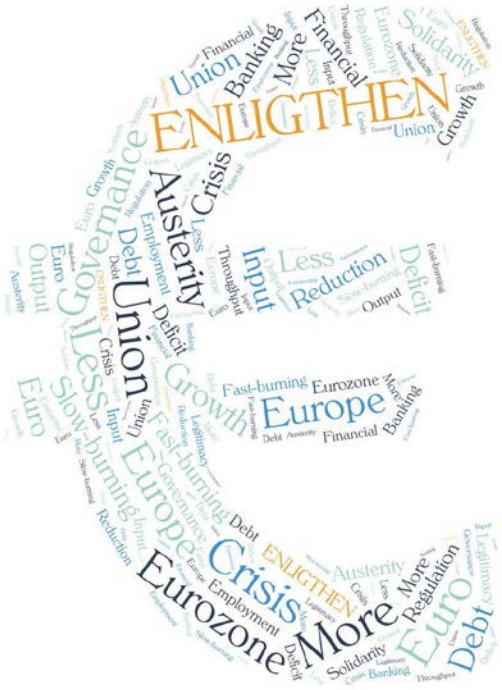
Round-Table 1 / Work Package 3

European Governance & the Twin Necessities of Deficit Reduction and Ensuring the Continuity of Public Services



RESEARCH NOTE

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PART I - RESEARCH SUMMARY

Responses to slow and fast burning crises

WP3's objective is to go beyond existing knowledge on the trends of public service restructuring before and during the financial crisis. The work package team will explore the emerging multilevel governance of public services within the EU and its differential impact on: (1) core and peripheral EU member states; (2) countries within and outside the Eurozone. In so doing, the concrete links between public service restructuring and political legitimacy will be also analyzed. The policy fields of particular concern are public health and social housing.

For decades, the public provision of housing and healthcare has been at the core of state- market relations in Europe and has enjoyed extensive popular legitimacy. Although the EU has mixed or indirect competences with regards to public service provision, recently it has come to play a more prominent role in shaping the European welfare state (Crespy 2014). The impact of the European level has further increased through such crisis-hardened mechanisms as the European Semester. During the past fifteen years, demographic changes and fiscal constraints introduced by the monetary union, as well as the increasing significance of neoliberal ideas combined to weaken the public provision of these services. Moreover, the weakening commitment to public housing was further compounded by the collateralisation of the housing stock and the belief that the deregulation of mortgage finance and "democratization of credit" would make possible the private provision of affordable housing for all social groups (Bohle 2013, Schwartz 2012, Schwartz and Seabrooke 2008). This is particular the case for peripheral European countries, where there was not much social housing to begin with. Even before the Great Recession struck, most European countries experienced slow burning crises of social housing and public health (Schwartz 2012, Teller and Lux 2012).

On the demand side, both sectors have long been under the pressure of demographic change, whether ageing population, migration, or the concentration of population in large urban centers. The economic recession created by the financial crisis in 2008 resulted in rising levels of unemployment and deprivation in general, which has further increased demand for free or subsidized public services (Frazer and Marlier, 2011). With regard to social housing, this has meant that demand has become more pressing. Not only have new groups to be accommodated, but at the same time, as middle class families are becoming impoverished, they also become formally entitled to social housing. In addition, when the house price bubble which many European countries have experienced, burst, many homeowners are facing the risk of losing their homes, and solutions have to be found to accommodate over-indebted homeowners. In health care, the contradictions between the growing need for services on the one hand and insufficient resources on the other have manifested themselves in severe labor shortages –one of the main symptoms of the slow-burning crisis in healthcare. Labor costs made up 73.4% of total health expenditure in Europe as of 2006 (Hernandez et al. 2006: 5), and one source estimated that by 2020, there will be 230 000 doctors and 600 000 nurses missing from health systems across Europe (EHFG, 2011). In the context of open labor markets within the EU, overall labor shortage is interconnected with the increasing migration opportunities of medical workers. The westward migration of healthcare professionals from the new member states might alleviate labor shortages in receiving countries, but it puts further strain on sending countries' healthcare systems. For example it is estimated that, the yearly rate of emigration from

Hungary as a percentage of all practicing physicians was 2.4% in 2008 and it increased further to 4.1% by 2011 (Fóti 2013: 17).

Second, the financing of public services through tax revenue has become increasingly difficult in an international economic environment characterized by competition for mobile capital through low tax and cheap labor. To compensate the gap between demand and supply, European governments, municipalities and regional governments have taken out large loans during the noughties to finance public services related to infrastructure and welfare state development. In the wake of the financial crisis these credits dried out, leading to more acute problems of financing. With regard to social housing, this has meant the growing discrepancy between the increasing needs (Levy-Vroelant and Tutin, 2007, p. 75) and decreasing supply of low price housing leading to a situation of continuous emergency. In France and the UK, governments have responded to this situation by keeping up with investment and construction programs thus displaying an increase in social housing expenditure as a share of GDP. In peripheral European countries, however, we do not as of yet see much investment in social housing. The situation is similar in the healthcare sector, and although figures are not available for the past few years, there is evidence that the initial phase of counter-cyclicality has given the way to freezing and cutting expenditure (European Parliament, 2013, p. 24.) A second trend is that access to social housing becomes even more restricted to target the most vulnerable categories of people. For example, although the French social housing system is viewed as fairly universalist, a law was adopted in 2009 which "lowered by ten per cent the income ceiling in order to limit access to social housing" (Driant and Li, 2012,p. 93.)

Third, the long standing deterioration of public finances, and the increasing ideational commitment to market rather than public provision of services has led, over the past twenty years, to a creeping marketization of public services, that is the introduction of price-based competition among providers and new public management. In the healthcare sector, this has meant the privatisation of hospitals or the introduction of market mechanisms within the public health system. Such reforms go back to the early 1990s in England with the introduction of an internal market and the separation of purchasing from provision within the National Health Service (NHS) (Greer and Krachler, 2015). France has traditionally a mixed system of universal healthcare with a large public hospital sector (including public and private not-for-profit hospitals) but also the largest commercial hospital sector in the world. Notwithstanding the significant differences in starting points across national settings, the general trend points to the emergence of two-tier health care systems[1]. Accordingly, in most countries the shares of private insurance schemes are increasing (Andre and Hermann, 2009). In the social housing sectors, marketisation and privatisation have occurred through incentives for increasing owner occupation, a decrease in state subsidies and the commercialisation or privatisation of financing (Driant and Li, 2012, Europe, 2012, Teller and Lux, 2011). The past decade has also seen the rise of large multinationals in the health care sector (Andre and Hermann, 2009) and the rise of private actors in the social housing sector as well. Interestingly, however, it has been pointed out marketisation does not automatically and not always lead to full-scale privatisation as a number of factors can hinder prospects of profitability in the view of private providers (Greer and Krachler, 2015).

[1] Two-tier systems means that free public services are basic services targeted at vulnerable groups while private services can be purchased privately by those who can afford it.

The role of the post-crisis EU governance in change in ideas, forms of knowledge and discourse

The response to the crisis of the Eurozone have resulted in a new phase of centralisation of macro-economic governance. The European Semester is a complex bureaucratic process based on a novel blend of hybrid governance: soft coordination occurs through monitoring and recommendation of national socio-economic performance and budgets, on the one hand, the rules of the Stability and Growth Pact have been tightened and carved into hard law through the Excessive Deficit Procedure (EDP), on the other hand. The European Semester and EDP rely on new forms of knowledge in the form of scoreboards and indicators. There is debate in the scientific community on whether tighter surveillance of social issues should be seen as a "socialisation" (Vanheuverzwijn, 2014, Zeitlin and Vanhercke, 2014) of the EMU or as a further subordination of social policy objectives to economic governance (Copeland and Dali, forthcoming). The type of discourse promoted by the EU institutions is focused on 'competitiveness' and 'structural reforms', that is the reduction of public expenditure and the flexibilisation of labor markets. With regard to public services, the focus of fiscal discipline means retrenchment in the most indebted countries and investment freezes in others. This effect has been the strongest in countries which received financial assistance from the Troika and therefore had to face strict conditionality in implementing public sector reforms - Greece, Ireland, Cyprus, Portugal and Romania (Stamati and Baeten 2014). In their memorandums of understandings, these countries also committed to reform their healthcare system. For the countries where it does not have this leverage, soft coordination in the framework of the European Semester procedure. A close analysis of the Country Specific Recommendations issued by the Commission and the Council in the framework of the European Semester since its inception in 2011 show that national governments have to face contradictory injunctions to tackle poverty and unemployment while reducing public expenditure by all means with a strong emphasis put in increasing the cost-effectiveness of healthcare expenditure"2. A close concept to cost-effectiveness which has become central in discourse about public services is "value for money". However, after an increase from 4 to 19 between 2011 and 2014, in 2015, health policy featured only in 10 of the country-specific recommendations of the European Semester3. This scaling back is part of the new Commission's agenda of focusing on key priority areas, which healthcare apparently does not belong to.

It is very difficult to establish the net effect of EU-governance measures on public services, even in countries which have been under direct Troika supervision, as it is difficult to isolate the influence of the EU from what national governments would have done otherwise as well. For example, a prominent demand of the Commission - which was to a large extent also implemented - concerned "shifting care out of hospitals", meaning the reduction of in-patient spending and the channeling some of the saved amount towards primary care and prevention (Thomson et al. 2014: 25). This type of restructuring is however part of the received wisdom on health care reforms across the entire world, and many countries implemented it without EU supervision or recommendations (van Gool and Pearson 2014, Stamati and Baeten 2014).

[2] COUNCIL RECOMMENDATION of 8 July 2014 on the National Reform Programme 2014 of France and delivering a Council opinion on the Stability Programme of France, 2014 (2014/C 247/09)

[3] http://www.epha.org/spip.php?article6353

Probably not the most significant financially, but socially the most controversial measure of EU-IMF economic adjustment programs was the increase in user charges, which in the case of Cyprus, Greece and Portugal were not sufficiently counterbalanced by exemptions designed to protect vulnerable groups (Thomson et al. 2014: 32-33). Moreover, as already mentioned, the wage cuts of health care professionals have deepened labor shortages and migration.

In sum, the EU governance architecture emerging from the crisis has sharpened the dilemma that governments face between responsibility to international institutions and financial markets on the one hand and political responsiveness to their own domestic electorate on the other (Mair, 2009). Public service provision is an area where this balancing act proved to be very difficult. The purpose of the research undertaken by the WP3 team is to look at how the contradictions outlined above played out in different sectoral and national settings. While the general trends of public service restructuring before and during the financial crisis are partly known, there is little systematic research that would address the emerging multilevel governance of public services, its differential impact on core and peripheral EU member states, as well as countries within and outside of the Eurozone. The concrete links between public services and political legitimacy also remain to be explored. It is the objective of this work package to deepen knowledge of these issues through a systematic cross-country and cross-sectoral comparison and this way enable stakeholders to design more forward looking policies that are able to generate efficient and legitimate public services in times of crisis.

PART II – PREVELANT RESEARCH QUESTIONS

- How have public service reforms within the EU's multilevel polity responded to fast and slow burning crises?
  - For example, How is the problem of public services funding taken into consideration in the framework of the European Semester?
- Which actors have been involved in public services' reforms and how have they reacted to fast and slow burning crises?
- Which specific areas of health and social housing were most affected by the crisis across the EU?
- How did the post-crisis governance of the EU affect public service provision?

- How can national governments and the EU ensure that cost containment measures do not undermine access and quality of public services (Thomson et al. 2014:23)?
  - Is means testing a viable option to protect the most vulnerable groups?
  - What are the ways to prevent means testing from creating a dualized system where the poor only get very low quality residual services while everyone else has to pay for higher quality?
  - What are the ways to prevent the dualization of public services based on citizenship and residency?
- What are the best practices in this respect, taking also into account different starting points and the severity of the crisis?
- What role can the EU play in disseminating these practices?

- When immediate savings considerations clash with goals of stable provision and long-term efficiency how can governments and EU institutions be convinced to moderate immediate cost-cutting?
- Have some member states been more successful in articulating financial responsibility and political responsiveness? Does this relate to the role of particular actors?
- What are the alternatives to cost cutting, and what are the experiences of countries which have tried alternative measures of revenue generation? (Such as France and Hungary where new taxes of unhealthy food products were tied to the health budget - van Gool and Pearson 2014:20)

- When introducing market mechanisms how can governments guarantee that markets provide services in a more efficient manner (better value for money) than other governance mechanisms?

- Who are the most crucial actors that can influence government policy on public services?
- Are there any new actors emerging specifically as a result of the crisis? Which areas are they focusing on, what is their relationship to governments and already established interest groups?
- What are the ways of empowering affected but vulnerable stakeholder groups (long-term care patients, people lacking affordable housing)?

- Is it desirable to have more active health and social housing policies at the EU level?
- What can be the common starting point for a coherent EU-level policy on health and social housing?

PART III – PUBLIC POLICY ASSESSMENT

Challenges

Two main caveats have to be made here: first, as already mentioned, the direct influence of EU policies on public service restructuring is difficult to isolate – most importantly it is difficult to separate "national" from "EU-induced" austerity even in countries under the strictest EU-supervision. Second, some of the basic measures of public service and in specific, health outcomes (such as life expectancy or healthy life expectancy) change with a significant lag, so we do not have the time period to fully assess the effects of austerity (van Gool and Pearson 2014, Thomson et al. 2014). Having said this, it can be already established to some certainty that austerity policies had a detrimental, in some cases alarming effect on health outcomes, and the crisis policies of the EU were also responsible (Kentikelenis et al. 2014). As researchers at the European Observatory on Health Systems and Policies and the WHO put it: "the important economic and social benefits of public spending on health have not been sufficiently acknowledged in fiscal policy decisions and EU-IMF economic adjustment programs."(Thomson et al. 2014:30)

In terms of social housing, there seems little effort on the EU level to deal with this issue. At the same time, we see a lot of policy experimentation on the national level. Thus, for instance, in Hungary, where the issue of over-indebted home-owners is a burning one, an increasing number of homes where people are in arrears with their mortgages, are taken over by the National Asset Management Company (NET). In this case, former owners can stay in their houses as renters. The housing portfolio of NET has increased spectacularly: since 2012, when it was founded, it has acquired 23.000 units with about 100.000 tenants. Another policy experiment with social housing in Hungary was the publicly financed construction of a

"debtors' village" some 30 km from the capital city, Budapest. This project is addressed to poor families who cannot pay their debt. Selected by the Maltese Charity, these families pay half of the market rental price. The success of this settlement with its 80 units is however mixed. Many refer to it as a debtors' ghetto, and more recently the government, acknowledging that it did not manage to attract enough families in need, decided to use it as temporary shelter for people who have to leave their homes in case of natural disasters

The other main message from the existing literate is the presence of cross-national variation even among countries that were the most strongly hit by the sovereign debt crisis. For example, Greece and Ireland implemented the biggest cuts in healthcare spending all across the EU (Thomson et al. 2014:11). Nevertheless, in one of the most valid measures of healthcare access, Ireland experienced only a minimal setback compared to Greece. Between 2008 and 2012, the share of people in the poorest quintile perceiving unmet medical needs for cost reasons was kept below 3% in Ireland, whereas it increased from 7 to 11 % in Greece (Thomson et al. 2014: 32)

Considering the longer term issues of marketization and privatization, there is also significant cross-country variation. Gingrich (2011) pointed out that both left-wing and right-wing parties have undertaken reforms for the marketization of public services. Nevertheless, she also highlights that marketization has different effects depending on how governments intend to distribute costs between different stakeholders. She argues that policymakers use strategically different market structures in different sectors of public services to implement reforms which will place costs on and electorally appeal to different constituencies, whether they are new producers of services (the private sector) or different categories of users.

PART IV – POLICY SUGGESTIONS

- Consider appropriate levels of financing for social housing and health care when designing policies and budgets geared towards fiscal discipline
- Foster public debate for ensuring the legitimacy of alternative models of public services provision
- At this stage of the research I would not make any policy-specific recommendations, but on health care, the WHO – European Observatory on Health Systems and Policies research team - widely referred to in this note – has already come up with policy recommendations, which I find well grounded (Thomson et al. 2014: 38-41).

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