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CONTESTED TERRAINS

# The European social model after the Great Recession: A recovery not genuinely inclusive

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## Abstract

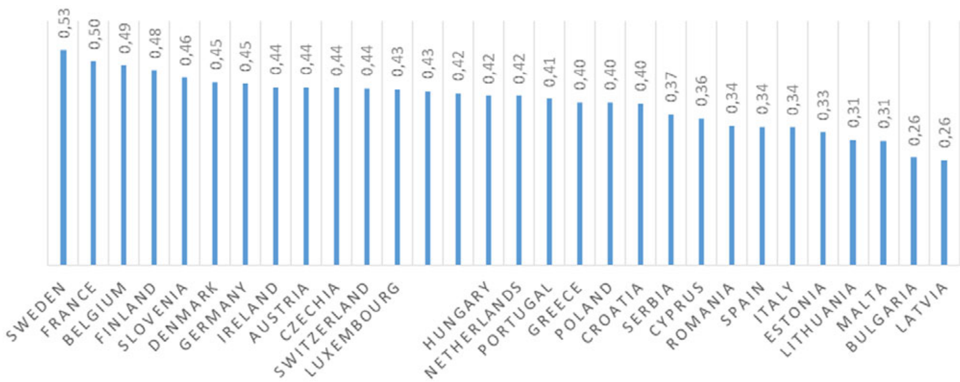
In spite of the upturn in the economy and in employment that has been observed in the EU since 2013 to 2019 (and after COVID-19 crisis), the gap between the figures for indicators of economic growth and those for the trends in domestic living conditions continues to be very wide; growth and newly created jobs are not resulting in a generalised improvement in the welfare of the population. This paper seeks to demonstrate that the recovery period after the Great Recession has not been one of truly inclusive recovery and to provide tentative explanations for this. We focus on the five main EU countries before Brexit. We conclude that the incidence of poverty associated with part-time work is now somewhat greater ('in-work poverty') and also that there has been strong containment of wages in the leading countries of the EU over the period under study, and even falls in real wages. At least, redistribution policies have shown themselves to be effective in reducing poverty.

**Keywords:** decent work; income distribution; industrial relations; low-paid workers; welfare state; social policy

## Introduction

During the recovery period after the Great Recession, many EU countries did not experience shared prosperity hence the recovery cannot be described as truly inclusive according to OECD standards (OECD, 2021). Despite the economic and employment upturn observed in the EU from 2013 to 2019 (and again after 2020), the gap between the figures indicating economic growth and those showing trends in domestic living conditions continues to be very wide.

In the EU in 2022, for instance, almost 73 million people were classed as living in relative poverty (16.5% of the population, 0.5 pp more than in 2005), and Spain was among those with the highest proportion of the population at risk of poverty (20.4%). It was also among the countries in the EU with the highest in-work poverty, a notable feature given that the in-work poverty rate increased from 8.2% to 8.5%, across the EU, although some people managed to secure higher-paying jobs.




**Graph 1.** Redistribution Index, 2021.
*Source:* Eurostat (2023a).

Spain and Italy, which lagged behind most countries in terms of employment recovery, reached or were about to reach pre-recession employment levels by 2022, but in-work poverty rates had risen over the period (2004–2022). The poverty levels are now somewhat higher than before the 2008 recession, and not simply because of the COVID-19 pandemic.

However, based on the idea of a European social model (ESM), this economic growth should have resulted in a higher increase in well-being for people, especially those living and working in poverty. Indeed, there is much variation with the extent to which European Union Member States (EU MS) seemed to succeed in increasing people's well-being has differed significantly from one country to another, raising questions about the effectiveness of the ESM.

In this context, it is undoubtedly interesting to examine if the recent evolution of the 'identity marks' of the ESM, and its results, is common to the 5 main EU countries (albeit, still including the United Kingdom). These countries (Germany, France, Italy, Spain, and the United Kingdom) were selected for several reasons: They were the largest countries in the EU in terms of population in 2004–2022 (European Union, 2023); they include more than 65% of the people at risk of poverty in the EU (Graph 1); there is no data for the 2004–2008 period for some of the post 2004 MS; and finally, our goal was to choose a group of countries that represented the diversity of Europe's welfare state systems.

Certainly, these five countries have different models of the ESM, but we have sought to avoid levels of heterogeneity (Alsasua et al., 2009) and casuistry that would be too high to deal with in this paper, largely due to length constraints. (For example, Germany and France are below the average for poverty and social exclusion, Italy and Spain are above the average, and the United Kingdom is close to the EU average; Germany was the successful country in the 2008 recession because it did not shed jobs (at least not at a high rate), yet it has a very poor record on poverty recovery where poverty rose from 4.8% in 2004 to 7% in 2022) (see Table 1.) Similarly, Poland is a heavyweight country in term of population, but as the result of a transition economy that does not conform to the conventionally differentiated models of the welfare state.

Poverty may be due to a lack of employment or to poorly paid employment ('in-work poverty'). It may also be caused by the absence or scarcity of non-labour income among the unemployed, the retired, and those otherwise unable to work. Policies aimed at employment recovery and public account stabilisation, altered employment protection, and reduced certain benefits. The paper shows that notwithstanding the employment recovery, and given the measures adopted, the poverty levels of different population groups have increased.

**Table 1.** Incidence of poverty and in-work poverty as percentage of total population, 2004–2022

| | At risk of poverty, after social transfers | | | | In-work poverty | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2012 | 2019 | 2022 | 2004 | 2012 | 2019 | 2022 |
| France | 13.5 | 14.1 | 13.6 | 14.3 | 5.4 | 8 | 7.4 | 7.5 |
| Germany | 12.2* | 16.1 | | 14.7 | 4.8* | 7.8 | 8 | 7 |
| Italy | 18.9 | 19.5 | 20.1 | 20.1 | 8.9 | 11 | 11.8 | 11.5 |
| Spain | 20.1 | 20.8 | 20.7 | 20.4 | 10.8 | 10.8 | 12.7 | 11.7 |
| UK | 19 | 16 | 18.6** | | 8.2* | 9 | 10.3** | |

*2005;
**2018.
*Source:* Eurostat (2023b).

The following sections first outline the features of the protection model that defines the ESM, followed by an examination and analysis of how certain employment aspects affecting relative poverty have evolved. Finally, some conclusions are drawn.

## The European social model and its variations

Political and academic discourse includes frequent allusions to an ESM in the sense of a unique form of development, shared by Western European countries and with its own profile and characteristics. For Wood and Gough (2006), the essence of this model is that many of the security needs of individuals can be provided through formal 'welfare states', embracing a combination of pensions and social protection benefits, social services and labour market regulation. Scharpf (2002) saw the 'identity marks' of the ESM as being generous welfare-state transfers and services together with the social regulation of the economy.

Busch et al (2013) held that the ESM primarily encompasses six policy objectives. Only those three objectives related to employment or social protection are highlighted here:

i) pursuing a macroeconomic policy aimed at full employment;
ii) wage policy, allowing real wage increases to reflect productivity growth, and implementing European minimum wages to reduce the low-wage sector; and
iii) underpinning social security systems that provide a high level of protection in pension, health care and family policy, as well as in unemployment benefits.

According to Bilbao-Ubillos (2016), the ESM can be seen as a historic attempt by Western Europe to set up a system of equal opportunities (equity) with economic growth (efficiency) grounded on elements such as:

1) a highly developed, publicly funded social protection system that provides citizens with a broad coverage against their main risks and needs (Aidukaite, 2009; Busch et al 2013; Giddens, 2007; Hermann & Mahnkopf, 2010; Scharpf, 2002; Wood & Gough, 2006)
2) A greater social cohesion and equity in the distribution of income (Alber, 2006; Jepsen & Serrano 2005; Moreno and Serrano, 2009; Sapir, 2006; Viñals, 2005);
3) High levels of relatively high-quality employment (in terms of decent working conditions), with efforts to shift those people suffering from exclusion back into the social and employment system (i.e., a pattern of growth of an inclusive

nature), with public-sector employment carrying significant weight (Blanchard, 2004; Busch et al 2013; Jessop, 2002).

4) Interventions to regulate leading markets, particularly the labour market, in this case aimed at safeguarding workers as the theoretically weakest link in the employment relationship (Aidukaite, 2009; Busch et al 2013; Esping-Andersen, 1989, 1990; Hermann & Mahnkopf, 2010; Scharpf, 2002; Wood & Gough, 2006).

In terms of real evidence, Betcherman (2012) provides an exhaustive review of more than 150 empirical research studies into the impact of labour market institutions on living standards, productivity, and social cohesion. In most cases, the analyses reveal that the impacts of institutions on the workings of the labour market are lower than suggested by theory (and intuition) while frequently improving the conditions of the population.

Based on the work of Esping-Andersen (1990), three models of the welfare state have emerged (each representing different variants of the ESM): the liberal or Anglo-Saxon model (which included the United Kingdom and Ireland), the continental or corporatist model typical of Central Europe (France and Germany, among others), and the social-democratic or Scandinavian/Nordic model (Sweden and Denmark, among others). Later, the Mediterranean model (specific to Southern Europe, shared by Spain and Italy, along with Portugal and Greece) was conceptually added. However, even within these archetypes, scrutiny of spending on social protection and at its main functions reveals substantial differences between these countries in both intensity of protection and the prioritisation of functions. France has a level of protection, which is higher than the EU average in all functions, while in Italy protection is higher only for Old Age and Unemployment, in Germany only for Sickness/Health and in Spain only for Unemployment (Eurostat, SEEPROS), although it is also true that the post-2004 accessions have put further pressure on the ESM: Living standards are clearly lower in the 13 MS that most recently joined the EU and capacity to fund generous benefits for the citizens has proved challenging for these countries. The heterogeneity of the EU is now greater than ever, and the decision-making process has become increasingly complex for the 27 MS.

## Measures adopted during the management of the Great Depression having an impact on the national variants of the ESM

As part of their crisis exit strategy, the EU institutions adopted decisions (based on austerity policies), which may have been crucial for the survival of the ESM (Bilbao-Ubillos, 2023a, 2023b), but which have slipped under the radar of public opinion and have not been explicitly debated. Martins Barroso (2017) points out how the reforms for economic recovery were aimed at restructuring welfare models, mainly the legislation and functioning of labour markets; these affected South European countries in a very detrimental way. She mainly alludes to reforms in firing costs and hiring methods that would make hiring somewhat cheaper, in order to protect employment. Burda and Hunt (2011) show that wage moderation, working time accounts, and reductions in working hours helped to maintain the level of employment in Germany during the recession. In the UK, wage moderation was how the country adapted to the negative impact caused by the recession (Dolado, 2012).

According to Lallement (2011), coordinated market economies (e.g. Germany) have privileged internal flexibility with measures such as decreasing the workday to maintain employment levels. In contrast, liberal market economies (the UK) have implemented measures of external flexibility, such as layoffs, as a way of stimulating the labour market. In Mediterranean economies (Spain and France), the responses have combined both types of flexibility, making employment more precarious. Grahl and Teague (1997) had already cautioned at the time that, for example, the Works Council Directive would, in practice, impose only a few new constraints on the large companies targeted by the legislation. Overall, the absence of mandatory protective measures in the EU has facilitated the implementation of policies that undermine working conditions.

Before the Great Recession, Ferrera et al (2001) believed that the pressure on the ESM did not stem so much from the phenomenon of globalisation (with the threats from financial market liberalisation, tax competition, and the increased international mobility) but from restrictions operating at the national level (the combination of national debt and spending limits, plus domestic tax resistance), which significantly hinder the development of expenditure-based social and employment policies in certain countries. Likewise, Grahl and Teague (1997) asserted that the disparities within the ESM were due not to differing adaptation strategies but to variations in initial conditions.

Nevertheless, over the past two decades, external pressures from globalisation (such as the sharp rise in risk premiums on sovereign debt between 2009 and 2011 for most EU member states, and the credit crunch, coupled with revenue losses due to aggressive tax planning by large corporations) and the European crisis exit strategy, have all eroded the levels of protection for workers and citizens in the absence of a proactive EU approach to preserving the content of the ESM. In the words of Lallement (2011), the models of ESM may have completely metamorphosed. In any case, it is questionable whether the ESM has actually favoured inclusive, equitable growth, namely the expected combination of equal opportunities (equity) and economic growth (efficiency) in the past two decades, particularly during the recovery period after the Great Recession.

The survey on income and living conditions (SILC) offers insight into the employment landscape and job quality by examining factors such as temporality, duration or contract type. The SILC enables the creation of several poverty variables. In-work poverty occurs when the income of a household, where at least one member is employed, falls below an accepted poverty line (i.e. with an equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers). According to the International Labour Office, the problem for these in-poverty workers is typically one of employment quality. At-risk-of-poverty includes people who are working or living in households where some are employed, as well as people without any work (retired or unemployed individuals).

## Is low-paid employment increasing?

Despite the fact that the ESM is associated with high-quality employment and employment levels have been recovering since the crisis, low-paid employment has increased, which means people are earning less even if they work the same number of hours. The economic recession suffered from 2008 onwards affected mainly low-skilled and low-wage workers employment; unemployment for them was much higher. However, the weight of this type of work has not increased during the analysed period. Italy and Spain have a higher incidence of low-wage employment (in 2004, they had 18.9% and 24.7%, respectively, and in 2022, 18% and 20%[1] of salaried workers), but the main difference is that they have a lower level of high-quality employment (19% and 23.8%, respectively) than other countries such as Germany or France (26.6 and 30.6%,[2] respectively).

## Is part-time employment increasing?

The increase in poverty could be due to the increase in part-time employment at the expense of full-time employment (again, a problem with job quality). There has been a widespread increase in part-time work, particularly in Spain and Italy (where initial levels were very low), but also in Germany. In the UK, part-time employment had a higher increase in earlier periods.

The European Parliament Report (2016) on precarious employment and its trends reveals that around 15% of part-time workers in Germany work fewer than 20 hours per week (this is known as marginal part-time work). However, it is in Spain and Italy that such marginal work has increased the most (European Parliament Report 2016, 77, graph 13); moreover, these two countries have the highest proportion of involuntary part-time work in the EU after Greece (European Parliament Report 2016, 78, graph 18).

Part of the increase in in-work poverty stems from this type of employment: In 2022, 21.2% of part-time workers in Spain (and 19.9% in Italy) lived in households where their income did not enable them to lift themselves out of poverty. That year, around 2.6 percentage points (pp) of poverty in Germany and 2.7 pp in the UK (2020) are explained by increasing numbers of part-time jobs. In Italy, Spain, and France, the influence is slightly lower.

## Is employment being lost?

A further reason for the poverty increase is that some people may have lost their jobs. If that occurs, then fewer household members in work, or more financially dependent individuals, can make everyone in the household poorer (a failed macroeconomic policy aimed at full employment).

According to data from Eurostat, employment decreases are only significant in Spain (where net job losses between 2008 and 2013 represented 16,3% of total employment) and, to a lesser extent, in Italy (where 3.9% of employment was lost in the same period). Nevertheless, in both countries, employment recovered essentially by 2022 (though not in terms of the employment rate – Italy – or hours per person – Italy and Spain). Elsewhere the decline in employment was much lower (0.54% in France), and jobs losses were recovered very quickly. In Germany and the UK, there was net job creation. This is probably linked to population growth (immigration), as it involves younger individuals with higher participation rates.

## Have wages fallen for some workers?

The poverty increase may also be due to a decline in wages for some workers (a theoretical failure of the intervention aimed at safeguarding workers and of egalitarian wage and social policies). The mean and median hourly earnings (in PPS: power purchasing standard) were contained during the management of the financial crisis, with a growth close to 1% per annum (Eurostat, 2023a). All years considered, Spain has the lowest average and median hourly wage, although there has been a slight convergence, with growth being somewhat higher than in other countries (Italy and France). Despite this, in 2018, the hourly wage (in euros) in Spain by 2018 was still only 66-70% of that in Germany. The only country where both wages calculated in PPS fell in the years considered is the UK.[3]

Part of the wage trends observed may be attributed to shifts in employment composition during periods of significant employment changes, as seen in Spain and Italy. Some of the wage growth in these two countries, at the beginning of the recession of 2008, was caused by the elimination of low-wage jobs that had been established in previous years. In the economic recovery, we seem to be observing a reverse effect: increases in cheap employment mean that average wages are falling or at least growing more slowly.

## To what extent are poverty levels reduced by social transfers? Were such transfers more generous during the crisis?

Social transfers increased due to the decline in non-labour income for households. It is important to consider the extent to which these transfers act cyclically and whether they are adequate to lift recipients out of poverty.

Institutional and political factors are fundamental in understanding the links between economic crises and inequality. The welfare state model and its institutional structure are determinant in explaining why inequality has increased more in some countries than in others. The economic crisis had very different repercussions on income distribution from one country to another. This shows that the domestic public sector policies and institutions of each country have a determinant influence (Smeeding & Thompson, 2010; Jenkins et al 2012; De Beer, 2012; Obst, 2013).

Graph 1 above shows that the welfare state model explains the differences in the degree of redistribution in different countries well, in terms of the welfare system in each one.[4] As shown in Graph 1, France and Germany are in the group with high levels of redistribution in social policies, while Spain and Italy are in the low-level one.

The impact of social transfers is substantial and remains relatively constant between 2008 and 2020 in most countries. Spain shows an improvement between 2008 and 2010: unemployment soared with the recession, as did unemployment benefit spending. UK and France are the countries that have achieved the greatest reduction in poverty through social transfers. By contrast, Spain and Italy – which show the highest levels of poverty – have social protection systems with a lower redistributive effect.

As Southern European countries experienced the hardest crisis hit in the EU, reforms to revitalise their economies were broadly aimed at restructuring their welfare systems and the functioning of their labour markets.

## Conclusions

In summary, the economic recovery since 2013 in the EU countries discussed in this paper has not resulted in a generalised improvement in the well-being of the population. The recovery has not been truly inclusive according to OECD standards, especially with regard to the labour market inclusion of the most vulnerable groups (OECD, 2021), despite the ESM context. The recession that began in 2008 affected mainly low-skilled and low-wage employment, in Spain and Italy, and resulted in widespread increases in part-time work (Germany, Spain, and UK), as well as an increase in involuntary part-time work in Spain. The impact of this can be observed in poverty at work. Germany, which has the lowest in-work poverty levels, is nevertheless experiencing the strongest growth.

The drop in employment arising from the recession of 2008 is significant only in Spain and, to a lesser extent, in Italy, but the mean and median hourly earnings (in PPS) were contained as the financial crisis was managed, with a growth of close to 1% per annum. This is evidenced by trends in inequality and poverty in these European countries, especially in Southern Europe where even real wages have fallen. It seems to be a problem affecting job quality for broad groups of the population (increased in-work poverty), with distributional implications. The recession increased in-work poverty, which takes a long time to revert to pre-recession levels, if indeed it ever does (in the UK the trend is different). In fact, in-work poverty has actually increased in some countries (although not in France or the UK) as employment levels in economies have increased after the recession. Low-quality jobs recovered more quickly and those who work part-time or on fixed-term contracts have been seen to be more likely to fall into in-work poverty. At least, redistribution policies have shown to be effective in reducing poverty, although, again, only in some of the selected countries. France and Germany, in that order, are the countries that have achieved the greatest reduction of poverty risk through social transfers.

Our main conclusion is that the specific national policies of spending cuts and labour market flexibilisation adopted in certain EU MS during the crisis management (amid a lack of EU-wide regulations to secure a protective core for the ESM and a failed expansive austerity exit strategy (Bilbao-Ubillos, 2014)) account for the disparity between the figures indicating economic growth and those showing trends in domestic living conditions, regardless of the heterogeneity of the ESM variants. In short, the EU has pursued an economic recovery that is not truly inclusive, despite the theoretical framework of the ESM.

## Notes

**1** Low level: employed in 8 and 9 occupation categories.
**2** Very high-level: employed in 1 and 2 occupation categories.
**3** Due to the appreciation of over 6% in the value of the Euro against Sterling in the period under review, the expectations and experience of Brexit could be part of the reason.
**4** This redistribution index is calculated as the (gross Gini – net Gini)/gross Gini ratio. The gross Gini index shows inequality before public intervention through taxes and transfers, while the net Gini index shows inequality after public intervention.

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