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**We cannot solve the crisis with the same policies, which provoked it. We need to implement new policies capable of building a quality future for all**

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# Policy Paper

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with the same policies, which  
provoked it.**

**We need to implement new  
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quality future for all.**

**Bruno Palier**

**CNRS Director of Research at Sciences Po (Centre  
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**ΕΛΙΑΜΕΠ**  **ΕΛΙΑΜΕΠ**

ΕΛΛΗΝΙΚΟ ΙΔΡΥΜΑ ΕΥΡΩΠΑΪΚΗΣ & ΕΞΩΤΕΡΙΚΗΣ ΠΟΛΙΤΙΚΗΣ  
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## **We cannot solve the crisis with the same policies, which provoked it. We need to implement new policies capable of building a quality future for all.**

### **Bruno Palier**

Bruno Palier is CNRS Researcher at Sciences Po (Centre d'études européennes). Trained in social science, he has a PHD in Political science, and is a former student of Ecole Normale Supérieure. He is studying welfare reforms in Europe, and is currently conducting various comparative projects: on social investment policies, on social dualisations in Europe, on europeanisation of welfare reforms, and on the politics of welfare reforms in Continental Europe. He was Guest Professor at Stockholm University (Spring 2009), and Visiting Scholar at Northwestern University (Spring quarter 2007), at Center for European Studies from Harvard University in 2001 and Jean Monnet Fellow in the European University Institute in Florence in 1998-1999. He is Honorary Professor of Welfare State Research at Odense University, South Denmark.

He is currently the scientific coordinator of an European Network of excellence RECWOWE (Reconciling Work and Welfare, involving 29 European research institutions or Universities, 190 researchers from 19 European countries). In Sciences Po, he is the director of a joint programme Sciences Po Northwestern University : "Health Policy in Europe".

Between 1994 and 1998, he has organised for the French Ministry of Social Affairs a programme called "Comparing Welfare systems in Europe". Between 1999 and 2005, he launched and took part in the management of an European Cost programme (Cost A15) : "reforming social protection systems in Europe".

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## Περίληψη

Το λάθος είναι ανθρώπινο, αλλά το να επιμένουμε σε αυτό δεν είναι. Παρόλα αυτά, αυτό ακριβώς είναι που μας ζητάνε οι ευρωπαίοι ηγέτες και οι οικονομικές αρχές της Ε.Ε. να κάνουμε. Από το 2010 και έπειτα ο αριθμός των πακέτων λιτότητας αυξήθηκε στην Ευρώπη ώστε να αντιμετωπιστεί η κρίση χρέους και η εξασφάλιση των αγορών.

Τα μέτρα τα οποία υιοθετήθηκαν από τις ευρωπαϊκές κυβερνήσεις, όπως και οι προτάσεις των ευρωπαϊκών θεσμών είναι τριών ειδών: μεταρρύθμιση της κοινωνικής ασφάλισης, ιδιωτικοποιήσεις, πάγωμα των μισθών και μείωση των εργαζομένων στο δημόσιο τομέα. Έχουν σχεδιασθεί περικοπές στις δημόσιες δαπάνες και έχουν επιβληθεί διαρθρωτικές μεταρρυθμίσεις: αύξηση στο όριο ηλικίας συνταξιοδότησης, περισσότερη ευελιξία στην αγορά εργασίας, μείωση των παροχών ανεργίας ώστε να μετατραπεί η εργασία περισσότερο ελκυστική, προαιρετική εργασία για ανθρώπους που λαμβάνουν παροχές ανεργίας και ενδυνάμωση του ανταγωνισμού σε κοινωνικές υπηρεσίες και υπηρεσίες περίθαλψης.

## Abstract

To err is human, but persevere with what is wrong is not. However, that is what European leaders and EU economic and financial authorities would like us to do. Since 2010, the number of austerity packages increased in Europe in order to deal with the sovereign debt crisis and to reassure the financial markets.

The measures adopted by governments in Europe, as well as European institutions' recommendations are mainly of three types: reform of social security, privatizations, freezing of salaries and reduction of the number of employees in the public sector. Social spending cuts are planned and structural reforms imposed: rise in retirement age, more flexibility of the labour market, reduction of unemployment benefits in order to make work more attractive, mandatory work for people receiving unemployment assistance, strengthened competition in health and social services.

## Key Words:

Welfare state, social policies, care facilities, crisis, labour market, employment quality, lifelong learning, education.

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## **Austerity plans hit social policies first**

Social spending is at the frontline of austerity plans. In addition to budget cuts, structural reforms are implemented (it is often a result of pressures coming from European institutions, joined by the International Monetary Fund and the European Central Bank in the case of Greece): increased labour market flexibility, augmentation of the retirement age, strengthened competition in services including health and social services.

In many countries, plans include the reduction of unemployment benefits and the assistance for the unemployed who reach the end of their benefits (Germany, Portugal, Romania and Denmark - before the change of government- Ireland, UK, Spain, Greece). The aim is to “make work pay” by reducing social benefits in a way that makes employment preferable to the situation of assistance, as if, in the current situation of economic stagnation, people were currently choosing to be unemployed!

Several countries also plan to reduce the possibility for unemployed to refuse a job proposition (Spain, United Kingdom). Many measures have been adopted in order to increase labour market flexibility, in particular for workers under open-ended contracts (Spain, Portugal, and Denmark). The unemployed are not the only ones concerned by the loss of benefits. Many countries are also planning reductions on government healthcare spending. These measures have been imposed on Greece, Ireland and Portugal as pre-conditions for the help they receive.

Austerity plans also provide for a more fundamental pension reform justified by the need to “reassure” financial markets and rating agencies. Plans include either to push back the age of retirement beyond the age of 65 in Ireland, Spain, the Czech Republic and Germany or to accelerate increases in retirement age already decided (United Kingdom). Spanish and Greek reforms also include the modification of the method for calculating pensions. The IMF and European aid package for Greece, Romania or Bulgaria was conditional on pension reform. In October 2011, pressure was also brought to bear on Italy to re-open procedures for a pension reform.

## **The mainstream economic analysis is wrong and inefficient**

On the whole, these measures are not original, except for their scale and swiftness. They are directly inspired by an economic theory that became dominant during the 1980s. For this theory, social policies are conceived as a burden for the economy. It is said that they discourage investment and job creation and are accused of being too generous, discouraging thus the unemployed to search for a new job. Since we have been applying these ideas for the past thirty years we must think that they are still valid. However, is it the social protection system really responsible for the economic difficulties in Europe and for the current situation of over-indebtedness in some states?

For at least two decades, the strategy to return to growth and job creation is based on the freedom of the supply side of the economy, which is supposed to be constrained and inhibited by the expansion of the welfare state. A reduction in taxes and rigidity to restore profits was supposed to stimulate the growth of investment; this would lead to more job creation (it is the famous theorem of Helmut Schmidt, 1974).

Indeed, these policies restored profits and permitted the rich people to become richer but neither investment, nor employment were stimulated. A recent BIT study (*Making Markets work for jobs*, published in 2011) underlines that in developed countries, profits rose by 83% between 2000 and 2009; however, the level of investment stagnated during the same period. Increase in profits lead to dividend growth for the shareholders (from 29 % of the profits in 2000 to 36% in 2009) and stimulated financial investments rather than productive investments (Financial investments of non financial companies rose from 81.2 % of developed countries' GDP in 1996 to 132.2% in 2007).

The error was to believe that markets would be able to transform profits into productive investments. The huge incomes have been mainly used for speculation, while the middle class has had to borrow to maintain a certain standard of living. It is precisely this private debt, which provoked the financial crisis of 2007/2008.

Furthermore, companies' strategies to restore margin were, most of the time, against the idea of quality employment. In order to limit production costs, companies chose to restrict the number of employees and to develop outsourcing and delocalisation. This led to the development of non-standard and temporary jobs. Overall, growth is not created by this strategy, and poor-quality, low-wage jobs are generated. Since these are frequently subsidized, the cost to the state is much more than the unemployment benefits. This strategy based on social dumping and on the impoverishment of employees and states, explains to a large extent the current budget problems faced by the states that chose to adopt it.

As indicated by the weak economic growth in 2011 and 2012 and by the 2013 forecasts, these policies do not allow the economy to recover. It is strange that we should continue implementing such policies, which have already failed and which are responsible for the current crisis. Instead, it would be preferable to build a new economic and social model based on the necessary investments for the future. Today, the countries, which are suffering most, are those which had not made the necessary investments in the past.

Instead of relying on the markets for delivering the necessary investment, we need to decide to collectively invest in innovative and sustainable economic activities, capable of stimulating the creation of high quality jobs. These investments also need to provide people with the qualifications necessary to succeed in a new economy driven by innovation and knowledge. It is necessary to invest in human capital, in early-years childcare, in education, in lifelong learning and in policies which reconcile professional and private life.

In February 2012, a timid start was made by the European Commission on that direction. It was proposed to Member States to adopt a "social investment package". This package takes up ideas developed by numerous academics<sup>1</sup> (and some European countries, especially the Nordic countries). These ideas present social policies not as a cost for the economy but as an investment. We will develop on the policies that have to be implemented (and financed in part at the European level) in the remainder of this paper.

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<sup>1</sup> See Morel, Nathalie, Palier, Bruno, Palme, Joakim (eds) *Towards a Social Investment Welfare State ?*, Policy Press.

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## **Employment quality**

To abandon the current practice of cuts in social spending, we must first stop considering work as a cost that needs to be cut down, but think of it more as an asset to invest in. Investing in good working conditions does not lead to forced and exhausting productivity, but to productivity based on creativity, innovation and quality.

Investing in employment quality needs to become both a common goal and a normal corporate behaviour. This attitude concerns a whole package of social rights with a view to safeguarding career paths, access to training for those who work, even with non-standard contracts (fixed-term contracts, temporary employment, subsidized employment etc.), a workflow which makes the workplace compatible with family life, jobs that give a sense of satisfaction to the employees and allow everyone to be represented in the decision-making of the company. It is also necessary to guarantee for all those in work access to social security (currently, for example, women, as part-time workers and due to interruptions in their career, have usually less retirement benefits, compared to that of men).

A key element for the improvement of the quality of employment and production relates to professional qualifications. First, access to professional training should be guaranteed for everyone, but, more structurally, it is necessary to redirect public policy towards investment in human capital, from childhood to retirement. This will require providing high quality childcare, an equal system of education, an investment in youth, a better balance between working and family life for both women and men.

## **Lifelong learning for everyone**

New information and communication technologies have increased the pace of change. Knowledge and know-how, all become quickly obsolete. In this context, the ability of permanently renewing the activities exposed to global competition is key for economic success. It is essential to transform companies into organizations that learn and change, and permit employees to be included in this constant evolution of skills.

Nowadays, the most dynamic and innovating economies in Europe are those which can improve working conditions for everyone, reduce the difference of wages, encourage “creative work” and autonomy, and develop the logic of learning inside their company.

In order to avoid labour market polarization between those increasing and renewing their skills, and those who do not, or even worse, whose skills are degraded during their career, it is critically important to develop a professional lifelong training policy for everyone.

Among the proposals for strengthening employment and inclusion of persons who are on the fringe of the labour market, some highlight the placement and the back-to-work policy, for any jobs, even for those which require less skills than those of the person; others insist on the necessity of subsidized lower-skilled jobs, by reducing social contributions on low wages; and most give a supplement to the salaries of poor workers. Focusing on quality employment and the strategy outlined in this paper, is based on the organization of professional transitions, access to lifelong job training, and support of mobility through high wages guarantee during training and employment search, without loss of social rights. It is under these conditions that professional and geographical mobility (every year, 1/3 of Danish workers are changing position or company) or the extension of the retirement age (official retirement was at the age of 63,8 in Sweden in 2008), are socially acceptable.

## **Improving education and care facilities for all the young children and investment in youth**

Nowadays, the unemployment affects first, all those who are in lack of qualifications or those whose qualifications have become obsolete. How do we enable everybody to acquire the necessary skills for the current economy? Many things are actually determined during the very early ages. Cognitive capacities, communication and relational abilities, which are nowadays necessary for school and professional success, are acquired even before the age of compulsory schooling. Children who were born in privileged socio-economic backgrounds take advantage of many opportunities for the growth and development of their capacities, something that is not the rule in disadvantaged backgrounds. Offering a chance to young people without exceptions presupposes an early childhood public service of high quality, easily accessible to everyone.

While we were prepared to support the emergence of the third age (retirement) and while we consider it important to prepare the support of the fourth age (dependence), the youth continue to be neglected by social policies. This particular period of life did not exist fifty years ago (where we used to pass directly from school to work or marriage); while it is a life-period when many things happen and many choices have to be made (for example to carry out studies, to begin a career, to find housing, to set-up a family, to have children), it is nonetheless neglected by public policies. All over Europe, young people are suffering most from the difficult economic situation. That is why it is essential to give a second chance to young people who left the school system, to focus on particular employment policies for access to a first job and to ensure a minimum wage for young people without any other resources. Europe could pride itself on promoting and financing a plan for youth to help young Europeans, which could be based on those first initiatives (youth package and youth guarantee).

## **Encourage equality between men and women**

To encourage work for all under the best possible conditions also means thinking about professional equality between men and women. While young girls are more successful than boys in higher education, women have less satisfying careers than men (less-paid, more often in part-time jobs, less-responsibility). Women have to pay the professional price because they are the ones who interrupt or stop their careers to take care of children (and also of elderly dependent persons). Allowing women to get the career they want and which corresponds to their qualifications, requires the adoption of an egalitarian policy in the familial sphere, the deep restructuring of the parental leave system, in order to encourage households to better allocate childcare (a parental leave shorter but better paid, where the duration increases if it is shared between the parents).

The development of high-quality childcare services for younger children makes it possible to meet the new needs of both families and children, but it also creates stable, qualified and well-protected employment, contrary to the private provision of home care services (subsidized since long in France and in more and more countries), which are part-time jobs with low levels of qualification, low-paid and often marked by insecurity. This makes professional and family life compatible and so it encourages women to find employment that corresponds to what they want (obtaining financial autonomy), but also serves a double social need: reducing the risk of poverty for children (which is always lower in households where parents work, in particular for single parent families) and to increase employment rates.

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## **Conclusion:**

These new policies have already proved their success at both levels, economic and social. At a time when many states suffocate by the debt and the imposed austerity measures, Europe could lead the way, not only by relying on its social investment package, but also with concrete financial actions: a plan of massive support for young Europeans (starting with the youth package and the youth guarantee recently adopted) and a proposal to stop recording as public expenditure, in the definition of Maastricht, the child-care expenditures and start considering them as an investment, in order to stimulate early childhood policy. That might be a start for the reconciliation of some European citizens with Europe, whose austerity policies do nothing but dig its own grave.

## About the Crisis Observatory

In the context of the worst economic crisis in the history of post-war Greece and the wider European debt crisis, initiatives for the systematic and scientific documentation, study and analysis of the crisis in both Greece and Europe are sorely needed.

The Crisis Observatory aims to answer this call. The Crisis Observatory is an initiative of the Hellenic Foundation for European and Foreign Policy (ELIAMEP), with the support of the Stavros Niarchos Foundation.

Its primary objective is to become a central hub for information, research and dialogue for both the Greek and European crises. The Crisis Observatory's guiding principle is the presentation of new research, policy proposals and information, which are based on solid arguments and empirical evidence, with a view to improving the level of public discourse about the crisis. In order to achieve this objective, the Crisis Observatory's work is organized around three central pillars:

- The provision of educational material with a view to enhance the ability of the average citizen, who often does not have a good hold on economic issues, to understand basic parameters of the crisis.
- The provision of serious, evidence-based and representative, in terms of subject focus and theoretical/political approaches, information about the crisis.
- Intervention in the public discourse about the crisis, through the creation of a venue for the free expression of different views and policy proposals promulgation of new research about the crisis.

The team of the Observatory is:

### *Head of the Observatory*

- **Dimitris Katsikas**, Lecturer, Department of Political Science and Public Administration, University of Athens [International and European Political Economy]

### *Postdoctoral Fellow*

- **Kyriakos Filinis**, PhD, Department of Political Science and Public Administration, University of Athens [Political Economy]

### *Research Associates*

- **Marianthi Anastasatou**, Economist, Research Associate, Council of Economic Advisors [Macroeconomics, Economic Growth, Competition, International Trade]
- **Nikos Chrysoloras**, PhD, Journalist, Correspondent for European Institutions, Brussels

### *Special Advisor*

- **Nikos Koutsiaras**, Department of Political Science and Public Administration, University of Athens [European integration, Employment and Labour Market Policy, Social Policy, EMU and Macroeconomic Policy]



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