THE IMPACT OF THE 2008/9 CRISIS ON INEQUALITY AND POVERTY IN SOUTHERN EUROPE: THE CASE OF SPAIN

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The issue of global economic inequality has increasingly drawn the attention of scholars (Atkinson 2000; Lapavitsas, 2012; Milanovic 2005; Piketty 2014; Sala i Martin 2006; Stiglitz 2012), NGOs (FOESSA 2014; OXFAM 2014, 2015), and international institutions (World Bank 2006; IMF 2007; UN 2005; OECD 2008, 2011, 2012, 2013, 2014b; UNDP 2005; UNICEF 2011). There is little doubt about the phenomenon of rising inequality, already noticeable from the later 1990s and worsening with the outbreak of the current financial crisis. Not surprisingly, the new Sustainable Development Goals, approved by the United Nations in September 2015, include as a priority the pursuit of equality (Goal 10).

The recession has had serious effects in most countries on inequality, poverty, and at-risk-of-social-exclusion figures. However, differing patterns have emerged. Within the EU-15, the Southern countries seem to have experienced a larger impact. Greece, Italy, Portugal, and Spain have suffered severe socio-economic deterioration that may be irreversible, even if growth-rate recovery consolidates. Indeed, as we show later, a detailed analysis of the economic conditions in Southern Europe reveals

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that no direct correlation exists between the magnitude of the recession and the social conditions in each country.

The determinants informing social exclusion and the lack of equality during the crisis in Southern Europe leads us to formulate two questions. First, to what extent have inequality and poverty patterns followed a different path in Southern Europe, compared with the core European countries? Second, what are the particularities of Spain within the European periphery?

We have chosen to delimit our study to Greece, Italy, Portugal, and Spain, given both the importance of state redistribution in the final outcomes for inequality and poverty and the reasons provided hereafter. Greece, Portugal and Spain have traditionally been in a situation of economic backwardness compared to other EU members. After entering the EU, their GDP per capita was still 68 per cent of the EU average (European Commission 2001: 4). More recently, they have experienced an asymmetric impact of the crisis: according to the classification of countries by the impact of recession between 2007 and 2011, made by the European Commission (2013: 19), Greece and Spain are in the group of 'very high' impact, whereas Portugal and Italy are in the group of 'high' impact. Those three countries share also a common history of Fascist-military political dictatorships which did not end until the 1970s (although in Greece it was shorter than in the Iberian countries). Certainly, these historical reasons explain the underdevelopment of their welfare states (Navarro *et al*. 2007; Navarro 2011, 2014).

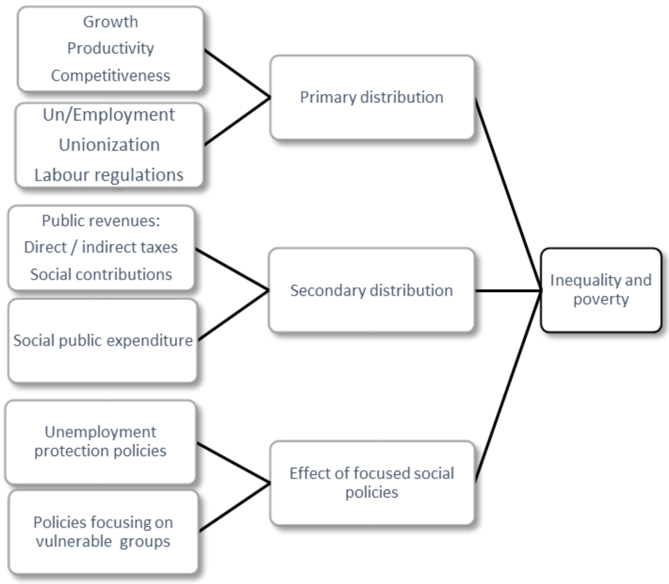
We also include Italy here because the Italian welfare state shares with these other countries some critical traits (*i.e.*, the role played by families – especially women – in providing social protection), which is why the literature included it in a so-called Mediterranean or Southern regime of welfare (Ferrera 1996; Navarro *et al*. 2007: 63). Following Del Pino and Rubio Lara (2015), this is characterised as a regime whose members experienced a late development of their welfare states and these would have been influenced by the significant role of families. In these welfare states, some universal services (such as healthcare or education) coexist with some contributory and means-tested benefits as well as the marketisation of other social services (Del Pino and Rubio Lara 2015). The result is a welfare state with a lower capacity to reduce poverty and inequality.

To make our comparison, we have chosen countries that represent other welfare regimes (Ferrera 1996; see Arts and Gelissen 2002 for other classifications) and/or that are key core European countries. Germany and France, in addition to be paradigmatic core countries, are attributed to the Continental-corporatist welfare regime, in which work is the base of social rights, being thereby mainly financed through social security contributions. To them we have added the Netherlands in order to increase the quality of the sample with a smaller Euro-area economy with high per capita income, which clearly is a core country. It is usually included in the same welfare regime, although with some specific characteristics. We have included the UK as the paradigm of the Anglo-Saxon-liberal regime, where less generous social benefits with high coverage are complemented with a broad system of means-tested and targeted benefits. Finally, Sweden represents the Nordic-social democratic regime, with social protection conceived as a social citizenship right, with universal and generous income benefits and broad services.

Inequality and poverty critically depend upon both primary (market) and secondary (state-driven) distribution of income. As shown in Figure 1, the initial sharing of the fruits of growth, which depend mainly upon capital-labour dynamics, determines primary distribution; while the state's redistributive action, through public incomes and social expenditure policies, determines secondary distribution. To put it differently, general economic dynamics generate an initial distribution of income (also called pre-distribution) that may or may not be altered by the state through redistributive policies. The result of both processes leads to a certain distribution of household disposable income.

As illustrated in Figure 1, there are multiple factors affecting both the primary and secondary distribution of income. Pre-distribution is influenced by: the functional distribution of income (the evolution of wage and profit shares of GDP), the labour force participation rate and unemployment levels, the incidence of temporary and part-time contracts, and wage dispersion. The state's redistributive action is the result of taxation and public expenditure policies. Public expenditures involve monetary transfers (generic or targeted) and the provision of public services (whose impact on inequality is unambiguous, but more difficult to assess; see OECD 2011).

Figure 1: Factors Explaining Inequality and Poverty



Source: Authors' own elaboration.

This paper draws from the literature that examines the effects of adjustment policies that have been applied in several European economies since the beginning of the crisis (ILO 2012). We consider that changes in the labour market account for a major part of the evolution in the primary distribution of income, while welfare state 'reforms' implemented during these same years explain the relatively poor outcomes in terms of secondary distribution of income.

Two hypotheses guide this work. First, worsening labour conditions are central to explaining the increasing inequality in Southern Europe. In particular, a falling labour share of GDP in most of the countries under study contrasts with the average (rising) trend in the EU-15. Lower labour incomes can be explained by both increased asymmetries in the balance of power between workers and employers, and structural weaknesses in Southern growth models. Second, despite recent increases in social expenditures, Mediterranean welfare states have been unable to avoid the negative consequences of crisis on inequality and poverty.

This paper consists of five sections. In section two, the evolution of inequality since the start of the current century is briefly described, stating the main effects of the current financial crisis on selected EU countries. In section three, we analyse the evolution of the main determinants of the primary distribution in the countries of Southern Europe. The fourth section examines the redistributive role of the public sector during the crisis and the impact of welfare state retrenchment. In the fifth section, Spain's particularities are underlined.

Income Inequality at the Beginning of the 21st Century

Even before the crisis began, a moderate increase in inequality was observed in most national economies. Numerous studies attempt to account for the reasons behind these trends (OECD 2011, 2012, 2013). Such explanations have focused on:

- The effects of globalisation on less skilled jobs and on social benefits for workers from developed countries facing competition from the global South;
- The effects of capital-intensive technological change, biased in favour of skilled workers;
- The effects of recent labour policies in OECD countries that have tended to diminish the rights and safety of workers;
- The effects of financialisation and business mergers that led to an extraordinary concentration of income at the top of the distribution;
- The effects of tax evasion and neoliberal economic policies on the redistributive capacity of the state.

As shown in Table 1, inequality increased slightly on average in the EU-15 during 2000-2013, and the increase was greater in peripheral countries than in core countries. Since the onset of the crisis, the latter experienced a minor increase in 2008 and a decline later on, whereas in peripheral Europe the Gini declined first and then went up.[2] The trends since then

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2 Eurostat has amended statistics relating to the Gini index in recent years. This has moderated the increasing trend of the index observed since 2009. For the Spanish case, the

have not been uniform, rising in Spain, France and the UK, and decreasing in Portugal and Netherlands. The averages for each group have been stable during the crisis, with peripheral countries having almost a six-point higher Gini index than core countries (by 2000 the difference was four points).

Table 1: Gini Index of Income Inequality in Selected Countries, 2000-2013

	2000	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
France	28	26.6	29.8	29.9	29.8	30.8	30.5	30.1
Germany	25	30.4	30.2	29.1	29.3	29	28.3	29.7
Netherlands	29	27.6	27.6	27.2	25.5	25.8	25.4	25.1
Sweden	-	23.4	24	24.8	24.1	24.4	24.8	24.9
UK	32	32.6	33.9	32.4	32.9	33	31.3	30.2
Core-Average	*28.5*	*28.1*	*29.1*	*28.7*	*28.3*	*28.6*	*28.1*	*28.0*
Greece	33	34.3	33.4	33.1	32.9	33.5	34.3	34.4
Italy	29	32.2	31	31.5	31.2	31.9	31.9	32.5
Portugal	36	36.8	35.8	35.4	33.7	34.2	34.5	34.2
Spain	32	31.9	31.9	32.9	33.5	34	34.2	33.7
Periphery-Average	*32.5*	*33.8*	*33.0*	*33.2*	*32.8*	*33.4*	*33.7*	*33.7*
EU-15	**29**	**30.3**	**30.8**	**30.5**	**30.5**	**30.8**	**30.4**	**30.4**

Source: Eurostat.

The 20/20 ratio (the ratio of the share of national income belonging to the richest 20 per cent of households to the share of the poorest 20 per cent) shows a similar trend (Table 2): a rise in Southern Europe (headed by

National Institute of Statistics (INE) changed its method of calculating this index in 2013 and has subsequently recalculated the time series, generating a substantial unjustified decrease in the value of the index.

Greece and Spain, and moderated by Portugal) and a stabilisation in the rest (with the exception of the increase in France and Sweden).

Table 2: Income 20/20 Ratio for Selected Countries, 2000-2013

	2000	2007	2008	2009	2010	2011	2012	2013
France	4.2	3.9	4.4	4.4	4.4	4.6	4.5	4.5
Germany	3.5	4.9	4.8	4.5	4.5	4.5	4.3	4.6
Netherlands	4.1	4	4	4	3.7	3.8	3.6	3.6
Sweden	3.4	3.3	3.5	3.7	3.5	3.6	3.7	3.7
UK	5.2	5.3	5.6	5.3	5.4	5.3	5	4.6
Core-Average	*4.1*	*4.3*	*4.5*	*4.4*	*4.3*	*4.4*	*4.2*	*4.2*
Greece	5.8	6	5.9	5.8	5.6	6	6.6	6.6
Italy	4.8	5.5	5.1	5.2	5.2	5.6	5.5	5.7
Portugal	6.4	6.5	6.1	6	5.6	5.7	5.8	6
Spain	5.4	5.5	5.7	5.9	6.2	6.3	6.5	6.3
Periphery-Average	*5.6*	*5.9*	*5.7*	*5.7*	*5.7*	*5.9*	*6.1*	*6.2*
EU-15	**4.5**	**4.9**	**4.9**	**4.9**	**4.9**	**5**	**4.9**	**4.9**

Source: Eurostat.

Contrary to expectations, no clear correlation exists between the economic downturn and a hypothetical increase in inequality in our two subsets. The diversity of national patterns suggests the relevance of particular factors, with Spain exhibiting the worst performance of the EU-15, and France and Sweden experiencing increasing inequality (albeit their starting point was much more egalitarian than that of Spain).

Concerning poverty, however, the crisis has had a severe social impact in the EU. On average, the population at risk of poverty or social exclusion (AROPE)[3] rose by almost 10 per cent in 2013 in the overall EU-15

[3] This indicator refers to the situation of people either at risk of poverty (those with an equivalent income below 60 per cent of the country median; also called monetary poverty),

(Table 3), and the percentage of population experiencing monetary poverty, anchored at the 2008 income level,[4] increased by nearly 20 per cent (Table 4). In these indicators we can better appreciate the asymmetric shock of the crisis: the AROPE rate was 3.2 points higher in the European periphery than in the core countries in 2007, with the difference increasing to 4 points in 2013; the distance in the monetary poverty rate was 5.7 points in 2008 and 13.7 in 2013.

Table 3. Population at Risk of Poverty or Social Exclusion (AROPE) in Selected Countries, 2007-2013

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
France	19	18.5	18.5	19.2	19.3	19.1	18.1
Germany	20.6	20.1	20	19.7	19.9	19.6	20.3
Netherlands	15.7	14.9	15.1	15.1	15.7	15	15.9
Sweden	13.9	14.9	15.9	15	16.1	15.6	16.4
UK	22.6	23.2	22	23.2	22.7	24.1	24.8
Core-Average	*18.4*	*18.3*	*18.3*	*18.4*	*18.7*	*18.7*	*19.1*
Greece	28.3	28.1	27.6	27.7	31	34.6	35.7
Italy	26	25.3	24.7	24.5	28.2	29.9	28.4
Portugal	25	26	24.9	25.3	24.4	25.3	27.5
Spain	23.3	24.5	24.7	26.1	26.7	27.2	27.3
Periphery-Average	*25.7*	*26.0*	*25.5*	*25.9*	*27.6*	*29.3*	*29.7*
EU-15	**21.6**	**21.7**	**21.4**	**21.8**	**22.6**	**23.1**	**23.1**

Source: Eurostat.

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or severely materially deprived (unable to afford some items considered necessary or desirable to lead an adequate life) or living in a household with a very low work intensity (household's time employed under 20 per cent of available time) (Eurostat's Glossary).

[4] This allows one to calculate how many people would be below the poverty threshold if this was maintained at the value corresponding to a reference year (here 2008, as the start of the crisis). This avoids that the threshold changes when the mean or median income do.

Table 4: Population at Risk of Monetary Poverty (anchored at 2008) in Selected Countries, 2008-2013

	2008	2009	2010	2011	2012	2013
France	12.5	12.5	12.3	13.7	13.8	13.3
Germany	15.2	16	15.8	15.9	16	16.8
Netherlands	10.5	10.6	10	11	10.7	11.8
Sweden	12.2	11.7	11.2	11.6	10.8	10.8
UK	18.7	20.4	21.4	21.9	20.7*	21.2
Core-Average	*13.8*	*14.2*	*14.1*	*14.8*	*14.4*	*14.8*
Greece	20.1	18.9	18	24.9	35.8	44.3
Italy	18.7	19.9	19.3	21.4	22.7	25
Portugal	18.5	18.1	16.1	17.9	19.4	22.3
Spain	20.8	15.6*	16.4	18.5	20.6	22.2
Periphery-Average	*19.5*	*18.1*	*17.5*	*20.7*	*24.6*	*28.5*
EU-15	**16.4**	**16.3**	**16.3**	**17.5**	**18.2**	**19.2**

*Indicates a break in the time series.

Source: Eurostat.

This greater deterioration of Southern countries affects all members of the group, but the most extreme case is Greece, where 37.5 per cent of the population was at risk of poverty or social exclusion in 2013, and monetary poverty more than doubled. Given that the Greek Gini index has barely increased, these data reflect the sharp declines in total and real per capita income.

Primary Income Distribution: determinants and effects

Multiple factors explain the increase of inequality and poverty in Southern European countries. In this section, we analyse the determinants of the primary distribution of income, *i.e.* income distribution before social transfers. The so-called 'market income distribution' is determined by several factors. It has been generally claimed that the most relevant factor here is wage dispersion. However, this is not true for the countries under study. Contrary to wide belief, labour earnings dispersion has continuously decreased in Southern European economies, both in pre- and post-crisis periods. Rather, unemployment rates and the functional distribution of income have been the most significant factors in explaining the rising inequality observed in the distribution of household income before social transfers.

Table 5 presents the Gini coefficient before social transfers (pensions being included in social transfers). Between 2007 and 2013, inequality increased in all the countries considered, except the Netherlands. This increase was extraordinary in Greece, very high in Portugal and Spain, and lower in Italy. It was also very high in the UK and Sweden. Market income inequality rose only moderately in Germany and France.

Table 5: Gini Index before Social Transfers in Selected Countries, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
France	49.9	48.8	48.7	49.2	49.7	49.8	50.3
Germany	54.4	56	54.4	55.4	55.5	54.4	56.4
Netherlands	45.4	45.5	45.3	44.2	45.8	46.1	44.9
Sweden	44.3	52.2	51.6	52.7	54.8	52.4	53.4
UK	50.4	51.9	53	53.6	53.4	55.3	54.5
Core-Average	*48.9*	*50.9*	*50.6*	*51.0*	*51.8*	*51.6*	*51.9*
Greece	49.4	49.1	49.4	49.1	51.9	56.9	61.6
Italy	47.8	46.5	46.6	47	48	47.5	48.9
Portugal	51	50.2	50.7	50	50.3	55.9	55.9
Spain	45.4	45.4	44.5	46.8	48.8	48.7	49.3
Periphery-Average	*48.4*	*47.8*	*47.8*	*48.2*	*49.8*	*52.3*	*53.9*
EU-15	49.5	49.9	49.7	50.4	51.1	51.3	52.1

Source: Eurostat.

Turning now to at-risk-of-poverty rates before social transfers, we observe several differences (Table 6). Those rates increased substantially in Greece, Spain, and Portugal, whereas in Italy and the other countries considered (Germany, the Netherlands, Sweden and the UK) changes were slight. It decreased in France.

Table 6: At-Risk-of-Poverty Rate before Social Transfers in Selected Countries, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
France	45.8	42.7	43.2	44.5	44.2	43.7	44.7
Germany	43.2	43.5	43.5	43.9	44.6	43.3	43.7
Netherlands	35.4	35.1	35.9	36.9	36.9	36.7	37.2
Sweden	41.5	42.2	40.5	41.6	42.4	41.8	42.3
UK	41.7	40.7	43.2	44.1	43.4	44.5	45.2
Core-Average	*41.5*	*40.8*	*41.3*	*42.2*	*42.3*	*42.0*	*42.6*
Greece	41.9	41.5	42	42.8	44.9	49.8	53.4
Italy	43.4	42.9	42.7	43.5	44.9	44.5	45.2
Portugal	40	41.5	41.5	43.4	42.5	45.4	46.9
Spain	38.6	39	39.3	42.1	43.8	43.8	45.5
Periphery-Average	*41.0*	*41.2*	*41.4*	*43.0*	*44.0*	*45.9*	*47.8*
EU-15	45.2	41.6	42.1	43.2	43.8	43.7	44.6

Source: Eurostat.

Note: Pensions included in social transfers.

Table 7 shows the trends in the unemployment rate from the beginning of the crisis until 2014. The economic recession has hit European labour markets hard and the EU-15 unemployment rate is now 3.0 percentage points higher than in 2007. The behaviour of Greece and Spain stands out distinctly from the average. During the period considered, their levels of unemployment tripled. Italy's rate was doubled, and Portugal had its unemployment rates increased by 'only' 5 percentage points. In the EU-15, only Ireland suffered an increase similar to that of Mediterranean Europe (nearly tripling its unemployment, although from a significantly lower starting point).

Table 7: Unemployment Rates in Selected Countries, 2007-2014

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
France	8	7.4	9.1	9.3	9.2	9.8	10.3	10.3
Germany	8.5	7.4	7.6	7	5.8	5.4	5.2	5
Netherlands	4.2	3.7	4.4	5	5	5.8	7.3	7.4
Sweden	6.1	6.2	8.3	8.6	7.8	8	8	7.9
UK	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1
Core-Average	*6.4*	*6.1*	*7.4*	*7.5*	*7.2*	*7.4*	*7.7*	*7.3*
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5
Italy	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5
Portugal	9.1	8.8	10.7	12	12.9	15.8	16.4	14.1
Periphery-Average	*8.0*	*8.7*	*11.5*	*13.3*	*15.2*	*19.0*	*20.5*	*19.5*
EU-15	**7.1**	**7.2**	**9.1**	**9.6**	**9.6**	**10.6**	**11**	**10.7**

Source: Eurostat.

Two additional factors may have had a significant impact on the primary distribution of income: the share of part-time jobs, and the evolution of average wages. Between 2007 and 2014, the incidence of part-time jobs increased in the EU-15 from 20.3 per cent of total to 22.9 per cent (Eurostat). For Southern European countries, part-time recruitment has experienced a much steeper rise than average. In Greece part-time employment has risen from 5.5 per cent to 9.3 per cent, in Spain from 11.4 per cent to 15.8 per cent, and in Italy from 13.4 per cent to 18.1 per cent. By contrast, Portugal has experienced a pace of growth in this area much more in line with the rest of the European Community (from 8.2 per cent to 10.1 per cent).

The increasing prevalence of part-time jobs is mainly due to the inability of workers to find full-time jobs. The percentage of part-time workers who would like to have a full-time job increased significantly in all cases between 2007 and 2014: from 33.3 per cent to 64 per cent in Spain, from 45.1 per cent to 71.2 per cent in Greece, from 39.3 per cent to 65.4 per cent in Italy, and from 38.6 per cent to 49.3 per cent in Portugal. In a context of increasing unemployment, workers have accepted fewer working hours than desired.

Regarding the evolution of wages, these have experienced a marked downward trend in Southern Europe as a consequence of both higher unemployment rates and tough labour 'reforms'. Comparing average real wages in Southern Europe between 2007 and 2013, an evident fall can be observed in Greece (75.8 per cent of the 2007 level), and a smaller but significant decline occurred in Italy (94.3 per cent) and Spain (96.8 per cent). Only Portugal was able to avoid such deterioration, as the average real wage in 2012 (latest available data) was at 103.4 per cent of its 2007 level (ILO 2015: 7).

In short, the expansion of unemployment and part-time employment, and the drop in the average real wage, led to a sharp deterioration in the living conditions of a significant fraction of the working population in Europe. The impact was harsher in Greece and Spain, but also relevant in Portugal and Italy.

However, in most Southern European countries, wage dispersion did not increase during the first five years of the current crisis (Table 8). There can be several explanations for this phenomenon. First, it may be a consequence of the massive destruction of lower-paid jobs. This reduction of low-wage occupations provokes the statistical impression that the payment range has been shortened. This has been the case in Spain, where unemployment is concentrated in the building sector (where low-qualification jobs dominate), as well as in the hotel sector, in restaurants and tourism, and in domestic services and personal care.

Table 8: Wage Dispersion Ratios, 2000-2012

	Ratio 5/1			Ratio 9/1			Ratio 9/5		
	2000	**2007**	**2012**	**2000**	**2007**	**2012**	**2000**	**2007**	**2012**
France	1.59	1.47	1.5	3.1	2.91	2.97	1.95	1.98	1.99
Germany	1.71	1.83	1.77	3.04	3.26	3.26	1.77	1.78	1.84
Netherlands	1.59	1.61	1.62	2.79	2.95	2.89	1.75	1.83	1.78
Sweden	1.39	1.4	1.38	2.35	2.34	2.27	1.7	1.67	1.65
UK	1.82	1.81	1.79	3.46	3.59	3.55	1.9	1.98	1.98
Core-Average	*1.6*	*1.6*	*1.6*	*2.9*	*3.0*	*3.0*	*1.8*	*1.8*	*1.8*
Greece	1.72	1.72	1.55	3.44	3.43	2.71	2	1.99	1.75
Italy	1.44	1.45	1.52	2.22	2.27	2.32	1.54	1.56	1.53
Portugal	-	1.65	1.49	-	4.31	3.81	-	2.61	2.57
Spain	1.69	1.68	1.64	3.55	3.47	3.07	2.1	2.06	1.88
Periphery-Average	*1.6*	*1.6*	*1.6*	*3.1*	*3.4*	*3.0*	*1.9*	*2.1*	*1.9*

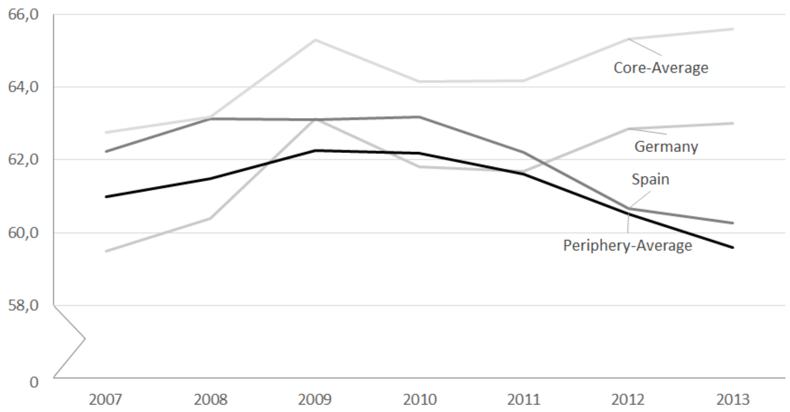
Source: OECD.

Note: For Spain and Greece, the first year of the period for which data are available is 2004; for the Netherlands is 2002; also, in the absence of data for Italy and the Netherlands for the year 2007, we have taken the 2008 and 2006 values, respectively.

Second, the data provided by the OECD are available only for 2012, and it was not until 2014 that a slight recovery of productive activity and job creation was registered in Southern Europe. The evidence suggests that, since 2012, the employment created has been of very poor quality, and newly created occupations have provided lower wages than those jobs that were previously destroyed. According to the European Commission, one out of three new jobs created in 2013 did not allow the worker to escape poverty. For the case of Spain, the figure was two-thirds of new workers.

A common pattern emerges when the evolution of the wage share of GDP is considered. Figure 2 shows the pattern followed by the wage share of our two sub-samples and two representative cases of each of them.

Figure 2: Wage Share in the EU-15, 2007-2013



Source: Authors' own elaboration with data from AMECO.

Note: See Annex 1 for each country's data.

On average, the labour share increased in core countries (save for the UK, whose share remained steady at 67.5 per cent) whereas peripheral countries followed the opposite trend. Southern European countries experienced a significant fall in labour share from 2010: five percentage points in Greece, three points in Spain, and two and a half in Portugal. In Italy, the wage share was maintained during these years.

The main causes of this declining trend of the labour share of GDP in peripheral countries can be thus found in the hike of unemployment, the spread of (involuntary) part-time jobs and the decrease of average wages. Labour market 'reforms' approved in these countries as part of adjustment policies meant to address the crisis, reinforced those trends. In effect, the European Commission (joined in some cases by the IMF and the ECB, the so-called 'Troika'), recommended labour reforms in half the EU countries, those in the peripheral countries being the most intense (Álvarez *et al.*, 2013: 227 *ff.*). They have included the extension of opting-out clauses for employers (by-passing sectoral collective agreements), the pre-eminence of company-level agreements over the rest, the decrease of firing costs or the freezing (or reduction) of public employees' wages. The result has been the decentralization of collective bargaining and the deregulation of labour markets, which along with the increase of unemployment, have damaged labour's power.

In sum, we observe the emergence of several patterns. In Southern European countries, substantially higher unemployment rates and a falling labour share, due to decreasing real wages, have caused both market inequality and poverty before transfers.[5] Meanwhile, labour earnings dispersion improved. In the other countries considered, primary distribution worsened as a consequence of rising wage dispersion, although it did so smoothly. Indeed, average EU-15 poverty rates decreased. Finally, the recession has had a different impact on so-called 'pre-distribution'; weaker productive structures and deteriorated labour markets have left Southern European countries behind.

Economic and Welfare State Crisis in Southern Europe

Having examined how the market distribution of income has evolved, we now turn to the question of state influence. The redistributive action of the state has historically been the most powerful in Western Europe, but the systems of social protection are not evenly configured throughout the continent. In this section, we examine how Southern-European states have reacted to the recession, also considering their different starting points in terms of redistributive capacity.

The ability of the state to reduce inequalities is known as its redistributive capacity. Comparing the data available in Tables 1 and 5, we can calculate the reduction in inequality caused by state amelioration. For the EU-15 in 2013, the states reduced inequality by 42 per cent (reducing the Gini index from 52.1 to 30.4). This reduction was, on average, 37 per cent for peripheral countries and 46 per cent for core countries. Greece, with a 44.2 per cent reduction, even exceeded the

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5 Note that for several years, the GDP itself also shrank twice (2008-2010, 2011-2013), so that the effective decline in the working population income became pronounced, especially in countries where both recessions were felt more strongly: Italy, Spain, Portugal, and above all Greece experienced very strong negative growth rates, almost steadily, between 2008 and 2013 (as sharp as -7 per cent in some cases).

redistribution level of two core countries (France, 40.2 per cent reduction, and the Netherlands, 43.8 per cent). However, both France and the Netherlands had lower starting points (11.3 and 16.7 points lower, respectively). Given the social costs of the crisis have been very high in Southern Europe, they would have been catastrophic without the action of the state.

Other welfare regimes had a substantially greater redistributive capacity than those of the Southern European countries. Of course, this holds true for Sweden, the paradigm of the social-democratic regime. Despite being more unequal in 2013 than Italy or Spain in terms of market incomes, Sweden managed to reduce this imbalance by 53.4 per cent. The same applies to France, Germany and the Netherlands, members of the Continental regime, whose Gini indexes dropped by 40.2 per cent, 47.4 per cent and 43.8, respectively. Even the UK, which is attributed to the liberal regime, was able to reduce inequality by 44.6 per cent in that same year, 2013.

An additional aspect of the influence of welfare states on inequality deserves further consideration: public services. Some research suggests that, in developed countries, public services (such as education, health, transport, and housing) account for an additional 20 per cent in the reduction of inequality, on average (OECD 2011). The crisis has significantly adversely affected public services, particularly in those countries where the economic collapse has been more severe. Further, welfare state reforms already implemented before the crisis -- in some cases to ensure their long-term financial sustainability; in others, to expand the private sector's involvement -- might have encouraged this trend (Buendía and Gómez 2014). In general, welfare state reforms since the 1990s have not eliminated the systems of social protection, but they have tended to limit and distort some of its distinct features (*i.e.*, workers' protection) across the four welfare regimes (Del Pino and Rubio Lara 2015; Moreno 2013).

An alternative approach to the effects of welfare states on income distribution is the analysis of social spending and its main components. To obtain a more precise idea of its evolution, we will consider its weight in the GDP, its absolute amount, the paths followed by its various components, and real spending per capita.

Table 9 shows the weight of social protection expenditure in GDP before and during the crisis (until 2012). Focusing first on the EU-15 average, a significant increase was evident during the crisis, while this variable had remained stagnant between 2000 and 2007. As regards particular countries, hardly any relevant change was registered before 2007, except for a notable increase in Portugal and a decline in Germany and the UK. However, between 2007 and 2009, the average increase in spending amounted to four percentage points; this figure was even greater for Southern Europe (especially Spain and Greece). After 2009, expenditures were stabilised at the new level.

Table 9: Social Protection Expenditure as a Percentage of GDP, 2000- 2012

	2000	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
France	27.7	29.3	29.7	31.5	31.7	31.6	31.2
Germany	28.7	26.6	26.9	30.2	29.4	28.3	28.3
Netherlands	24.7	26.7	26.9	29.7	30.3	30.5	31.4
Sweden	29.3	28.6	28.9	31.4	29.8	29.1	29.9
UK	25.2	23.8	24.6	27.5	27.1	27.6	28.4
Core-Average	*27.7*	*27.1*	*27.5*	*30.2*	*29.5*	*29.2*	*29.5*
Greece	22.7	24.1	25.4	27.4	28.2	28.9	30.0
Italy	23.7	25.4	26.4	28.5	28.6	28.4	29.0
Portugal	18.6	22.6	23.2	25.5	25.4	25.0	25.4
Spain	19.5	20.3	21.5	24.7	25.0	25.5	25.4
Periphery-Average	*21.1*	*23.1*	*24.1*	*26.5*	*26.8*	*27.0*	*27.5*
EU-15	25.7	25.6	26.3	29.0	28.9	28.7	29.2

Source: ESSPROS (European System of Integrated Social Protection Statistics); Eurostat 2015.

We should be cautious, however, in the interpretation of these data, given that several factors were instrumental in the final outcome. There is the decline in GDP, which occurred during two sub-periods and which was more intense in Southern countries, particularly Greece. Automatic stabilisers, namely expenditures on unemployment benefits, rocketed as a consequence of employment destruction in these countries. Finally, the inertial effect due to trends such as the ageing of the population (putting pressure on public pension and healthcare expenditures) has to be also considered. The relative increase in spending on social protection in Greece and Spain was thus not the result of a political choice in favour of pursuing greater equality, but the result of a combination of these three factors.

If we consider the volume of resources devoted to social protection in the EU-15, they began to decline, even in nominal terms, after 2009 in Greece, from 2010 in Portugal, and after 2011 in Spain. This did not occur in the other 12 countries that form the EU-15 (Eurostat). This phenomenon resulted in a significant decline in real social spending per capita between 2009 and 2012 in Greece (14.9 per cent), Portugal (7.3 per cent), and Spain (6.5 per cent), and even in Italy (3.5 per cent).[6] In the rest of the EU-15, where social conditions had worsened to a lesser extent, real social spending per capita remained stable, or even increased.

The analysis of the different areas of social expenditures as a percentage of GDP (detailed figures in Annex II) is better understood if it includes the influence of reforms introduced during the period of study. Although fiscal consolidation programmes have been applied in both core and peripheral countries, it is relevant that Southern European countries are the only ones that adopted all the measures considered by Álvarez *et al*. (2013). These measures include: freeze or reduction of public employees' wages, firing of public employees, old-age pension reforms, healthcare reforms, decrease of expenditures in social benefits and transfers, public investment cutbacks and increase in consumption taxes. This is in line with Beetsma *et al*. (2015), who observe that the most sizeable fiscal consolidation effort in the euro area has been made by Greece, Spain and Portugal (it was not so sizeable in Italy, but still over the euro area average). It was in these countries where the adjustment has been mostly expenditure-based. This is relevant inasmuch as the literature shows that 'spending-driven fiscal consolidation programmes are detrimental for the distribution of income' (Agnello *et al*. 2016: 5).

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[6] Everything suggests that this reduction continued in Southern countries in 2013 and quite possibly in 2014, but data are not yet available.

Starting with spending on unemployment, it has increased sharply in Spain (as expected). By contrast, although expenditures on unemployment doubled as a percentage of GDP in both Greece and Italy, those percentages remained low (surprising in the case of Greece, where unemployment had quadrupled). Since 2011, spending on unemployment tended to decrease in Spain and Greece due to the depletion of assurance for many insured, and for the long-term unemployed in particular (Eurostat). Thus, in Spain, as of January 2015, the coverage of unemployment benefits reached only 56.5 per cent of the unemployed, compared with 61.4 per cent a year earlier, while average spending per unemployed person had fallen by 4.1 per cent (INE).

Turning to social expenditures per capita, from 2010 onward, fiscal consolidation programmes led to a decline in spending on healthcare and education in Southern Europe, which subsequently intensified over time. In Spain, between 2009 and 2013, per capita spending on social policies decreased by 10.1 per cent (from 6,933 to 6,230 constant 2013 euros), the cutbacks in healthcare and education amounting to 20 per cent. These cutbacks were uneven in geographical terms, so that the poorest and neediest areas suffered greater losses (Pérez García *et al*. 2015).[7] Furthermore, the Stability Programme 2014-2017 sets as a target a further reduction of the weight of these spending items vis-a-vis the GDP.

In the other Southern European countries, the evolution was similar: between 2011 and 2013, per capita spending on healthcare was reduced by 15.9 per cent in Greece, by 13.4 per cent in Portugal, and by 7.8 per cent in Italy (data from World DataBank). Similar reductions occurred in education (OECD 2014a); though available data do not go beyond 2011, the decline is undeniable. According to Eurostat (which does not provide

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7 The crisis has had asymmetric consequences also inside countries. The less developed regions in Greece, Italy, Spain and Portugal have had worse economic results since the beginning of the crisis, which has led the European Commission to treat them apart in its current analysis of lagging regions (Cuadrado-Roura *et al.* 2016). Likewise, the social impact of the crisis has not been equal in urban and rural areas: at-risk-of-poverty rates increased more in cities than in other areas, yet the starting point was different as well: poverty is higher in rural areas than in cities in Spain, Portugal, Greece and, to a lesser extent, in Italy, being the opposite in France, Germany, the Netherlands or the UK, among others (European Commission 2014: 74). These trends form a complex and rich picture whose analysis is beyond the scope of this paper due to space limits.

data for Greece), spending per student in Spain and Italy dropped in 2008-2011 by 4.2 per cent and 9.2 per cent, respectively.

Finally, regarding the evolution of old-age pensions during this period, statutory retirement ages have been increased and longer contribution periods are being required. However, owing to their high degree of institutionalisation and the growing political influence of retirees in the EU-15, pensions have remained in general stagnant or experienced a slight reduction in purchasing power. This has led to the paradoxical result of a sharp decline in old-age poverty in those countries most affected by the crisis -- a phenomenon due not to a rise in their income, but to a reduction in the average national income and a decline in income among the poorest and/or the unemployed.

The Particular Case of Spain

In terms of inequality and poverty, Spain has experienced an overall worsening greater not merely than that of the EU-15 average, but, in aspects like inequality, also than the rest of Southern Europe. The cumulative decline of GDP between 2009 and 2013 was 7.5 per cent in Portugal, 8.5 per cent in Italy and 19 per cent in Greece, and 6.4 per cent in Spain. In aggregate terms, the recession in Spain was not as deep as in the rest of the periphery.

However, even taking into account the methodological change introduced by Spanish statistical authorities in 2013 to estimate the Gini index, which halved its perceived growth and prevented its absolute value from becoming the highest in the EU-15, the expansion of inequality in Spain compared to the other Southern economies is surprising. Between 2007 and 2013, whereas the Gini index increased by two points in Spain, it rose by just three decimals in Italy; meanwhile it remained stable in Greece, and in Portugal it was reduced by one and a half points. According to the 20/20 ratio, an increase in polarisation occurred in Spain, while Greece experienced a modest decline. The key to these phenomena lies in the fact that the crisis has hit Spain very unevenly across different sectors of the population (FOESSA 2014). Specifically, the 10 per cent of poorest households lost 13 per cent of their real annual revenue between 2007 and 2011, while the top 10 per cent experienced an annual loss of only 1.5 per cent of their earnings (OECD 2015). That trend continued through at least 2013.

When comparing AROPE and monetary poverty rates (Tables 3 and 4), the behaviour of the Spanish economy appears similar to that of the other Southern countries (although the recession had not been as deep). Greece suffered the greatest degradation in living conditions, in line with the magnitude of the recession. Population living below the poverty line (anchored at 2008) increased from 20.1 per cent to 44.3 per cent, as a result of the collapse of per capita income, which declined by 24.6 per cent between 2007 and 2014. In Spain, the number of people affected by monetary poverty increased by seven points, while the AROPE rate rose by four points, in line with what occurred in Italy. Nevertheless, Portugal was able to contain the social collapse to some extent – monetary poverty increased by less than four points, and the AROPE rate rose by just two and a half points.

What are the factors that explain the behaviour of the Spanish economy? Undoubtedly, the most remarkable factor resides in the labour market. Since 2000, many low-quality jobs (in terms of earnings, stability, training, and productivity) were created in Spain, highly concentrated into a few sectors linked at least in part to the housing bubble (construction, tourism, hotels, financial services, domestic services, and personal care). The crisis quickly destroyed many of these jobs. Thus the labour reforms of 2010 and 2012 were formally designed to 'facilitate recruitment' in a strongly recessive context. However, by lowering dismissal costs, cutting labour rights, and reducing real wages, they instead caused temporary and part-time jobs to increase and real wages to deteriorate, thus consolidating the status of the working poor. Spain's unemployment rate remains thus similar to that of Greece, despite the decline in Greek GDP has been more than double that of the Spanish economy. Although Italy and Portugal experienced a crash similar to that of Spain, their unemployment rates are half that of Spain.

Moreover, Spain is distinguished as the one country in the EU least able to reduce inequality through state amelioration. The difference in the Gini index in 2013 before and after transfers was 15.6 points in Spain, compared to 16.4 in Italy, 21.7 in Portugal, and 27.4 in Greece (not to mention the 28.5-point difference in Sweden). This is not merely due to Spain's lower share of social protection expenditures in terms of GDP (the lowest in the EU-15, excluding Luxembourg), or to its weaker political commitment to the goal of inclusion, but also to the effect of recent tax reforms (OECD 2015). Spanish governments have raised tax rates on consumption and fees for certain public services, while reducing income taxes for individuals and companies, and on property and inheritance. Moreover, the cutback policies mentioned in the previous section have further reduced the redistributive and protective capacity of the public sector. The welfare state in Spain has become even more financially vulnerable, due to the collapse of public revenue (from 40.9 per cent of GDP in 2007 to 34.8 per cent in 2009).

In sum, the development pattern of the Spanish economy tends to consolidate inequality along with monetary poverty. The state has not been able to ensure social cohesion and there is a risk that this situation will continue to consolidate if current policies are not reversed.

Conclusions

Analysis of available data implies that, overall, inequality and poverty have more dramatically affected Southern Europe than the rest of the EU-15. Undoubtedly, the severity of the contraction in productive activity was much higher in the four Southern countries here considered. However, inequality in Greece, Spain, Portugal, and Italy has followed markedly different paths in recent years, in comparison with other European countries. Although the Southern countries have a varied experience, there do exist common factors explaining those general trends.

The collapse of Greece surpassed that of the other three economies, but inequality has remained remarkably stable throughout the period. This notwithstanding, the population at risk of poverty or exclusion has increased further. Meanwhile, Portugal has experienced the smallest increase in overall poverty, and the country has been able to reduce inequality despite a very difficult economic context (including an intervention from Brussels demanding a programme of profound public spending cuts). Italy maintained its average levels of inequality seen before the crisis and, despite an increase in absolute poverty, it has not suffered a similar increase in its AROPE rate (perhaps because Italy’s unemployment levels have not grown so much). Finally, Spain is the country that has experienced the greatest increase in inequality and poverty in comparison to the size of its recession. This experience reflects a model of development characterised by its instability.

Contemplating separately the impact of the factors that generate inequality, Southern Europe’s distinct behaviour in terms of unemployment, part-time work, and average wages has exerted significant influence on overall inequality. In particular, unemployment and labour reforms are the key explanatory elements of this evolution. Until 2011, no increase in wage dispersion was observed in these countries. Moreover, Southern European economies have suffered a drastic reduction in the wage share of GDP. This appears to be a relevant factor in explaining the substantially worse indicators on inequality and poverty prior to social transfers in Greece, Portugal, and Spain.

Regarding the redistributive role of the state, it has played a crucial role in cushioning the worst effects of the crisis (even in Southern Europe), although its influence has not been sufficient to avoid a worsening of living conditions for broad layers of the population. However, the redistributive capacity of Southern welfare states is substantially lower than in other parts of Europe. Indeed, many core European countries are more unequal before transfers, but their redistributive instruments led them to greater ultimate equality in household disposable income. Moreover, it is likely that differences in inequality between the Southern region and the rest of Europe are being undervalued. Cuts in public spending aimed at reducing budget deficits are affecting many public services, but their effects on household's welfare will persist over time (for example, in the case of the reduction in funding for public education or health). Regarding the debate around the sustainability of welfare states, it is significant that, measured as a share in GDP, they have expanded across the EU-15 during the crisis. Nevertheless, real spending per capita, or per beneficiary, has tended to fall in Southern Europe, except in terms of old-age pensions which have remained fairly stable to date.

The recovery in economic activity since 2014 raises further questions. We still lack the data that would allow us to assess whether this implies also a new trend in social issues, but two facts pose a threat to any optimistic expectation: the fact that this recovery is far from guaranteed (with growth data still 'provisional' for the countries under study) and the fact that during the expansive phase, peripheral countries were unable to catch up with core countries, which points to the influence of historical political economic considerations.

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Annex I: Labour Share of GDP in selected countries, 2007-2013

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
France	63.6	63.8	65.8	65.5	65.9	66.4	66.8
Germany	59.5	60.4	63.1	61.8	61.7	62.9	63.0
Netherlands	63.5	63.9	66.1	64.7	65.0	66.5	67.3
Sweden	59.7	61.1	63.2	60.6	61.2	63.2	63.3
UK	67.5	66.8	68.2	68.1	67.1	67.6	67.5
Core-Average	*62.8*	*63.2*	*65.3*	*64.1*	*64.2*	*65.3*	*65.6*
Greece	57.5	57.7	59.7	60.1	59.8	57.7	55.1
Italy	59.8	60.2	61.4	61.6	61.2	62.1	61.7
Portugal	64.4	64.9	64.8	63.9	63.2	61.5	61.3
Spain	62.2	63.1	63.1	63.2	62.2	60.7	60.3
Periphery-Average	*61.0*	*61.5*	*62.3*	*62.2*	*61.6*	*60.5*	*59.6*
EU-15	**62.6**	**62.9**	**64.6**	**64.0**	**63.7**	**64.4**	**64.4**

Source: Eurostat.

Annex II: Social Expenditures by Function as a % of GDP in the EU-15, 2007-2012

	Old age		**Healthcare**		**Unemployment**		**Family and childhood**		**Total SEEPROS**		**Education***		**Total with education**	
	2007	**2012**	**2007**	**2012**	**2007**	**2012**	**2007**	**2012**	**2007**	**2012**	**2007**	**2011**	**2007**	**2012**
France	11.2	12.9	8.6	9.2	1.9	1.9	2.6	2.5	29.3	31.2	5.6	6.1	34.9	37.3
Germany	9.3	9.4	8	9.6	1.6	1.2	2.8	3.2	26.6	28.3	3.9	4.4	30.5	32.7
Netherlands	9.6	11.3	8.6	11.3	1.1	1.8	1.6	1.1	26.7	31.4	5.3	5.8	32.0	37.2
Sweden	11.1	12.4	7.5	7.6	1.1	1.2	2.9	3.2	28.6	29.9	6.7	6.8	35.3	36.7
UK	10.5	12.7	7.7	9.3	0.5	0.7	1.7	1.9	23.8	28.4	6.1	6.4	29.9	34.8
Core-Av.	*10.5*	*11.9*	*8.0*	*8.9*	*1.3*	*1.3*	*2.5*	*2.7*	*27.1*	*29.5*	*5.6*	*5.9*	*32.7*	*35.4*
Greece	10.5	15.4	6.8	6.4	1.1	1.9	1.5	1.6	24.1	30	3.9	4.1	28	34.1
Italy	13.1	15.3	6.6	7.6	0.5	0.9	1.3	1.4	25.4	29	4.6	4.2	30	33.2
Portugal	9.7	12	6.4	6.4	1.1	1.7	1.2	1.2	22.6	25.4	6.2	6.6	28.8	32
Spain	6.7	9.2	6.4	6.7	2.1	3.6	1.3	1.4	20.3	25.4	4.4	4.8	24.7	30.2
Periphery-Av.	*10.0*	*13.0*	*6.6*	*6.8*	*1.2*	*2.0*	*1.3*	*1.4*	*23.1*	*27.5*	*4.8*	*4.9*	*27.9*	*32.4*
EU-15	**10.2**	**11.8**	**7.5**	**8.7**	**1.4**	**1.8**	**2.1**	**2.3**	**25.6**	**29.2**	**4.8**	**5.3**	**30.4**	**34.5**

Note: Expenditure on education is usually left aside from such analyses. However, because education serves as an opportunity equaliser, facilitates participation in social life, and allows individuals to better defend their own rights, it seems reasonable to include education spending in assessing the effort made by society toward reducing inequalities.
Source: ESSPROS; Eurostat 2015. * OECD for education figures.

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