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Austerity policies and structural reforms are leading to the Americanization of the European Social Model

Blog Admin

Will Europe's social model survive the current Eurozone crisis? **Antonio Lettieri** *argues that the politics of the new "Frankfurt-Brussels consensus" are based on austerity and "structural reforms". Reductions in social spending that are going hand in hand with the increased privatization of pension, health and education systems point towards an 'Americanized' social model for Europe in the future.*

How will the European social model come out of the Eurozone's crisis? If we rely on the way the European authorities are managing the present situation, the prognosis must be quite negative. There is a new *Frankfurt-Brussels Consensus* that has taken the place of the Washington Consensus that came out pretty battered by the American crisis of 2008. The debate is now focused on the European authorities' austerity politics, which could be fatal for the Euro. However, we have also to look to other side of the coin of European policy: the so-called "structural reforms".

Austerity is inflicting massive damage to the European economy. However, sooner or later, its negative effects will be overcome, and will leave room for different policies: but the effects of "structural reforms"' will be much more difficult to cancel. The structural reforms are bound to change the very shape of the European social fabric.

We do not share the political choice of austerity, but it would be naive and misleading to think its authors unaware of its consequences. In Brussels, as in Frankfurt and Berlin, they know perfectly well that austerity is not a tool to stimulate growth and fight mass unemployment. So, the solution will come from something else, that is, in the “structural reforms”. In other words, in dismantling the institutions that make up the European social model, which former European Commission President Jacques Delors put at the heart of European construction.

To this end the reduction of social spending is aimed to give room to an increased privatization of pension, health and education systems. It is a way to marry the austerity of today with the structural reforms intended to last forever. For example, according to a recent editorial of Financial Times, “Close to half of UK pensioners need some form of means-tested benefit to get by”; and in regard to the private sector insurance it adds: “If the savings habit has to take root, tomorrows’ pensioners must know their savings are going towards their retirement rather than fund manager’s bonus”.

The second point under attack is the health-care system, which within the European model largely based on a universal free public service, inspired by the Beveridge’s conception of a universal welfare state. The average cost of health care in Europe is around 9 percent of GDP, against a stratospheric 18 percent in the United States. The comparison is telling, but that does not dissuade the European authorities from recommend increasing doses of privatization of the system.

The third point of the traditional European model of welfare concerns the public education system, which is substantially free from childhood to University education. It’s well known that higher education costs in America have relentlessly grown. From the 1981–82 enrolment year to the 2010–11 enrolment year, the cost of a four-year education increased 145 percent for private school and 137 percent for public school. Median family income only increased 17.3 percent from 1981–2010, far below the increases in the cost of education.

Beyond the effects on social spending, the heart of attack to the European social model is in labour market reform, the mother of all structural reforms. Across the last two decades, bargaining and labour laws have substantially made flexible all aspects of work organization. But still two main taboos survive in a number of countries: limits to layoffs and reducing the wages set in collective bargaining. These are the ultimate limits that European Commission and ECB are committed to destroy. Their reference model is the American one with the hiring and firing freedom and the wages flexibility given the low union’s membership and the difficulties of collective bargaining. Paradoxically, the strategy of structural reforms of the European authorities has many similarities with that of US Republican Party, which blames Barack Obama for flirting with European-like social policies, as in the case of the controversial healthcare reform.

This shift is enlightened by Robert Reich, former Secretary of Labor during Bill Clinton’s first term. “Since the start of the recession – he writes – the share of total national US income going to profits has risen even as the share going to labour has plunged. Profits in the US corporate sector are now at 45-year high", and, talking about the Eurozone: "Ms. Merkel …is still opposed to fostering growth through more spending…she wants to spur growth with "structural reforms – by which she presumably means giving companies more freedom to hire and fire, outsource jobs to contract workers and, in general, be less constrained by regulation. That is of course the American model, which has been fuelling corporate profits at the same time as it depresses wages".

Let come back to our starting question: will the European social model survive the crisis? Will it resist to the neo-liberal ideology of the "Frankfurt-Brussels consensus" backed by the blackmail of financial markets? The question remains open and it also concerns the future of the European democracy. As Amartya Sen has recently written austerity "may conflict with a more urgent priority, which in this case is to safeguard a democratic and committed to social welfare Europe. These are the values for which Europe has struggled for many decades".

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