Reforms towards more gender-equal leave policies, e.g. setting incentives for quicker return of mothers into paid employment after the birth of a child, are closely

[5] Leave policies can be divided into: maternity leave, paternity leave, parental leave, leave to care for sick children, leave to care for other dependent relatives (see Moss 2014).

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related to the provision of public childcare. Table 3 summarises developments in childcare provision for children under the age of 3 (U3) between 2008 and 2012. Based on Eurostat data, countries were included here if they showed either an increase or decrease in formal childcare participation of 5 % points and more between these dates. As the table shows, three countries show a lower U3 childcare participation in 2012 than in 2008 (dk, it, and uk). In the majority of countries, however, U3 childcare participation rates have risen between 2008 and 2012. There are a number of countries which especially seem to have expanded U3 childcare provision.

While especially for small variations these EU-SILC data need to be treated with caution, they can give a general impression, supplemented by the evidence from the case studies, which have also shown childcare to be among the major reform (and expansion) areas across Europe.

Above the issue of participation rates, there is a large spectrum of reforms related to **childcare provision**. In a number of cases, this regards aspects of financing: Childcare subsidies were introduced in Romania and Latvia, vouchers for childcare in Luxembourg. Malta has introduced a tax deduction for attendance at kindergarten, as well as free childcare for working parents. In Austria, the last childcare year has been made free-of-charge and, at the same time, compulsory. Furthermore, in this context, a number of Austrian federal states have introduced gratuitous childcare also for younger age groups.

A **legal right to a childcare place** was introduced in Germany and Ireland. In Finland, on the other hand, there are plans to restrict the right-to-childcare for children, where a parent is on leave or receives the home-care allowance. At the same time, however, the fathers' leave was extended, and a new flexible care allowance introduced with an increased focus on gender equality: Plans to reform the Finish home-care allowance in a corresponding way, however, did not yet materialise (see also Salmi and Lammi-Taskula 2014).

New **home-care allowances** have been introduced, for example in Germany and Sweden. Home-care allowances have been heavily debated in the literature and the wider public sphere over the last years—and mostly they are viewed rather critically. For example, Ellingsaeter (2012) summarises results regarding the experiences in Finland, Norway and Sweden: According to these, the home-care allowance in all three countries is primarily drawn on by mothers, particularly mothers with low incomes, low educational levels, and a migration background. Overall, home-care allowances show negative effects on the employment participation of mothers.

4.3 Choice

When focusing on policies aimed at opening up opportunities, it is striking that choice has become more dominant. Choice is strongly rooted in the activation debate where citizens are no longer seen as passive recipients of welfare transfers,

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but rather as well-informed and self-responsible citizens. Thus, in some social policy areas they are granted a certain freedom of choice.[6]

Choice is apparent in pension policy in the context of extending working lives against the background of demographic changes. Some countries (e.g. lu, and pt) have introduced voluntary pension contributions. In Luxembourg, voluntary pension contributions can be paid in case of work interruptions mainly by women deciding to stay at home and raise their children. Besides voluntary contributions, in several countries there exist also incentives for later retirement (e.g. cy, es, hr, mt, pt, and si). In Slovenia, higher permanent bonuses for longer working periods were introduced. A similar option exists in Malta where income-related pension deductions for working pensioners were abolished. In general, the combination of pensions and wages is a popular option concerning incentives for later retirement. Also in Croatia, apart from a general stimulation of later retirement, it is possible to simultaneously work part-time and receive old-age pension.

Choice is also an important aspect in achieving work-family balance. Particularly the freedom of choice regarding forms of childcare has increased in a number of countries. In Germany, for example, parents can choose if they want to make use of public crèches (for which a legal right has been introduced) or whether they want to care for their child at home (then receiving a home-care allowance). Also models to combine parental leave with (part-time) employment have been strengthened, for example in Poland. Another interesting example is Romania, where bonuses were introduced for parents who return earlier to the labour market.

Finally, choice is also an important issue in long-term care policy. Malta, for example, introduced incentives for employing carers in order to relieve relatives. In at least three countries (bg, si, and tk), a minimum wage for caring relatives was introduced. In Turkey, family members who care for elderly or disabled people are entitled to the minimum wage. However, they do not have access to social security. Apart from minimum wages, also other measures in order to strengthen choice were introduced: In Germany, for example, a private complementary insurance for long-term care was established.

5 Targeting the Needy: Social Assistance and Selective Social Protection

The following section will focus on the developments of social assistance schemes and the rising significance of targeted social protection measures. The term social assistance is not clearly defined, as it encompasses manifold measures addressing various risks and different target groups, such as long-term unemployed, low wage-earners, single parents, families with many children, or elderly people lacking an adequate pension provision (Bahle et al. 2010: 449). Here, "social assistance" is used in a narrower sense, i.e. mainly referring to minimum income schemes.

[6] For a critical view on choice see e.g. Greve (2009) and Blank (2009).

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However, some other non-contributory means-tested measures to support deprived individuals or families, or those at risk of poverty, will also be discussed.

5.1 Developments in Social Assistance

Social assistance for a long time seemed to be just an additional safety net of minor importance. Especially in those EWS considered to be the most mature ones, it is "often regarded as a residual part of social protection" (Bahle et al. 2010: 448). Compared to other welfare state areas, assistance measures traditionally account for just a small share of the total expenditure. This is due to both relatively low coverage extensiveness and modest benefits, mostly providing only top-ups to other sources of income (Avram 2013: 1). Accordingly, social assistance is meant to be a last resort for rather exceptional cases, in which labour market participation and other social protection measures failed to provide an adequate income.

For some reason, the significance of social assistance schemes grew increasingly during the last decades. Most notably, the rise in long-term unemployment and in atypical employment is resulting in a significant proportion of the population lacking adequate income provided by the labour market and subsequently not even being entitled to insurance-based compensation (if existent). Besides this, other recently emerging "new social risks" (Bonoli 2005) are still waiting for adequate policy responses and charge social assistance schemes to cover the essential needs of the worst affected (Bahle et al. 2010: 457; Nelson 2010: 367).

In the current situation, many European countries—especially those most hit by the ongoing crisis—are facing increasingly high unemployment in combination with social protection cutbacks owing to austerity measures. This combination challenges existing assistance schemes and increases the pressure to find new policy solutions to tackle the threat of impoverishment and social exclusion. Given the rising importance of social assistance programmes, it is even more important to have a look at the recent developments.

The conducted policy mapping based on the country reports enclosed in this volume tries to shed light on the question if there is any pattern or tendency of policy reactions observable in this dimension throughout the EWS: Have social assistance programmes risen or declined? How have the level of benefits and the access conditions developed? Did EWS tend to reinforce assistance programmes to cushion social hardship owing to the crisis, or did social assistance suffer cutbacks like many other social protection schemes?

First of all, it must be stated that minimum income protection of any kind exists in all EWS except Italy and Greece (Agostini and Natali 2016). In the case of Italy there have been endeavours to develop assistance schemes since the late 1970s, but even though these efforts were reinforced in the last years, the measures are currently still at an experimental stage and limited to the biggest municipalities (ibid.). Another special case worth mentioning is Turkey. The Turkish welfare state recently increased the expenditure for social assistance dramatically, but its

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organization is fragmented and mainly "charity-like" (Göçmen 2016) in character instead of providing extensive basic protection.

Most notably, the implementation of new guaranteed minimum income schemes since 2007 was observed in at least three countries (bg, cy, and lv). By contrast there seems to be no evidence for abandoned programmes. In some cases like Austria new general minimum income (GMI) schemes replaced already existing functionally similar ones, thus not indicating substantial shifts. Referring to the generosity of social assistance benefits, the levels rose in several European states (e.g. bg, dk, lv, mk, ro, and rs). Worth mentioning is the recent development in Denmark, where raised benefits and relaxed means-testing are accompanied by cutbacks and conditionality concerning young unemployed lacking higher education (Greve 2016). In the case of Austria, the protection level was increased by integrating the social assistance beneficiaries into existing health insurance schemes (Österle and Heitzmann 2016). On the whole, regarding the level of minimum income benefits, there again seems to be some evidence for expansions but only few examples for major cutbacks (e.g. hu and hr). However, the increase refers to the number of schemes and the level of provisions only. If we focus on the coverage and the access to those schemes, the generosity declined: In at least eight countries (e.g. cy, hr, hu, mk, pt, ro, rs, and si) the access to social assistance became more limited by tightening up eligibility criteria. Additionally, a stricter application of already existing criteria through rigorous means-testing was observed in Croatia and other cases (e.g. hr, hu, and pt). The overview in Fig. 1 illustrates these expansions referring to the level of minimum income provisions, while access and coverage of those programmes became more limited.

In some countries—for example in Portugal—a more generous provision in terms of benefit levels and access to benefits at the beginning of the crisis turned subsequently into reverse in the context of austerity (Pereirinha and Murteira 2016). Apart from narrowly defined eligibility criteria and strict means-testing, some of the recently implemented assistance schemes are restricted by conditionality and linked to activation instruments as for example in the case of Austria (see also Sect. 4.1).

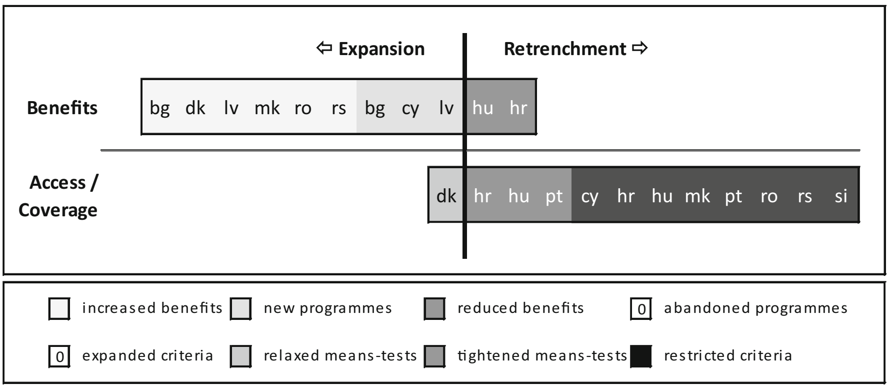

Fig. 1 Selected reforms of the minimum income schemes since 2007

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This includes the obligation to take up each and every employment or to do community work. Rather extreme restrictions manifest in Hungary, where the entitlement to benefits depends on work and behavioural tests (Lakner and Tausz 2016).

In addition to the minimum income provision, a variety of accompanying measures have recently been introduced or raised to support the beneficiaries of the assistance schemes, low-income earners, unemployed, or most vulnerable social groups. At least four countries (bg, hu, mk, and mt) implemented or increased allowances for heating or energy, while similar measures suffered cutbacks in Cyprus and Ireland. The Bulgarian state increased the level of such benefits but limited the number of eligible recipients, thereby presenting a typical example for a tendency already mentioned. In France and Malta, a temporary combination of assistance benefits and employment was facilitated as an incentive to take up work. Other "minor" measures flanking social assistance throughout the EWS are too numerous to mention.

5.2 The Rise of Selective Social Protection and Integration Measures

Our overview suggests the following findings: Social assistance schemes grew in number and in the level of benefits, while the access to those schemes seems to become progressively restricted—as indicated in Fig. 1. In some countries both developments took place simultaneously. These opposing tendencies can hardly be conceived in terms of retrenchment or expansion of social assistance, but they indicate an increasing selectivity. For the case of Cyprus, Christou, Ioannou and Shekeris go so far as to qualify this development as a "shift from universality to selectivity" (Christou et al. 2016).

This impression intensifies when the developments of other social protection areas are taken into account, as selectivity obviously is not limited to minimum income schemes. In the following, a short overview across four areas of social protection illustrates the popularity and variety of recently implemented measures targeting the needy or categorically defined groups.

Within the field of labour market policy at least five European states—including e.g. Italy and Finland—reinforced benefits to provide additional support for defined groups. In Slovenia, for example, the benefits for young unemployed were raised. In the case of Sweden, the dismissal protection and employment incentives for young unemployed were strengthened. Other labour market policies promote active ageing through employment incentives for elder employees, for instance in the case of Hungary. Moreover, at least four EWS introduced or strengthened programmes to encourage female participation in employment, e.g. in Italy or Malta. There are only few examples for cutbacks reducing selective labour market policies, as observable in Cyprus or in Latvia.

In the field of pension policies, targeted measures still seem to be rather uncommon. Nevertheless, there exist new instruments in Cyprus, France and

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Germany addressing elderly low-income earners, or e.g. unemployed mothers of more than three children in the case of Macedonia. Noteworthy, while throughout Europe the vast majority of the early retirement schemes was abandoned during the past decade, such opportunities are opening up anew in Croatia, France and Germany. Those recent early retirement schemes apply exclusively to narrowly defined groups of employees, considering exceptionally long contribution periods or harsh working conditions.

European health reforms present a more ambiguous picture: While the access to free healthcare was expanded in e.g. Ireland, Latvia and Serbia to relieve the needy, some others like Estonia or Lithuania tightened the eligibility criteria. Similarly, several reforms in the area of family policy increased selective support for families at risk of poverty, as e.g. in Malta, Estonia and Greece. However, the impact of the new means-tested child benefit in Greece should not be overestimated considering the rather tiny amount (Adam and Papatheodorou 2016). On the other hand, reduced access to selective family support through stricter criteria or means-testing can be stated for Portugal, the United Kingdom and several other countries (dk, hu, lt, ro, and si).

5.3 Will Selectivity Prevail?

After having reviewed the recent reforms, we can carefully point out the following two tendencies: First, it can be stated that the necessity to tackle the rising poverty rates seems to be attracting more attention across Europe. This clearly can be seen by the implemented social assistance schemes and the variety of accompanying measures that were adopted despite budgetary strains. However, the increase in number does not necessarily imply a rise in the overall expenditure as many reforms not only opened up new and often more generous support, but simultaneously tightened the access to already existing schemes. This growing restriction of entitlement through the definition of specific needs or risk-related indicators is the second tendency we suggest.

The increase of targeted measures, while at the same time insurance-based schemes are suffering cutbacks in many EWS, gives rise to the question if this might be the beginning of a paradigmatic shift from universality to selectivity. It could be argued that this dichotomy exists only in theory, as hardly any concrete policy is absolutely universal or selective. In fact, there is a continuum between unconditional free-for-all services on the one extreme and restrictions by means-tested financial thresholds and risk-related criteria on the other. Nevertheless this distinction proves to be relevant for budgetary reasons and questions of legitimacy. In 1994, Pierson argued that targeted measures are less vulnerable to cutbacks, considering that universal programmes are “much larger and more generous” which makes them “likely targets for major retrenchment efforts” (Pierson 1994: 170; Nelson 2010: 371). The explanation for the rise in selective measures seems to be obvious, especially if it goes along with the retrenchment of universal schemes addressing similar risks. Targeting is often considered to be the most rational way to

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transfer social protection budgets only to those who really need them, thus providing a more cost-efficient solution to tackle the same problems. Especially in times of crisis, this strategy seems to overcome the double-bind of austerity and cost-containment on the one hand and the core responsibility of welfare states to mitigate social hardship and to prevent mass-impoverishment on the other.

Other scholars contradict Pierson's thesis referring to empirical evidence of the last decades. Nelson even suggests the opposite, as means-tested assistance benefits proved to be slightly more vulnerable compared to the development of unemployment insurance schemes until 2002 (Nelson 2007: 54). The theoretical explanation for the persistence of universal programmes can be explained by "simple rational choice" (Nelson 2010: 371): The coverage of universal provisions encompasses a great share of the population, potentially each and every citizen. Therefore a vast majority—especially within the middle-class—tends to support and defend them. Narrowly defined targeted measures, in contrast, are reserved to a relatively small group of vulnerable persons, lacking support and political influence especially in times of distribution struggles. It is thereby suspected that policymakers rather cut the latter kind of provisions than risk a conflict with major parts of their electorate (see also Korpi and Palme 1998: 671f).

Although Nelson's arguments for vulnerability of targeted measures in times of retrenchment sound convincing, our findings indicate an increase of selectivity. Maybe the exceptional pressure caused by the budgetary crisis opened new policy windows and Pierson's thesis of prevailing selectivity proves true in the end. If further research substantiates the suggested tendencies, not only the savings but also the administrative costs, inclusion and exclusion errors and stigmatizing effects of targeted measures will be major issues for the debates to come. Detailed empirical data will be needed to evaluate the complex trade-off between coverage, benefit levels and targeting efficiency.

6 Conclusion

After having categorized the developments in the EWS on the basis of the country chapters, we do not see a picture of converging policy trends: Regarding social policy, national diversity within Europe is a major factor that shapes the foreseeable future of the EWS (Bazant and Schubert 2009), even if European influences cannot be denied (see also Lamping 2009; Kerschen and Sweeney 2016). However, in spite of the great diversity, some common developments can be observed that we tried to address in this chapter.

Retrenchment of *risk prevention* does particularly take place in the fields of labour market and pension policies. Important reforms are the restriction of early retirement, raising the retirement age as well as reducing the level of pension provisions, public employment, employment rights and the level of provisions in labour market policy. In family policy, both retrenchment and expansion take place, while retrenchment measures in the other policy areas are less frequently reported.

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Within family policies, the area of cash and tax benefits seems to be prone to cutbacks. Several reasons come to mind for this. First, it could be expected that cash and tax benefits are vulnerable since they 'offer' many instruments to do so relatively easily (e.g. benefit height, duration, eligibility criteria). Second, more profanely, child/family allowances exist in *all* European countries, therefore standing high chances of becoming an object of reform in many places. Third, it can also be an ideological question: As many countries have fostered social investment reforms, they may seem cutting back on childcare facilities or parental leave as more 'harmful' than cutting back on cash benefits (see Blum et al. 2014). However, this is by far not the case everywhere: For example, as León and Pavolini (2014) have shown for Italy and Spain, the economic crisis has in the family policy of both countries led to a domination of austerity programmes, and partly the relinquishment of a 'social-investment path'.

As the areas of *activation and work-life balance* have shown, though, childcare expansion and more gender-equal leave policies are on the political agendas for action in many EWS. In these processes, counter trends are also not negligible, such as the increased introduction of home-care allowances.

Opening up individual *choice* in terms of welfare provision is an important feature in a number of policy fields as well. In pension policy, it is especially used for extending working lives. In family policy, work-family reconciliation is the dominant feature, here referring particularly to the freedom of choice in childcare. Also in long-term care policy, different models exist in order to facilitate care.

Referring to *social assistance*, the number of schemes grew as well as the levels of benefits. Nevertheless, it is hard to evaluate if this development can be described as an expansion of social assistance, because the access to those schemes became progressively restricted by tightened eligibility criteria and stricter means-testing. This impression of increasing selectivity is reinforced by manifold measures across different fields of social protection targeting the needy, or supporting a categorically defined social group. Further research will have to assess if this tendency is just an episode owing to temporary budgetary strains, or if a substantial shift to more selectivity and targeting is taking place.

In sum, it turns out that social policy changes can rarely be reduced to a question of expansion *or* retrenchment. Rather, it seems more adequate to talk of a restructuring of welfare. We have partly been able to show that the reduction of risk prevention is in many cases accompanied with "opening up opportunities", for example a reduction in the level of unemployment benefits combined with ALMPs or a rise in retirement age accompanied with "active aging" policies.

The three observed tendencies—retrenchment of universal risk prevention, increasing activation and an expansion of targeted measures—point in the same direction: An individualization of risks and opportunities. Expanding individual leeway and an increasing importance of personal choice and responsibility are accompanied by declining collective protection. As a matter of course, our findings just present a broad overview of a short period of time and it is far too soon to state

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any paradigmatic shifts owing to the crisis. Further research will have to show how this restructuring of welfare in times of crisis will take place.

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European Demographic Change and Welfare Challenges

Mare Ainsaar and Kadri Rootalu

1 Introduction

The population structure directly or indirectly influences needs of society, resources, social policy attitudes, the labour market, pensions, the provision of health care, housing and social services, electoral behaviour, micro- and macroeconomics, tax policies and many other domains of life (Ainsaar 2012; Bloom and Canning 2008; Calahorrano 2013; Felix and Watkins 2013; Morgan 2013). Social policy is in many ways influenced by the demographic situation, but it also shapes demographic structures itself. Three main population processes—fertility, mortality and migration—cause changes in the population age structure. Therefore recent demographic changes—low birth rates, changing family structures, an ageing population and growing immigration flows from outside Europe—pose new challenges to European welfare states.

Although Europe is still gaining in population, the situation varies in different countries, and the population growth rate shows signs of decline (Coleman 2006; Sardon 2006). Migration has become the main source of population increase, contributing around 60 % of demographic growth in recent years (Marcu 2011). This chapter provides an overview of how changes in population structure and demographic processes are linked to political views and rhetoric about social policy at the start of the twenty-first century in Europe. Population development is analysed alongside views of governments on population growth and population policies. The chapter analyses the main population processes from three main angles: (1) the situation using data from Eurostat; (2) official views on the situation; and (3) how European countries differ in their social policy reactions. For social

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policy reactions we use the United Nations World Population Policies Database and also take into consideration the findings from the chapters of the current book.

The policy process is often influenced by past and future prospects, which is why both time scales are taken into account in the analyses. In the end of the chapter we take also the case of family policy, as one popular population policy domain in Europe, and analyse whether attitudes and policy rhetoric are related to real fiscal contributions from the government.

2 The Role of the State

There are numerous historical examples of active state intervention in population development: how birth rates which are too high force agencies to implement policy instruments in order to lower birth rates; how countries with low birth rates become interested in active pro-natalist approaches; and how ageing populations lead governments to adopt new pension policies and insurance schemes. However population policies have been seen as a public good, but with problematic issues regarding the role of the state in influencing individual behaviour in general interests (Demeny 2011). Demeny argues that this diversity is partly influenced by difficulties of the state in establishing a rational argument for intervention, especially when it comes to the conflict of individual and collective interests. The establishment of adequate politics has also been affected by people's limited awareness, the complexity and absence of clear means for solutions and the fundamental risks of failure of policies (Lassila and Valkonen 2008; Demeny 2003). All this often leads to a situation where the demographic problems are kept off the political agenda and there is no political interest in taking a strong stand. Höhn (1999) complains that politicians are not reacting because there are a lot of aspects of population politics that are unappealing to politicians: a lack of specific interest groups; the heterogeneity of the population; a lack of influence in the voting system; insufficient knowledge; and the inconvenience of arguing about individual and societal interests. Additionally, it has to be taken into account that policy processes are influenced by many different factors. Morgan (2013) found that governments react differently to changing population situations. While some governments have chosen a new path by reforming their welfare regimes, for example enacting paid leave schemes, expanding the rights of part-time workers and making greater investments in childcare to attract voter groups like women, other countries have taken smaller steps in reforming policies. Some countries develop more in the spirit of path dependency and others in path-shifting track. Reasons for choices are unclear, but it is known, that policies of the past affect the way in which people think about issues (Pierson 1996), and changes are related to different economic and psychological costs compared with the preservation of the prevailing situation (Brooks and Manza 2006).

The political process is also complicated due to a lack of clear and universal effects, which does not always allow us to be certain that the desired outcomes will be achieved. This happens because effective solutions are spread over several

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policy domains and need the cooperation of many sectors (Neyer and Andersson 2008). Effects are also likely to differ between a situation in which a certain policy development lags behind broader social change and one in which it acts rather as a forerunner in societal development. Take, for example, family policy and fertility. On the one hand, several theoretical and empirical papers confirm the interaction between family policy and fertility (McDonald 2006; Björklund 2006; Frejka et al. 2008; Rijken 2006; Kalwij 2010). On the other hand, also missing causal relationships between policy and demographic behaviour are often reported (Wennemo 1994; Hantrais 1997; Baird et al. 2010). Frequent conclusions include the following: even if there is a relationship between family policy and fertility, its nature is more indirect than direct, and family policy has only a limited impact on birth rates—mostly on the timing of childbirth (Gauthier 2007; Frejka et al. 2008); or that family policy is a necessary but not a sufficient fertility factor (Rǿnsen 2004; Hoem 2008). Despite scientific uncertainty, many countries continue efforts to improve family policies (Daly 2011)—often also because of demographic concerns.

3 Seven European Demography Types

It is useful to grasp the demographic situation in a region in order to understand the needs and interests behind its political behaviour. We assume that countries with unfavourable population structures are more at risk of population decline and more motivated to implement action which supports population growth, e.g. family or immigration friendly policies. European countries form different demographic regions partly due to their historical development. The decisive factor of future population trends is their current gender and age structure, which is the result of long-term demographic processes in the past (Coleman 2006). For regional demographic analysis of Europe, we used the statistical data from Eurostat for 31 European countries concerning their current and future population structures and main demographic processes.

General analyses of the population data in 31 countries showed that countries with persistently low fertility rates also have a lower percentage of young people ($p < 0.01$) and a higher ratio of elderly people compared to the working age population ($p < 0.05$). Countries with low birth rates have also less immigration per person ($p < 0.05$). As such, their population growth problems exist for several reasons. The problem of the ageing population troubles mostly countries where net migration is negative or/and the total levels of immigration and emigration are relatively modest. Demographic processes have their own laws and therefore, for example countries with more young people are also those from where emigration is higher, although net migration is not necessarily negative. Emigration is also higher from those countries which have a higher level of immigration.

The demographic structure of the country determines to a great extent its population processes in subsequent decades. Thus we grouped countries in Europe based on their current and future population age structure and fertility. The

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Fig. 1 Seven types of countries according to population structure

migration data were left out from analyses because they are more volatile compared with fertility trends. We attained data from Eurostat and used three indicators for grouping of countries: (1) the proportion of people aged 24–60 in the total population from 2005 to 2020, (2) the proportions of people aged 61 and older in comparison to the proportion of those aged 24–60 from 2005 to 2020 and (3) the total fertility rate (TFR) from 2000 to 2012. For hierarchical cluster analyses we calculated the period means for all the parameters. The final number of clusters was determined on the grounds of the optimal distance to the next possible cluster combination. The analyses with these indicators showed that European countries can be divided into seven types (Fig. 1).

Future population developments are most critical in terms of sustainability in 19 of the 31 countries. A short description of the groups with a list of the challenges facing them is provided in Table 1.

High population risk countries are Bulgaria, Germany, Estonia, Greece, Croatia, Italy, Latvia, Lithuania, Malta and Portugal. Characteristic of this group are an average percentage of working-age population, a high rate of the old age dependency, a low fertility rate and a low proportion of the under-24 population. This means that the countries in this group have all the problems connected with the ageing population: a future labour shortage, concern for the sustainability of the population and a need to adjust to the ageing society.

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Table 1 Main demographic characteristics in seven country types

	Population structure 2005–2020			Recent population processes 2000–2012				
	%					Per 1000 inhabitant		
	<24	24–60	>60	TFR	TFR change	Net migration	Immigration	Emigration
High population risk (BL, DE, EE, GR, HR, IT, LV, LT, MT, PT)	25.0	51.0	46.8	1.41	0.06	−0.97	4.9	5.8
Moderate population risk (CZ, ES, HU, AT, RO, SI, SW)	25.1	52.8	41.9	1.37	0.15	2.91	9.4	6.4
Future population risk (PL, SK)	27.2	54.0	34.7	1.3	−0.02	−0.30	1.7	1.6
Minor concern (BE, DK, NL, UK, NO)	28.7	49.7	43.3	1.79	0.07	3.62	9.6	6.2
Moderate population growth (FR, FI, SE)	28.4	48.3	48.4	1.85	0.19	2.80	6.1	3.6
Intensive immigration (CY, LX)	29.3	52.9	33.8	1.56	−0.22	12.70	27.7	15.7
High population growth (IE, IC)	33.4	50.1	33.1	2.02	0.04	4.35	19.3	14.4

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Moderate population risk countries are Czech Republic, Spain, Hungary, Austria, Romania, Slovenia and Switzerland. This group of countries is characterised by a low fertility rate but positive net migration. The proportion of the working-age population in this group is somewhat higher than in Europe generally, and the proportion of the older population is high. Despite the unhappy situation at present, several countries in this group can count on immigration flows that do not make the demographic situation as critical as in the previous group.

Future population risk countries are Poland and Slovakia. These countries have quite a good current population structure, but already exhibit negative demographic growth behaviour, very low fertility and negative net migration. Although they have a relatively high working-age population and low proportion of the older population, in the context of low fertility and future emigration the situation will become critical in the future.

Countries with little demographic concern Belgium, Denmark, the Netherlands, the UK and Norway. This group is characterised by a high percentage of the aged and a relatively low proportion of the working age population, which means a need for labour. The proportion of the younger population is on par with the European average and the situation with fertility is not as critical as in many other countries. Population growth is also supported by positive net migration. Thus, although the situation with the current population structure is not ideal and the need for labour exists, these countries are relatively well-placed given that the current situation is not changing.

Moderate population growth countries are France, Finland and Sweden. These countries have a relatively high fertility rate and positive net migration rates, a high proportion of young people and also a high rate of older-age persons compared to working age persons and low proportion of the working-age population. Although in terms of demographic processes these countries are sustainable, the need for labour exists because of the current population structure. This again may increase their motivation to address population issues.

Intensive immigration countries are Cyprus and Luxembourg. These countries have a young population structure and no demographic problems in terms of sustainability. In addition to high immigration rates, the mean level of fertility, the high proportion of young and the low proportion of the older population are characteristic of these countries. Given their current population structure, these countries should be the least interested in supporting population growth policies.

High population growth countries are Ireland & Iceland. These two countries can be the least concerned in terms of population. They are characterised by high fertility and a high proportion of young people. Also, they have a very low dependency ratio and continuing immigration.

4 Concerns About the Demographic Situation

We assume that the demographic situation of countries motivates them to act differently, but we must keep in mind that the policies may have been influenced also by tradition, specific political factors and public attitudes about the population

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situation. In this subchapter, we analyse the needs and political rhetoric that are perceived by these 31 European states we had previously in analyses. Therefore, we use the United Nations Population Policy Database (2014) in combination with demographic characteristics. The United Nations Population Policy Database reflects the governments' official views on demographic situations and political preferences from the point of view of population policy. The questions are about all main domains of population growth: fertility, mortality, immigration, emigration, population structure. The data from government officials are collected every second year. We formed two indexes according to data from 2001 to 2011: 'view' and 'policy'.

The **'view'** index sums up the attitudes of the state regarding general population growth, fertility level, immigration and emigration, the size of the working-age population and the ageing of the population. In this index we take into account attitudes about four processes that affect population size: general growth; fertility; immigration and emigration; and their outcome—the percentage of the working-age population and the elderly in the population. The higher the view index, the greater the state's concern.

The **'policy'** index summarizes the governments' rhetorical attitudes about the relevant population policies—how great is the need to implement policies on growth, policies to raise the fertility level, support immigration policy and avoid emigration. The higher the index, the greater the state's support for policies that facilitate population growth. We exclude data related to life expectancy from our analysis because there is no country in Europe which does not want life expectancy to rise.

A comparison of changes in attitudes over time shows that the general concern about population growth has risen during the twenty-first century (Fig. 2) alongside the readiness to support policies geared towards population growth. However, there are still huge differences between groups of countries and policy domains. Ageing of population and the lack of workforce are the main recognised problems for the majority of all countries. A rise of the fertility rate is the most common solution among population related measures.

Looking at the importance of themes related to population over a period of 10 years (Table 2), we can see two major changes. On the one hand, the concern about population ageing has risen remarkably; and the countries have transformed from immigration-avoidant to being rather neutral towards immigration. What is more, the concern about population growth and structure has also increased. The notion of population ageing in Europe and the problems associated with it, including a shortage of working-age population, entered the consciousness of European countries in a particularly impressionable way between 2001 and 2005 and has remained there ever since. Most states see the birth rate as the main source of population growth among demographic processes and wish to increase it. In a situation where the majority of countries have an under replacement level of fertility they consider it generally to be too low. Emigration and immigration trends are generally considered to be at satisfactory levels.

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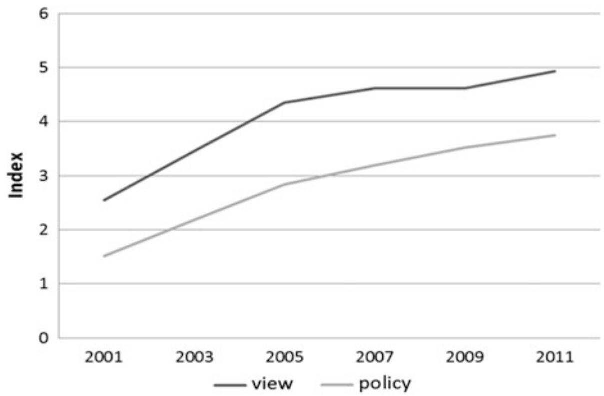

Fig. 2 Concern about population growth and population policy as reported by governments (a higher index reflects a greater concern about population growth and more acceptance of policy geared towards population growth, 31 countries' (Austria, Belgium, Bulgaria, Croatia, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom) average

Table 2 View of total population growth, migration and fertility issues, and concern about the ageing of population and share of working-age population in society, average of 31 countries

	Views on growth[a]				Concern[b]	
	Population growth	Fertility	Immigration	Emigration	Working-age population	Ageing
2001	0.39	0.65	−0.32	0.13	0.68	1.03
2005	0.45	0.71	−0.16	0.09	1.52	1.74
2007	0.48	0.65	−0.09	0.06	1.61	1.90
2009	0.48	0.61	−0.03	0.13	1.48	1.94
2011	0.55	0.68	0	0.19	1.55	1.97

[a]Scale −1 to 1, −1 = need to reduce and 1 = need to increase population growth
[b]Scale 0 = no concern, 2 = high concern

Analysing connections between the demographic situations of countries and attitudes shows that the general concern about the demographic situation is indeed related to the objective demographic situation. The clearest and most frightening objective demographic signs for countries are a low birth rate ($p < 0.01$) and a low percentage of young people ($p < 0.01$), which force states to acknowledge population problems. We can read about relevant case studies also from the chapters of this book (see e.g. the chapters on Croatia, Estonia, Finland, Poland, Romania, Serbia, Spain, UK).

But also a small percentage of immigrants ($p < 0.01$) and a large proportion of elderly people in the population ($p < 0.01$) are clear features to policy makers and are associated with a countries' more substantial concern about its population. The fact that countries also take the future population situation into account is illustrated

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by the notion that the concern about population issues is also substantial among countries which at present have a relatively good ratio of working population to non-working-age population ($p < 0.01$).

5 Policy Response to the Demographic Situation

As the general attitude and willingness to implement policies geared towards population growth varies, we analysed the specific population policy plans of different countries separately. The policy index measures the rhetoric of countries in regard to population growth in the case of different policies (overall growth, family policy, immigration and emigration) that affect the size of the population. Figure 3 shows clearly that fertility growth policy is without question the most popular among European countries, although the total support for population growth policies had gained essential acceptance as well.

Of all the fields of population policy, only the attitude towards emigration policies has remained the same (neutral) throughout the decade (Fig. 3). A willingness to deal with and accept immigration policy increased from 2001 to 2009 (see also the chapters on Czech Republic, Denmark, Finland, Ireland, Luxembourg). The economic crisis of 2009 and the rise in unemployment led to a relative halt in this development and stabilization (see also the chapters on Croatia and UK). At the same time, the desire to concentrate on fertility policies has grown even quicker since the economic crisis.

All of the countries that strongly support population growth can be described, above all, as countries that are oriented towards increased fertility, that are willing to contribute to immigration and, in moderation, to deal with emigration. In groups of countries with different demographic developments, the prevalent attitudes are relatively predictable considering the demographic situation of these countries

Fig. 3 Views on population policy ($-1 =$ lower population growth, $0 =$ no intervention, $1 =$ maintain population growth, $2 =$ raise population growth)

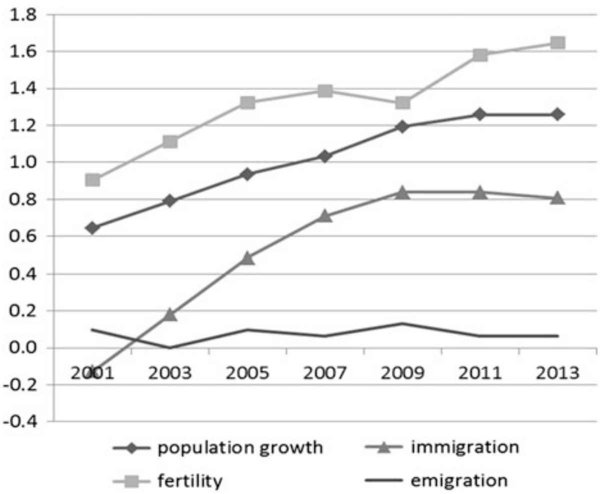

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Table 3 Demographic groups of countries and support for various policies 2001–2013

Country groups	Population growth policy	Fertility policy	Immigration policy	Emigration policy	Total policy index
High population risk	9.1	9.8	3.9	1	24.4
Moderate population risk	8.4	10	4.7	0.9	24.0
Future population risk	8.5	10	7.5	0.5	27.5
Minor concern	−0.8	2.6	−0.2	0	2.0
Moderate population growth	1.7	7	4	−0.3	12.3
Intensive immigration	8	10.5	−1	0.5	18.0
High population growth	4.5	4.5	3.5	0	13.0

Mean value per country group to this policy domain; negative values = lower population growth, higher values = raise population growth; total policy index is the sum of sub-policy indexes, and higher value reflects higher wish to support population growth

(Table 3). The countries that are most highly motivated to contribute to population growth are also the countries that objectively have the most complicated demographic situation.

Analysis with indications of population structure and growth reveals that low birth rates and the percentage of young people in the population are most closely linked to the strength of political rhetoric towards population growth. Current analysis does not provide a clear explanation, but it can be assumed that low fertility and a lack of younger generations are understandable to both policy-makers and ordinary people as threads to sustainability that are convincing enough to get on the political agenda. The percentages of elderly and working-age people do not seem to affect national politics of countries as straightforwardly.

The other explanation is related to the complexity of demographic processes. Low fertility is often seen as being responsible also for population ageing problems. Ageing is not necessarily related to population growth issues, but rather represents a population structure problem. All country chapters in this book mention a new challenge related to population ageing. The majority of countries mention also a pressure on the retirement insurance systems, problems with labour supply and some poverty issues related to population ageing (for the latter see e.g. the chapters on Bulgaria, Latvia and Malta). Instead of population growth policies, the countries react differently using different strategies. The chapters about France, Denmark, Slovenia, Sweden and Austria emphasise a rise in health care costs and care costs. The question of intergenerational solidarity in society is mentioned in the chapter of Finland.

We also find solutions that are not related to population growth in the country chapters. The chapter about Denmark, for example, tells about development of

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technologies which might reduce the need for additional spending and elderly self-support programmes. The Netherlands and United Kingdom had introduced policies towards raising labour market participation levels, in particular of women, older workers and migrants.

The country group consisting of Poland and Slovakia, with low and decreasing fertility and negative net migration rates, expresses the firmest support towards population growth policies. They are willing, according to political rhetoric, to contribute to all population processes—fertility and immigration—and also to deal with emigration to a lesser extent. Also countries with a moderate or high population risk are active in their population policy attitudes and support population growth more forcefully. These countries have been constant supporters of higher birth rates in the twenty-first century and their positive attitude towards supporting immigration has grown rapidly as well. Malta and Germany are the most reserved in their population growth rhetoric among the group of moderate or high population risk countries, while Bulgaria is the most supportive.

Cyprus and Luxembourg, which form a separate group, are next in line on the basis of strength of population growth policies. Despite their relatively good demographic situation, these small states are comparatively strongly oriented towards population growth and supporting fertility. The general attitude towards the intense immigration that currently characterizes these states is unfavourable and there is a desire to decrease immigration.

Population growth countries—Ireland, Iceland, France, Finland and Sweden—are relatively weakly oriented towards additional population growth. However, during the first decade of the twenty-first century, the policies of these countries have transformed from neutral to more straightforwardly pro-natalist in terms of fertility and are more favourable towards immigration, but they are relatively weakly oriented towards total additional population growth.

The most reserved are the minor population concern countries, which have a relatively satisfactory demographic situation and the most passive population policies. They are not interested in further population growth, seek to maintain or reduce the current level of migration and are careful with regard to direct pro-natalist rhetoric. This is understandable when we consider their relatively high birth rates and positive immigration (in the context of European countries). Their political support for fertility policies has been on the rise since 2007, but in comparison with other European countries it has been relatively modest and attitudes towards immigration have been rather neutral for the twenty-first century.

6 Is Rhetoric Related to Real Policy? The Case of Family Policy

There are various reasons why policy rhetoric does not always coincide with policy actions. These may be related to political compromises, a lack of means or a lack of public support for actions. The complexity of different policy activities

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sometimes makes it difficult to objectively evaluate all of the contributions that countries make in order to support different population policy domains. In order to study possible links between population policy rhetoric and policy actions, we take one example of fertility and family policy and analyse the fiscal contribution of countries as a percentage of GDP to family policy during the first decade of the twenty-first century and its interaction with fertility-supporting policy attitudes.

By using data from 2001 to 2010 regarding the resources for family policy from the GDP and official attitudes about the need for family policy (Fig. 4) we see that an active political rhetoric is not always related to higher fiscal support to families with children. For example there are different groups of countries in terms of family policy rhetoric among those countries which allocate the most money to families with children. In this group Austria, Hungary, France, Luxembourg and Finland are also very firm in their official rhetoric while Denmark, Germany, Norway, Sweden and Ireland are good supporters of families, but had been more modest in their rhetoric. The other two groups with lower financial support are on the one hand countries where family policy has a low priority (bottom left), and on the other hand countries where it is an important political priority in the rhetorical sense (bottom right).

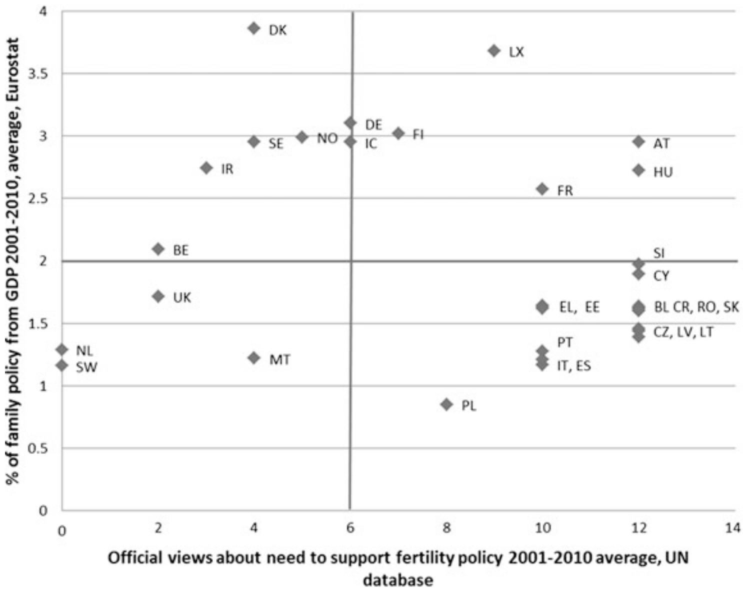

Fig. 4 Fertility policy attitudes and real contributions as a share of family policy in GDP from 2001 to 2010

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7 Conclusions

Despite certain doubts and pessimism in regard to politicians' decisiveness in solving issues related to population growth and structure, there is evidence that in the twenty-first century, demographic challenges are increasingly becoming part of the political agenda. There is no reason for concern about a lack of interest in demographic issues and related policies among European countries. The opposite might be true only in the case of a few groups of countries, with an objectively better demographic situation. In general, there is a widespread consensus on the need for family policy. The positive attitude towards immigration has also become more evident.

We divided the countries on the basis of their demographic structure and demographic situation into seven groups that produced also relatively good compatibility with their population growth attitudes and rhetoric. We found also clear evidence that attitudes towards population growth and population growth policies tend to concur with the demographic situation. In the case of 19 countries out of 31, there is reason to be particularly concerned about future population issues and increase support to different social policy domains in order to secure population growth.

Concerns about the population situation and willingness to support population growth policies have developed simultaneously and become stronger towards population growth in Europe. The most favourable field of population policy is fertility policy—probably because it is a complex solution related to ageing and the future workforce problems and it is understandable to people. However, we also saw that the political rhetoric is not always tied to an actual higher spending on families with children.

Another alternative to improve the structure of the population and increase population growth would be to increase immigration. We demonstrated also significant liberalization of European political attitudes towards immigration from 2001 to 2011.

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Politically Limited Pluralism: How European Welfare Systems Deal with the Crisis

Simon Hegelich

In 2009, Hegelich and Schubert introduced the concept of *politically limited pluralism* (PLP) as the specific way, European welfare systems deal with conflicts (Hegelich and Schubert 2009).[1]

PLP has three core elements:

> First, that the question of welfare is first and foremost a domain of national politics and political debate;
> second, that with their welfare systems, nation states react to conflicts, which emanate from socio-economic differences, such as access to resources, social class, gender or gender role, age, but also partly ethnic and or regional background, without however, offsetting this problematic plurality;
> third, that a great deal of social effort is required to attenuate the effects of these differences, so that compromises, cooperation and coordination are possible. (Hegelich and Schubert 2009, p. 546).

PLP was not only meant as a theoretical category describing the empirical plurality found in European welfare systems but also has a normative component: Hegelich and Schubert argue that the plurality of welfare systems in Europe is an advantage when it comes to dealing with crises:

> This diversity with regard to conflicts concerning welfare matters has [...] a systemic advantage: as welfare policy is an ongoing process, experimental solutions can be sought and new paths trodden. Reforms do not gamble all their stakes but deal with small areas and sub-systems. In this way there may be varying solutions to similar conflicts or strategies deployed successfully in one area, and which may be used in other areas. Alternatives are a

[1] For an analysis of European labour politics with PLP and some critical remarks see Schulze Buschoff (2011).

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> basic requirement for bench-marking and learning processes. For this reason too, pluralistic systems are highly innovative. (Hegelich and Schubert 2009, p. 552).

Five years later a lot has changed: Europe has been hit by a financial crisis that turned into a crisis of the state in some European countries (Hassel and Lütz 2010; Mayntz and Streeck 2010; Mügge and Stellinga 2010; Streeck 2010; Wagschal and Jäkel 2010). Some countries have done quite well while others still struggle with "structural reforms" that have—as always—strong effects on the welfare systems (Castells et al. 2012).

So, it is time to test PLP that has been a foremost theoretical concept empirically. The paper develops expectations how the crisis should have affected the welfare systems, based on PLP. Secondly, descriptive statistic methods are used to evaluate to what extent the real development fits to the scenario that was derived from PLP. For this propose the COFOG dataset of Eurostat is used. Third, results and implications for welfare policies are discussed.

1 What to Expect?

If the concept of PLP has any relevance, we would expect three empirical developments that can be traced in Europe's reaction on the crisis. First, when it comes to welfare related aspects, the most important actor should be the central state. Although welfare takes place in a multi-level governance system where regional authorities and institutions like social security insurances are important actors, the political character of welfare as assumed by PLP makes the nation state the most important actor. Second, within Europe we would expect diverse reactions. The high variance that is found in different national welfare systems should lead to diverse reactions even in cases where the situation might look similar at first glance. Third, we would expect an increase in welfare spending. If it is true that European welfare systems are a mechanism to reduce the level of conflicts in society via redistribution of resources, a crisis that is itself a distributional conflict will lead to more expenditure.

2 Data Description

The Classification of Functions of Government (COFOG), defined by the European system of national and regional accounts (ESA95), is regarded as the appropriate basis to examine the structure of government expenditure. COFOG separates ten main functions of governments' expenditures. For European welfare systems obviously *social protection* is the most relevant one. But as Schubert et al. (2009) have shown, it is necessary to take a look at expenditures on *health* and *education* as well, because in some European countries these purposes are strongly linked with the welfare system (like the NHS in UK, for example). COFOG's functional differentiation has additional levels—like *old age* or *housing* under social protection—and therefore offers a lot of potential for further analytics.

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> The ‘social protection’ division includes spending on ‘sickness and disability’, ‘old age’, ‘family and children’, ‘unemployment’, ‘housing’ in the form of benefits in kind, and ‘social exclusion’. This function is by far the most important in public expenditure and accounted alone for 39.9 % of total expenditure or 19.6 % of EU-27 GDP in 2011 (Eurostat 2014).

What makes COFOG extremely suitable in the PLP context is the differentiation by sectors of government. There are the categories *general government*, *central government*, *state government*, and *local government*. “ESA95 defines the general government sector as all resident institutional units that are other non-market producers whose output is intended for individual and collective consumption, and are mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth.” (Eurostat 2007, p. 24).

If we stick to the PLP annotation, expenditures of the welfare system as a whole would be part of the general government expenditures (for mainly social protection, health and education). But within this system, the “state” in the classical sense should be the most important actor. COFOG provides the differentiation of central government expenditures: “This includes government departments, agencies, parliamentary bodies, military forces, and non-budgetary institutions serving households that are controlled by central government. The “State” is sometimes used to describe a subset of central government units that are under the direct day-to-day control of government ministers” (Eurostat 2007, p. 24–25). In many European countries we find legal entities like regions, departments or “Länder”. This fits to the COFOG category of *state government*. Below this regional level, there is a local level of government: “This is the level of government applying at the level of cities and towns and other geographically limited entities below the level of regions” (Eurostat 2007, p. 25). Finally, social security funds are included as a fourth government level, if they are part of general government expenditures: “This includes autonomous pension funds if they are obligatory by law or by regulation and if general government is responsible for the management of the institution in respect of the settlement or approval of the contributions and benefits. It also includes schemes established by government to fund health care and social benefits where there are separate institutional units administering the contributions and benefits” (Eurostat 2007, p. 25).

COFOG includes several types of government expenditures, as well. To make this data comparable across European welfare systems, we concentrate solely on total expenditures. So, different types of spending like tax subsidies or wages for employees in the welfare sector are treated equally. It is important to keep in mind that the differentiation of types of spending would increase the heterogeneity of European welfare systems enormously.[2]

[2] To analyse these differences might be an innovative way, too.

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3 Scenario Testing

PLP assumes a primacy of the central state when it comes to reforms of the welfare system. Therefore, we assume that the central state is the most important actor in the reaction on the crisis.

"Most important" has to be defined, too. First, it is a category in relation to other levels of government. In this case, the other levels are state government, local government, and social security funds. Second, PLP assumes both the primacy of the central state across Europe and in every European country. Is this scenario backed up by the data? The amount of changes in the data can be shown by the inter quartile range (IQR). The IQR measures the distance between the first quartile (Q1) and the third quartile (Q3):

$$\mathrm{IQR} = \mathrm{Q3} - \mathrm{Q1}$$

In a common definition for outliers, any value bigger than Q3 + 1.5*IQR and any value below Q1−1.5 IQR is defined as extreme value. Therefore we would expect:

1) The IQR of social protection outlays is biggest for the central state in the years 2007 onwards.
2) The IQR of social protection outlays by countries is biggest for each central state in the years 2007 onwards.

It is common to measure relative changes as percentage changes (see Breunig and Jones 2011; Jones et al. 2003; Breunig and Koski 2009). In this paper, changes in logged values are analysed because the percentage scale is not symmetric (there cannot be a negative change of more than 100 % while increases of more than 100 % do occur). "The percentage change in Y at period t is defined as (Y(t)−Y(t−1))/Y(t−1), which is only approximately equal to LOG(Y(t))−LOG(Y(t−1))" (Nau 2014). Törnqvist et al. (1985) argue strongly for the logged change, because it is symmetric and additive (Törnqvist et al. 1985), but in most cases, the difference is marginal.

This means that first annual budget changes are calculated. If a country has spent 100 million euros in 2008 for social protection and 110 million euros in 2009, then the annual change would be 10 million euros and the logged annual change would be

$$\log(10) = 2.302585$$

million euros. If the country spends 220 million euros in 2010, the annual change would be

$$200 - 110 = 90$$

million euros with logged annual change

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Table 1 Inter quartile range of logged changes of social security from 2007 onwards

Government level	IQR of logged changes
General government	0.053
Central government	0.075
State government	0.036
Local government	0.072
Social security funds	0.063

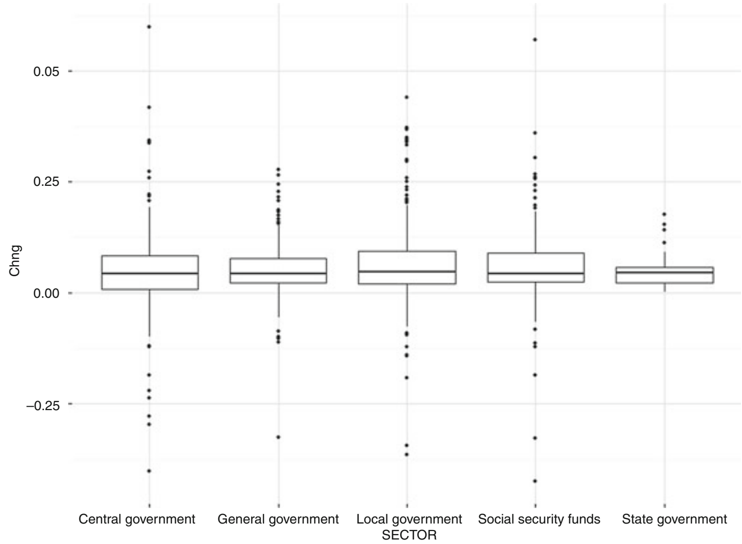

Fig. 1 Density of logged changes

$$\log(90) = 4.49981$$

million euros. As we can see in this example, the advantage of the logged scale is that absolute differences are not presented in a linear way: While the absolute annual change in 2009 was nine times bigger than in 2008, the logged annual change nearly doubled. Nevertheless, we are talking about the same numbers only presented on different scales.

As can be seen in Table 1, the IQR of the logged changes is highest for central government, showing that during the crisis period 2007 onwards "most of the action" was induced by the central state.

We can get a better picture of the changes in outlays for social security when we look at boxplots by sector and the histograms. Figure 1 shows that the central government has the most outliers. More logged annual changes are beyond the IQR * 1.5, i.e. there are more years with dramatic changes than on the other state levels. In addition, Fig. 2 shows that the peak of the histogram is lowest on the central state level. That means, on every other government level incremental changes are more frequent. Nevertheless, as can be seen in Fig. 2, changes in the social security

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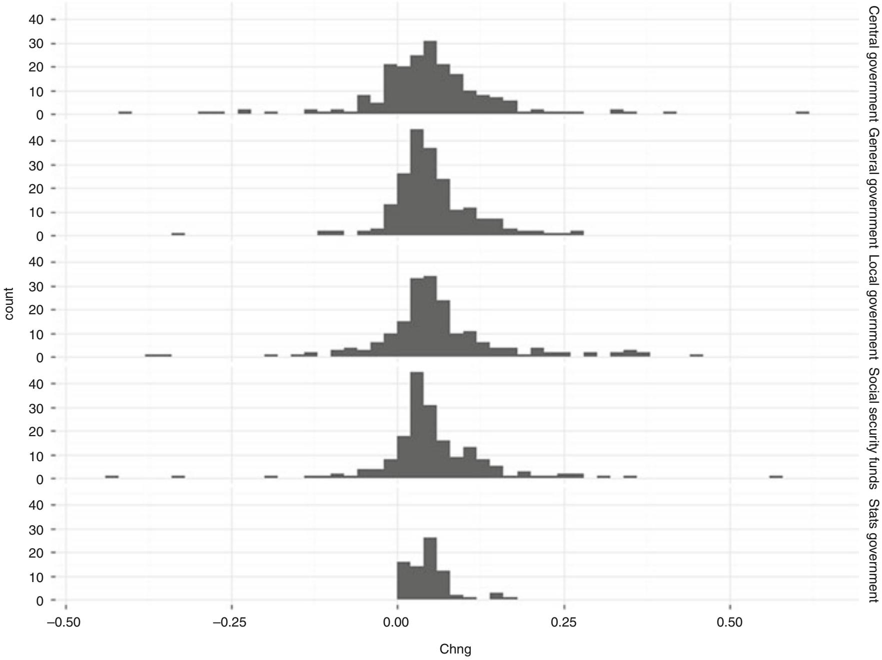

Fig. 2 Histograms of logged changes

outlays of central government—as well as local government and social security funds—do not look like a Gaussian distribution but seem to follow a heavy tailed distribution as widely discussed in punctuated equilibrium theory (PET) (Jones et al. 2009; Breunig and Koski 2012; Jones and Baumgartner 2012). The mean therefore might be misleading.

Now we take a look at each country separately. Here we see that the primacy of the central government is not really supported by the data. In 21 of 40 cases (including 10 different combinations of European countries) the IQR is biggest for the central government but in 19 cases it is not. The heat map (Table 2) shows that in some cases—like Estonia and Latvia—the changes after the crisis were biggest in social security funds. Countries like Bulgaria, Czech Republic and France had the biggest IQR on the local level.

The results show that PLP overstates the importance of the central state slightly. The central state might be the most important actor, but it is surely not the only important one. In some countries—namely Spain and Belgium—the reaction of the state level on the crisis has even been stronger than that of the central state.

PLP assumes that the diversity of welfare systems leads to diverse answers even when all welfare systems face common problems. Translated into a scenario expectation, we have to show two things: First, it is to be shown that the crisis is a common challenge for all welfare systems. Second, it has to be analysed if reactions in the welfare systems to the crisis change the picture of European welfare

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Table 2 H1b—Heatmap of IQR across European countries

	Central government	General government	Local government	Social security funds	State government	Primacy of central governm ent
Austria	0.031	0.006	0.013	0.015	0.007	TRUE
Belgium	0.006	0.031	0.028	0.03	0.034	FALSE
Bulgaria	0.014	0.16	0.257	0.16	NA	FALSE
Cyprus	0.026	0.034	NA	0.016	NA	FALSE
Czech Republic	0.112	0.081	0.21	NA	NA	FALSE
Denmark	0.037	0.039	0.026	0.116	NA	FALSE
Estonia	0.129	0.174	0.128	0.546	NA	FALSE
Euro area (11 countries)	0.056	0.019	0.018	0.017	0.022	TRUE
Euro area (12 countries)	0.052	0.021	0.018	0.019	0.022	TRUE
Euro area (13 countries)	0.051	0.021	0.018	0.019	0.022	TRUE
Euro area (15 countries)	0.051	0.021	0.018	0.019	0.022	TRUE
Euro area (16 countries)	0.052	0.022	0.018	0.02	0.022	TRUE
Euro area (17 countries)	0.051	0.022	0.018	0.02	0.022	TRUE
Euro area (EA11-2000, EA12-2006, EA13-2007, EA15-2008, EA16-2010, EA17)	0.049	0.023	0.02	0.02	0.022	TRUE
European Union (15 countries)	0.042	0.012	0.019	0.016	0.022	TRUE
European Union (25 countries)	0.047	0.009	0.021	0.02	0.022	TRUE
European Union (27 countries)	0.049	0.007	0.024	0.021	0.022	TRUE
Finland	0.085	0.006	0.013	0.053	NA	TRUE
France	0.008	0.014	0.032	0.009	NA	FALSE
Germany (until 1990 former territory of the FRG)	0.048	0.022	0.015	0.014	0.032	TRUE
Greece	0.177	0.092	0.181	0.064	NA	FALSE
Hungary	0.097	0.071	0.08	0.08	NA	TRUE
Iceland	0.175	0.034	0.167	0.078	NA	TRUE
Ireland	0.06	0.105	0.164	0.177	NA	FALSE
Italy	0.17	0.023	0.031	0.022	NA	TRUE
Latvia	0.045	0.186	0.133	0.277	NA	FALSE
Lithuania	0.353	0.268	0.149	0.265	NA	TRUE
Luxembourg	0.046	0.048	0.111	0.052	NA	FALSE
Malta	0.024	0.024	NA	NA	NA	FALSE
Netherlands	0.119	0.022	0.019	0.031	NA	TRUE
Norway	0.024	0.029	0.014	NA	NA	FALSE
Poland	0.259	0.168	0.204	0.145	NA	TRUE
Portugal	0.021	0.012	0.051	0.014	NA	FALSE
Romania	0.204	0.214	0.197	0.159	NA	FALSE
Slovakia	0.267	0.076	0.141	0.107	NA	TRUE
Slovenia	0.058	0.044	0.099	0.032	NA	FALSE
Spain	0.068	0.067	0.076	0.055	0.116	FALSE
Sweden	0.107	0.088	0.071	0.06	NA	TRUE
Switzerland	0.133	0.082	0.014	0.118	0.133	FALSE
United Kingdom	0.065	0.074	0.075	NA	NA	FALSE

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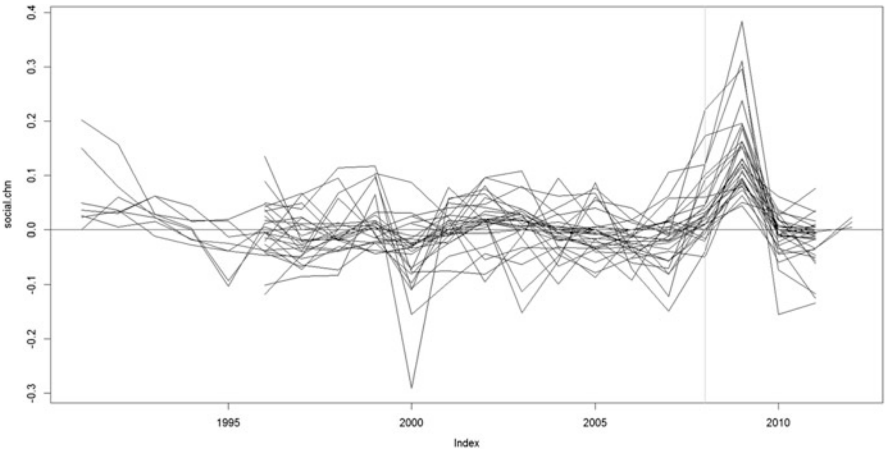

Fig. 3 Social security outlays as percentage of GDP in logged changes by country

systems. While Esping-Andersen assumes "frozen landscapes" (Esping-Andersen 1996), PLP would argue for uneven dynamics.

To get an impression of the impact of the crisis on the welfare systems, we look at the percentage of GDP that is spent for social security by the European countries over time. Again, the changes in the logged values are used as scale to represent the dynamics.

As can be seen in Fig. 3 the crisis period from 2007 till 2009 is the only time all European welfare systems show the same trend: Social security outlays measured as a percentage of GDP increased all over Europe. This may be due to a decline of GDP or increased outlays in social security or both. But no country in Europe was able to lower the share of social security spending in this period. We therefore can argue that the crisis has been a common challenge for all European countries.

But how did the European countries react to this common challenge? PLP assumes diverse reaction with the capacity to change the "landscape" of European welfare systems. We now take a look at the development of the outlays by the central governments for social protection, again as logged annual changes. The map shows the value for each European country for the years 2007 till 2012, so we have 2 years before the crisis and 4 during the crisis. To visualize the changes, these values are transferred to a white-grey-black heatmap: Countries with high positive changes are whiter, while countries with high negative changes are darker and countries with small changes are grey (Fig. 4).

First of all it is to be noticed that the crisis has not led to major cutbacks across Europe. On the contrary, outlays were increased slightly in most European welfare systems from 2007 to 2010. This is not very surprising: The negative economic situation many countries had to face increased the need for social protection. In 2011 we find mainly slight and moderate decreases again.

But even more interesting, there is no common pattern, if we look at the details. In 2008, there are massive cutbacks to be found in Iceland and Switzerland, while

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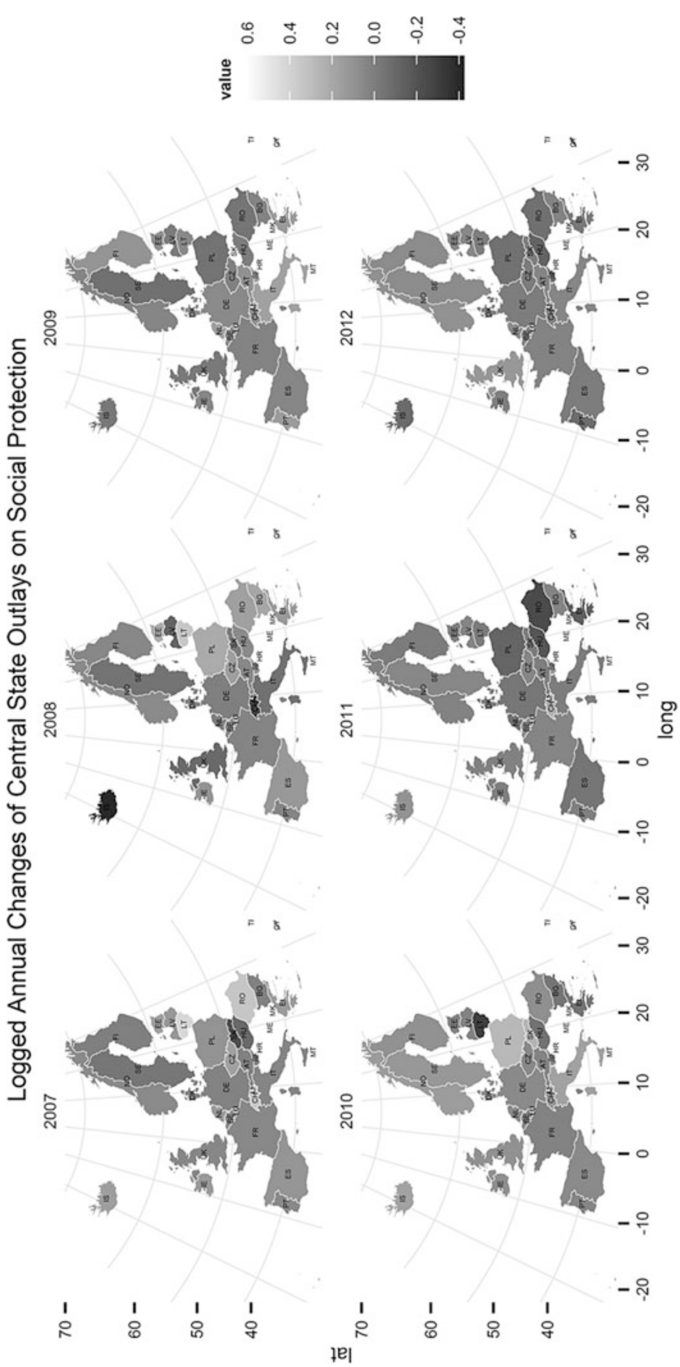

Fig. 4 Social protection 2007–2012

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the UK, Sweden and Italy show minor decreases. In the cases where we find major changes in the outlays, there seems to be an autocorrelation: Countries with drastic cutbacks seem to increase their outlays again in the next years. This kind of oscillation would fit well to the idea of PLP, because the cutback is in itself a new conflict that has to be settled by extra spending.

Till now, we only have taken a look at social protection outlays. A main argument for the coining of the term "welfare system" instead of "welfare state" has been that social protection is systematically linked to health care and education. The welfare system is not just risk protection but it creates new opportunities for its citizens as well (see Borosch et al. 2016). We therefore consider this data now as well.[3] From PLP we expect a similar picture like in social protection (only vague general trends with seemingly random outliers). But on the country level, the pictures should look quite different, because every country should have its own priorities which subsystem of the welfare system has to be expanded or cut back. The overall diversity of the picture therefore should increase.

Figures 5 and 6 confirm these expectations. In comparing the maps there is no pattern that strikes the eye. Some countries show sever cutbacks in only one category e.g. Denmark or the Netherlands in health expenditures, while others, like Poland and Romania, have troubles in the two categories in the same year (2009, health and education).

We therefore can conclude that the crisis has not led to a more homogeneous landscape of European welfare systems. On the contrary, the diversity of European welfare systems seems to increase because some countries go through severe changes (increased spending as well as cutbacks) while others only react a little.

Finally, we would expect that the crisis leads to an overall increase in welfare state outlays. PLP argues that the functionality of the welfare systems cannot be reduced to economic stratification. Instead the political argument of reducing the level of conflicts is dominant—at least in Europe. An economic crisis always lowers public and private income and therefore induces conflicts in society. Against a popular agitation in the crisis, PLP would assume welfare systems to expand in times when the "cake is getting smaller".

Figure 7 shows that social protection outlays in absolute terms are increasing all across Europe.[4] This general trend is not broken by the crisis in most of the countries. In 2011, only Iceland, Hungary, and Lithuania have outlays for social protection on a lower level than they had in 2007. Some countries—like Germany, Cyprus, Italy or Norway—even show an enforcement of the positive trend after 2007.

[3] Ferreiro et al. give a good overview of the distributions of the main COFOG classifications (Ferreiro et al. 2013, p. 809). Here it can be seen that social protection is the function with the highest share of total public expenditures, but it has the highest level of diversity—measured by the IQR—as well.

[4] Measurement is million euros without inflation adjustment.

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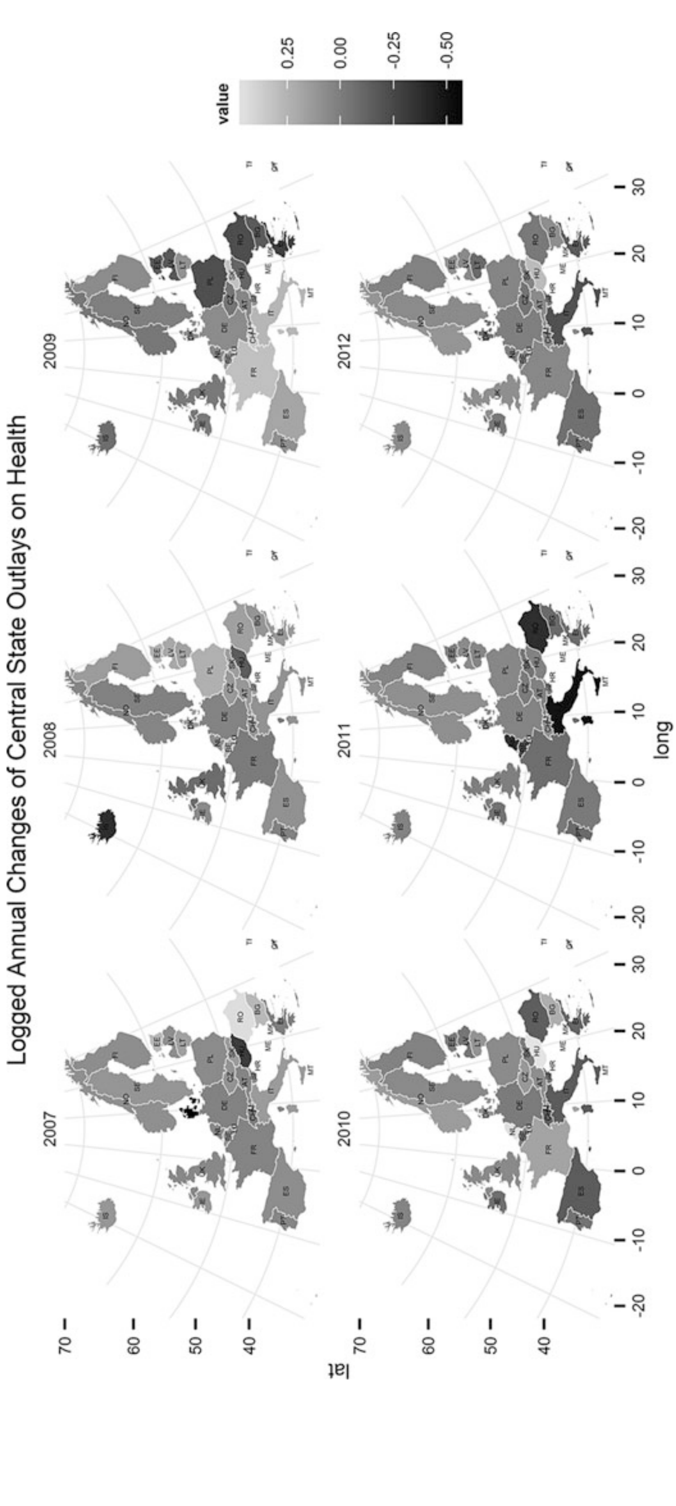

Fig. 5 Health care 2007–2012

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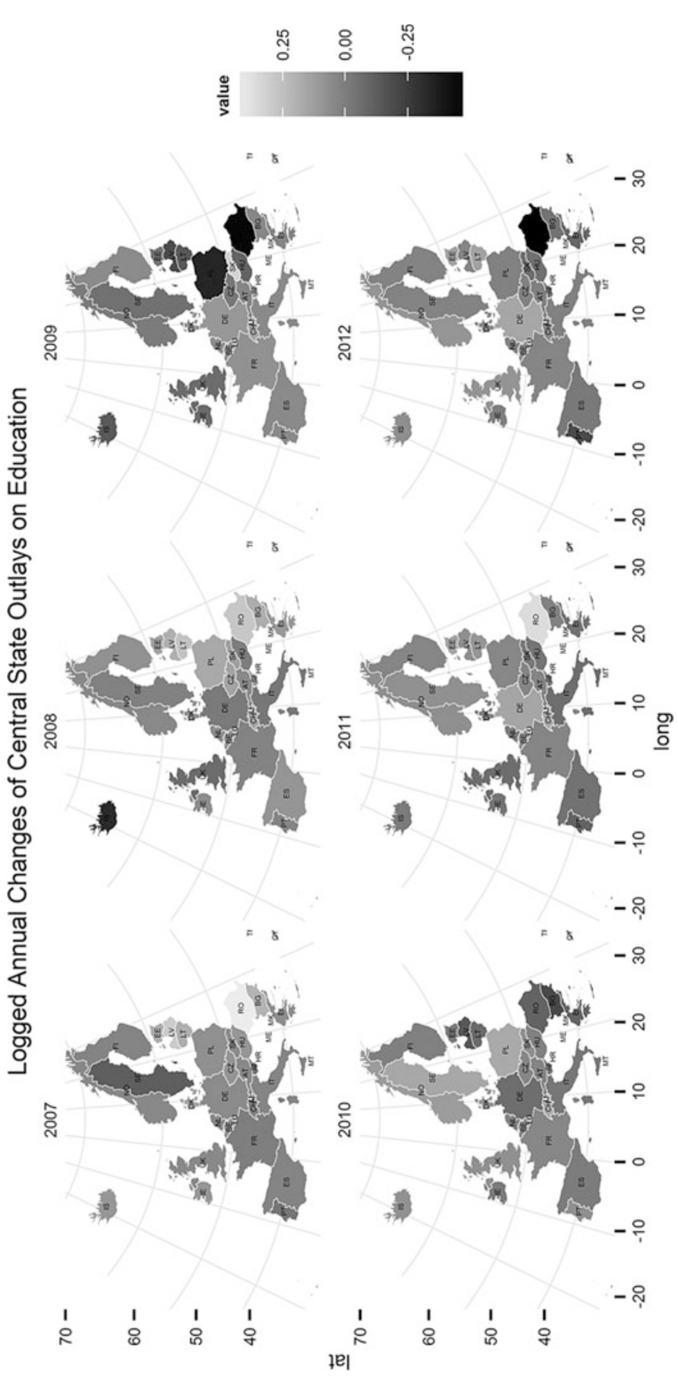

Fig. 6 Education 2007–2012

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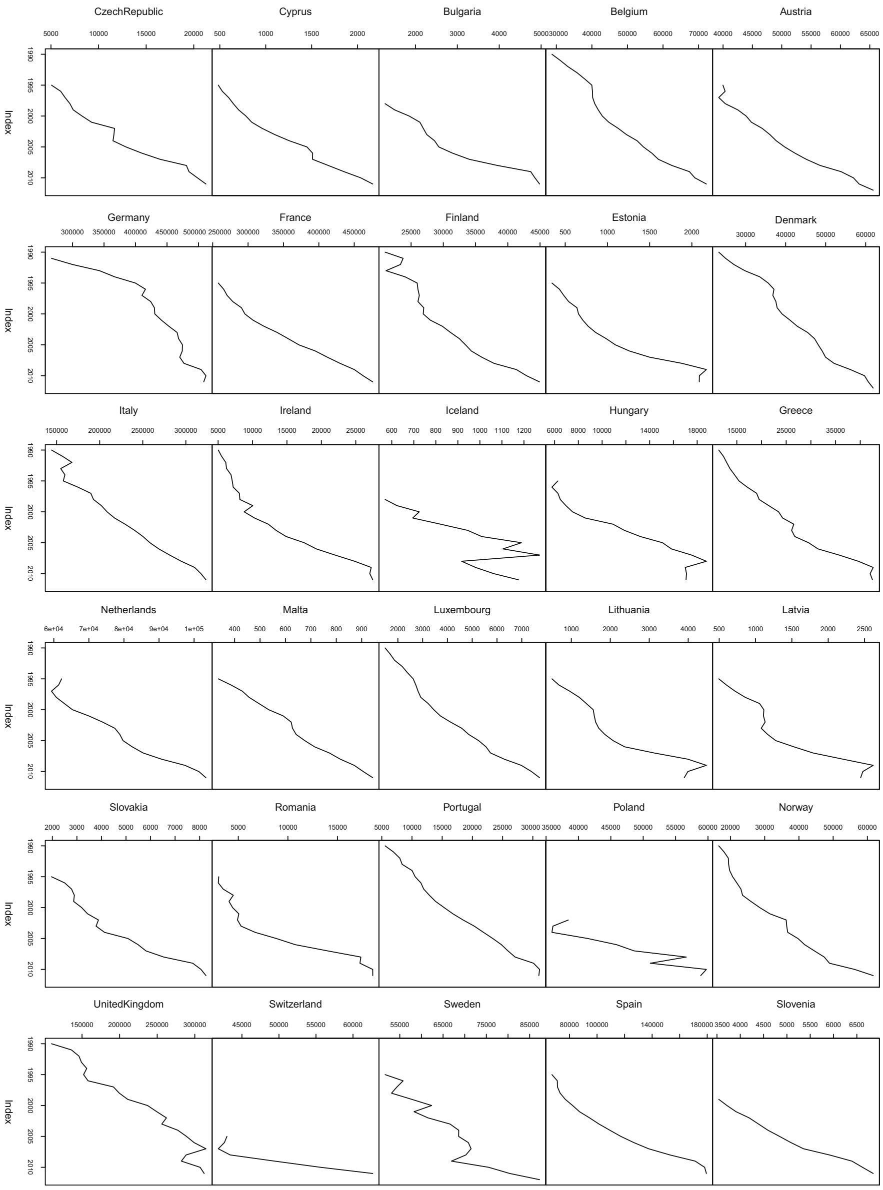

Fig. 7 Social protection outlays

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4 Conclusion

PLP seems to be much more than an educated guess. The arguments here are no analytic proof of the concept. But the view we get by descriptive statistics seems to be in accord with the expectations we can derive from PLP. This might challenge the dominant view European welfare systems could be categorized by "three worlds of welfare capitalism" (Esping-Andersen 1990). Even when combined with more actual and more adequate data (Scruggs and Allan 2006a), the concept itself stays static. The "frozen landscapes" (Esping-Andersen 1999) are theoretical necessities in this concept because the leitmotif from the early days of the welfare state cannot be overcome. Same holds true for all strong versions of path-dependency (Pierson 1998, 2000, 2004; Bennett and Elman 2006; Ebbinghaus 2005; for critical remarks see Howlett 2009). It has to be questioned if the "three worlds of welfare" concept is a suitable framework to look at European welfare systems after the crisis, at all. For example, Wagschal and Wenzelburger work with the COFOG data to show that there is a difference between the worlds of welfare when it comes to consolidation of government expenditures (Wagschal and Wenzelburger 2008, p. 148). But at this time, they only had data from 1990 to 2002 and looked at 17 countries divided in four categories. If we look at Fig. 3 again, we can see that there had been a small trend of reduction in the year 2000 that was already over in 2002. The reduction in social protection outlays for "liberal welfare states" Wagschal and Wenzelburger found therefore might be an artefact that is overcome by the crisis.[5]

What we see in the data presented here seems to be similar to the findings in punctuated equilibrium theory. Jones et al. have formulated a general law of public budgets based on "a robust empirical generalization, that government budget changes in Western democracies follow power function probability distributions. This implies that they display periods of quiescence interrupted by bursts of frenetic activity" (Jones et al. 2009, p. 870). This would combine the empirical observations that have led to the picture of frozen landscapes with the dynamics we now can observe in the crisis period. In addition PET provides a methodical framework to test these assumptions (Breunig and Jones 2011; see also Hegelich et al. 2015). Although the COFOG dataset is not directly comparable with the Esping-Andersen approach or its recreation by Scruggs and Allen (Scruggs and Allan 2006a, b), its richness might even allow a theory-testing approach comparing PET with "three worlds of welfare".

The practical relevance of PLP can be seen in its normative dimension:

> From the fear that diversity would lead to a 'race to the bottom', emphasis is too often put on standardization and it is overlooked that the economic logic of globalization does not necessarily penetrate the area of welfare systems. The logic of welfare systems is not solely based on the criteria of efficiency, but also on identification, acceptance and specific ideas of fairness. Therefore, the case for European welfare pluralism is not necessarily associated with a criticism of the political ability and capability to act—either on a national or supranational level. The aim of political intervention must be to limit differences in welfare

[5] Neither we nor Wagschal and Wenzelburger implied statistical tests, due to the small number of cases, especially if separated into four categories. Nevertheless, it would be a very interesting task to test the punctuated equilibrium thesis—which would fit with PLP assumptions—against the "three worlds of welfare" hypothesis.

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> services within and between the societies to such an extent that they can be accepted as components of an inter-connected system. On this basis, conflicts (which have necessarily arisen) can be resolved through negotiations and cooperation, which induce the described innovation and learning processes. (Hegelich and Schubert 2009, p. 553).

The question is what happens to a welfare system if the "normal" mechanism of PLP is not working any more, may it be because of economic conditions or because of external pressures. Greece might be a case to study such a dangerous development. If the ability to reduce the level of conflicts is lost, the coherence of society might be at stake. "Policy-makers need to recognize that bolstering social protection, far from being a luxury the country can no longer afford, is essential for it to survive the crisis in one piece" (Matsaganis 2011, p. 512).

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Chances and Limits of the European Social Integration

Nicole Kerschen and Morgan Sweeney

From the deepest economic crisis the world economy has seen since the great depression, the European Member States are facing a financial crisis followed up by a debt crisis. It led to numerous social and Welfare State reforms, which were not only country-specific and/or the results of national governments' decisions, but which also responded to recommendations and constraints imposed by the European Union (EU). The EU, along with the International Monetary Fund (IMF), responded with bailout programmes or new institutional tools such as the Treaty establishing the European stability mechanism. The European response has been mainly financial and economical. However, those new instruments do have an impact on social policies, as social systems represent a consistent percentage of public expenditure. Therefore, the Member States are inclined to reform their social systems to reduce the social expenditure.

To fulfil the European objectives, the Member States are encouraged to take reforms in the social field. However, they cannot sacrifice objectives and rights laid down in the European Treaties. The access of non-national European citizens to social benefits in the host state is a strain point. Reforms of social policies taken during the crisis are captioned in the tension between the Member States trying to retrieve control over expenditures and the rights laid down in European Treaties in favour of European citizens. European hard law constitutes a serious framework to Member States' reforms. Even if the reforms are national, the Member States cannot disregard the European framework.

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But the EU is not only making new mandatory regulations. Even though social policies remain mainly national, they represent a substantial and sustained commitment by the EU. The EU set up policy coordination processes over time, across policy areas and between the EU and the national level. Soft law is at work too. The European institutions, mainly the European Commission, try to give an impetus to the Member States and help them to reform their national systems. The aim of the European institutions is to bring convergence in social policy. But instruments are less effective than in the economic or the financial fields.

Moreover, the crisis showed the strengthening of an already existing tension between the economic integration and the social dimension. On the one hand, the EU aims towards more convergence in welfare issues and social policies and supports especially the new Member States; but on the other hand it only has few instruments of rather weak nature at its disposal. The Member States have to act under crisis-driven constraints, especially those subjects to a macroeconomic adjustment programme (ECB, EC and IMF) and/or subject to an excessive deficit procedure. As a result, the differences inside the EU and between the Member States are increasing tremendously. Therefore, it appeared to be absolutely necessary to present and analyse the role played by the EU as well as the instruments used in this context.

The European action has to be described as it influences national reforms. In both European hard and soft laws the approach is the same: from economics to social fields.

1 A European Framework for Social Policies?

The EU primary objective was to set a single market. Social policies were not, at first, at the core of the EU, as the Member States wanted to keep their sovereignty in this area. The EU took steps in the social fields to tackle barriers when exercising the freedom of movement. Since the late 1980s, and more particularly with the Lisbon Treaty, social objectives have been introduced in European Law. Such new treaty objectives benefit from an institutional framework which can give strength to them. It favours a new trend in the Court of Justice of European Union (CJEU) jurisprudence toward social integration.

1.1 An Institutional Framework

The EU is a set of institutions which can force the Member States to abide by EU law. However, the Member States as key actors in those institutions can sometimes block their initiatives, especially thanks to the subsidiarity principle.

1.1.1 European Union Institutions Effective Control

The EU has instruments to constrain the Member States to abide by European Law.

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First, the European Commission was set up from the start to act as an independent supranational authority separate from governments; it has been described as "*the only body paid to think European*" (Day 2006). The Commission's main role is to propose legislation which is then adopted by the co-legislators, the European Parliament and the Council of Ministers. The Commission has the right of initiative to propose laws for adoption by the European Parliament and the Council of the EU (national ministers). This is the EU's standard decision-making procedure (known as the "ordinary legislative procedure" or "co-decision"). Before making proposals, the Commission consults widely so that stakeholders' views can be taken into account.

Once EU legislation has been adopted, the Commission ensures that it is correctly applied by the EU member countries. The European Commission monitors European law enforcement. The Commission acts as the EU executive body and guardian of the Treaties. Where necessary, it takes action against those in the public or private sector who fail to respect their Treaty obligations. It can, for instance, institute legal proceedings against the Member States or businesses that fail to comply with European law and, as a last resort, bring them before the European Court of Justice.

In its third function, the Commission is the executive body of the Union responsible for implementing and managing policy. In some areas like competition, agriculture and trade policy, the Commission has considerable autonomy to take decisions without submitting proposals to the Council of Ministers, either because of its specific powers under the Treaty or by delegated authority from the Council.

Since its establishment, CJEU is to ensure that "the law is observed" "in the interpretation and application" of the Treaties.

As part of that mission, the CJEU:

- reviews the legality of the acts of the institutions of the EU,
- ensures that the Member States comply with obligations under the Treaties, and
- interprets EU law at the request of the national courts and tribunals.

The Court thus constitutes the judicial authority of the EU and, in cooperation with the courts and tribunals of the Member States, it ensures the uniform application and interpretation of EU law.

The Court of Justice cooperates with all the courts of the Member States, which are the ordinary courts in matters of EU law. To ensure the effective and uniform application of EU legislation and to prevent divergent interpretations, the national courts may, and sometimes must, refer to the Court of Justice and ask it to clarify a point concerning the interpretation of EU law, so that they may ascertain, for example, whether their national legislation complies with that law. A reference for a preliminary ruling may also seek the review of the validity of an act of EU law.

The Court of Justice's reply is not merely an opinion, but takes the form of a judgment or reasoned order. The national court to which it is addressed is, in deciding the dispute before it, bound by the interpretation given. The Court's

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judgement likewise binds other national courts before which the same problem is raised.

It is thus through references for preliminary rulings that any European citizen can seek clarification of the EU rules which affect him/her. Although such a reference can be made only by a national court, all the parties to the proceedings before that court, the Member States and the institutions of the European Union may take part in the proceedings before the Court of Justice. In that way, several important principles of EU law have been laid down by preliminary rulings, sometimes in reply to questions referred by national courts of first instance.

The CJEU can also be ceased for actions for failure to fulfil obligations. These actions enable the Court of Justice to determine whether a Member State has fulfilled its obligations under EU law. Before bringing the case before the Court of Justice, the Commission conducts a preliminary procedure in which the Member State concerned is given the opportunity to reply to the complaints addressed to it. If that procedure does not result in the Member State terminating the failure, an action for infringement of EU law may be brought before the Court of Justice.

Through its case-law, the Court of Justice has identified an obligation on administrations and national courts to implement EU law in full within their sphere of competence and to protect the rights conferred on citizens by that law (direct application of EU law), and to override any conflicting national provision, whether prior or subsequent to the EU provision (primacy of EU law over national law—CJEC 5 February 1963.—NV Algemene Transport- en Expeditie Onderneming van Gend & Loos v Netherlands Inland Revenue Administration.—Case 26-62 and CJEC, 15 July 1964.—Flaminio Costa v E.N.E.L.—Case 6/64).[1] It is the principle of the direct effect of Community law in the Member States, which now enables European citizens to rely directly on rules of EU law before their national courts.

Both the European Commission's monitoring and the CJEU's sanctioning constitute an effective control over the Member States.

However, the Commission and CJEU control over the Member States should not be overstated.

1.1.2 The Subsidiarity Principle: The Member States' Leeway

The principle of subsidiarity determines when the EU is competent to legislate, and contributes to decisions being taken as closely as possible to the citizen (article 5 of the Treaty on European Union). The principle of subsidiarity aims at determining the level of intervention that is most relevant in the areas of competences shared between the EU and the Member States, including social policies (Article 2, 2b Treaty on the Functioning of the European Union). This may concern action at European, national or local levels. In all cases, the EU may only intervene if it is able to act more effectively than Member States.

Article 5 of the Treaty on European Union defines the division of competences between the Union and the Member States. It first refers to the principle of conferral

[1] All pertinent case law are referenced in the annex.

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according to which the Union has only those competences that are conferred upon it by the Treaties.

Subsidiarity and proportionality are corollary principles of the principle of conferral. They determine to what extent the EU can exercise the competences conferred upon it by the Treaties. By virtue of the principle of proportionality, the means implemented by the EU in order to meet the objectives set by the Treaties cannot go beyond what is necessary.

The Union can therefore only act in a policy area if:

- the action forms part of the competences conferred upon the EU by the Treaties (principle of conferral);
- in the context of competences shared with Member States, the European level is most relevant in order to meet the objectives set by the Treaties (principle of subsidiarity);
- the content and form of the action does not exceed what is necessary to achieve the objectives set by the Treaties (principle of proportionality).

In the ordinary legislative procedure, national governments can retaliate and dismiss a procedure engaged by the European Commission through the European Council. The Treaty of Lisbon innovates by associating national parliaments closely with the monitoring of the principle of subsidiarity. National parliaments now exercise twofold monitoring:

- they have a right to object when legislation is drafted. They can thus dismiss a legislative proposal before the Commission if they consider that the principle of subsidiarity has not been observed;
- through their Member State, they may contest a legislative act before the CJEU if they consider that the principle of subsidiarity has not been observed.

For instance, the UK long undermined any initiative of legislation taken in the fields of social policy. The UK challenged the Council Directive 93/104/EC concerning certain aspects of the organization of working time. The UK government considered that such directive should not be taken under article 118a of the Treaty aimed at the protection of the health and safety of workers. The UK government contended that the directive should have been adopted on the basis of Article 100 of the EC Treaty, or Article 235 of the Treaty, which required unanimity within the Council. The Court of Justice rejected the UK's arguments and the government was obliged to abide by the directive (Court of 12 November 1996.—United Kingdom of Great Britain and Northern Ireland v Council of the European Union, Case C-84/94). Following the election of Tony Blair as UK Prime Minister in 1997, the UK formally subscribed to the Agreement on Social Policy, which allowed it to be included with minor amendments as the Social Chapter of the 1997 Treaty of Amsterdam. The UK subsequently adopted the main legislation previously agreed under the Agreement on Social Policy, the 1994 Works Council

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Directive, which required workforce consultation in businesses, and the 1996 Parental Leave Directive.

1.2 European Union's Social Dimension

The European Union upholds social objectives encouraging social integration. This social dimension has been instrumental in the CJEU case-law.

1.2.1 European Social Objectives

European social policies do have particular actors: social partners. The European Treaties set up social objectives.

1.2.1.1 Social Dialogue

The European social dialogue is a fundamental element in the European social model. It encompasses the discussions, negotiations and joint actions undertaken by the European social partners.

The European social dialogue, which is the name given to the bipartite work of the social partners, whether or not it stems from the official consultations of the Commission based on Articles 154 and 155 of the TFEU. This process is organised via two compulsory phases. First, the Commission consults the social partners on the possible direction of a Community action; then it consults them on the content of that action. If, after each of these phases, the partners fail to reach agreement on the opening of bipartite negotiations, but the Commission still believes that action is desirable, it presents a proposal. On the other hand, if the social partners sign a framework agreement, it can be addressed to the Commission and the Council (which can only adopt or reject the agreement to transform it in a directive) or it can follow the "autonomous" track relying on national social partners to transpose it in national law. This process supplements the national social dialogues existing in the majority of the Member States.

The European social dialogue, which is now structured within the governance of the Union, allows the social partners to make a significant contribution to the definition of European social standards. The European social dialogue has led to several important European framework agreements. Those agreements concern mainly labour law.

The last European framework agreement was a clear response to the crisis: it was about "inclusive labour markets" (2010). It is an 'autonomous' initiative, whereby implementation at the national level was entrusted to the national social partners themselves. This last European framework agreement is of a new kind. Actually, it does not recognize nor grant new rights and duties to employees and employers. It grants new guidelines to former framework agreements or EU legislation. It aims "to maximise the full potential of Europe's labour force and to increase employment rates and to improve job quality, including through training and skills development. Inclusion is also an important element of Europe's response to long-term challenges, in particular demographic change, the shrinking working-age

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population and the sustainability of social protection systems". It aims at "achieving the full integration of individuals in the labour market" by "action-oriented framework to identify obstacles to inclusive labour markets and solutions to overcome them". Therefore, it provides for recommendations addressed not only to European and national social partners but also to administrations and the civil society. Those recommendations should be taken into account when implementing EU social law.

European social partners' reaction to the crisis was not to grant new and better protection—which employers' organizations may not have agreed to—but has been to give a new orientation to former law instruments.

1.2.1.2 Enforcement of the Social Objectives

The Member States shall first comply with EU objectives. For instance, Article 2 of the Treaty on European Union states that the Union's aim is to promote the well-being of its peoples and beside a "*highly competitive social market economy*" it aims at "*full employment and social progress*". It also states "*It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child*". Such objectives do not create new rights for European citizens, but shall guide EU actions. EU institutions, particularly the Commission, shall monitor each EU action in order to "*take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health*" (Article 5a of the Treaty on the Functioning of the European Union). The Member States shall act accordingly to those values and shall not undermine them. Article 151 also provides that "*The Union and the Member States* (. . .) *shall have as their objectives the promotion of employment, improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion*". The European Union may adopt directives to set up minimum requirements in social fields [Article 153, §2, (b)], enabling the Member States to maintain or introduce stringent protective measures (Article 153, §5).

Moreover, the Treaty of Lisbon guarantees the enforcement of the Charter of Fundamental Rights, which guarantees social security and social assistance (Article 34) and health care (Article 35).

1.2.2 Social Integration: From Free Movement to European Citizenship

Since the Treaty of Rome, the EU approach was to build community or union on the ground of economic exchange. Therefore free movement is the cornerstone of the EU. Regarding free movement of persons or services, the EU institutions could not put aside social policy any longer. Losing some social rights can discourage people from exercising their free movement over Europe. Since the single market is affirmed and most obstacles have been put down, the EU institutions pay more

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and more attention to social policy. A shift is maybe at work turning from an economical approach to one of integration.

1.2.2.1 Free Movement: An Economical Approach

The freedom of movement and residence for persons in the EU is the cornerstone of Union citizenship, as introduced by the Treaty of Maastricht in 1992. Its practical implementation in EU law, however, was not a straightforward matter: it first involved the gradual abolition, limited to certain Member States, of internal borders under the Schengen agreements. Today, the free movement of persons is mainly governed by Directive 2004/38/EC on the right of EU citizens and their family members to move and reside freely within the territory of the Member States. The implementation of this directive, however, continues to face many obstacles.

At first, the concept of the free movement of persons referred merely to the free movement of individuals considered as economic players, either as employees or providers of services, thus covering the free movement of workers and the freedom of establishment. Three key legal instruments are to guarantee free movement of the person.

Firstly, the EU's economic objective of creating a common labour market through the free movement of workers required the prohibition of discrimination on grounds of nationality (Article 45 TFEU). A European citizen is to be admitted in other Member States and to enjoy the same treatment as nationals of the host country. Any conditions set in regard to nationality or residence (considered as indirect discrimination) is seen as discriminatory. The Member States shall make no distinctions between their nationals and other EU citizens. However discrimination only protects non-nationals EU citizens, implying that a Member State can disadvantage its own nationals compared to other EU citizens but can never disadvantage EU citizens over its own nationals. During economic crisis the Member States may try to limit access to social benefits and be tempted to exclude non beneficiaries. The court upheld that regarding social benefits *"budgetary considerations may underlie a Member State's choice of social policy and influence the nature or scope of the social protection measures which it wishes to adopt, they do not in themselves constitute an aim pursued by that policy and cannot therefore justify discrimination against migrant workers"* (CJEU, 14 June 2012.—European Commission v Kingdom of the Netherlands.—Case C-542/09).

Secondly, workers should not lose their rights because of their mobility. In 1970, EU institutions put in place a coordination of social security systems. The regulation has been up-dated (through regulation No 883/2004 of 29 April 2004 on the coordination of social security systems and regulation No 987/2009 of 16 September 2009 laying down the procedure for implementing Regulation (EC) No 883/2004 on the coordination of social security systems). The objective is to respect special characteristics of national social security legislation and to foster mobility of workers at the same time. Coordination enables avoiding overlapping legislation and maintaining workers' rights regarding unemployment, retirement, health care and family benefits regardless of the territory they worked in.

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Thirdly, in order to take account of the large body of case-law linked to the free movement of persons, a new comprehensive directive was adopted in 2004: Directive 2004/38/EC of the European Parliament and of the Council of 29 April 2004 on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States. Its measures are designed to encourage Union citizens to exercise their right to move and reside freely within the Member States, to cut back administrative formalities to the bare essentials, to provide a better definition of the status of family members and to limit the scope for refusing entry or terminating the right of residence.

The directive gives Union citizens the new right of permanent residence in the host Member State after a 5-year period of uninterrupted legal residence, provided that an expulsion decision has not been enforced against them. This right of permanent residence is no longer subject to any conditions. The same rule applies to family members who are not nationals of a Member State and who have lived with a Union citizen for 5 years.

1.2.2.2 European Citizenship: Towards Integration?

In its first cases dealing with EU citizenship, the Court undertook to release the rights of citizenship from the economic considerations attached to freedom of movement in the realm of the internal market. The Court freed the mobility of individuals from the exercise of an economic activity. But the rights of citizenship were still dependent on mobility.

For a long time, the EU law stated that a Member State was under no obligation to give social advantages to job seekers (CJEC, 18 June 1987.—Centre public d'aide sociale de Courcelles v Marie-Christine Lebon.—Case 316/85.). The economic burden of a job seeker should lie on his/her own state and not on the host state. However, the CJEU reversed its doctrine thanks to a new approach of citizenship based on integration.

The Court proclaimed that *"Union citizenship is destined to be the fundamental status of nationals of the Member States"* for the first time in the *Grzelczyk* case in 2001 (CJEC, 20 September 2001.—Rudy Grzelczyk v Centre public d'aide sociale d'Ottignies-Louvain-la-Neuve.—Case C-184/99). This formula enabled the Court to broaden the scope of application of the principle of non-discrimination on the ground of nationality. In this case, a French national had been studying in Belgium and supported himself with part-time employment. Towards the end of his studies he applied for a grant which was freely available to Belgian students. This was rejected as was his further leave to reside in his host state. As the grant was freely available to Belgian nationals who were studying, Grzelczyk was being directly discriminated against on grounds of his French nationality, which was contrary to Art. 18 TFEU. As he had been residing lawfully in Belgium he was entitled to rely on Art. 18 TFEU with regards to those situations which fell within the material scope of the Treaties which include those situations involving the exercise of the right to move and reside freely in another Member State, as conferred by Art. 21 (1) TFEU. The fact that Grzelczyk had actually moved from youth hostels to a

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Salvation Army hostel was pivotal in this case as this broadened the scope in which EU citizens could rely on their citizenship of the Union for equal treatment.

The case of Martinez Sala v Freistaat Bayern (CJEC, 12 May 1998—María Martínez Sala v Freistaat Bayern.—Case C-85/96) was the first to begin to explore the extent to which a non-economically active person can claim social advantages in a host Member State and claim equal treatment in respect of social advantages under Art. 21(1) TFEU. This centred on a Spanish national who had lived in Germany since the age of 12. In 1993, the German authorities rejected her application for a child-raising allowance on the grounds that she was not a German national and did not have a residency permit. The Court considered the case with regards to non-discrimination and citizenship. The CJEU found that a national of a Member State lawfully residing in the territory of another Member State such as Martinez Sala could come within the personal scope of citizenship provisions. Therefore the rights laid down by Art. 20(2) of TFEU were applicable to the situation including the right not to suffer discrimination on the grounds of nationality as per Art. 18 TFEU.

This case is highly important as we can see this as the beginning of EU citizenship as being more than just a mechanism for participation in the economic internal market. The Union does not require that citizens pursue a professional or trade activity, whether as an employed or self-employed person, in order to enjoy rights provided in Part Two of the EC Treaty on citizenship of the Union.

The decision in *Martinez Sala* has been backed up by the Court's position in *Trojani* (CJEC, 7 September 2004.—Michel Trojani v Centre public d'aide sociale de Bruxelles (CPAS).—Case C-456/02) and subsequently in *Bidar* (CJEC, 15 March 2005.—The Queen, on the application of Dany Bidar v London Borough of Ealing and Secretary of State for Education and Skills.—Case C-209/03), that a national of a Member State can rely on Art. 18 TFEU when he has resided in a host Member State for a certain period of time or if he possesses a residency permit as in *Trojani*, whereas *Martinez Sala* and *Bidar* concerned lawful residence spent in the host Member State. They were vested with the power to address the authorities of another Member State and to claim admission, residence and welfare benefits on the same conditions as the nationals of that state. This empowerment was aimed at ensuring the social integration of EU citizens. The status of the EU citizen has been mainly construed as a status of integration into the Member States of the Union.

A step has further been taken in the *Zambrano* judgment (CJEU, 8 March 2011.—Gerardo Ruiz Zambrano v Office national de l'emploi (ONEm).—Case C-34/09). The CJEU held that the parents of a child who is a national of a Member State must be granted the right to work and the right of residence in that Member State in order to protect the right of the child to live in Europe. The Court precludes a Member State from refusing a third country national upon whom his minor children, who are EU citizens, are dependent, a right of residence in the Member State of residence and nationality of those children, and from refusing to grant a work permit to that third country national. Otherwise those children would be deprived of the "*genuine enjoyment of the substance of the rights attaching to the status of European Union citizen*". Mr. Ruiz Zambrano becomes a 'quasi' European

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citizen. From transitory residence and illegal status, he gets permanent and legal residence and a work permit in Belgium. Those are preconditions for the European children to be socially integrated in their country. Moreover EU citizenship is released from the mobility condition here. The Court is able to state that the sole presence of a Union citizen in a Member State, even if this Member State is his/her country of origin, is liable to trigger 'European' protection. The right of residence of the children is sufficient on its own to grant residence to the parents who take care of them.

Is it a case of 'care' limited to situations concerning dependent persons like children? It seems so. In *Mac Carthy* case law (CJEU, 5 May 2011.—Shirley McCarthy v Secretary of State for the Home Department.—Case C-434/09), Ms. McCarthy, a national of the UK, following her marriage to a Jamaican national, obtained an Irish passport and applied to the British authorities for a residence permit as an Irish national wishing to reside in the UK under EU law. Her husband applied for a residence document as the spouse of a Union citizen. These applications were refused on the ground that Ms. McCarthy could not invoke Union law to regularise the residence of her spouse, because she had never exercised her right to move and reside in the Member States other than the UK. The Court also noted that the decision did not have the effect of depriving her of the genuine enjoyment of the substance of the other rights associated with her status as a Union citizen. In its judgment in the case of *Dereci and others* (CJEU, 15 November 2011.—Murat Dereci and Others v Bundesministerium für Inneres.—Case C-256/11), the CJEU was again faced with a request, this time from the Austrian courts, to clarify just how far the fundamental rights of EU citizens can enable family members to remain with them in an EU Member State. The case involved five separate applications. None of the Union citizens in the applications were dependent on their third country national family members and the CJEU was quick to note that "*unlike the situation in Ruiz Zambrano, there is no risk here that the Union citizens concerned may be deprived of their means of subsistence*". The court went on: "*… the criterion relating to the denial of the genuine enjoyment of the substance of EU citizens' rights refers to situations in which they have, in fact, to leave not only the territory of the Member State of which he is a national but also the territory of the Union as a whole*". This appears to preclude adult applicants from relying on *Zambrano*, since that couple can always move within the EU.

However, the economic approach re-emerged in the highly sensitive issue of the exclusion by national legislation of economically inactive Union citizens, from special non-contributory cash benefits. The Court attempts to redefine the relationship between two primordial EU law instruments: on the right of citizens of the Union to move and reside freely within the territory of the Member States (the citizens' Directive) and on the coordination of social security systems. In the *Dano* case (CJEU, 11 November 2014.—Elisabeta Dano and Florin Dano v Jobcenter Leipzig.—Case C-333/13), the *Sozialgericht* of Leipzig (Germany) requested a preliminary ruling in a case concerning the refusal by the German authorities to grant Mrs. Dano and her son, Romanian nationals and non-economically active,

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subsistence benefits, social allowance as well as contribution to accommodation and heating costs. The CJEU upheld that nationals of other Member States can be excluded from entitlement to certain 'special non-contributory cash benefits', although those benefits are granted to nationals of the host Member State who are in the same situation. The Court admits for the first time that when it is apparent that the applicant does not meet the conditions set out in directive 2004/38 (i.e. does not have sufficient resources to meet his own basic needs and the needs of his family), he cannot claim equal treatment with nationals of the host Member State.

The European Treaties consist of strong limits to national reforms. However, as long as CJEU case law is unclear on European citizenship and social integration, it will be difficult for the Member States to assess what kind of reform can be achieved without violating European rules. However, the EU only sets up a framework for Members States' action, it also provides for incentives. Recently, in-depth reforms have been made of European governance in order to coordinate and guide Member States' action.

2 Policy Coordination and Impact of the Crisis

Multi-level governance on coordination of economic, employment and social policies of the Member States has been set up progressively between the Treaty of Maastricht (1992) and the Treaty of Lisbon (2007). Since the economic and financial crisis of 2008, economic governance changed dramatically. The period going from 2008 to 2013 may be described as 'the Eurozone first, Social Europe after' (Goetschy 2014), particularly because austerity policies obliged the Member States to make budgetary cuts and reforms in labour market and social protection policies. The new instruments for economic and financial coordination set up in the context of the crisis gave more power to the actors in economic and financial affairs,[2] whereas 'the labour market and social policy actors have less voice' (de la Porte and Heins 2014). There is a new constellation of actors in the design of economic, employment and social policies (de la Porte and Heins 2014; Borras and Radaelli 2014).

We will first present the functioning of the coordination of economic, employment and social policies before 2008. It is important to understand the origins and the building up of policy coordination before the crisis. Then, we will present the evolution after 2008 and demonstrate that the degree of European coercion exercised on a Member State depends if it is under a macroeconomic adjustment programme, an excessive deficit procedure or a normal coordination process of its economic, employment and social policies in the framework of the Europe 2020 Strategy. 'Variable geometry' is gaining ground (Goetschy 2014).

[2] For example, in France, the Finance Minister, who is on the frontline in the negotiations with the European Commission, has become a stronger actor in the welfare policy design (chapter "Muddling Through the Crisis: The French Welfare State Under Financial Stress" on France).

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2.1 Policy Coordination Before 2008

In the following developments, we will focus on coordination of the economic, employment and social policies of the Member States of the EU, which was introduced progressively between 1992 and 2000, in line with the creation of the Economic and Monetary Union (EMU). It is relevant for our subject to notice that there was, from the beginning, some hierarchy between the three domains.

2.1.1 Economic Governance

Multilateral surveillance process of the economic policies of the Member States was created by the Maastricht Treaty in 1992 (Articles 98 and 99 of TEC). The Member States recognised economic policies as 'matters of common concern' and, as a consequence, they decided to coordinate their policies in the ECOFIN Council in order to fulfil the objectives of the EU. An *ad hoc* Economic and Financial Committee (EFC), composed of senior officials from national administrations, central banks, the European Central Bank (ECB) and the Commission, was set up to promote policy coordination among the Member States. It met in two different configurations: one being the global configuration, the other one being the Euro-area configuration, the so-called *Eurogroup Working Group (EWG)*, which prepared the Eurogroup meetings. Coordination was based on a procedure in four steps. On the proposal of the Commission, the Council drafted broad common guidelines and reported them to the European Council, which adopted conclusions (step 1). On the basis of these conclusions, the ECOFIN Council adopted recommendations on the broad orientations of economic policy and informed the European Parliament (step 2). These recommendations had no legal binding force, but the Member States had to inform the Commission on their policy reforms (step 3). National policies were assessed by the Commission. If they were not consistent with the broad common guidelines adopted by the Council or if they risked jeopardizing the proper functioning of EMU, the Commission could address a warning to the Member States concerned. Moreover, the Council could, on a recommendation from the Commission, address country-specific recommendations to the Member State concerned and make them public (step 4).

2.1.1.1 Excessive Deficits Procedure

The Treaty of Maastricht also created a step-by-step procedure on excessive government deficits. Article 104 TEC stated that the Member States had to avoid excessive deficits. The European Commission had to monitor the development of the budgetary situation and the compliance with budgetary discipline by taking into account two criteria: the budget deficit had to be below 3 % of GDP and government debt below 60 % of GDP (application of the Stability and Growth Pact). If a Member State did not fulfil the requirements under one or both of these criteria, the Commission had to prepare a report. The Economic and Financial Committee (EFC) had to produce an opinion on this report. If the Commission considered that an excessive deficit existed in a Member State or that it might occur, it had to address an opinion to the Council (step 1). The Council had to decide, in a qualified

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majority, after an overall assessment, whether an excessive deficit existed. When it decided so, it had to make recommendations to the Member State concerned 'with a view bringing that situation to an end within a given period' (step 2). If it was established that the Member State had taken no effective action in response of the recommendation and if the Member State persisted 'in failing to put into practice the recommendations of the Council', the latter could require from the Member State to take special measures and to submit reports in accordance with a timetable (step 3). 'As long as the Member State failed to comply' with the Council's decision, the latter could—by a decision adopted at the majority of two-thirds of the votes, excluding the vote of the representative of the Member State concerned—impose sanctions on the Member State: publication of additional information, reconsideration of the lending policy by the European Investment Bank, obligation to make a non-interest-bearing deposit or imposition of fines of an appropriate size (step 4). Article 104 foresaw also the possibility for the Council to abrogate all or some of its decisions, when the excessive deficit in the Member State had been corrected (step 5). In practice, Excessive Deficits Procedure (EDP) proved to be rather 'soft law' even if sanctions were foreseen in the Treaty. In a recent publication, it was remembered that larger Member States 'had some political room for manoeuvre', especially France and Germany, to escape from an EDP. 'The Commission's recommendations to step up the EDPs were vetoed in the Council' (de la Porte and Heins 2014), a breach of the procedure which was condemned by CJEU. In case law of 13 July 2004,[3] opposing the Commission and the Council, CJEU decided that the coordination procedure, inscribed in the Treaties, was compulsory (Kerschen and Omarjee 2010).

Coordination of economic policies was considered as a model to be implemented in other policy fields, but in a softer way. It was followed by the coordination of employment policies.

2.1.2 Employment Policy Governance

The Amsterdam Treaty introduced a new Title on 'Employment' into the EC Treaty (Articles 125–130). The European Employment Strategy (EES) was launched by the European Council, under the Luxembourg Presidency, in a Special Employment Summit in November 1997. EES was based on multi-level governance and an annual procedure in five steps (Article 128 TEC). This procedure deviated from the coordination process of economic policies. From 1998 to 2005, it functioned in an autonomous way. But employment policies of the Member States had to be consistent with the broad guidelines of the economic policies of the Member States and of the Union (Article 126.1 TEC).

The annual cycle started with the political orientations issued by the European Council in its conclusions. They were based on an analysis of the employment situation in the European Union and the Member States. From these orientations,

[3] ECJ 13 July 2004 *Commission c/Council*, C-27/04. Internet site: http://curia.europa.eu/jcms/upload/docs/application/pdf/2009-02/cp040057en.pdf

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the European Commission drafted employment guidelines, which were sent to four institutions for opinion: the European Parliament, the Economic and Social Committee (ESC), the Committee of the Regions and the Employment Committee (EMCO). The latter is an *ad hoc* Committee set up in the framework of the EES and composed by representatives of the Member States, especially civil servants in charge of the employment policy in their country, and representatives of the Commission. The trade-unions and the employers organisations were indirectly associated in this procedure through their presence in the ESC. Moreover, European social partners were consulted by the EMCO. Building on the institutions' opinion, the Council decided on common guidelines (including objectives and orientations), which had to be followed and implemented by the Member States, when they set up their annual National Action Plan (NAP) on employment. Each year, NAPs underwent an assessment by the Commission and a peer reviewed surveillance inside the EMCO. The Commission could recommend the Council to issue recommendations to the Member States, if their NAP did not comply with the common guidelines. Taking into account the opinion of the EMCO, the Council had the possibility to decide on country-specific recommendations, in order to assist the Member States in their reforms. In European law, recommendations have no legal binding force. But the Member States committed themselves to implement the common guidelines and the country-specific recommendations. At the end of the annual cycle, the Commission and the Council issued together a joint report on employment, which, on the one hand, compared the results of the reforms in the Member States, guideline by guideline, and, on the other hand, assessed the coherence of each Member State's employment policy. This joint report became afterwards the basis for discussions in the European Council's preparing the next employment coordination cycle.

In terms of content, EES started with guidelines regarding employability of workers, *flexicurity* and reconciliation of work and family life. It was put under the framework of the Lisbon Strategy from 2000 onwards. New objectives were defined, like full employment, quality of work, active ageing etc. Indicators were elaborated in line with quantitative objectives regarding, for example, rising of employment participation and retirement age and development of care services for children below the age of compulsory school.

From 2005 onwards, economic and employment guidelines were integrated. A Spring European Council devoted exclusively to economic and employment governance was created and multi-annual NAPs were implemented. *Flexicurity,* a combination of flexible labour markets, activation and social security, was the main subject at stake in 2007.

2.1.3 Social Policy Governance

The third domain for policy coordination, namely social policy, originated under a slightly different scenario. During the 1990s, social policies remained exclusively the responsibility of the Member States. In 1992, they adopted in the Council a recommendation on common objectives. It was followed by a Green Paper and a White Paper on social policy issued by the Commission in 1994, by a

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Communication on modernising the social protection schemes in 1997 and another one on the setting up of a voluntary European Strategy in 1999. During that period, no legal basis existed in the Treaties. Finally, coordination of social policies was decided by the Member States in the European Council in March 2000, when the Lisbon Strategy was launched.[4] One of its aims was to modernise the European social model, to invest in people and to combat social exclusion by using the Open Method of Coordination[5] (OMC). It seems that, at its origins, the Lisbon Strategy was an attempt 'to put social priorities on a similar level as economic policies' (Goetschy 2014), even if economic governance was dominant in the Treaties.

Between 2000 and 2002, three strategies were promoted by the Commission and accepted by the Member States: OMC on social inclusion in December 2000 (under French Presidency), OMC on pensions in June 2001 (under Swedish Presidency) and OMC on health care and long term care in December 2001 (under Belgian Presidency). The Social Protection Committee (SPC), an *ad hoc* Committee, was created for the purpose of assisting the Member States in their reforms. Like the EFC and the EMCO, it is composed of representatives of the Member States, who are in charge of the social policies in their country, and by representatives of the Commission. In 2004, the three OMCs have been put together in an autonomous *European Strategy for social protection and social inclusion* under the supervision of the SPC. In 2006 a European active inclusion strategy was set up. It was based on three strands—adequate income support, inclusive labour markets, access to quality services—and built on joint initiatives of the Member States, the social partners and NGOs active in the fight against poverty.

To sum up, before the economic and financial crisis of 2008, a European multi-level governance on economic, employment and social policies of the Member

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[4] Lisbon Strategy defined '*a new strategic goal for the next decade*: *to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*'*(Conclusions of the Lisbon European Council 23–24 March 2000 point 5).*

[5] This new governance, named OMC, consisted of:

- *fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;*
- *establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;*
- *translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;*
- *periodic monitoring, evaluation and peer review organised as mutual learning processes.*

A fully decentralised approach will be applied in line with the principle of subsidiarity in which the Union, the Member States, the regional and local levels, as well as the social partners and civil society, will be actively involved, using variable forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with different providers and users, namely the social partners, companies and NGOs' (Conclusions of the Lisbon European Council 23–24 March 2000 points 37–38).

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States was in place. Procedure was legally binding for economic and employment policies, whereas the commitments of the Member States regarding common guidelines and country-specific recommendations had only a political binding force, except for the procedure on excessive government deficits (EDP), which foresaw sanctions in case of non-compliance with the common objectives and country-specific recommendations. The policy coordination process was identified as 'Europeanization'[6] (Featherstone and Radaelli 2002). Research showed different OMC usages according to the field in which it operated. For example, convergence was the main objective of the European Employment Strategy, based on relatively well-known solutions to policy problems, in order to 'pave the way for legislation (. . .) building on the results of open coordination'. Quite the reverse, OMC on social inclusion has been used 'as a way to explore options of national-level policy action', together with civil society actors on both European and national levels, in order to get a clearer picture of the phenomenon of poverty and *good practice* policy solutions (Kerschen and Sweeney 2013; Borras and Radaelli 2014).

2.2 Policy Coordination After 2008

It is not easy to analyse the impact of the economic and financial crisis of 2008 on the social dimension of the European Union for several reasons. We will try to show that the changes in the economic governance, especially the set-up of instruments with a higher degree of integration (interference, surveillance, coercion) (de la Porte and Heins 2014) and, at the same time, the lack of changes in the employment and social policy coordination, gave more power to the actors in the economic and financial affairs. In other words, economic governance has been dominant since the crisis. This reinforcement of the economic aspects had tremendous consequences on Welfare State issues.

But, we also want to show that the crisis happened in a period where the Member States had decided to reform the European governance and to join economic and social aspects in a more integrated process. 2008 was also the year after the signature of the Lisbon Treaty,[7] which followed the rejection by referendum of the European Constitution. It introduced the Treaty on the European Union (TEU) with new objectives, especially in the social field, and the Treaty on the Functioning of the European Union (TFEU), with new governance processes. The OMC on social policy was officially recognised in the TFEU. The Lisbon Treaty was seen as a new start of the European integration. Moreover, from 2010 on, the Lisbon

[6] Radaelli's definition of Europeanization: 'Europeanization consists of processes of (a) construction, (b) diffusion and (c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, political structures and public policies' (Featherstone and Radaelli 2002).

[7] It entered into force on 1 December 2009.

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Strategy was replaced by the European 2020 Strategy with a new social policy Agenda.

2.2.1 The Lisbon Treaty in Force from 1 December 2009 on

The coordination of the economic, employment and social policies of the Member States was put under the same article—article 5 of TFEU—by the Lisbon Treaty. It states that '*1. The Member States shall coordinate their economic policies within the Union (. . .). 2. The Union shall take measures to ensure coordination of the employment policies of the Member States (. . .). 3. The Union may take initiatives to ensure coordination of Member States' social policies*'. The way the three paragraphs are formulated shows a hierarchy, which gives priority to economic policies over employment policies and especially over social policies. Whereas coordination is compulsory regarding economic and employment policies, the Union "may take initiatives to ensure coordination of Member States' social policies". But it is noteworthy that coordination of social policies has, in the end, been recognised in the TFEU together with the two other coordination policies (Table 1).

2.2.2 Europe 2020 Strategy

The Lisbon Strategy (2000–2010) was replaced by the *European 2020 Strategy for smart, sustainable and inclusive growth*. It was launched in 2010 and it had to face altogether the economic and financial crisis and long-term challenges linked to globalization, pressure on resources and ageing. Its overall aim was "to turn the EU into a smart sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion" (European Commission 2010a).

Europe 2020 Strategy was based on integrated guidelines for the economic and employment policies of the Member States. According to the TFEU, the Council adopted six broad guidelines for the economic policies of the Member States (Part I) and four guidelines for the employment policies of the Member States (Part II). There were three classical employment guidelines (EGL) on:

– *increasing labour market participation and reducing structural unemployment (EGL 7)*
– *developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning (EGL 8)*
– *improving the performance of education and training systems of all levels and increasing participation in tertiary education (EGL 9)*

and a new one on

– *promoting social inclusion and combating poverty (EGL 10).*

Employment guideline 10 elaborated on the former OMC on social inclusion. A special target was set up: 'the EU headline target, on the basis of which the Member States will set national targets, is to reduce by 25 % the number of Europeans living

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Table 1 Coordination of economic and employment policies of the Member States

Coordination of	Economic policies	Employment policies
Legal basis	Article 5.1 TFEU Article 120–121 TFEU	Article 5.2 TFEU Articles 145–148 TFEU
Matter of common concern	Economic policies	Promotion of employment
Annual procedure	Compulsory	Compulsory
Guidelines	Politically binding	Politically binding
Step 1—on European level	Initiative taken by the Commission: Recommendation to the Council Broad guidelines formulated by the Council (Draft)	Conclusions of the European Council on the basis of the Joint report from the Council and the Commission
Step 2—on European level	Conclusions from the European Council on the basis of the Council's report Recommendations adopted by the Council ("broad guidelines") Information to the European Parliament	Adoption of guidelines by the Council on a proposal from the Commission "*consistent with the guidelines for economic policies*" Consultation of the European Parliament, of the European Economic and Social Committee (EESC), the Committee of the Regions and the *ad hoc* Employment Committee
Step 3—on national level	Elaboration of an annual report on implementation of economic policy consistent with the broad guidelines by each Member State	Elaboration of an annual report on implementation of employment policy in line with the guidelines by each Member State
Step 4—on European level	*Multilateral Surveillance*—Assessment: – Report from the Commission – Monitoring of each Member State by the Council If economic policy is not consistent with the broad guidelines: – Warning by the Commission – Adoption of recommendations by the Council on a recommendation from the Commission	Annual examination on the implementation of the employment policy of each Member State by the Council Opinion from the Employment Committee If employment policy is not consistent with the guidelines: adoption of recommendations by the Council on a recommendation from the Commission
Step 5—on European level	Joint report from the Council and the Commission to the European Parliament on the results	Joint report from the Council and the Commission to the European Council

below the national poverty line, lifting over 20 million people out of poverty' (European Commission 2010b).

Recognising the budget constraints, the Commission decided in 2013 to propose a new approach in order to meet the Europe 2020 targets, the Social Investment Package (see under Sect. 2.2.4.1).

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2.2.3 Crisis and New Instruments

The most striking consequence of the economic and financial crisis was the increase of coercion in case of deviation from agreed policies or benchmarks, especially the 'hardening' of the economic policy coordination, which is considered as highly intrusive in the Member States policies (de la Porte and Heins 2014). New instruments were created, like the European Semester (2010). The Stability and Growth Pact (SGP) underwent three major reforms between 2011 and 2013.

2.2.3.1 Reform of the Stability and Growth Pact

Since 2011, the SGP has undergone three main reforms, which are considered as 'the most comprehensive reinforcement of economic governance in the European Union and the Euro-area since the launch of the EMU' (European Commission 2011): the '6 Pack' (2011), the Treaty on Stability, Coordination and Governance (TSCG) (2013) and the '2 Pack' (2013) (Table 2). These reforms had in common that they were strengthening the procedures to reduce public deficits and to address macro-economic imbalances. It must first be noted that these regulations do not apply in the same way to all Member States ('variable geometry'). New tools for budgetary discipline were implemented. For example, a country-specific medium objective (MTO) was introduced as a 'preventive mechanism' permitting ex-ante surveillance on the budgetary policy of the Member States. Euro-area countries had to enshrine it into their national law. It was complemented by a common budgetary annual agenda. This correction mechanism played especially a role for the Member States which were not subject to an EDP.

Moreover, the 'corrective arm' of EDP was reinforced. A new voting system, the reverse qualified majority voting (RQMV) was adopted, which implied that a recommendation or a proposal of the Commission was considered adopted in the Council unless a qualified majority of the Member States voted against it. Thus the power of the Commission was improved. The Member States, which signed the TSCG, agreed on a reinforcement of the macro-economic imbalance procedure by fixing a maximum annual structural government deficit at 0.5 % of GDP and the creation of specific EURO Summits.

Implementing the SGP objectives needs monitoring achieved by the European Semester.

2.2.3.2 The European Semester

The European Semester is the first phase of the Europe's annual cycle of economic guidance and surveillance. It lasts from January to July (one Semester). During this Semester, the Commission analyses the fiscal and structural reform policies of the Member States, provides recommendations and monitors their implementation. The second phase is the National Semester, when the Member States implement the policies they have agreed.

The European Semester is based on a step-by-step procedure.

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Table 2 Reforms of the SGP

	6 Pack	Treaty on Stability, Coordination and Gover-nance (TSCG) Fiscal part = 'Fiscal Compact'	2 Pack
Regulation	5 regulations 1 directive[a]	Intergovernmental Agreement[b] signed on 2 March 2012 by 25 MS out of 27 (excluding Czech Republic and UK)	2 regulations[c]
In force since	December 2011	1 January 2013	30 May 2013
Legal basis in the Treaty	Articles 136, 121 (6) and 126(14) TFEU	–	Article 136 and 121 (6) TFEU
Application to..... ('variable geometry')	All Member States, with special rules for Euro-area Member States (especially regarding sanctions)	Binding for 17 Euro-area Member States On discretion for 8 other Member States	Euro-area Member States, with special rules for those in the corrective arm of the SGP (EDP)
	Ex-ante surveillance		Common framework
Main measures	1. Introduction of the 'Macroeconomic Imbalance Procedure' (MIP): complements fiscal surveillance	1. Maximum annual structural government deficit of 0.5 % of GDP	1. Common budgetary timeline
	2. Introduction of the 'country-specific medium objective' (MTO)[d] ('preventive arm')	2. Inscription of MTO in national binding law or Constitution (CJEU may intervene)	2. Common budgetary rules (consistency between budgetary and other economy policy processes and decisions)
	3. New voting system: RQMV[e] for sanctions in EDP ('corrective arm')	3. Extension of the new voting system: RQMV in all stages of EDP	
	4. New sanctions: fine may reach 0.5 % of GDP	4. EURO Summit meetings at least twice a year	

[a](1) Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area; (2) Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area; (3) Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies; (4) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances; (5) Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure; (6) Council Directive 2011/85/EU of

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8 November 2011 on requirements for budgetary frameworks of the Member States, OJEU 23 November 2011, L. 306
[b]Internet site: http://www.european-council.europa.eu/media/639235/st00tscg26_en12.pdf
[c](1) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJEU 21 May 2013, L.140/1; (2) Regulation(EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, OJEU 21 May 2013, L. 140/11
[d]MTO plays a role for Member States, which are not or no longer subject to an EDP: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Germany, Finland, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Romania, Slovakia and Sweden (November 2014)
[e]RQMV implies that a recommendation or a proposal of the Commission is considered adopted in the Council unless a qualified majority of Member States votes against it

Phase 0: Preparatory Phase

It starts each year in October. The Commission analyses the progress of the EU and underpins the country specific policy recommendations made by the EU to the Member States (follow-up of the previous year). It issues two reports: (a) the Annual Growth Survey (AGS) on budgetary and structural policies and (b) the Alert Mechanism Report in case of macroeconomic imbalances, a sort of early warning report to the Member States and the Union.

Since the ‘2 Pack’ (2013), a common budgetary timeline for the Euro-area Member States has been introduced. During this phase, the Member States concerned have to publish, on 15 October, their draft budgets for the following year. Before the 30 November, the Commission will examine and give an opinion on each draft budget. It may ask for revised plans. Before, the 31 December, the Member States must adopt their budgets for the following year. These requirements complement the preventive arm of the SGP.

Phase 1: Policy Guidance at the EU Level

It takes place in February-March. The Council studies the AGS and adopts conclusions. At the same time, the European Parliament provides opinion on employment guidelines. On the basis of the Council’s conclusions and the EU Parliament’s opinion, the European Council adopts political orientations/priorities. It takes into account the opinion of the social partners through the Tripartite Social Summit.

Phase 2: Country-Specific Objectives, Policies and Plans

In April, the Member States outline their specific objectives, priorities and plans on national level and report them to the Commission. They must report on the specific policies they are implementing and intend to adopt, for the 12 forthcoming months, in order to boost growth and jobs. The Europe 2020 integrated guidelines are inscribed into the National Reform Programme (NRP). The Euro-area Member States must publish, the 30 April, together with the NRPs, their medium-term fiscal plans in a Stability Programme, whereas the other Member States have to publish their Convergence Programme.

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Phase 3: Assessment and Country-Specific Recommendations

In May, the Commission assesses, at the same time, the NRP and the Stability Programme or Convergence Programme of each Member State and makes a series of country-specific recommendations to each Member State. It also takes into account the in-depths reviews of countries with potential macroeconomic imbalances.

In June, the Council agrees on final country-specific-recommendations (CSR) for each Member State In this procedure, the *Council Employment, Social Policy, Health and Consumer Affairs* plays only a minor role. In June 2014, a policy debate on the European Semester 2014 "in the field of employment and social policy" was organised. It was based especially on an Opinion of the Employment Committee (EMCO) on the employment and social policies dimension in the NRPs and on the implementation of the country-specific recommendations 2013. The Council had to approve the employment and social policy aspects of the CSRs for 2014.[8]

In June/July, the European Council endorses the CSR. In July, the Council adopts them (Council 2014b). The CSR for each Member State are published separately in the Official Journal of the EU.[9]

Phase 4. National Semester (from August to December). But Phase 0 Will Already Start in October/November

How does it work in practice? There are three different groups of Member States:

- the Member States subject to a macroeconomic adjustment programme, which are exempted from the European Semester
- the Member States subject to an excessive deficit procedure, which includes two sub-groups, the Member States under an ongoing procedure and the Member States exiting the procedure
- the Member States, which have never been subject to an excessive deficit procedure.

The Exemption of Member States Subject to a Macroeconomic Adjustment Programme (ECB, EC and IMF)

It must be noted that Member States, which are subject to a macroeconomic adjustment programme, are exempt from the monitoring and assessment of the EU Semester for the duration of the programme. This was the case of Greece, Ireland, Portugal and Cyprus[10] (Table 3).

In this chapter, we do not analyse the financial support by the European Central Bank (ECB), the European Commission (EC) and the International Monetary Fund

[8] During the June session, the Social Protection Committee *(SPC)* made public four documents regarding the "the social dimension of the EU/EMU" (especially on the alarming situation of the poverty target), on an experimentation on ex-ante coordination of major social policy reforms, on minimum income schemes in the Euro area and on adequate social protection for long-term care needs in an ageing society.

[9] For example, the Recommendation of the Council of 8 July 2014 on the CSR for France has been published in the OJEU of 29 July 2014, C 247/42.

[10] Spain had only a bank rescue programme, from which it exited in December 2013.

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Table 3 The Member States under bailout programmes

Member States	Date of the memorandum	Exit of the bailout programme
Greece	May 2010	Ongoing
Ireland	November 2010	December 2013
Portugal	May 2011	May 2014
Spain bank rescue programme	June 2011	December 2013
Cyprus	March 2013	Ongoing

(IMF) for these countries in exchange for structural reforms. Details can be found in the different chapters. But all these countries have in common that the bailout Memorandums of Understanding (MoU) contained clear provisions in relation to welfare benefits.

Austerity measures have been imposed to the Welfare States of these countries, but at different degrees. In Greece and Cyprus, all welfare sectors have been affected. The economic crisis and austerity policies have had a catastrophic impact on people's income and on poverty. The social protection system has been dismantled and families reappear as the only existing safety net (chapter "Dismantling the Feeble Social Protection System of Greece: Consequences of the Crisis and Austerity Measures" on Greece). In Portugal, provision of public services, especially in healthcare and education, has been cut down. Structural reforms regarding labour market flexibility were imposed. The crisis and the austerity measures created a dilemma: 'how to manage the tension between assuring the quality of social rights and attaining fiscal consolidation objectives', especially because the Portuguese Welfare State was created in the European context and is now, in the same context, struggling under crucial constraints for its survival (chapter "The Portuguese Welfare System in a Time of Crisis and Fiscal Austerity" on Portugal). In Ireland, where social policies were retrenched especially regarding child benefits, jobseekers allowances, health care and social services, the question whether there could be a possibility of partially reversing the changes in the context of the next general elections in 2016 has been raised (chapter "Ireland: From Boom to Bust" on Ireland).

Spain has to be considered as a separate case. The bailout of several banks and the recapitalization of the financial system obliged Spain to include 'the total amounts of the loans into the public accountability in order to obtain a total guarantee of its return'. As a consequence, redistribution of public expenditure has been reduced and the sustainability of the Welfare system has been put under risk (chapter "The Restructuring of the Spanish Welfare State: One Step Forward, Two Steps Back?" on Spain).

The adjustment programme ended for Ireland in December 2013 and for Portugal in May 2014, when they met the vast majority of policy conditions under the financial assistance programme. From this moment on, they were fully integrated in the European Semester framework. Since the implementation of the '2 Pack', they are subject to a post-programme surveillance (PPS) until at least 78 % of the financial assistance received is repaid. Under PPS, the Commission will

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regularly assess their economic, fiscal and financial situation and determine whether corrective measures are needed. Ireland and Portugal will be constantly under enhanced surveillance going beyond the requirements under the EDP. The Commission may propose that the Council recommends to the Member State concerned to adopt corrective measures.

The Member States Under an EDP

In Spring 2011, 24 Member States were under an EDP. In December 2014, there were no more than 11 Member States. The Council considered, in June 2014, that some Member States had durably corrected their excessive deficit and closed the excessive deficit procedure for Austria, Belgium, Czech Republic, Denmark, Netherlands and Slovakia (Table 4).

A few Member States have been under an EDP for a short time. For example, Finland has been under an EDP for only 12 months (2010–2011). The crisis seems to have had limited direct impact on the institutional framework of the Finnish Welfare State and social policies. Short-term measures were taken to freeze or only partially rebalance numerous indexes used to compensate inflation in benefits and social and health services (chapter "Was It Too Good to Be True? Post 2008 Crisis Welfare State in Finland" on Finland). Germany exited an EDP after 2½ years (2009–2012). As the economy recovered very quickly from the crisis, no Welfare State retrenchment could be observed. Minor adjustments on pensions, long-term care insurance, health insurance and family policies took place. They were considered as 'ambivalent, various and pointing in different directions' (chapter "Crisis? What Crisis? Restructuring the German Welfare System in Times of Unexpected Prosperity" on Germany).

Most of the Member States have been under an EDP for 4 years and even more (for example, Austria, Belgium and the Netherlands).

In Austria, welfare retrenchment played a weaker role. Short-time work was facilitated in order to keep unemployment low. Two austerity packages were implemented in 2010 and 2012, which led to changes in pension, long-term care and family policies (chapter "Reforming the Austrian Welfare System: Facing Demographic and Economic Challenges in a Federal Welfare State" on Austria).

The European Union exercised pressure on Belgium to comply with budgetary targets and recommendations were discussed with the government, for example on automatic price indexation of wages and benefits, but not enacted. Crisis packages were adopted in two major waves: in 2008–2009 and in 2011–2012. Some measures, mainly relating to working time, were temporary. All in all, Belgium's welfare regime proved to be a stable one throughout the crisis (chapter "Belgium, or How Inertia Can Have Unexpected Benefits in Times of Crisis" on Belgium).

In the Netherlands, the 'sustainability package' designed in 2010, was very controversial. It planned long-term changes like increases in the statutory retirement age, partial privatisation of the unemployment insurance and labour market reforms strengthening the legal position of flexible workers. Three years later, the European Union's attempts towards stricter economic regulation seem to be in line

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Table 4 Excessive deficit procedures after 2008

Member State under an EDP	Date of the Commission report	Council decision on existence of ED	Council decision abrogating the decision on the existence of ED	Ongoing procedure (deadline for correction) or closed procedure
Austria	7 October 2009	2 December 2009	20 June 2014	Closed procedure
Belgium	11 November 2009	2 December 2009	20 June 2014	Closed procedure
Bulgaria	12 May 2010	13 July 2010	22 June 2012	Closed procedure
Croatia	15 November 2013	21 January 2014	–	Ongoing procedure (2016)
Czech Republic	7 October 2009	2 December 2009	20 June 2014	Closed procedure
Cyprus	12 May 2010	13 July 2010	–	Ongoing procedure (2016)
Denmark	12 May 2010	13 July 2010	20 June 2014	Closed procedure
Finland	12 May 2010	13 July 2010	12 July 2011	Closed procedure
France	18 February 2009	27 April 2009	–	Ongoing procedure (2015)
Germany	7 October 2009	2 December 2009	11 June 2012	Closed procedure
Greece	18 February 2009	27 April 2009	–	Ongoing procedure (2016)
Hungary	12 May 2004	5 July 2004	21 June 2013	Closed procedure
Ireland	18 February 2009	27 April 2009	–	Ongoing procedure (2015)
Italy	7 October 2009	2 December 2009	21 June 2013	Closed procedure
Latvia	18 February 2009	7 July 2009	21 June 2013	Closed procedure
Lithuania	13 May 2009	7 July 2009	21 June 2013	Closed procedure
Malta (1)	13 May 2009	7 July 2009	4 December 2012	Closed procedure
Malta (2)	21 May 2013	21 June 2013	–	Ongoing procedure (2014)
Netherlands	7 October 2009	2 December 2009	20 June 2014	Closed procedure
Poland	13 May 2009	7 July 2009	–	Ongoing procedure (2015)
Portugal	7 October 2009	2 December 2009	–	Ongoing procedure (2015)
Romania	13 May 2009	7 July 2009	21 June 2013	Closed procedure
Slovakia	7 October 2009	2 December 2009	20 June 2014	Closed procedure
Slovenia	7 October 2009	2 December 2009	–	Ongoing procedure (2015)

(continued)

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Table 4 (continued)

Member State under an EDP	Date of the Commission report	Council decision on existence of ED	Council decision abrogating the decision on the existence of ED	Ongoing procedure (deadline for correction) or closed procedure
Spain	18 February 2009	27 April 2009	–	Ongoing procedure (2016)
UK	11 June 2008	8 July 2008	–	Ongoing procedure (Financial year 2014/ 2015)

Source: European Commission, Economic and Financial Affairs, The corrective arm (checked on 22/12/2014): http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

with the Dutch political visions (chapter "Beyond the Dutch Miracle? Challenges to and Responses of the Dutch Welfare System" on the Netherlands).

Special country-specific recommendations are addressed to the Member States, which are still under ongoing excessive deficit procedures. They include explicitly Welfare State issues. We will give three relevant examples.

Recommendation Number One for France states: 'reinforce the budgetary strategy (. . .) for the year 2014 and beyond to ensure the correction of the excessive deficit (. . .). After the correction, pursue structural adjustment (. . .). Take steps to reduce significantly the increase in social security spending as from 2015 as planned, by setting more ambitious annual healthcare spending targets, containing pension costs and streamlining family benefits and housing allowances' (Council 2014c). It is clear that the French Welfare State is under heavy pressure. It is also noteworthy that the Finance Minister has become a stronger actor in the welfare policy design and that he is on the frontline in the negotiations with the European Commission (chapter "Muddling Through the Crisis: The French Welfare State Under Financial Stress" on France).

In Poland, the pension system is under intense scrutiny and has even produced two disputes between the European Commission and the Polish government and CJEU case-law (chapter "Between Constrained Opportunities and Social Expectations: Social Policy in Contemporary Poland" on Poland). Nevertheless, under strong budgetary constraints, the Polish government decided to intensify the measures within the pro-family policy in order to counteract the negative demographic trends, which has to be understood as an economic decision more than a social protection one (chapter "Between Constrained Opportunities and Social Expectations: Social Policy in Contemporary Poland" on Poland).

Surprisingly, Malta, which is subject to the second EDP since 2009, seems relatively unhurt by the crisis. There is no evidence of Welfare State retrenchment, even if there are some signs of a gradual transformation towards a more disciplinary Welfare State and privatisation issues in health services and long-term care issues (chapter "Malta: Safeguarding Welfare Through Flexicurity" on Malta).

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The Member States, Which Have Never Been Subject to an Excessive Deficit Procedure

There are only three Member States, which have never been under an excessive deficit procedure: Estonia, Luxembourg and Sweden.

The aim of Estonia was to adopt the Euro and thus to meet the Maastricht criteria. Due to a specific financial situation, the crisis passed quite peacefully. State pensions continued even to increase despite the economic crisis, although the general level of social security remained quite modest (chapter 'Economic Recession and Changes in the Estonian Welfare State—"An Occasion Not to Waste a Good Crisis"' on Estonia).

The European Commission issued a report on an EDP regarding Luxembourg in May 2010, but it has never been followed by a decision from the Council. The Luxembourg government's austerity plan, which was elaborated after the failure of the Tripartite Dialogue in Spring 2010, took place in this context (chapter "Luxembourg's Welfare State in the Crisis: A Semi Success Story" on Luxembourg).

It is under the umbrella of the Nordic model that Sweden came out relatively unhurt in terms of macroeconomics from the economic and financial crisis and therefore escaped an EDP (chapter "Still Awaiting the Storm? The Swedish Welfare State After the Latest Crisis" on Sweden).

Through those instruments, the European institutions consider social systems mainly through a budget perspective. However, the European Commission tries to develop, at the same time, a European social policy.

2.2.4 Recalibrating Social Policy and Social Dialogue Since the Crisis

From 2013 onwards, the European Institutions have taken initiatives to balance social and economic issues, especially through the Social Investment Package and the recognition of a new role for the European Social Partners in the Tripartite Social Summit. It is too early to see positive outcomes.

2.2.4.1 How to Save Welfare States or the Social Investment Package

The Commission tried to protect or to save the Welfare States by 'recalibrating social policy since the crisis' (de la Porte and Heins 2014). Taking into account the budget constraints and the fact that 'social policies need to be both adequate and fiscally sustainable', it made the proposal to adopt a new approach based on the *Social Investment Package*[11] (European Commission 2013a), that means investing in individuals throughout the life course, especially by focusing on human capital development, as part of the European Semester. Therefore, it urged the Member States to involve the social partners and civil society organisations in the modernisation of social policy and to put special focus in their NRPs on policies

[11] It is complementary to the Employment Package 'Towards job-rich recovery', Communication of the Commission of 18 April 2012, COM (2012) 173, to the White Paper on pensions of 16 February 2012, COM (2012) 55 and to the Youth Employment Package 'Moving Youth into Employment' of 5 December 2012, COM (2012) 727.

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such as (child)care, education, training, active labour market policies, housing support, rehabilitation and health services.[12]

We would like to illustrate the social investment approach promoted by the European Commission through two examples.

The Commission developed a strategy 'Investing in children: breaking the cycle of disadvantage' based on EU values like 'human dignity' and on EU aims like 'the well-being of people' and 'the rights of the children' (see Part I). In its recommendation of 20 February 2013, it described the three key pillars of its strategy: access to adequate resources including access to employment for the parents, access to affordable quality services and children's rights to participate (European Commission 2013b). The objectives are clearly in line with the fight against poverty of children promoted under the former OMC on social inclusion.

Moreover, in its Staff Working Document on 'Long-term care in an ageing society', the Commission defined a social investment oriented strategy. It combines preventive measures of healthy active ageing with productivity aims in care delivery and measures to increase the ability of older people to continue independent living even as they are in need of care. The Commission suggests lifting most of the current informal care into the formal sector and to create new jobs adapted to the needs of people and to ensure quality of care. In these two domains, EU policy guidance is monitored through the Economic and Financial Committee and the Social Protection Committee, which shows that coordination of economic and social policies are interrelated (European Commission 2013c).

2.2.4.2 Strengthening of the Social Dimension of the Economic and Monetary Union

The EU also tried to strengthen the social dimension of the EMU through the social dialogue and the role of the social partners. In its conclusions of 28 June 2013, the European Council stated that social partners and social dialogue had to play a key role in the European Semester process. The social partners confirmed their support for an adaptation of the Tripartite Social Summit, which existed from 2003 on, to the changes within the framework of the economic governance. Their participation in the European Semester was considered especially 'relevant for discussions on competitiveness, well-functioning labour markets, wage policies and social policy issues' (Council 2014a). At least two meetings per year will be held before the respective spring and autumn sessions of the European Council. The President of the European Council, the President of the Commission, the current Council

[12] The European Parliament recalled in a resolution 'that social investments, being the provision and use of finance to generate social as well as economic returns, aim at addressing emerging social risks and unmet needs, and focus on public policies and human capital investment strategies that help and prepare individuals, families and societies to adapt to various transformations, manage their transition towards changing labour markets and face other challenges, including for example the acquisition of new skills for future job rich sectors' European Parliament Resolution of 20 November 2012 on Social Investment Pact as a response to the crisis [2012/2003 (INI)].

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Presidency and the two subsequent Council Presidencies, the social partners [two delegations of equal size (10–10) representing cross-industry organisations] will meet on a jointly decided agenda. The President of the European Council will report on the discussions and the outcomes of the Summit to the European Council.

3 Conclusions

Since its origins, the European institutions have had an economics based approach. However, a growing interest to social policies underpins European integration. Social fundamental rights are now guaranteed by the European Treaties and the European institutions, including the Member States, must comply with social objectives. Those rights and objectives constitute the first limits to what the Member States can achieve while reforming their system in response to the crisis. Moreover, the CJEU affirms social integration and European citizen status. Those two legal concepts prevent the hosting Member State from excluding European citizens from social benefits. Thus, it is harder for the Member State to reduce costs by excluding European citizens from welfare.

As the Member States are reluctant to give up their sovereignty on social policies, the European institutions, and particularly the European Commission, take action mainly through soft law instruments. The European institutions did not gain as much power and influence as in the economic and financial policies. Nonetheless, challenging and ambitious social objectives have been set in the *Europe 2020 strategy*. The European Commission tries to give impetus to social policies' reforms through the OMC and through new concepts such as *social investment*. In doing so, the Commission can build its own (and shared) social approach.

The social objectives in the Treaties, the CJEU case law and the coordination processes are instrumental to lay down the foundations for a true European social model. Its design is already at work and should be promoted to manage the adverse effects of the economic and financial crisis.

Case-Law

All cases are available at http://curia.europa.eu/jcms/jcms/j_6/—Cases can be searched in reference to their case number (XX/XX), name of the parties or the date.

Since the Lisbon Treaty in 2009, the Court's name has changed from CJEC to CJEU.

CJEC, 5 February 1963.—NV Algemene Transport- en Expeditie Onderneming van Gend & Loos v Netherlands Inland Revenue Administration.—Case 26/62.

CJEC, 15 July 1964.—Flaminio Costa v E.N.E.L.—Case 6/64.

CJEC, 18 June 1987.—Centre public d'aide sociale de Courcelles v Marie-Christine Lebon.—Case 316/85.

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CJEC, 12 November 1996.—United Kingdom of Great Britain and Northern Ireland v Council of the European Union.—Case C-84/94.

CJEC, 12 May 1998.—María Martínez Sala v Freistaat Bayern.—Case C-85/96.

CJEC, 20 September 2001.—Rudy Grzelczyk v Centre public d'aide sociale d'Ottignies-Louvain-la-Neuve.—Case C-184/99.

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CJEU, 5 May 2011.—Shirley McCarthy v Secretary of State for the Home Department.—Case C-434/09

CJEU, 14 June 2012.—European Commission v Kingdom of the Netherlands.—Case C-542/09.

CJEU, 15 November 2011.—Murat Dereci and Others v Bundesministerium für Inneres.—Case C-256/11.

CJEU, 11 November 2014.—Elisabeta Dano and Florin Dano v Jobcenter Leipzig.—Case C-333/13.

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