The financial crisis has badly damaged the Greek and Portuguese welfare states

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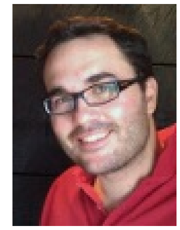
Several European states have pursued austerity policies in the aftermath of the financial crisis, but how have these policies affected welfare states? **Sotirios Zartaloudis** *writes on the impact of the crisis in Greece and Portugal. He argues that both countries have had to pursue unprecedented spending cuts, tax rises and labour market reforms and that the crisis has had a significant negative effect on their welfare states.*



The on-going financial crisis and the subsequent sovereign debt crises in Greece and Portugal have ensured these countries have faced spiralling borrowing costs. These ever-increasing borrowing costs and recourse to the European Union (EU) and the International Monetary Fund (IMF) for financial support meant that they had to implement extensive fiscal consolidation measures to tackle their unsustainable borrowing levels. In a recently published article, I present the findings of a research project assessing the impact of the economic crisis on Greek and Portuguese welfare states which caused 'shock and awe' in both countries.

Fiscal consolidation in Greece and Portugal

After the crisis, both countries implemented an unprecedented wave of cuts, tax rises and labour market reforms. More specifically, public sector pay and jobs were cut, pensions were significantly curtailed and pension rights substantially restricted. For instance, in both countries the retirement age was increased, a threshold for pensions was introduced and pensioners lost a considerable part of their pension by the abolition of the Christmas, Easter and summer bonus. The latter measure was also applied in all public sector workers, while Portugal went a step further and introduced a special levy to all self-employed people to the same effect.

In addition, successive tax hikes were implemented – mainly increases of indirect taxes like VAT – along with increases in property taxes. Welfare benefits became less generous and more conditional, with less protection for the unemployed and considerable cuts in healthcare budgets. Both countries reduced public investment in order to achieve savings in their spending, resulting in the abandonment of a number of public work projects. In order to cut spending and increase revenues, both countries implemented wide-ranging privatisation of state corporations and/or ports.

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Due to the limited interest of western investors, Greece and Portugal also completed a number of privatisation processes with investors from developing countries (in the case of Portugal it was mostly Angolan investors who showed interest while in Greece it was mainly China). Moreover, there was a push towards labour market flexibility with less protection for workers and lower minimum wages in order to regain competitiveness. At the same time, both countries are also plagued with high unemployment, recession and low growth. The combination of cuts, tax increases and low growth has led to a very harsh economic environment plagued with insecurity and decreasing living standards.

Consequences for the Greek and Portuguese welfare states

These cuts have resulted in considerable welfare retrenchment. Ironically, for both countries EU and euro membership were two celebrated achievements that were associated with an improvement in living and social standards and a process of Europeanisation of their welfare states, whereby the Greek and Portuguese people would enjoy similar social rights to the citizens of richer EU countries. Alas, both achievements are increasingly becoming synonymous with austerity – something unprecedented for both countries.

Indeed, besides the stabilisation of their political systems, for both countries EU entry meant a path towards catching up with their developed EU partners of the core. Although Europe has always been used by domestic actors for upgrading national welfare states, this process remained incomplete and somewhat uneven. In other words, despite considerable improvements in their welfare states, both Greece and Portugal caught up only partially with and with much less generous provisions than most EU-15 countries. Hence, recent EU discourses blaming profligate southerners who have been living beyond their means is only partially supported by empirical reality.

The integration of Europe's Southern Periphery (Greece, Ireland, Portugal and Spain – known as the Cohesion Countries or by the offensive acronym PIGS) into the EU has always been a controversial issue: on the one hand, some have highlighted the acute disparities between Europe's periphery and core. On the other, the literature emphasised the crucial link between EU membership and political, economic and social modernisation. However, both Greece and Portugal appear to have been significantly more vulnerable to the crisis than the richer countries of Northern Europe (e.g. Germany, Austria, Sweden, Finland and the Netherlands) and their larger Southern counterparts (Italy and Spain). Yet, the latter had to implement similar measures, albeit in a less abrupt and extensive fashion. In other words, it may be argued that it is not size but whether a country is part of the EU core or of the EU periphery in terms of economic and political power that matters for coping with the effects of the current crisis.

The fact that three out of four Cohesion countries have been ousted from financial markets and have required EU/IMF support raises complicated and unsettling questions about the ability of the EU to achieve convergence between rich and poor countries and renders its future direction uncertain. Additionally, it demonstrates the multi-faceted failure of markets, national governments, and EU institutions to anticipate and deal with the crisis. It remains to be seen whether the (painful and unpopular) reforms implemented thus far will help overcome the crisis or whether Europe's southern periphery will face more hardship in future.

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