



ENLIGHTEN

EUROPEAN LEGITIMACY IN GOVERNING THROUGH HARD TIMES: THE ROLE OF EUROPEAN NETWORKS

HORIZON 2020 COLLABORATIVE RESEARCH PROJECT 2015-2018

RESEARCH BRIEF

WORK PACKAGE 3

DEFICIT REDUCTION AND CONTINUITY OF PUBLIC SERVICES

enlightenproject.eu



This activity acknowledges the support of the H2020 RIA research project ENLIGHTEN – European Legitimacy in Governing through Hard Times: the role of European Networks (European Commission Project Number: 649456)





RESEARCH AIMS

This part of the research examines the impact of fast-and slow-burning crises on public service provision (especially healthcare and housing) in the EU, aiming to go beyond existing knowledge on the trends of public service restructuring before and during the financial crisis. 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, and the concrete links between public services and political legitimacy have not yet been well understood.

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, it has recently come to play a more prominent role in shaping the European welfare state. During the past fifteen years, demographic changes and fiscal constraints introduced by the monetary union, as well as the increasing significance of neo-liberal 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. 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. Furthermore, funding is not the only aspect of social housing provision that is impacted by the crisis: with the general retreat of the welfare state housing providers nowadays increasingly have to go beyond ‘bricks and mortar’ to provide a range of services to support increasingly fragile user population and the local communities.

On the demand side, both sectors have long been under the pressure of demographic change, With regard to social housing, this has meant that demand has become more pressing. 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 labour shortages –one of the main symptoms of the slow-burning crisis in healthcare. This occurs furthermore in a context of tough fiscal competition at EU level and increased liberalisation of public services provision (see case studies).

New mechanisms in reply to those trends include the European Semester and the Excessive Deficit Procedure (It is worth keeping in mind for instance that housing is an issue coming up more and more frequently in all of the main components of the Semester process) and there is debate in the scientific community on whether tighter surveillance of social issues should be seen as a “socialisation” of the European Monetary Union or as a further subordination of social policy objectives to economic governance. 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.

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. Public service provision is an area where this balancing act proved to be very difficult. The purpose of the research is to look at how the contradictions outlined above played out in different sectoral and national settings. It is also 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. The research investigates which governance arrangements and policies have pertained to public services reforms over the past decade across the EU multi-level polity; what types of stakeholders have been involved; how can these arrangements, and the policies which they have brought about, be assessed with regard to input legitimacy (addressing participation and citizens’ demands), throughput legitimacy (in terms of governance and procedures) and output legitimacy (policy efficiency).



MAIN HYPOTHESIS

The research builds on four hypotheses:

1. The fast-burning phase of the crisis only reinforces the type of policy recipes which have prevailed in earlier phases, such as in the healthcare sector. A process of normalization of “hot” knowledge and policy making can be observed both during slow and fast burning phases of the crisis.
2. If the fast-burning crisis reveals fundamental flows of existing knowledge and policies, the elaboration of hot knowledge and politics is also expected in this period. An open question remains whether and under which conditions the slow-burning phase will build on the hot knowledge generated during the fast-burning phase, or will return to previous knowledge and policies, such as in the housing sector.
3. During slow burning crises, output legitimacy is the most crucial while throughput legitimacy is being undermined by the reliance on quiet politics and business “expertise”. This however is bound to change during the fast burning crisis phase, where politics starts to matter both in terms of input legitimacy and in the way the sphere of quiet politics is being dragged into the light.
4. Regarding multilevel governance, the European Semester, because it prioritizes deficit reduction over other policy objectives, is likely to feed a deterioration of output legitimacy. In terms of throughput legitimacy, great variation may occur according to national institutional arrangements.

RESEARCH METHOD

The first step of the research is to identify countries that may have the same profile and sectoral comparisons, based on the available literature, policy reports and statistical data. Secondly, a mapping of the relevant actors and issues in different national contexts is being made. Discursive institutionalism suggests that issue definition - the diagnosis of the same apparent problem - might already diverge across countries, which needs to be taken into account during the mapping exercise. The crisis might be explained by the inefficiency of public policy in one country or as a result of the pressure coming from the EU on public finances in another. As a third step, field research is being carried out, mostly in the form of semi-structured interviews with the representatives of selected institutional actors.



CASE STUDIES

Over the past two decades, the provision of public services in general has been increasingly problematic. In spite of persisting contrasts in outcomes due to various welfare states traditions, it is possible to identify common trends in the problems face by European countries and government responses. Comparisons have been led in core countries of the Eurozone (France, the Netherlands) and the periphery (Ireland) as well as in core countries outside the Eurozone (UK, Denmark) and the periphery (Hungary). The healthcare and social housing sectors are being scrutinized here for case studies as they best illustrate this situation.

Indeed, both sectors have long been under the **pressure of demographic change**, whether because of an ageing population, immigration, or the concentration of population in large urban centres leading to imbalances in services provision and needs. The economic depression created by the financial crisis in 2008 resulted in rising levels of unemployment and dependence towards social assistance in general, e.g. free healthcare and social housing. This has led to a degradation of access to services.

Second, the **financing of public services through tax revenue** has become increasingly problematic. European, national and regional authorities have taken out large loans during the 2000s to finance public services related to infrastructure and welfare state development to compensate the lack of State revenue through taxes (on work and capital) in a context of fiscal competition within the European single market. In the wake of the financial crisis these credits dried out, leading to more acute problems of financing. In the healthcare sector, this has meant dramatic decrease in labour and shortages and closures of hospitals. With regard to social housing, this has meant growing discrepancy between needs and supply of low price housing leading to a situation of continuous emergency. Similarly to the situation in the healthcare sector, there is evidence that the initial crisis phase has led to a stalemate in investment and expenditure as fiscal discipline has become tighter. A second trend is that access to social housing becomes even more restricted to target the most vulnerable categories of people.

Finally, the long-standing deterioration of public finances led, over the past twenty years, to a **creeping marketization of public services**, that is the introduction of price-based competition among providers, the logic of profit making and new forms of management. In the healthcare sector, this has meant the privatisation of hospitals or the introduction of market mechanisms within the public health system. The general trend points to the emergence of two-tier health care systems, meaning that free public services are basic services targeted at vulnerable groups while private services can be purchased privately by those who can afford it. Accordingly, in most countries the shares of private insurance schemes are increasing. In the social housing sectors, marketisation and privatisation have occurred through incentives for increasing the shares of owner occupation, a decrease in state subsidies and the commercialisation or privatisation of financing.



SCIENTIFIC IMPACT

Research on welfare services in the framework of the EU is scattered through public administration, public policy, law and sociology. There is a myriad of empirically driven sectoral, European or national studies dealing with the restructuring of welfare and public services showing how, to various extents, there has been a deep, common trend towards the marketization of welfare. The influence of the EU decision-level has also been grasped from various perspectives, such as the role of legislation and case law over services of general interest. More recently, research has mainly focused on the causes and the immediate effects in the heat of the financial crisis, such as weakening commitment from governments, rising levels of unemployment and dependence towards social assistance in general, e.g. free healthcare and social housing. Finally, beyond the traditional comparative analysis of welfare state reform, a more recent strand of research has focused on the effects of the new EU governance framework, namely the European Semester, on social policy in general (dilution in the overarching direction set by fiscal austerity VS opportunity to make social policy goals more constraining for Member states and ‘socialization of the European Semester’).

Overall, scholars of welfare states and social policy tend to focus on labour market reforms or large financial transfers such as pensions. In comparison, there is a lack of research dealing with service provision, the other key component of European welfare states. Besides, scholars have either focused on long-term reform trajectory prior to the financial crisis or on its immediate effects. Five years after the implementation of the first austerity plans and the inception of the European Semester, there is a need to combine both perspectives. This research should therefore generate up-to-date research filling a gap in the current scholarly debate.

SOCIETAL IMPACT

This part of the research aims to support policy-makers in solving the dilemma between financial responsibility and political responsiveness through policy recommendations, such as the introduction of mechanisms to immunise investment of public services from fiscal discipline, the use of the EU budget to ensure the continuity and affordability of public services or the set up of regulatory instruments at EU level.

For Housing Europe, this research is the occasion to enrich their analysis of the impact of the crisis on the social housing sector with academic input (and vice-versa). It is also the opportunity to strengthen their lobbying rationale and highlight some of the obstacles to a better management of the crisis.

PEOPLE INVOLVED

- CENTRAL EUROPEAN UNIVERSITY (CEU)
- UNIVERSITÉ LIBRE DE BRUXELLES (ULB)
- HOUSING EUROPE (CECODHAS)



REFERENCES (Not exhaustive)

Andre C. and Hermann C. (2009) "Privatisation and Marketisation of Health Care Systems in Europe" in F. e. al. (ed.) *Privatisation Against the European Social Model* (Place published: Palgrave MacMillan).

Bohle, D. (2013) 'Post-socialist housing meets transnational finance: Foreign banks, mortgage lending, and the privatization of welfare in Hungary and Estonia', *Review of International Political Economy* ahead-of-print: 1-36;

Copeland P. and Dali M. (forthcoming) 'Social Europe and EU governance after the crisis: From 'add-on' to 'dependence-upon' Economic Integration' in A. Crespy and G. Menz (ed.) *Social Policy and the Eurocrisis. Quo Vadis Social Europe?* (Place published: Palgrave MacMillan).

Crespy, A. (2014) 'A Dialogue of the Deaf: Conflicting Discourses over the EU and Services Liberalisation in the WTO', *British Journal of Politics and International Relations* 16(1): 168-187.

Driant J.-C. and Li M. (2012) 'The Ongoing Transformation of Social Housing Finance in France: Towards a self-financing System?', *International Journal of Housing Policy*, 12(1), 91-103.

CECODHAS Housing Europe (2012) 'Housing Europe Review 2012. The nuts and bolts of European social housing systems'

EHFG (European Health Forum Gastein) (2011) Health service staff shortfall by 2020 being filled by migrants. <http://www.ehfg.org/846.html>.

European Parliament, Directorate General for Internal Policies (2013) 'Social Housing in the EU',

On behalf of the European Commission DG Employment, Social Affairs and Exclusion (2011) 'Social Impact of the Crisis and Developments in the Light of Fiscal Consolidation Measures',

Gingrich J. (2011). *Making Markets in the Welfare State. The Politics of Varying Market Reforms* (Cambridge: Cambridge University Press).

Greer I. and Krachler N. (2015) 'When does marketisation lead to privatisation? Profit-making in English Health Care services after the 2012 Health and Social Care Act', *Social Science and Medicine*, 215-223.

Helderman J.-K., et al. (2012) 'The rise of the regulatory state un health care: a comparative analysis of te Netherlands, England and Italy', *Health Economics, Policy and Law*, 7(1), 103-124.

Hernandez, P., Dräger, S., Evans, D. B., Tan-Torres Edejer, T., & Dal Poz, M. R. (2006). *Measuring expenditure for the health workforce: evidence and challenges*. Geneva: World Health Organization. http://www.who.int/hrh/documents/measuring_expenditure.pdf

Levy-Vroelant C. and Tutin C. (2007) 'Social Housing in France' in C. Whitehead and K. Scanlon (ed.) *Social Housing in Europe* (Place published: London School of Economics), 70-89.

Kentikelenis, A., Karanikolos, M., Reeves, A., McKee, M., & Stuckler, D. (2014). Greece's health crisis: from austerity to denialism. *The Lancet*, 383(9918), 748-753.



Mair P. (2009) 'Representative versus Responsible Government', MPIfG Working Paper, available at <http://www.mpifg.de/pu/workpap/wp09-8.pdf> (accessed 05.05.2014).

Schwartz, H. (2012) 'Housing, the Welfare State, and the Global Financial Crisis What is the Connection?', *Politics & Society* 40(1): 35-58;

Schwartz, H. and L. Seabrooke (2008) 'Varieties of residential capitalism in the international political economy: Old welfare states and the new politics of housing', *Comparative European Politics* 6(3): 237-61

Stamati, F., and Baeten, R. (2014). Health care reforms and the crisis. Policy Brief N° 10/2014 European Economic, Employment and Social Policy. <https://www.etui.org/Publications2/Policy-Briefs/European-Economic-Employment-and-Social-Policy/Healthcare-reforms-and-the-crisis>

Thomson, S., Figueras, J., Evetovits, T., Jowett, M., Mladovsky, P., Maresso, A., ... & Kluge, H. (2014). Economic crisis, health systems and health in Europe: impact and implications for policy. WHO Regional Office for Europe. <http://www.euro.who.int/en/about-us/partners/observatory/publications/policy-briefs-and-summaries/economic-crisis,-health-systems-and-health-in-europe-impact-and-implications-for-policy>

Van Gyes, G. et al. (2009) 'Liberalising Services of General Economic Interest: the citizen-user perspective in six EU countries', Policy Paper PIQUE, 5, available at http://pique.at/reports/pubs/PIQUE_PP5.pdf (accessed 21.04.2015).

Vanheuverzwijn P. (2014) 'Promoting the agenda for a social Economic and Monetary Union: Attention, credibility and coalition-building', Bruges Policy Papers, 37, available at file:///C:/Users/tpw279/Downloads/wp37_vanheuverzwijn.pdf (accessed 21.05.2015).

Teller, N. and M. Lux (eds) (2012) *Social housing in transition countries*, London: Routledge; van Gool, K., and Pearson, M. (2014). *Health, Austerity and Economic Crisis*. OECD Health Working Paper No. 76. <http://www.oecd-ilibrary.org/content/workingpaper/5jxx71t1zg6-en-?crawler=true&mimetype=application/pdf>

Zeitlin J. and Vanhercke B. (2014) 'Socializing the European Semester? Economic Governance and Social Policy Coordination in Europe 2020', Council for European Studies Conference, The Hague, 5-7 June 2014.

enlightenproject.eu



This activity acknowledges the support of the H2020 RIA research project ENLIGHTEN – European Legitimacy in Governing through Hard Times: the role of European Networks (European Commission Project Number: 649456)

