Original Article

From austerity to permanent strain? The EU and welfare state reform in Italy and Spain

Emmanuele Pavolini[a,*], Margarita León[b], Ana M. Guillén[c] and Ugo Ascoli[d]

[a]Department of Political Science, Communication and International Relation, Macerata University, Via Don Minzoni 2, Macerata 62100, Italy.
E-mail: emmanuele.pavolini@unimc.it

[b]Institute of Government and Public Policies, Universitat Autònoma Barcelona, Parc de Recerca MRA, Bellaterra, Barcelona 08193, Spain.
E-mail: m.leonborja@gmail.com

[c]Facultad de Economía y Empresa, Department of Sociology, Oviedo University, Edificio Departamental, 2ª planta, Campus Universitario de El Cristo, s/n, Oviedo 33006, Spain.
E-mail: aguillen@uniovi.es

[d]Department of Social Sciences and Economics, Università Politecnica delle Marche, Piazzale Martelli 8, Ancona 60100, Italy.
E-mail: u.ascoli@univpm.it

*Corresponding author.

Abstract This article makes a comparative analysis of the trajectories of welfare change in Italy and Spain since the outbreak of the financial crisis. We look at the differences in the types of institutional design to study of welfare reform in these two countries and assess how recent changes have affected welfare state institutions. The article also assesses the level of EU involvement not only through formal instruments around the European Semester, but also by means of agreements with the Troika and the European Central Bank. For this part of the analysis three sets of documents have been used: Commission Recommendations and Council Decisions in relation to Excessive Deficit Procedures; Commission country-specific recommendations based on Stability or Convergence Programmes; and Policy Measures to boost growth and jobs (National Reform Programmes). These documents allow an analysis of the contents of formal adjustment pressures. Other documents and sources (including newspaper articles) have also been analysed in order to look at the role of conditionality and 'backroom' diplomacy.

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Introduction

Recent years and day-to-day chronicles from many European countries deeply affected by the economic crisis tell a story of potential profound changes in the structure and nature of Welfare States (WSs). Especially South European WSs have become in dire straits since the advent of the economic crisis and the subsequent European Union (EU)-driven policies targeted at attaining fiscal balances. This article aims to analyse comparatively the trajectories of change in Italy and Spain, the two largest South European countries, both strongly affected by the economic crisis and the austerity measures that ensued. Within such trajectories of change, the article prominently assesses the level of influence of the EU through not only formal instruments around the European Semester, but also through agreements with the Troika and the European Central Bank (ECB). Shortly after the advent of the crisis, policy-making process in both countries has been altered: party politics, public and parliamentary debates and involvement of organized interests and other actors are losing relevance, while the European Commission (EC), the International Monetary Fund and the ECB have tended to play an increasingly salient role in decision-making processes. The article is structured as follows. The next section spells out the analytical approach. The following section consists of an in-depth analysis of the evolution of policy changes since the 2000s with the double purpose of, first, eliciting reform trajectories and second, discussing the role played by the EU with the aim of assessing the degree of EU influence. The concluding section offers an interpretation of the research results.

The Analytical Approach

In order to characterize policy change, our analysis uses two widespread concepts to assess what has happened since the end of the so called ‘golden era’ of social policy expansion (Pierson, 1998): retrenchment and recalibration. Retrenchment is commonly used to describe policies that introduce cuts in social provision. Contrary to the well-known Pierson’s WS resilience theory,[1] other scholars have argued that retrenchment can take place explicitly but also implicitly through creeping forms of privatization (Streeck and Thelen, 2005). When countries confront deep economic crises and very large budget deficits, politicians might argue that they are engaging in retrenchment not for its own sake, but in order to save public finances and restore economic growth and employment. Apart from explicit retrenchment policies, a relatively large amount of the literature has argued that retrenchment policies can be based on more hidden and undeclared complex devices. Streeck and Thelen (2005) use the notion of ‘gradual transformation’ to refer to institutional change that is incremental in form but disruptive in the outcomes. In this form, the authors argue, far-reaching change can be accomplished through the accumulation of small adjustments. Adopting this perspective, Palier (2010) integrates Streeck and Thelen's concepts with Hall's (1993) typology on first, second and third order change, and explains the 'defreezing' process that has characterized the Bismarckian WSs in recent decades on the basis of the accumulation of small, incremental changes.

Along with the possibility of retrenchment, the concept of recalibration (Ferrera *et al*, 2000) has been introduced in the scientific literature as an extensive form of WS remodelling. In particular 'functional' recalibration deals with the social risks covered by the WS, how they have evolved over time and how, increasingly, there are gaps in social protection. Functional recalibration is often associated with the concept of 'old' and 'new' social risks (Taylor-Gooby, 2004), related to the transition from a 'male breadwinner' industrial society to a 'dual earner' post-industrial one, also affected by demographic ageing and flexible labour markets. 'Distributive' recalibration concerns the rebalancing of social protection provisions across different policy beneficiaries.

The recalibration approach can be useful to assess policy change in European WSs in so far as in many cases cost containment and cuts in traditional social policy fields (pensions and unemployment benefits), together with (partial) deregulation of the labour market, have been matched by programmes concerned with new functions, such as helping people back into employment, integrating work income for the working poor, helping parents reconcile work and family life, promoting gender equality, supporting child development and human capital accumulation, and providing long-term care for individuals with chronic health and dependency problems (Bonoli and Natali, 2012). As a matter of fact, looking at public expenditure and needs' coverage, the story of the last two decades is not only of retrenchment or 'frozen landscapes', but also of expansion in social policies covering new social risks (Saraceno and Keck, 2011; Ranci and Pavolini, 2013). The notion of 'Social Investment' has been put forward to describe this approach potentially behind the functional reorientation of WSs (Jenson, 2008; Morel *et al*, 2012).

In order to evaluate if, overall, simple resilience, mainly retrenchment or some recalibration has been taking place in a specific country, a broad view on changes in different social policy fields is needed. In particular, an important element to consider when analysing trajectories of policy change are the *differences in the types of institutional design* different policies might have. Following traditional WS typologies we will distinguish between 'State corporatist' (pensions and labour market), 'universalistic' (health care and education) and 'targeted' (social assistance, social care and family policies) institutional designs.

Given the increasing relevance of the EU integration process during the last two decades, the question of how national WSs change mingles with the role played by the EU in this process. Is it possible to argue that heightened EU integration (de la Porte and Heins, 2015) is the main variable explaining what happened since the beginning of the last decade in Spanish and Italian social policies?

The EU uses a set of 'adjustment pressures' on national WS including, on the one hand, formal procedures, on the other, a mix between conditionality and 'backroom' diplomacy (for a discussion, see de la Porte and Natali, 2014). Formal procedures are those described by de la Porte and Heins in this special issue: monetary and economic, as well as social and labour market, policy coordination through a set on instruments (the Stability and Growth Pact (SGP) and the Six-Pack and Fiscal Consolidation, the EES and Europe 2020). Conditionality consists of financial help provided by the EU in exchange for structural adjustments and it has been used for those member states most in trouble from an economic and/or budgetary point of view. Usually conditionality has been matched by 'backroom' diplomacy: informal negotiations used by the EU to convince domestic policymakers to introduce the reforms proposed by the EU.

In order to analyse the role of the EU, three sets of documents have been used. Commission Recommendations and Council Decisions in relation to Excessive Deficit Procedures (EDP); Commission country-specific recommendations based on the assessment of each country's plans for sound public finances (Stability or Convergence Programmes, or SCPs), and policy measures to boost growth and jobs (National Reform Programmes, or NRPs). These documents allow an analysis of the contents of formal adjustment pressures. Other documents and sources (including newspapers' articles) have also been analysed in order to look at the role of conditionality and 'backroom' diplomacy.

Whereas the expenditure and policy reforms analysis refers to a longer time span (late 1990s until 2014), that on EU adjustment pressures covers the period 2005–2013 in order to grasp if changes took place before and after the onset of the economic crisis.

We argue in this article that the Italian and Spanish WS have witnessed increasing EU intrusiveness in recent years which go beyond the new formalised EU procedures around Economic and Monetary Union (EMU). EU intrusiveness has taken place more via conditionality and backroom diplomacy than through formal procedures (although the latter have become more effective because of the former). While the core messages from the EC to Italy and Spain have substantially remained the same before and after the outset of the economic crisis, the level of detailed specification on actual policy reforms has increased significantly with a much tighter timing for their implementation.

The result of EU pressure, together with other factors at the domestic level, has been a substantial retrenchment of the Spanish and Italian WSs in recent years, where the facets of recalibration are hard to find. However, retrenchment has followed different paths depending on the institutional design of each social policy domain. In sum, with the advent of the economic crisis and the austerity measures that followed, the WSs of these two countries seem to be converging again after a decade (2000–2009) of diverging trajectories.

Policy Changes in Southern Europe since the Turn of the Century and the Role of the EU

An overview of social protection expenditure over time can provide a first hint of the general changes in the two WS (Table 1). Spain's investment in social policies increased quite strongly in the last decade when compared with the EU-15 and Italian trends: the average annual growth rate of expenditure between 2000 and 2009 was +4.7 per cent (+2.5 per cent for EU-15 and +2.1 per cent for Italy, respectively). The higher growth rates in the last decade allowed the Spanish WS to reduce its distance from the average level of expenditure in the EU-15: in 2000 the per capita expenditure in Spain was 63 per cent of that of the EU-15; by 2009 it increased to 75 per cent. However, the impact of austerity measures, introduced mainly starting from 2010, can be traced looking at what happened between 2009 and 2011: the average annual growth decreased by 1.2 per cent: this reduction was twice as strong as in the EU-15 (−0.6 per cent).

Italy is a partially different story. Total social protection expenditure increased at a slightly slower pace than the average EU-15 until 2009 (+2.1 versus +2.5 per cent); after 2009 the decrease was also more pronounced than in the EU-15 (−0.9 versus −0.6 per cent). The result is that between 2000 and 2011 the distance from the EU-15 has increased.

These expenditure changes in recent years have taken place at a time when the social demand dramatically increased in Spain and Italy more than in Western Europe in general (Table 2). If in the EU-15 people at risk of poverty or social exclusion represented 21.6 per cent of the population in 2007 and they reached 22.6 per cent in 2011, the same figures for Spain and Italy were from 23.3 to 27.7 per cent and from 26.0 to 28.2 per cent, respectively. The changes in need in absolute numbers are even more dramatic: the population at risk of poverty increased in Western Europe by 6.6 per cent, whereas in Italy by 11 per cent and in Spain by 23.3 per cent. An important part of social demand concentrated in the two Southern

Table 1: Social protection expenditure in Spain and Italy compared with the EU-15

	Euro per inhabitant (at constant 2005 prices)					*Purchasing Power Standard per inhabitant – distance from EU-15 = 100%*		
	2000	*2009*	*2011*	*Average annual % var. 2000–2009*	*Average annual % var. 2009–2011*	*2000*	*2009*	*2011*
EU-15	6670	8151	8049	+2.5	−0.6	100.0	100.0	100.0
Spain	3683	5236	5107	+4.7	−1.2	62.9	75.3	74.0
Italy	5874	6982	6855	+2.1	−0.9	93.4	92.9	91.9

Source: Eurostat-ESSPROS database (2013).

Table 2: Changes in social needs in Spain and Italy compared with the EU-15 during the crisis

	People at risk of poverty or social exclusion (%)			*Unemployment rate (15–64) (%)*		
	2007	*2011*	*Variation in the absolute number of people*	*2007*	*2013*	*Variation in the absolute number of unemployed*
EU-15	21.6	22.6	+6.6% (+2.5%)[a]	7.1	9.6	+38.8% (+14.0%)[a]
Spain	23.3	27.7	+23.3%	8.3	21.7	+172.6%
Italy	26.0	28.2	+11.0%	6.1	8.4	+40.0%

[a]Value referred to EU-15 without Spain and Italy.
Source: Eurostat-ESSPROS database (2013).

European countries: between 2007 and 2011 there was an increase of around 5.5 million at the poverty level in Western Europe; around 4.1 million of these were concentrated in Spain and Italy.

If we look at unemployment, the figures for Spain were skyrocketing in terms of rates (from 8.3 to 21.7 per cent) and even more in absolute number (+172.6 per cent unemployed between 2007 and 2011). In Italy the increase in absolute numbers was +40 per cent. In the rest of Western Europe, excluding Spain and Italy, it was +14 per cent. Again, as for the case of social exclusion, out of 5.1 million new unemployed between 2007 and 2011 in the EU-15 around 3.8 million were from Spain and Italy.

Spain and Italy have a similar overall structure of their WS. The institutional design changes depending on the policy field and it takes mainly three different forms: a predominantly ‘State corporatist’ model in pensions, unemployment and labour market policies; a universalistic form in health care and education; and a ‘targeted’ model in social assistance, social care and family support.

Nonetheless, two different paths of institutional change may be ascertained in the two countries in the 2000s, whereas a new convergence seems to emerge in more recent years after the onset of austerity.

The 2000s

The Italian WS in the 2000s can be best described as an almost ‘totally frozen’ landscape (Naldini and Saraceno, 2008; Maino and Neri, 2011). The main paradigmatic reforms were introduced in the 1990s: those related to the ‘State corporatist’ pillar had a direct cost-containment goal (especially those in the pensions field in 1992–1993 and 1995, which radically changed and rationalized the system; see Natali, 2011), whereas those related to the universalistic pillar were mainly focused on changing the government and governance model of health care and education (with the introduction of decentralization and new public management)

(Pavolini and Guillén, 2013). At the same time, the reforms of the 1990s did not really touch the issue of a better and more appropriate coverage of ‘new social risks’, which remained ‘targeted’ and quite residual. Italy missed a minimum income scheme and it presented a relatively low level of needs’ coverage also in the main social care fields, namely child care and elderly care (Ascoli and Pavolini, 2012). According to Eurostat data, still in 2007 Italy spent on family and children an amount of per capita resources equal to 57 per cent of the average EU-15 level. More awkward in the international perspective was the social exclusion expenditure (13 per cent of the EU-15 average).

Therefore, the 2000s were a time when no relevant policy reform was implemented: cost-containment policies in traditional ‘State corporatist’ WS fields coupled by no real ‘functional’ recalibration towards new social risks has meant that an overall retrenchment process took place in the country.

In this setting, the role of EU institutions was small, both in terms of coordination of public finances and of recalibration of social and labour market policies. If the EES and Lisbon Strategy goals were not taken too much into consideration in the Italian debate, also the effectiveness of coercion of instruments aimed at the sustainability of public finances (in particular the tools related the SGP, such as the EDP) was limited. *De facto* there was a medium level of ‘coercion’, as indicated by de la Porte and Heins in this special issue: substantially Italy felt that, once entered in the EMU, the risks of being sent out for lack of strict compliance to EMU rules were low. Financial sanctions were never levied and the SGP, in particular the deficit rule, was weakly enforced (de Haan *et al*, 2004).

Until 2010, the effectiveness of EU formal procedures to foster adjustment pressures on the Italian WS was limited. Commission Recommendations and Council Decisions in relation to EDP (Italy was under EDP from 2005 to 2013), as well as Commission country-specific recommendations based on the assessment of the Italian SCP and NRP, are generic. In the pension field the leitmotiv was the same until the 2011 reform: appreciation for previous reforms but also the need to fully implement them or to introduce new elements (for example, the gradual increase of the retirement age for female civil servants in 2009). Also worries were expressed about the fact that pension expenditure as a share of GDP remained among the highest in the EU. As regards the labour market, until 2011 the EU recommendations were mainly related to the ‘need to strengthen unemployment strategies in key areas’ (years 2005–2007), to give the highest priority to ‘the operation of employment services, within a flexicurity approach’ (year 2008), the necessity ‘to reallocate social expenditure so as to put in place a more comprehensive and uniform unemployment benefit system that ensures appropriate work incentives and effective activation policies’ (years 2009–2010). In general, from 2005 until 2010 the recommendations promoted in very general terms a flexicurity approach. Overall, apart from the increase in the retirement age for female civil servants, none of the recommendations influenced the Italian debate in any substantial way.

The 2000s were an almost totally different story in Spain, both in terms of reforms and the role of the EU. In the pension field, rationalization reforms (of a comparatively less imbalanced and more equal system than the Italian one) had already started in the mid-1980s: further reforms aimed at a combination of rationalization and enhanced redistribution took place in 1996, 2003 and 2007. Cuts in the 'State corporatist' pillar were matched by growing public investments in the universalistic form (health care and education) (Pavolini and Guillén, 2013) and, perhaps even more importantly, in policies addressing new social risks (Guillén and León, 2011). Up until 2011, expansion took place (in terms of access and funding) in child-care services, paid parental leave, financial support for working mothers, minimum pensions, means-tested unemployment benefits and long-term care. Regarding the latter, the 2006 Law on Dependency became the first normative framework for long-term care granting a universal subjective right to be cared. In March 2011, applications had reached one and a half million and over 800 000 services and economic transfers had been conceded (CES, 2011).

These policy innovations can be seen as important path departures from a tradition of weak state involvement in the sphere of care, thus challenging the underpinnings of familialistic assumptions. Trends for expenditure witness these changes over time, as Eurostat data show. In 2000, Spain was starting from a relatively low level of per capita expenditure both in family and social exclusion policies (38.2 and 36.3 per cent of the EU-15 average, respectively). In 2007 the situation had strongly improved (per capita expenditure was 56.8 and 63.9 per cent of the average for Western Europe, respectively). The result was obtained thanks to very high yearly growth rates (+7.8 per cent in family policies and +19.8 per cent for social exclusion).

The EU has contributed to this result, especially in terms of effects of EU 'interference' through the instruments aiming at recalibrating social and labour market policy (the EES and the Lisbon Strategy).

The Spanish reforms in Long-term Care (LTC), child care, and active labour market policies were all influenced by the EU debate and tools such as the Open Method of Coordination (OMC): the Spanish literature describes this process as 'Europeanization' of social policies (Guillén and León, 2011). These were developed through soft governance tools and the diffusion of ideas, which had had little impact in Italy.

Also in the Spanish case, formal instruments aimed at the sustainability of public finances, did not put a strong indirect pressure on WS policies until 2010, although Spain came under an EDP in 2009. The level of excessive deficit was, however, not so high as to prompt immediate action and the recommendation of the Commission was that, given special circumstances – that is, the sharp economic downturn and the size of the required budgetary adjustment – , the correction of the excessive deficit should be undertaken in a medium-term time frame (EC, 2009a). At this stage, and pretty much in contrast to what would happen a year later, the EC was granting Spain 2 years (until 2012) to follow the reduction of government deficit in a gradual manner, therefore giving a green light to the intentions of the Spanish government as outlined in the 2009 NSP, which combined 'mild' austerity with spending. Moreover, in November 2009 the Commission reviewed the actions taken by the Spanish Government and in its recommendation to the Council (EC, 2009b), it concluded that, although, Spain's fiscal outlook worsened during the course of 2009, the blame is thus not placed in the Spanish government, which 'has taken effective action in compliance with the Council recommendations of 27 April 2009' (ibid., p. 7). The EC is still endorsing the medium-term path in order to limit risks to the required medium-term fiscal adjustment. At the same time and in the same document, the Commission asked Spain to implement the necessary reforms to its old-age pension and health-care systems to contain and reduce the budgetary costs of ageing populations, without specifying, however, what kind of measures should have been taken to ensure the sustainability of the two systems.

The Onset of the Economic Crisis

Until 2009, Spain and Italy came under EU pressures asking for reforms, both countries being under EDP, but these pressures came mainly via formal instruments (EC recommendations). Moreover, as described above, the contents of such pressures were relatively general (asking for reforms in broad terms) and not rigid in terms of the reforms' time schedule. Neither country reacted immediately but they were more concerned with the mounting economic crisis than answering Brussels' requests.

After 2009, EU action was enhanced, first via 'recommendations' through formal instruments that became very specific, detailed and with a tight time schedule; second, pressures became more intrusive through a mix between conditionality and 'backroom' diplomacy.

The change in the level of EU influence, in the mechanisms used and its efficacy in transforming the Spanish and Italian WS (as described below) are related to the phenomenon of the 'sovereign debt crisis': because of the perseverance of the recession, the difficulties in re-financing debt became a huge problem both for Italy and Spain (paying increasingly high interest rates) and the EMU as a whole, given their economic size and their relevance in the functioning of the Euro.

The reforms and the austerity plans starting since 2010–2011 have taken place inside this environment: tremendous pressure from financial markets with the crisis of the state debt financing and, connected to it, the increasing conditionality in the EU institutions support to face it. All three dimensions of EU integration, that is, interference, surveillance and coercion, were at work. They also had a potential immediate effect through various tools, the most important being the possibility for the ECB to stop purchasing public debt bonds.

Moreover, in the case of Spain another source of conditionality came into play: in June 2012, the Spanish Government requested external financial assistance in the context of the on-going restructuring and recapitalization of the Spanish banking sector. The Troika approved a loan from the European Financial Stability Fund (EFSF) of estimated €100 billion for the duration of 18 months. The Memorandum of Understanding (MoU) on financial-sector policy conditionality that was adopted on 23 July 2012 details the policy conditions as embedded in the Council Decision. The conditionality established by the MoU is all financial-sector specific with all 33 measures referring to monitoring different aspects of the banking sector. In other words, its main objective is to restore and strengthen the Spanish banking sector. However, the MoU granted financial assistance to Spain subject to harsh conditionality. This implies high intrusiveness of the EU. The degree of integration is very high in terms of objectives to the extent that the targets require far-reaching structural policy reforms also in the context of the EDP and the Macro-economic Imbalance Procedure (MIP), which includes taxation and labour market policies. The degree of enforcement is also very high to the extent that the loan from the EFSF is subject to Treaty-based corrective action and strict conditionality.

If EU integration has been enhanced, national WS change took different shapes depending on the institutional design of each policy field, as shown in Table 3 and in the text.

The 'State corporatist' pillar: Explicit retrenchment with few hints of recalibration in pensions and labour market policies

Even if positive results were obtained with the 1990s reforms, the need for 'austerity' invoked since 2010 to counter the financial crisis and to reduce the public debt pushed for new interventions in Italian pensions policy. The pension reform, passed at the end of 2011 by the Monti Government, sped up the shift to a 'pay-as-you-go'

Table 3: National WS policies in Spain and Italy, EU pressure and its effectiveness

WS pillar	*EU Mechanisms for adjustment pressures*	*EU Explicit reference to the need of reforms by Spain and Italy*	*Effectiveness of EU intrusiveness*
State corporatist (pensions and labour market)	Formal procedures +conditionality	Explicit reference to cuts	Explicit retrenchment (credit claiming)
Universalistic (health care and education)	—	Implicit reference to cuts (EDP and MIP)	Implicit retrenchment (policy drift)
Targeted (social assistance, social care, family policies)	—	Implicit reference to cuts Explicit reference to recalibration	Implicit retrenchment No recalibration

Source: Own elaboration.

system with a contribution-related method applying to everyone. There was also a drastic reduction in the possibility of accessing 'seniority pensions': in order to qualify for this type of pension in 2012, men will have to have worked for at least 42 years and women for 41 years. To benefit from the traditional 'old-age pension', it will be necessary to have at least 20 years' contributions. The retirement age has also been raised considerably: from 2018 the required age for all workers will be 66 years and 7 months and this will increase automatically on the basis of life expectancy trends. Finally, the contribution rates for the self-employed were raised in order to move more quickly towards a homogenization with employees' rates. Thanks to the previous reforms (especially those in the 1990s) and the most recent, the Italian pension system has adopted one of the least 'generous' institutional frameworks in Europe, if looking at forecasts for the expenditure level in the years to come.

The first retrenchment measures in Spain, the freezing of pensions for 2011, were announced by the Socialist (*PSOE*) government in 2010. The reform of the pension system was then enacted in August 2011. This entailed the postponement of the official retirement age from 65 to 67 years of age and a further 10 years expansion (from 15 to 25) of the number of salaried years used to calculate the initial pension (to be phased out from 2013 until 2026), thus lowering the replacement rate in the medium term. The new law also tightened access to early retirement. The newly elected Conservative government (*PP*) discontinued the freezing of pensions for 2012, although the increase was only of 1 per cent. In March 2013, new measures were enacted to restrict pre-retirement and partial retirement conditions.

Both labour markets were largely affected by reforms. More specifically, reforms in both countries after 2010, for the first time after decades, were not 'at the margins': they tried to reshape the overall functioning of the labour market and, especially, the positions of the 'insiders', allowing easier dismissals for permanent full-time contracts.

In Italy, the reform had four main goals. The first was to make the labour market more flexible and less 'dualistic' by reducing the precariousness of many labour contracts and promoting more stable youth employment, as well as expanding the possibility of dismissal in medium and large enterprises. The second was to transform the system of social shock absorbers, which will be gradually replaced by an unemployment benefits scheme, with a broader range to cover part of the atypical workers. The third goal consisted of strengthening active labour market policies. Finally, the reform aimed at fostering women's employment through new forms of reconciliation, but it was scarcely innovative.

In Spain, the labour market reform was passed in early 2012. Among other flexibility measures, most prominently, the cost of dismissals was drastically reduced for permanent full-time contracts, so that, in a way all workers have become 'outsiders'. Unemployment subsidies consisting of €400 per month (a programme running after unemployment contributory transfers are exhausted) have been protracted temporarily (6 months) already several times after the advent of the crisis. The aim is to alleviate those social groups most affected by the crisis or in other words people within active ages, especially young families. The costs are massive, though, amounting to around €40 billion per year.

In sum, explicit retrenchment reforms took place in both countries in the fields of pensions and labour market policies in 2011 and 2012. Unemployment protection saw attempts at improvement in Italy and remained unchanged in Spain, where several temporary protection programmes were approved and the expenditure went skyrocketing. EU intrusiveness played an increasing and strong role, both in terms of effectiveness and the mechanisms adopted to implement such pressure on Italy and Spain.

In the Italian case recommendations became more precise and detailed after 2010, but their real impact was stronger from 2011, when the financial crisis hit Italy and the EU institutions found other, more effective ways to influence reforms than 'simple' EC recommendations, which were drowned by domestic politics.

In August 2011, the President of the ECB Trichet and his designated successor Draghi wrote to Prime Minister Berlusconi, asking him to take incisive measures regarding growth, competition and liberalizations. The letter was very specific in its requests, asking, among other issues, for a review of the rules regulating the hiring and dismissal of employees (flexibility), the establishment of an unemployment insurance system (to combat segmentation), as well as more stringent eligibility criteria for seniority pensions. As Sacchi (2015) underlines in his essay in this special issue, this letter marked a turning point, indicating the actions to be implemented quite precisely and explicitly requiring the Italian government to resort to an urgent decree to implement them. The letter came in the heat of the financial markets turmoil, when the financing of the Italian debt was becoming more difficult by the minute.

As eloquently expressed and reconstructed by Sacchi (2015) in his essay, the ECB was clearly proposing an exchange: a commitment to easing the pressure on the Italian bonds by making purchases on the secondary market, in turn of the decision by the Italian Government to follow a strict conditionality (despite not being formalized in a memorandum). Berlusconi was unable[2] to fulfil the letter's request and the policy package introduced by his government did not convince either international investors, or EU institutions.[3] The financial markets' turmoil and the growing pressure from the EU that followed in autumn 2011 put his government under a strong strain. At the beginning of November 2011, on the one hand, the EC asked for very specific clarifications on the welfare reforms promoted by Berlusconi, asking for a fast response. On the other hand, the ECB Governing Council threatened to stop purchasing Italian bonds if the Italian government failed to implement the promised reforms. Given this situation, Berlusconi resigned and a new government led by the former EU Commissioner Mario Monti was formed. It was this Monti Government that passed the two reforms on pensions and the labour market.

Following the reforms, the EU influence through enhanced EU integration kept its pace mainly in relation to the labour market regulation. In 2011, Recommendations were issued proposing quite precise changes in the collective bargaining system: 'aligning wage developments with productivity growth is important in view of Italy's constant loss of competitiveness since the late 1990s; in this regard, bargaining at firm level can play a significant role. The 2009 reform of the bargaining framework introduced, among other things, the possibility of opening clauses (that is, derogations from the industrial sector wage agreed at national level), but they have not yet been widely used. 2012–2013 recommendations followed similar lines: in 2012, the EC requested a more extensive use of firm-level contracts. A few months later in November 2012 a 'programmatic agreement between the Italian Governments and the Social Partners promoting productivity and competitiveness in Italy' was signed (only one of the main trade unions refused it), fostering firm-level contracts.

This pressure from the EU level can explain why reforms were implemented so fast by the Monti government and why no real negotiations with social partners took place (the delivery of reforms would otherwise have been delayed and would have likely been watered down by potential opponents). However, it should not be forgotten that some of the problems had been pressing for a long time: internal worries about mounting labour market dualism, unemployment and the pension system sustainability in the long run were already present, but had only been partially addressed because of the domestic Italian political game. Monti presented his reforms from a double perspective: we need to do it to 'save Italy from the abyss' of the financial turmoil in the short term (words pronounced by the PM); we need to do it in order to restore some basic macroeconomic conditions in order to help Italy grow again. In fact, between 2000 and 2007 (before the crisis) the Italian GDP grew by only 1.6 per cent yearly on average and its public debt was on average 106 per cent of the GDP, in both cases the worst figures in the whole EU-28.

A similar general pattern developed also in Spain. On the one hand Recommendations became more stringent and precise. In 2010, the Council adopted the recommendations from the Commission and issued the deadline of 2 June 2010 (few months) for the Spanish government to take effective action to implement deficit-reducing measures. On the other hand, the turmoil in the financial markets put Spain under severe pressure through the financing of its debt: the ECB agreed to intervene, but asked for strong budgetary cuts in exchange for European protection from speculative attacks (see Romero, 2010). In May 2010, the Spanish government was forced to announce the biggest cuts in public spending since the beginning of democracy, meaning a U-turn in respect to what Prime Minister Zapatero had been defending even a few weeks before, that is, that there would not be any drastic cuts in spending and that deficit reduction would take place gradually within a medium-term framework. The Communication from the Commission to the Council (EC, 2010), published a month after the reforms were introduced, in June 2010 implied a change in the 'tone' of the assessment: the measures might have not sufficed to reach the revised targets for 2011. The Commission prompted the Spanish government to enact labour market and pension reforms 'without further delay' (EC, 2010, p. 49). The reform on pensions was introduced just a month later (August) and the labour market reform – via Royal Decree on urgent measures – in September 2010.

The universalistic pillar: Hidden retrenchment in education and health care

Contrary to what occurred in pensions and labour market regulation, since 2010 no relevant explicit reform took place in health care or education. However, if the formal institutional universalistic design has remained untouched, the same cannot be said for the level of public expenditure.

From 2010 cost-containment in the Italian NHS became the primary goal. The 2011 budget-planning bill stated that expenditure cuts equal to around €8 billion had to be introduced for the years 2012–2014. Moreover, the Law introduced a substantial freeze on new hiring in the NHS and, from 2014, a robust new set of copayments on health-care services (Jessoula and Pavolini, 2012). In expenditure terms, whereas the yearly public expenditure dropped on average by 2.2 per cent between 2009 and 2011, the distance in respect of the EU-15 has grown: Italian per capita public health-care expenditure in 2000 was equal to 85.5 per cent of the EU-15 average, in 2011 it dropped down to 77.1 per cent (Eurostat, 2012–2014).

The crisis has not reduced nominal access to health care to the Spanish NHS, with the exception of illegal immigrants. However, when regional deficits became fully apparent in 2011, regions were obliged to cut budgets severely and to negotiate bail-outs with the central Government. The only out-of-pocket payment in place (introduced in the early 1970s) is on pharmaceuticals, consisting of 40 per cent on over-the-counter drugs for all people except those persons over retirement age. Moreover, the salaries of all public employees (including health professionals) have been significantly reduced while the working hours have been expanded. The effects of these changes can be seen also in terms of public expenditure, with an average annual cut of 4.3 per cent between 2009 and 2011, even stronger than in the Italian case. The first result of these new trends is that the distance with the rest of Western Europe has started to increase again: Spanish per capita expenditure fell to 70.1 per cent of the EU-15 average in 2010, whereas it was 79.6 per cent in 2007 (Eurostat, 2012–2014).

Education policies have followed a very similar path: absence of reform and/or formal restrictions of universal access but rather budgetary reductions. In Italy very low growth took place since 2000 and cuts began with the crisis, as Eurostat (2012–2014) shows. National data on 2011 tell us that the freeze became even more pronounced with a −3.4 per cent decrease in expenditure between 2010 and 2011 and a more general −5.5 per cent between 2007 and 2011 (Istat, 2013b).

In Spain, expenditure grew up to 2010, and then fell drastically. Budgets have been so severely cut, to the extent that the reduction between 2012 and 2013 in the education budget was 14 per cent. The strongest reductions occurred in secondary education and vocational training (MINHAP, 2013). Also the salaries of teachers have been significantly reduced while the working hours have been expanded. Moreover, within the public compulsory education system, the maximum number of children in classrooms has increased by law.

The recent developments in the universal pillars of the Italian and Spanish WSs make one wonder for how long it will be possible to preserve universal access to health care and education, and how much will the quality of such services be affected in the medium term. What seems to be at work is a potential ‘policy drift’ or ‘gradual transformation’ mechanism (Streeck and Thelen, 2005). Formally, no explicit reform dismantling universalism has been promoted but severe cuts in public expenditure (in countries already spending less on a per capita base than in Western Europe), changes in the rules concerning (increasing) copayments and (freezes) hiring professional personnel can, in the medium term, undermine their substantial universalistic functioning.

In the case of these policies, EU influence was relevant but took a different form. Formal procedures and conditionality were at the basis of the cuts, but, unlike the case of pensions and labour market reforms, rarely did EU institutions’ documents ask explicitly for retrenchment in health care and education. Instead, the more general reference to fiscal consolidation and a strict control of public expenditure growth was the basis to intervene in these two sectors that represent by far the two most important sources of WS expenditure after pensions. In other terms, the EU request to reduce public deficits has been translated at the national level in cutting expenditure in two of the most prominent sources of state spending, without the need for naming health care and education explicitly. At the same time when, since 2010, Spanish and Italian governments introduced severe cuts to both these policy areas, they clearly stated that it was in order to respect EDP rules.

The ‘targeted’ pillar: (Even more) residual policies in social assistance, social care and family policies

As described above, the 2000s represented a period of differentiation between Spain and Italy. Until the 1990s, both countries shared a common familialistic and residual approach to social assistance, social care and family policies. During the last decade, Spain began to innovate and to recalibrate its WS through policies designed to cope with new social risks and started a path of reform towards a more Continental and Northern European WS institutional design, whereas Italy remained more a ‘frozen landscape’. The onset of the economic crisis, and especially austerity plans, since 2010 were a sort of ‘cold shower’ for Spain and the trajectories of the two countries have started to converge again.

In Italy, austerity plans hit hard also in this field. Italy did not develop any real minimum income protection programme, although the number of individuals at risk of poverty or unemployment rose significantly in recent years (see Table 2). Recent budget planning laws (2010–2011) have deliberated quite draconian expenditure cuts. For example, the Central State financing for social care and social assistance between 2008 and 2012 was cut by 91 per cent (from €2.5 billion in 2008 to

€0.2 billion in 2012) (Basile, 2011). Furthermore, between 2009 and 2012 social care and social assistance expenditure dropped by 3.5 per cent: part of this expenditure consisted in State transfers to regional and local authorities, which found themselves in even greater dire straits to cope with the crisis (Istat, 2013a). Public expenditure for family and children contracted between 2009 and 2011 on a yearly average by 2.7 per cent. The result was that in 2011, this expenditure was around 56 per cent of that for Western Europe and the social exclusion expenditure remained down at 15 per cent, even if the economic situation of many households has deteriorated dramatically (Eurostat, 2012–2014).

The consequences of austerity were even more pronounced in Spain. Since the mid-2010s, measures have placed implementation at odds because of drastic budgetary cuts at the central state level. The regional budgets have also been drastically reduced for the sake of stability, which is forcing them also to cut minimum income and social exclusion programmes. Trends on expenditure witness these changes over time, as Eurostat (2012–2014) data show. In 2000, Spain was starting from a relatively low level of per capita expenditure both in family and social exclusion policies (38.2 and 36.3 per cent of the EU-15 average, respectively). Until 2009 the situation had strongly improved (per capita expenditure was 58.0 and 49.6 per cent of EU-15 average, respectively). This result was obtained thanks to very high yearly growth rates during the 2000s and because of a whole set of new programmes, for example, in LTC and activation. However, since 2009, the situation has changed dramatically: between 2009 and 2011 the expenditure dropped on a yearly base by −6.9 per cent for family and children policies and by −8.8 per cent in social exclusion. The distance from Western Europe has widened again: in 2011 family and children per capita expenditure was equal to 51.3 per cent to the EU-15 average and the expenditure for social exclusion was down to 39.6 per cent.

What has been the role of EU institutions in these policy changes? EU influence has taken two forms: on the one hand, implicit retrenchment was requested in order to obtain fiscal consolidation, following the same line as health care and education; on the other hand, Recommendations repeatedly asked for recalibration and a broader capacity to cope with new social risks. For example, in 2011 Recommendations it was clearly stated that Italy should ‘take steps to promote greater participation of women in the labour market, by increasing the availability of care facilities throughout the country and providing financial incentives to second earners to take up work in a budgetary neutral way’. However, the EU institutions seem to be asking for a very difficult mission: to cut down quickly on social expenses in general, on the one hand, and, at the same time, to improve some specific programmes (such as reconciliation) on the other. The result so far has been that national governments have concentrated mainly on the first (and more stringent) goal, with the result that broad recalibration is becoming less and less an aim in the short term.

The EU and National WS Changes: A Conclusion

The EU role on national WS in the 1990s was perceived by a vast majority of Italian and Spanish policy actors, and by public opinion, as an external 'beneficial constraint'. Economic and social reforms were launched in order to join the EMU: the EU (also with its strict requirements) was perceived as a 'solution' to many national problems. In 2000, around 67 per cent of Spaniards and 60 per cent of Italians thought that their country's membership of the European Community was a good thing. In 2003, 57 per cent of Spaniards and 60 per cent of Italians had a positive image of the EU.

In recent years, the EU has started to be perceived in a more critical manner. In 2011, the percentage of Spaniards and Italians thinking that EU membership was a good thing for their country dropped to 55 and 41 per cent, respectively and in 2013 only one citizen out of four in both countries had a positive image of the EU.[4]

When the EU put increasing pressure on Italy and Spain, starting in 2010, it was interpreted by different policy actors both as a constraint as well as an opportunity to reform their WSs. However, in comparison to what happened in the 1990s, the 'external constraint' in the most recent years has been perceived by a larger part of the public opinion (and political parties) less as something 'beneficial'. This situation makes reforms harder to sustain in the medium term. If in the 1990s Europe was seen as a potential solution to deadlocks and problems arising from the nation political and economic domain, in recent years it is increasingly perceived as a part of (if not) the problem.

In terms of policy reform, in the case of Spain, more than in Italy, an attempt to recalibrate the whole system took place up to the years of the crisis: a reduction of coverage in traditional fields (for example, pensions) has been partially compensated by new (social) investments in policy fields such as education, care, active labour market and social exclusion policies. In Italy a recalibration approach was considered in the 1990s but then never implemented during the following decade.

What has been the impact of the crisis, understood as a two-way street? In neither country has it led to a reconfiguration of welfare policies, implying a paradigmatic change of the WS so far. From mid-2010 onwards, mounting EU integration and not least 'intrusiveness' led to reforms adopted with extreme haste and an absence of parliamentary debate, agreements or social pacts to support them, leading to a retrenchment phase. The pressure exercised by EU institutions has been but negligible.

In Italy and Spain, the crisis phase, clearly dominated by contraction and retrenchment to face the imperatives of cost containment, can be termed as a new 'age of permanent strain', in the sense of being much more acute than 'the age of permanent austerity' initiated by the Maastricht Treaty in the early 1990s. The 'age of permanent strain' also goes beyond the concept of 'pervasive austerity', this being the outcome of political choices made at EU level regarding the original construction of the EMU, and the response to the aftermath of the 2008–2009 crisis (see

Theodopoulou's article in this special issue) affecting all MSs in general. The new age of permanent strain entails a decision-making process characterized by extreme haste, intense tensions, growing anxiety among the population and growing public unrest. This situation has not has been shared by all EU countries.

From mid-2010, reforms have been dominated by rising taxation and freezes or reductions in salaries, quickly followed by drastic attempts to contain public deficits through budgetary cuts, restrictive social policy reforms and even more severe budgetary cuts since the latter months of 2011, coinciding with the change of government in both countries and the intensification of pressure by the EU.

Still, even if the two countries share these common elements, the different trajectories in which the austerity plans set in should be recalled. In Spain, the changes in 2010–2013 represent a shock not only for the size of cuts involved, but also because they entail a dramatic change after more than a decade of WS recalibration, put forward both by Conservative and Socialist governments. In Italy, instead, the austerity measures taken in 2011–2012 follow a similar reform path to the pre-existent one, even if, of course, much more severe in terms of cuts, to that started already in the 1990s.

As hypothesized in the beginning of this paper, the types of institutional design do matter in terms of how retrenchment is introduced. Both in Italy and Spain, governments have enacted explicit reforms in State corporatist WS programmes (for example, contributory income maintenance policies and so on) than universalistic (for example, health care and education) or targeted policies. While State corporatist policies, especially pensions, have been phased out, universalistic and targeted policies are suffering from mere retrenchment. The universalistic and (already weak) targeted pillars are being the easiest to cut by mere budget reductions: however, what is most probably happening (the near future will tell us if it is so) is a 'gradual transformation' and a 'hidden retrenchment' (Streeck and Thelen, 2005), with governments formally declaring they do not intend to reduce universal coverage, but, in fact, adopting severe expenditure cuts, and first and second order policy changes à la Hall (1993) (for example, in terms of copayments, waiting lists and so on) that increasingly hinder the access to services.

All in all, it is too early to say if the actual austerity plans have changed the face of the Italian and the Spanish WSs. What seems clear is that Spain has interrupted its path towards a recalibration of its welfare system while Italy has chosen a retrenchment approach. Some recalibration took place in both countries, with the attempt to improve the coverage for the traditional 'outsiders' (those with fixed-term contracts and so on.) of the two systems and there was an expansion in expenditure on unemployment. However, it seems that what took place is what Ferrera (2012) defines as 'subtractive recalibration': differences between outsiders and insiders have decreased, not mainly because the former started to be better treated by the new WS regulation, but because the latter started to be less protected. Naturally 'distributive recalibration' is important, and 'subtractive recalibration' may be considered one of its facets. However, the freezing of any real 'functional recalibration' (between policies and needs) makes the whole welfare change weaker in terms of coverage.

About the Authors

Emmanuele Pavolini is Associate Professor of Economic Sociology and Social Policy at the Macerata University. His research focuses on health-care policies, social-care policies and the transformation of the Italian Welfare State in a comparative perspective. He has edited together with Costanzo Ranci *Reforms in Long-Term Care Policies in Europe: Investigating Institutional Change and Social Impacts* (Springer 2012) and together with Ana M. Guillén *Health Care Systems in Europe under Austerity: Institutional Reforms and Performance* (Palgrave Macmillan 2013). He is the editor together with Ugo Ascoli of the forthcoming volume *The Italian Welfare State in a European perspective* (Policy Press).

Margarita León is a Senior Research Fellow in the Institute of Government and Public Policies of the Universitat Autònoma Barcelona. She edited together with Ana M. Guillén *The Spanish Welfare State in European Context* (Ashgate 2011) and is the editor of the forthcoming volume *The Transformation of Care in European Societies* (Palgrave Macmillan).

Ana M. Guillén is full professor of Sociology and Head of Department at the University of Oviedo (Spain), where she teaches Sociology and Comparative Social Policy. She has published extensively on comparative social policy, welfare state development and health-care policies. Her articles have been published in journals such as *Social Science & Medicine, Social Politics, Journal of European Social Policy, European Societies, International Journal of Health Services, West European Politics* and *Social Policy and Administration*. She has also co-edited several books, among them (with Margarita León) *The Spanish Welfare State in European Context* (Ashgate 2011) and (with Emmanuele Pavolini) *Health Care Systems in Europe under Austerity: Institutional Reforms and Performance* (Palgrave Macmillan 2013).

Ugo Ascoli is Full Professor of Economic Sociology and Social Policy at the Marche Polytechnic University, Ancona (Italy). His research interests include welfare policies, voluntary organizations, the relationships between Government and Third Sector in social policy, the role of voluntary action in the society. He is the editor together with Emmanuele Pavolini of the forthcoming volume *The Italian Welfare State in a European perspective* (Policy Press).

Notes

1 The interpretation of welfare policy changes based on retrenchment has been deeply criticized by Pierson (2001). Analyzing British and the US government social spending trends, Pierson found that not only it did not decline, but instead it grew at a faster rate than the economy as a whole. Thereafter welfare state resilience has become a relevant but also a contested concept.
2 Berlusconi's weak position was the result of an increasing loss of legitimacy in the domestic arena because of scandals and the difficulties with his main ally in government, the Northern League, which was against a pension's reform (de la Porte and Natali, 2014).
3 In the two European Council meetings and in the summit of the heads of state and government of the Eurozone in the Autumn 2011, the EU institutions and various Governments (especially the French and German) insistently asked Italy to make further efforts in implementing structural reforms, expressing at the same time scepticism over Berlusconi's capacity to deliver them.
4 The data on public opinion were retrieved from the 'Eurobarometer interactive search system' on the European Commission web page.

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