Vulnerable Workers in the Eurozone Crisis

John Grahl
Middlesex University Business School

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Introduction

The general adoption of austerity policies throughout the EU and in particular in the eurozone is having very adverse effects on the level of employment, on job and employment security and on working conditions. These effects are also highly differentiated, being especially intense in the countries facing sovereign debt crises. The following paper presents some evidence for the countries in question drawn primarily from the stability programmes and national reform programmes which member states are required to submit each year to the Commission.

The present paper first gives a brief description of the new policy surveillance system in the eurozone. Then it is suggested that the macroeconomic policies adopted in the context of reinforced surveillance are incoherent. The implications of austerity policies for workers are discussed; young workers are clearly badly affected. Details are given of acute pressures on European social models in the economically weaker countries, taking Portugal, Greece and Ireland as examples. It is concluded that the new policy regime in the eurozone makes social dumping in effect the central social strategy in the monetary union.

From Stability Pact to Surveillance Union

EU leaders are perfectly correct to argue that institutional reforms are needed in the eurozone. The Stability Pact, intended to guarantee budgetary discipline and thus economic stability, failed in two ways: some countries, such as Spain and Ireland, suffered enormous crises in spite of their obeying the Stability Pact rules; others, such as Greece, clearly violated the rules continuously. However the response adopted by the EU ignores the fact that it was only these malfunctions – only the build-up of imbalances – which permitted the eurozone to achieve even the mediocre employment performance that it recorded[1].

In several ways EU authorities are preparing a post-crisis regime which will install a comprehensive tutelage over the weaker economies. Some of this is already apparent in the conditions imposed on crisis-struck countries, in particular Greece. In return for EFSF finance, Greece is required to make big changes which would normally depend on internal debate – such as privatisations and alterations to pension arrangements. A particularly worrying demand from the creditor authorities is the decentralisation of collective bargaining – an attempt to dismantle a social model which European law requires the EU to respect.

As Habermas puts it, governments will be inspected every year to see whether “the level of debt, labour market deregulation, the system of social security, the health care system, wages in the public sector, the wage share, the rate of corporation tax and

[1] The European commission's Ameco database gives the growth of employment in the original eurozone (the first eleven countries plus Greece) between 1999 and 2007 as 13.7 million. But, of this total, two thirds, or 8.9 million, took place in the "periphery" – in Ireland, Greece, Spain, Italy and Portugal.

much more correspond to the reckoning of the Council." He could have pointed out that such surveillance will be of the weak by the strong.[2]

The rules of the "Growth and Stability Pact", supposed to govern the budgetary policies of all EU members and to be obligatory for members of the eurozone, were based on the fallacious notion that, provided public sector deficits were limited, market forces would ensure a balanced development of the economy. In reality there developed very large current account deficits across the periphery which became impossible to finance after the crisis of 2008.[3]

The financial crisis of 2008, provoking a rapid decline in private sector expenditures, necessitated substantial public sector injections around the world. The Commission had to recognise that much wider public sector deficits were needed temporarily, but already by 2009 it was demanding an early "exit" from these more supportive budgetary policies. At the same time it made proposals to make the Stability Pact rules on public sector borrowing and debt much more restrictive and to introduce new rules on macroeconomic "imbalances."

The official rationale for these changes is couched in terms of both "co-ordination" and "surveillance." But they do nothing to promote co-ordination. Genuine co-ordination would require firstly the specification of an overall macro policy for the eurozone and then the specification of differentiated national policies compatible with the overall macro stance. There is nothing of this in the proposed amendments. In reality, the only focus of these measures is on the surveillance of individual member states and, although this is not stated, the concern is only with the weaker member states to whose "indiscipline" the current crisis is attributed. Thus the whole package neglects the central problem of coordination – the huge imbalances in current accounts.

The reform comprises six pieces of legislation, which have now passed through the European Parliament with very few changes. The first four tighten the requirements of the existing stability pact and its enforcement through the "excessive deficit procedure." The other two introduce an "excessive imbalance procedure" which introduces similar legal constraints on other aspects of macroeconomic policy; they are obviously inspired by the fact that in Ireland and Spain crisis had nothing to do with public sector deficits but relates to capital inflows into the private sector. A brief description of this legislation is as follows:

Tightening the Stability Pact:

1. **New definitions** of the stability pact rules emphasise "excessive" levels of public debt as well as well as annual deficits; "discretionary" measures have to be taken to correct both and the speed of correction is specified. The only permitted exceptions have a strongly deregulatory character – a member state may run deficits to introduce a funded pension scheme, but not, for example, to finance a social housing programme.

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[2] http://www.eurozine.com/articles/2011-08-26-habermas-en.html

[3] The rest of this section draws on the 2011 Euromemorandum discussion of Stability Pact Reforms, which was drafted by the present author.

2. **Stronger surveillance** is to take place through the annual submission of stability programmes (including "structural reforms") which must embody a medium-term budgetary objective to permit the Council to verify "prudent" fiscal policies. Even countries within the prescribed reference values must not increase public expenditure faster than GDP (thus any move by other countries towards Scandinavian social models becomes illegal).
3. **Reinforced penalties** involve first compulsory deposits and then fines for eurozone members. Sanctions are to become more automatic since at many stages of the "excessive deficit procedure" a qualified majority in the Council will be needed to block penalties rather than to impose them.
4. Member states must establish a satisfactory **Budgetary Framework**. This covers accounting systems, statistics, fiscal relations with regional and local government, forecasting practices (although the Commission's own forecasting is less than impressive), budgetary procedures and "fiscal rules." It is strongly recommended that the latter involve numerical limits, in spite of the repeated difficulties that such rules provoke, most recently with public finance in the US today (and no doubt Germany in the near future).

The Excessive Imbalance Procedure:

5. A **scoreboard** comprising "a limited number of economic and financial indicators" is to be established. "Indicative" thresholds will be set for these; if they are crossed investigative procedures may be launched; however there will not be an automatic alert; "economic judgement should ensure that all pieces of information, whether from the scoreboard or not, are put in perspective and become part of a comprehensive analysis"; this will identify member states to be subject to an "in-depth" review; this will involve "enhanced surveillance missions" and additional reporting by the member state concerned.[4]
6. **Penalties** do not follow right away. When excessive imbalances are definitely identified, "recommendations" will be made to the member state. Its response should be timely; should use "all available policy instruments" including fiscal and wage policies, labour markets, product and services markets and financial sector regulation. Eventually, however, if the response proves inadequate, sanctions – compulsory deposits and fines – will be imposed. Equity in penalties is to be assured by expressing these as a percentage of the GDP of the recalcitrant state.

There is, of course, something absurd, even ridiculous, about this attempt to construct a juridical framework for macroeconomics, as anyone remotely familiar with that discipline will recognise. But the project is also sinister: it threatens to subject economically weaker members – and those alone – to a comprehensive tutelage involving every aspect of public policy. It is clear that the main indicators used will reflect so-called problems of "competitiveness." Criticism in the EP and by some EU

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[4] The indicators and their thresholds featuring in the scoreboard can be found in: *European Economy*, Occasional Paper 92, "Scoreboard for the surveillance of macroeconomic imbalances," February 2012. As expected the emphasis is on external competitiveness and credit restriction. Only one indicator – unemployment – relates to the level of economic activity and the threshold for unemployment is set at 10%. The scoreboard does include both current account surpluses and deficits – the threshold for the former is 6% of GDP, perfectly compatible with a continuation of mercantilist export promotion by Germany and its neighbours. Deficits, however, have a threshold of 4% of GDP.

governments has led to the removal of explicit reference to wages in the legislation. But the wage levels and social models of the weaker states remain the targets of this project.

Many types of "imbalance" will be outside the scope of the new procedures. These include: the coexistence of immense private fortunes with public sectors crippled by debt; the failure of wage growth in the EU to match productivity growth over now three decades; the remuneration of financial and corporate leaderships out of all proportion to typical incomes.

The package is embedded in a reinforced set of administrative procedures known as the "European semester" which will take place in the first half of each year and lead to the definition of two sets of policies, one concerned with macroeconomic policy (the "stability programmes") and the other (the "national reform programmes") concerned with "structural reforms" in the Commission's usual sense of reduced protection for employees, privatisations and deregulation of business. The first such exercise, which took place in 2011, indicates what is to be expected from these procedures: neither Commission recommendations for Germany nor Germany's own programmes recognised any problem with its huge trade surplus. The entire process focuses on further fiscal consolidation, labour market "reforms," and supply-side measures supposedly to promote growth by "large price and cost adjustments" in the weaker economies – in other words, by deflation.[5]

Surveillance without Coordination

The stability plans submitted by member states in the first European semester, 2011, seem dysfunctional in several respects. They were, firstly, completely unrealistic in the assumptions that were made about growth. The programmes put fiscal consolidation targets into a projection of macroeconomic developments for the period 2011-14. The forecast GDP growth figures are given in Table 1.

We can use actual GDP in 2010 (as reported on the Commission's AMECO web-site) to derive implied GDP levels for each of the 17 and for the eurozone as a whole (in 2010 euros) and thus derive implied growth rates for the zone as a whole (Table 2).

A first simple exercise is then to compare actual growth rates for 2011 with the SP forecasts (Table 3). This indicates that the latter were somewhat too optimistic for E-zone growth as a whole. Since German growth exceeded the forecast in its SP, this means that growth substantially undershot SP targets in most other countries. However, a divergence of 0.3% of GDP is hardly unusual in macroeconomic forecasting.

[5] Two further legislative proposals, the "two-pack," would further increase the power of the Commission over national policies in the weaker states. Member state governments would be required to submit their draft budgets to the Commission before they were presented to national parliaments and the Commission could, in the case of heavily indebted states, require amendments. At present (September 2012) the legislation is still being discussed in the European Parliament.

Table 1

Growth Rates of GDP as per 2011 SPs				
	2011	2012	2013	2014
Belgium	2.0	2.3	2.1	2.3
Germany	2.3	1.8	1.5	1.5
Estonia	4.0	4.0	3.6	3.6
Ireland	0.3	2.0	2.5	2.5
Greece	-3.5	0.8	2.1	2.1
Spain	1.3	2.3	2.4	2.6
France	2.0	2.3	2.3	2.3
Italy	1.1	1.3	1.5	1.6
Cyprus	1.5	2.5	2.7	3.0
Luxembourg	3.2	3.5	3.7	4.0
Malta	2.4	2.3	2.6	2.8
Netherlands	1.8	1.5	1.3	1.3
Austria	2.5	2.0	2.1	2.2
Portugal	-2.2	-1.8	1.2	2.5
Slovenia	1.8	2.2	2.3	2.8
Slovakia	3.4	4.8	4.8	4.8
Finland	3.6	2.7	2.4	2.1

2011 Stability Programmes, D-G Economic and Financial Affairs[2]

Table 2

Growth Rate of GDP in Eurozone as implied by SPs, Spring 2011			
2011	2012	2013	2014
1.7	1.8	1.9	2.0

Table 1, AMECO

However, by the end of 2011 it became clear that the SP growth rates for 2012 were, or had become, completely unrealistic. Table 4 contrasts the SP forecasts for 2012 with the interim forecasts prepared by the Commission at the start of 2012. Instead of continuing recovery the story is of return to recession.

It is of course possible to interpret this divergence as merely a (large) forecasting error. But it can be argued, to the contrary, that the downturn is actually endogenous to the whole stability process, that it is the direct consequence of the austerity programmes promoted by that process throughout the E-zone. The Commission itself, as it revised its growth forecasts downwards in the autumn of 2011 wrote, "*The downward revisions concern all the Member States under review, suggesting both a common factor and a re-coupling of growth dynamics.*" The common factor is of course the Commission's own fiscal consolidation drive. "Recoupling" suggests the end of the belief that drastic contractions in the periphery would not rebound on the Northern European economies (European Commission, 2011).

Table 3

Forecast and actual GDP growth, 2011		
	SPs	**Outcome**
Belgium	2.0	1.9
Germany	2.3	3.0
Estonia	4.0	7.5
Ireland	0.3	0.9
Greece	-3.5	-6.8
Spain	1.3	0.7
France	2.0	1.7
Italy	1.1	0.2
Cyprus	1.5	0.5
Luxembourg	3.2	1.1
Malta	2.4	2.1
Netherlands	1.8	1.2
Austria	2.5	3.1
Portugal	-2.2	-1.5
Slovenia	1.8	0.3
Slovakia	3.4	3.3
Finland	3.6	2.7
Euro Area	**1.7**	**1.4**

AMECO and 2011 SPs

Table 4

GDP growth 2012: SP and Commission forecasts autumn 2011		
	SP	Commission
Belgium	2.3	-0.1
Germany	1.8	0.6
Estonia	4.0	1.2
Ireland	2.0	0.5
Greece	0.8	-4.4
Spain	2.3	-1.0
France	2.3	0.4
Italy	1.3	-1.3
Cyprus	2.5	-0.5
Luxembourg	3.5	0.7
Malta	2.3	1.0
Netherlands	1.5	-0.9
Austria	2.0	0.7

Portugal	-1.8	-3.3
Slovenia	2.2	-0.1
Slovakia	4.8	1.2
Finland	2.7	0.8
Euro Area	**1.8**	**-0.3**

European Commission 2011 and 2011 SPs

Thus the medium term perspectives adopted in the SPs were totally obsolete within a few months and, as a consequence, the planned fiscal consolidations were bound to fail; government expenditures would be rather higher in a recession than with growth of 1.8% and tax receipts very much lower.

It can also be shown that the pattern of growth assumed in the SPs was implausible. In each SP projected growth rates are broken into five components: net exports; gross fixed capital formation; inventories; private consumption and public consumption. The last of these was programmed to grow very slowly. The SPs make it possible to derive aggregate figures for government consumption, because they provide initial levels for 2010 and growth rates thereafter. (Initial levels are missing in the MoU for Portugal and in the German SP, where only an index number is given. These missing values have been taken from AMECO. The AMECO figures in general are slightly different from the figures in the SPs – in particular they are rather higher for the weaker economies. But in general the two sets of figures are very close.)

Table 5 gives the aggregate growth of government consumption implied by the SPs. Because substantially higher expenditures are only planned in Belgium, Austria and Germany and even there spending is planned to grow much more slowly than GDP, overall government consumption as implied by the SPs is virtually static. Relative to eurozone GDP the total is programmed to fall from 19.9% to 18.8% over the four years. Recent AMECO data (July 2012) suggest that this squeeze on government consumption is being achieved: the eurozone total for 2011 was the same as in 2010, while projections are now for small declines in both 2012 and 2013.

Table 5

Government consumption expenditure					
	level: € billion	percentage change			
	2010	2011	2012	2013	2014
Belgium	62.80	1.5	1.7	1.7	1.8
Germany	488.80	1.0	1.0	1.0	1.0
Estonia	2.99	0.0	1.0	1.0	2.7
Ireland	27.31	-3.0	-2.3	-2.2	-2.2
Greece	33.50	-8.4	-4.0	-1.0	-0.3
Spain	152.80	-1.3	-0.8	-0.6	-0.6
France	469.80	0.0	-0.1	-0.2	0.0
Italy	260.69	0.0	-0.2	0.5	0.7
Cyprus	2.95	-0.5	0.0	0.0	0.0
Luxembourg	4.80	0.5	3.1	1.8	2.2
Malta	0.93	1.4	-0.5	0.8	0.4
Netherlands	167.80	0.0	0.0	0.3	0.3
Austria	48.20	1.0	1.0	1.2	1.3

Portugal	37.10	-8.8	-4.7	-1.2	1.2
Slovenia	7.26	-0.8	-1.3	-1.5	-0.2
Slovakia	8.80	-5.3	-0.1	-0.8	2.5
Finland	44.20	1.2	0.6	0.9	0.4
eurozone	**1820.73**	**-0.1**	**0.9**	**0.3**	**0.5**

2011 SPs, AMECO

Meanwhile little growth is to be expected from private consumption while unemployment is high and consumers in many countries are affected by recession, over-indebtedness and declining housing wealth. Since the foreseeable swings in inventories are small over the medium term, the optimistic growth projections of the SPs have to rest on big increases in net exports and fixed investment. In both cases the implied aggregate performance of the eurozone seems very implausible.

Unemployment

The SPs for 2012 seem to have avoided the hopelessly over-optimistic projections of those of the previous year. If we consider now not GDP growth rates but unemployment rates, we can see that predictions for 2012 and 2013 coincide nearly exactly with the figures given by the Commission.

Table 6

Eurozone Unemployment Rates (%)

	2011	2012	2013	2014	2015
Belgium	7.2	7.5	7.8	7.8	7.8
Germany	5.8	5.4	5.2	5.0	5.0
Estonia	12.5	11.5	9.6	8.7	8.7
Ireland	14.4	14.3	13.6	12.8	12.8
Greece	17.7	19.7	19.6	19.6	19.6
Spain	21.6	24.3	24.2	23.4	23.4
France	9.7	10.2	10.3	10.3	10.3
Italy	8.4	9.3	9.2	8.9	8.9
Cyprus	7.7	9.5	9.5	9.0	9.0
Luxembourg	4.5	5.0	5.4	5.6	5.6
Malta	6.5	6.4	6.3	6.3	6.3
Netherlands	4.5	5.5	6.0	6.0	6.0
Austria	4.2	4.6	4.8	4.7	4.7
Portugal	12.7	14.6	14.1	13.2	13.2
Slovenia	8.2	8.8	9.3	9.1	9.1
Slovakia	13.5	13.8	13.7	13.5	13.5
Finland	7.8	8.0	7.9	7.7	7.7
eurozone	10.1	10.8	10.7	10.5	10.2

2012 SPs[6]

[6] The country rates have been aggregated using labour force estimates from 2011. Greece did not submit a Stability Programme for 2011; the French 2012 SP gave no unemployment forecasts –

The adoption of more plausible unemployment figures should not be taken to suggest that there is more coherence in the SPs of 2012 than I those of the previous year. Once again aggregation of the programme data has absurd implications for the eurozone as a whole. Of the 17 countries in the monetary union, 15 base their GDP growth figures on an increase in net exports. One of the two exceptions is Luxembourg, too small to absorb a significant amount of imports from other member states. The other is Germany, but there is no suggestion that Germany is about to move away from its huge trade surplus. After 2011, when more than a quarter of German GDP growth of 3% was attributable to an increased trade surplus, Germany's stability programme sees only a tiny move in the other direction in 2012 (with exports growing by 2% against 3% growth in imports). Thereafter, trade will have a neutral impact on GDP growth with exports and imports increasing in step through 2016. Just as with the SPs for 2011, those for 2012 imply an implausibly large surge in eurozone net exports to the rest of the world.

The 2012 SPs, however, are impressive for a different characteristic: they offer no prospect at all of a labour market recovery. If these programmes, submitted to and endorsed by EU leaders, are implemented in practice (which may itself be an excessively optimistic supposition) then the eurozone will continue to suffer unemployment rates in excess of 10% and there will be no change in the acute divergence between performance in the core and the periphery.

Because the data used here are macroeconomic, it is not possible to make precise statements about specific groups. It is always the case that a general deterioration impacts most severely on the most vulnerable groups. In the present case, younger workers are particularly exposed; public sector payrolls are being drastically shortened and unavoidably this takes place mostly by freezing recruitment, locking out the young. Once again, a sharp divergence can be seen: some core economies, such as that of Germany, have managed to contain or even reduce youth unemployment while it has exploded in the periphery.

Unemployment rates for the age group 15-24 tend to exaggerate the problem because those in full-time education are treated as inactive and this reduces the denominator of the calculation. Unemployment ratios, expressing unemployment as a percentage of the whole young population are biased in the other direction to the extent that educational courses are not chosen but merely used to avoid explicit payment of unemployment indemnities. Both sets of figures show that austerity in the heavily indebted countries is imposed at the expense of the young. Ratios above 10% are displayed by the "bailed-out" economies of Ireland, Greece and Portugal; the Spanish figure for 2011 was close to 20% (of the age-group, not just that part of the age-group not in school or college); the Baltic Republics and other post-soviet economies also show high values. The situation continues to deteriorate. In Greece, for example, the

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perhaps the impending presidential election is behind this inhibition. In both cases the missing data have been replaced by AMECO estimates for 2011-2013 while 2014 and 2015 values were put equal to those for 2013. The consequence is almost certainly to understate the overall unemployment levels implied by the SPs.

unemployment rate for the 20-29 age group rose from 23.6% in 2010 to 33.7% in 2011.

The unemployment and youth unemployment of the eurozone should not be seen as simply reflecting a very adverse period in macroeconomic terms. The weak position of the peripheral economies is being used to drive through structural changes to their employment and wage-bargaining systems which will strengthen the position of employers on a permanent basis.

Table 7

	Youth unemployment rate				Youth unemployment ratio		
	2009	2010	2011	2011Q4*	2009	2010	2011
EU-27	20.1	21.1	21.4	22.1	8.7	9.0	9.1
Euro area	20.2	20.9	20.8	21.4	8.7	8.7	8.7
Belgium	21.9	22.4	18.7	17.5	7.1	7.3	6.0
Bulgaria	16.2	23.2	26.6	28.2	4.8	6.7	7.3
Czech Republic	16.6	18.3	18.0	18.3	5.3	5.7	5.4
Denmark	11.8	14.0	14.2	14.3	8.4	9.4	9.6
Germany	11.2	9.9	8.6	8.3	5.8	5.1	4.5
Estonia	27.5	32.9	22.3	25.1	11.0	12.6	9.1
Ireland	24.4	27.8	29.4	30.5	11.5	11.8	11.7
Greece	25.7	32.8	44.4	49.3	8.0	10.0	13.0
Spain	37.8	41.6	46.4	48.9	17.1	17.8	19.0
France	23.9	23.6	22.9	22.7	9.2	9.0	8.5
Italy	25.4	27.8	29.1	30.5	7.4	7.9	8.0
Cyprus	13.8	16.7	22.4	26.8	5.7	6.8	8.5
Latvia	33.6	34.5	29.1	27.4	14.0	13.9	11.2
Lithuania	29.2	35.1	32.9	34.3	8.9	10.4	9.6
Luxembourg	16.5	15.8	15.6	16.0	5.5	3.5	4.2
Hungary	26.5	26.6	26.1	26.7	6.5	6.6	6.4
Malta	14.4	13.1	13.7	14.0	7.4	6.7	7.1
Netherlands	7.7	8.7	7.6	8.5	4.8	6.0	5.3
Austria	10.0	8.8	8.3	8.7	6.0	5.2	5.0
Poland	20.6	23.7	25.8	26.9	7.0	8.2	8.7
Portugal	24.8 (e)	27.7 (e)	30.1	34.1	7.9	8.2	11.7
Romania	20.8	22.1	23.7	24.8	6.4	6.9	7.4
Slovenia	13.6	14.7	15.7	16.4	5.6	5.9	5.9
Slovakia	27.3	33.6	33.2	33.8	8.6	10.4	10.0
Finland	21.5	21.4	20.1	19.9	10.9	10.6	10.1
Sweden	25.0	25.2	22.9	22.8	12.8	13.0	12.0
United Kingdom	19.1	19.6	21.1	22.0	11.4	11.6	12.4

* The quarterly youth unemployment rate is seasonally adjusted.

e: estimate

Source: Eurostat (une_rt_q, lfsi_act_a)

The Reform Programmes

The national reform programmes (NRPs) submitted by member states are not subject to the same tight disciplinary control as the SPs: in most cases there is no question of sanctions. However, for the states where bail-out funds have been accepted the Commission's recommendations may in fact be constraining because they represent formal or informal conditions on the supply of emergency finance. The discussion here will concentrate on the NRPs of Ireland, Greece and Portugal.[7]

In principle, the reform programmes are guided by *Europe2020*, the broad strategy designed to replace the Lisbon agenda which supposedly guided the EU through the first decade of the present century. EU leaders have not yet admitted that the Lisbon agenda was a disastrous failure, but its employment targets were comprehensively missed: just prior to the outbreak of crisis the main employment gains achieved between 2000 and 2007, three quarters of the total eurozone employment growth, were concentrated in Italy, Spain, Ireland, Portugal and Greece; all more than wiped out subsequently. Meanwhile the drive for financial dregulation which was central to Lisbon and well summed up by the ambition of the Stockholm Council to make Europe the "cheapest place to do business in the world," had contributed to EU banks' enormous use of leverage (surpassing that of US banks) and their huge exposures to the sub-prime debacle.

Just like its predecessor, *Europe2020* includes environmental and social targets and lip service is paid to these in the NRPs. However, again like its predecessor its central thrust is to promote external competitiveness by the reinforcement of market pressures. Most of its social objectives are seen as following from a targeted increase in employment which would itself follow from the growth supposedly brought about by increased competitiveness. In the peripheral states this growth remains at present a mere supposition.

It can be stressed firstly that the social situation in the peripheral states is particularly sensitive. The latest report from the annual report, *The Employment and Social Situation in Europe*, gives a ranking of EU member states in terms of poverty. At the top of the list are several East and Central European countries: Bulgaria, Romania, Latvia, Hungary, Lithuania and Poland where the rigours of post-soviet transition have resulted in many casualties. Immediately after, however, come Greece, Ireland and Portugal, where fiscal consolidation has already compromised national systems of social protection (European Commission, 2011b, p114). The Commission's repeated injunction to the governments concerned to "protect the vulnerable" should be read with this in mind. Leschke et al. (2012) confirm that retrenchment measures are most severe in the countries with the least adequate social protection systems.
The general situation in the EU since the Single Act has been that economic policies are largely in the competence of the EU, social policies in that of the member states. (Certain aspects of labour market regulation, introduced at EU level, are the main exception to this generalisation but the EU's legislative agenda in this field is now essentially finished.) Just because they have lost control over economic instruments – and because, in particular, the competition rules of the EU make it difficult to use public procurement to adapt to the pressures of European integration and globalisation – member states have tended to guard most jealously their social policy autonomy. In Eurozone members, without monetary policy instruments, this problem of autonomy is more acute.

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[7] In the case of Portugal the Memorandum of Understanding has been substituted for its 2011 NRP, as for its SP.

The NRPs of the peripheral countries, written under immediate financial pressure, signal the loss of their remaining macroeconomic instrument, fiscal policy, and, at the same time, of any autonomy in social policy. The enforced imperatives are fiscal consolidation and competitiveness, the latter to be achieved by big reductions in real wages, welfare benefits and social services. In addition, the Commission insists on pushing forward its single market agenda by bringing state-level institutions and regulations into close accord with EU competition rules, although this may not be relevant to either the problem of public sector debt or that of current account deficits.

The Memorandum of Understanding (MoU) between the Commission, the IMF and Portugal establishes a complete programme of legislation, institutional change and regulatory reform between 2011 and 2014. The measures to be taken are specified in minute detail. The tight overall fiscal targets include specific targets for savings on both the expenditure and the revenue sides. In education, the government has to produce "savings" of € 195 million in 2012 and a further € 175 million in 2013. It is instructed in detail how to do this, for instance by "rationalising the school network" and "lowering staff needs."

Reforms in health care are more ambitious – they should lead to expenditure reductions of € 550 million in 2012, followed by € 375 million in 2013, in addition to reductions in health insurance provision for public sector employees. Most of these sums are to be obtained by squeezing expenditure on pharmaceutical products, the rest by rationalising and intensifying competition in the hospital sector. Some of these measures may be very justified but to impose them rather than permit the Portuguese themselves negotiate acceptable compromises may lead to big losses for particular interest groups and conflicts which result in new malfunctionsin the health care sector.

"Efficiency savings" in public administration agreed in the MoU emphasise programmed dismissals and wage cuts. For example, management positions and administrative units are to be reduced by 15% over the life of the agreement; "annual decreases of 1% per year in headcounts of central administration and 2% in local and regional administrations"; "freeze wages in the government sector in nominal terms in 2012 and 2013 and constrain promotions"; and so on. The degree of intrusion into Portuguese affairs is well illustrated by the programme for local government reorganisation in the MoU: "There are currently around 308 municipalities and 4,259 parishes. By **July 2012**, the government will develop a consolidation plan to reorganize and significantly reduce the number of such entities. The Government will implement these plans based on agreement with EC and IMF staff. These changes,which will come into effect by the beginning of the next local election cycle,will enhance service delivery, improve efficiency, and reduce costs" (MoU, 2011, p15). The implications for local democracy are not discussed.

Pension indexation is to be suspended in 2012 and 2013, except for the very lowest pensions while pensions above € 1,500 are to be reduced; tax allowances for pension contributions are also to be reduced. These are only a few examples of detailed expenditure cuts in the MoU.

Similarly, there are detailed prescriptions for revenue increases including the taxation of "all types of social cash transfers," increases in VAT and excise duties and the imposition of excise duty on electricity. The MoU, however, does not stop there: it goes on to specify reforms and regulatory changes across every aspect of the Portuguese economy : the financial system; public-private partnerships and state-owned enterprises (including a demand for privatisations); the structure and functioning of ministries and government agencies; the functioning of the courts; employment relations and the labour market; the educational system; transport; telecommunications; and much more.

Many of the measures required have little or nothing to do with either fiscal consolidation or external competitiveness; they are simply opportunistic moves by the Commission to push through its single market agenda in a situation where there is little prospect of resistance. This is the case, for instance, with regulatory change in the professions and liberalisation of the mobile phone market. Indeed, some of these measures may delay correction of Portugal's trade deficit by promoting import penetration in the services sector.

Nevertheless, the MoU in general contains many threats to the Portuguese social model, in spite of repeated but vague injunctions to protect the most vulnerable. Only some examples will be given. The energy reforms aim at increases in the price of gas and electricity and the transport reforms at increased bus and train fares. The law of landlord and tenant is to be rewritten in favour of landlords (easier evictions and so on). Deregulation of postal services threatens the job security and working conditions of postal workers. Reform of working time regulations is to give more control to employers. Dismissals are to be facilitated. When such changes are considered together with the budgetary provisions discussed above it is clear that lower income groups in Portugal, including "the most vulnerable" face a dramatic deterioration in their living standards and in their level of social protection.

The 2011 NRP for Greece follows the same logic as the Portugues MoU and the Troika's prescriptions for the two counties differ only in points of detail. One aspect of the Greek case (also found in Portugal) is worth stressing – the strong pressure to decentralise wage bargaining. Greece, like many EU countries, has long practised the extension of collective agreements to employers outside the relevant industrial association. Where unions are relatively weak this is an indispensable protection of their status and it also protects the better employers from the worse ones. Under pressure from the troika the Greeks now propose to eliminate this practice, although conditions in the labour market are alreaady extremely adverse for employees. A series of other measures work in the same direction. The NRP admitted "Labour market outcomes are expected to remain weak this year and the next, with a faster rebound forecast for the second part of the upcoming decade" (Hellenic Republic, 2011, p36). The next NRP, however, had to recognise that the situation had deteriorated even further (Hellenic Republic, 2012). The AMECO data base now projects falling employment in Greece into 2013.

The Greek NRP for 2012 reports a drastic deterioration in working conditions: "Data from the Labour Inspectorate confirm the increasing use of flexible forms of employment in the Greek labour market, since, in 2011, 58,962 full time employment contracts have been converted into part time employment or rotation work. Compared to 2010, these increases are of 73.25% concerning part time employment, of 193.06% concerning rotation work with the consent of the employee, and of 631.89% concerning rotation work unilaterally by the employer. This shift towards flexible forms of employment can also be reflected in the share of full time employment contracts in the labour market, which from 79% in 2009, fell to 66.9% in 2010 and to 58.92% in 2011. The latest available data from the Labour Inspectorate (January-February 2012) broadly confirm that the above mentioned trend still prevails."

Karamessini (2012) reports both an assault on individual workers' rights and "changes in the wage-setting system aimed at defeating the unions, undoing collective bargaining and expanding individual bargaining in the private sector."

Intrusion into Ireland's social model may be slightly less intense than in the cases of Greece and Portugal. However, the NRP specifies social security reforms aimed at putting downward pressure on the lowest wages: sanctions are tightened on the unemployed refusing a job and on one-parent family claimants. The following declaration in the NRP also sounds ominous for the low-paid: "An independent review has been undertaken of the continued relevance, fairness and efficiency of statutory wage setting mechanisms covering a range of low-paid sectors. An action plan will be developed in consultation with the European Commission Services, in line with the provision in the EU/IMF Programme, to ensure that these statutory mechanisms work effectively and efficiently and that they do not have a negative impact on economic performance and employment levels" (Ireland, 2011).

There are positive aspects to the Irish NRPs. In particular, there appear to be strenuous interventions in response to rising unemployment. It reports, for example, that in the context of Ireland's Employment Action Plan a very large number of training places and full-time university courses had been provided. However, it is clear that under financial pressure the government had virtually abandoned its anti-poverty programme. Those in "consistent poverty" were estimated to be 4.2% of the population in 2008. The original target had been to reduce this substantially by 2012 and eliminate consistent poverty by 2016. The NRP, however, recognises that things have been going backward: "The challenge of meeting the national poverty target is considerable, as indicated by the rise in the consistent poverty rate to 5.5% in 2009 and it is possible that the rate may even be higher in 2010. The timescale for achieving the poverty target will be influenced by the pace at which economic and employment growth returns to the Irish economy. It is envisaged that in the early years fewer people may be lifted out of poverty or indeed the numbers may increase due to the effects of the economic recession and the implementation of the *National Recovery Plan, in particular changes in the structure and operation of the social welfare system and child income support (as occurred in 2010 and 2011).*" A review of the targets was to be undertaken, "to set out different levels of ambition for poverty reduction." And indeed the 2012 NRP confirms that the target has been reduced. The Irish acknowledge here what is the general situation in the eurozone periphery and further afield – in response to the crisis of the euro fiscal consolidation and cost reductions take priority over social objectives.

In other countries the danger to social models may not be as great but is still significant, both because of the very tight fiscal squeeze resulting from an uncoordinated macroeconomic stance and from the priority given to cost reductions by the Commission. One example is the possible consequences of fiscal consolidation for regional policy in Italy. The Italian NRP for 2011 (p15) reports that in the South the public sector provides 25% of employment against only 15% in the Centre and North. Clearly it will be difficult to avoid increased regional divergence in the context of a large-scale and rapid reduction in public spending.

Only a selective survey of the NRPs has been undertaken here, concentrating on the "bail-out" member states which are under the greatest pressure for policy changes. But these examples suffice to show that the policy changes enforced in the weaker states threaten a profound disorganisation of their social models and a deterioration in the economic security and living standards of populations which are already among the most exposed to poverty.

Conclusion

Two main policy objectives are declared in the EU's intervention into the weaker member states: reduction in public sector debt and the restoration of competitiveness. The first is to be addressed by fiscal consolidation, the latter by "internal devaluation," that is, by reducing incomes. There is a serious tension between the two approaches. Fiscal consolidation certainly works to reduce incomes but lower incomes themselves aggravate the burden of indebtedness by making it harder to service the debt. The response of the Commission and the Troika to the resulting problems has been to chase induced effects downwards – calling for more austerity to reinforce fiscal consolidation. Only very recently have there been signs of a reappraisal of this position.

EU social policy used to be more than a rhetorical device. The European Social Fund, today of vestigial significance, actually dates back to the European Coal and Steel Community, the first of the institutions which would become the EU. The purpose of the Fund was to compensate those who lost from economic integration. It effectively did so, its main early beneficiaries being Belgian miners. Under French pressure early European treaties promoted gender equality in labour markets.

In the 1960s and 1970s the war against social dumping attempted to eliminate competition based on lax employment standards and inadequate social provision. No doubt it protected workers in the more successful economies; but it also encouraged the development of social protection in the more backward ones.

Today it is scarcely an exaggeration to say that social dumping has become the actual social strategy of the EU, as the drive to restore competitiveness, that is, to reduce labour costs, by any means available has become the central component of a dogmatic, regressive and dysfunctional response to the crisis of public debt, a crisis itself largely attributable to the myopia and pusillanimity of EU and northern European leaderships.

No doubt the best resolution would be a complete change of direction at EU level, a return to the construction of a genuinely social Europe. But populations under acute pressure are hardly to be criticised if, in the absence of a general reappraisal they seek to defend their societies by challenging the rules and the structures of the actually existing European Union.

Note: Baltic Republics are not Model Pupils

One occasionally comes across the suggestion that economic recovery in the Baltic Republics shows that internal devaluation and fiscal consolidation according to the troika's prescriptions can be effective. Jeffrey Sommers and Michael Hudson (*Financial Times*, 25/6/12) refute this:

"Austerity's advocates depict Latvia as a plucky country that can show Europe the way out of its financial dilemma – by "internal devaluation", or slashing wages. Yet few of the enthusiastic commentators have spent enough time in the country to understand what happened. Its government has chosen austerity, its people have not. Finding no acceptable alternative, much of the labour force has elected to emigrate. This is a major factor holding down its unemployment rate to "just" 15 per cent today.

"Latvia is not a model for austerity in Greece or anywhere else. Both the impression that neoliberal policy has been a success and the claim that Latvians have voted to support this failed model are incorrect.

"Latvia's one year of solid economic growth since its economy plunged by 25 per cent in 2008-10 is billed as a success. Then, unemployment soared above 20 per cent as the shutdown of foreign capital inflows (mainly Swedish mortgage loans to inflate its real estate bubble) left Latvia with a deep current-account deficit. It had to choose between devaluation or maintaining the euro peg.

"It chose the latter in order to proceed towards euro accession. To meet the eurozone criteria it cut public sector wages by 30 per cent, driving down overall wage levels and consumption to match its low labour productivity. The doctrine was that this shock therapy and poverty would soon restore prosperity.

"What enabled Latvia to survive the crisis were EU and IMF bailouts – whose repayments will soon fall due. Relatively low public sector debt (9 per cent of gross domestic product at the start of the crisis) also provided some protection from bond traders. Latvia's problem was mostly private sector debt, especially mortgage debt, which is secured not only by property but by the personal liability of entire families of joint signatories. The bank insurance agency insisted on this measure as it saw unaffordable housing prices being inflated by reckless bank lending. (Its job was to protect the banks, not the economy.)

"The resulting austerity programme is anything but popular. Latvia's parliament often polls approval ratings in the single-digits. Yet the government has survived two elections. How is one to read this?

"Chiefly by ethnic politics. The biggest party opposing the austerity programme (Harmony Centre) largely represents ethnic Russians and had no chance of winning given its focus on rights for Russian speakers. The smaller parties run by post-Soviet oligarchs also are seen as being in league with Russia and are widely resented for fiscal imprudence during the boom years, when oligarch-controlled parties were part of the governing coalition. So the only political force left is the “austerians”. While most voters dislike their economic policy, a majority are convinced that they are best able to resist Russia’s embrace. All other issues come a distant second for Latvian voters.

“That said, Latvians have protested against austerity. In January 2009, in the dead of winter, 10,000 protested in Riga. Teachers, nurses and farmers held demonstrations of their own. The police were called to suppress protests over the closure of a hospital. After these protests subsided, Latvians resigned themselves and began to emigrate. Demographers estimate that 200,000 have left in the past decade – nearly 10 per cent of the population – at an accelerating rate that reflects the austerity being inflicted.

“Why have so many left Latvia if it is such an economic success, with such popular support for austerity as the advocates claim? Birth rates fell during the crisis – as is the case almost everywhere austerity programmes are imposed. Only now is Latvia seeing the social effects of austerity. It has among Europe’s highest rates of suicide and of road deaths caused by drink driving. Crime is high because of prolonged unemployment and police budget cuts. There is less accessible, lower-quality education and there is a soaring brain drain alongside blue-collar emigration.

“The moral for Europeans is that a Latvian economic and political model can work only temporarily, and only in a country with a population small enough (a few million) for other nations to absorb émigrés seeking employment abroad. Such a country should be willing to have its population decline, especially its prime working-age cohort. In Greece, this could only worsen an already serious demographic challenge.

“Politically, it helps to be a post-Soviet economy with a fully flexible, poorly unionised labour force. Above all, the population needs to put an almost blind faith in “free market” central planners. Ethnic divisions can distract voters from complaints against austerity. Only under these political conditions can austerity be considered a ‘success’.”

Sommers and Hudson are also contributors to the forthcoming book by Routledge Press: The Contradictions of Austerity: The Socio-Economic Costs of the Neoliberal Baltic Model.

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