

Executive Summary

“Social developments in the European Union 2012”

David Natali and Bart Vanhercke

**“Foreword: The EU and the ever-changing crisis: what is the political cost of
austerity?”**

Natali and Vanhercke set the tone for this year’s edition of Social Developments in the European. They argue that although the past doubts on social policy in EU are still relevant, this issue stresses a need for pro-active alternative strategies.

Through a brief overview of the actions taken in 2012, they explain the complex and dramatic developments in the EU and in social policy. Importantly, the EU is in the **6th phase** of the crisis, namely that of political challenge. Furthermore, the initiatives taken to address the multidimensional crises have continued to be unclear which effectively strains the political climate. Thus, it is important to analyse how the intensification of austere economic governance runs counter to the position of an increasing number of international institutions. The authors explain how policy initiatives and the ILO, IMF and OECD proposals and critiques have increasingly highlighted that the social dialogue is needed to promote growth in the EU and economic stability. As such, there is an increasing demand for a revision of the EU’s plan for growth.

Paul De Grauwe

“From financial to social and political risks in the Eurozone”

De Grauwe discusses the issue of financial stability in Europe following the crisis. He begins by arguing that the ECB’s decision to act as a lender of last resort and to allow itself unlimited purchases of government bonds has stabilized financial markets within Europe, despite initial criticism of the plan. However, new economic problems arising from deep and ongoing recession in Southern countries, most notably Greece, Italy, Portugal and Spain, threaten to create new pockets of social and political instability resulting from economic depression and record unemployment.

In light of these developments, De Grauwe suggests a redrawing of macroeconomic policy within the Eurozone to address these new risks. The current system perpetuates a deflationary spiral, as Northern countries have become creditors and Southern countries borrowers, while the author believes that within this dichotomy, the austerity imposed on Southern countries could have been offset by increased demand stimulus in the Northern

countries. Instead, an asymmetric adjustment process has instead led to decreased output and increased unemployment in debtor countries.

Finally, he emphasizes the joint responsibility of all Eurozone countries for the crisis, *i.e.* for every irresponsible borrower there is an irresponsible lender.

Alexander H. Trechsel and Claudius Wagemann
“The EU in 2012: political and institutional tensions”

2012 has seen a number of social tensions and threats to democracy accompanying the still ongoing economic and financial crisis. These include the halt on EU enlargement (with the exception of Croatia), growing inequality, and the potential for European *disintegration*. Trechsel and Wagemann identify these trends, which include incumbent governments concerned about re-election, right and left-wing political extremism, and the emergence of new political parties and social movements claiming that people’s opinions are no longer respected. Also of note is the relationship between the EU and its citizens.

The authors adopt a ‘view from below’, arguing that as citizens are becoming more involved in policymaking, their attitude towards integration in times of crisis must be properly understood. Unemployment and the general economic context are the two most important concerns for citizens, both domestically and at EU-level, while economic expectations are similarly consistent between both levels, which the authors interpret as a result of widespread pessimism.

With all of this in mind, while the crisis has been thoroughly examined from an economic perspective, it now requires analysis from a political perspective, as well as greater appreciation of national and EU-level issues as interrelated.

Georg Feigl, Sven Hergovich, and Miriam Rehm
“Beyond GDP: can we re-focus the debate?”

The economic crisis demonstrated that a lack of growth and shrinking GDP can have negative effects on subjective well-being, especially through the pessimism that accompanies rising unemployment and poverty. Feigl, Hergovich, and Rehm argue that this necessitates the inclusion of various other quality-of-life indicators which are not directly captured by GDP measures. Similarly, current European economic policy and governance must change if the ‘Beyond GDP Debate’ is to be taken seriously.

The authors underscore the fact that Europe 2020’s goals conflict with the current austerity drive, and that solving environmental problems lies outside the scope of market functions. Moreover, as Europe is now experiencing a ‘triple crisis’ of economic performance, social progress, and environmental limits, the authors suggest a number of alternative indicators focused on consumption levels, distribution of wealth, quality of life, and environmental sustainability. Still, the authors cite only the Human Development Index as a successfully established new indicator, recognizing that measures of GDP have increased in importance

over time while alternatives remain mostly unknown. Continued political pressure from environmental groups and the labour movement are therefore crucial to achieving socio-ecological goals.

Bart Vanhercke
“Under the radar? EU social policy in times of austerity”

In the current context, Bart Vanhercke finds that prevailing opinion sees Social Europe being hijacked by the current crisis and the response to it. Certainly, the EU social policy agenda has been largely ignored because it has yielded few tangible results of late, but out of view, the processes governing social policy at EU level are maturing, which give social policy actors better means for pursuing their ends, and could have important implications in future.

Specifically, throughout 2012 Ministers of Social Affairs and the Social Protection Committee have come to play a larger role in the EU’s Country Specific Recommendations, while the Commission’s views have gradually become more sensitive to the social consequences of the crisis. Likewise, decision-making processes and networks in social policy are maturing, with the introduction of reverse QMV and greater reliance on multilateral surveillance in decision-making, collaboration between key committees being intensified and institutionalized, and ties between social policy actors becoming denser. Finally, key ‘social’ committees have developed better monitoring capabilities, while important innovations have emerged to promote mutual learning in social policy.

Taken together, these can potentially have significant effects in future, although Vanhercke notes that the key test will be feeding the results of social monitoring into mainstream economic governance, and that it is still unclear whether the role of social policy actors will continue to expand, or whether they will make effective use of the new means afforded to them.

Ramón Peña-Casas
“Desperately seeking the European Employment Strategy in the new economic governance of the European Union”

Tracing the developments of the European Employment Strategy (EES), and assessing it in the context of Europe 2020, Peña-Casas argues that the EES has remained true to its core (neoliberal) principles of lowering unemployment while maximizing labour market participation. Integrated into Europe 2020, however, the EES has begun to fade away in the context of the crisis.

Given a central role in the Lisbon Strategy from 1997-2005, the EES’ emphasis on increasing labour market participation and flexibility was crystallised under the Growth and Employment Strategy from 2005-10. More recently, however, the EES has been ‘clearly side-lined’ by the EU’s new economic governance, along with the Europe 2020 strategy in

which it is now embedded. Indeed, the EES is ‘gradually fading away’ with no major references in key European texts, while National Reform Programmes, once a core component of the EES are no longer taken seriously by many Member States, and (once extensive and conspicuous) indicators have also started to disappear as well.

This decline of the EES is unlikely to be reversed, as the effects of the crisis and the response to it seem unlikely to wane in the medium term. Indeed, he finds that while there is growing dissatisfaction with budget austerity, there is no longer a consensus among Member States on a common approach to economic and social development.

Chiara Agostini and Giliberto Capano
“Education policy: comparing EU developments and national policies”

This chapter examines the goals of Europe 2020 as compared to previous European initiatives in education, with the view that Europe 2020 represents an opportunity to integrate the Bologna Process, the Open Method of Coordination, and the Copenhagen Process. Agostini and Capano argue that the old instruments, now under the umbrella of Europe 2020, have become more coherent, with a greater emphasis on EU-level coordination.

However, the impact of this coordination at a national level has been limited. Indeed, Member States have not been able to follow through on European advice to increase education spending, despite the strategic role given to education by the Commission. This has led to unambitious national targets, and ultimately poor results in the context of Europe 2020. The authors identify an apparent contradiction between the enhanced coordination at the EU level and the limited impact at the national level, showing that Member States have invested too little in education and training. The most recent data confirms that European targets in education are far from being achieved, with large discrepancies between results in different countries.

Thorsten Schulten and Torsten Müller
“A new European interventionism? The Impact of the new European economic governance on wages and collective bargaining”

Schulten and Müller argue that the EU’s new economic governance allows for greater EU interference in collective bargaining. Ultimately, this represents a significant change of thinking at EU-level against free collective bargaining, which has been given strong backing by the crisis.

In the current context, sanctions and binding recommendations inherent in the new Macroeconomic Imbalance Procedure represent a loss of the voluntarism that had characterized EU-level interventions in wage-setting, while wages have been given greater emphasis as an instrument for promoting competitiveness. More importantly, bailout conditionality has seen crisis-hit countries making cuts in minimum wages and

decentralizing wage-setting, as the troika has explicitly referenced Commission recommendations in negotiating the terms of Eurozone bailouts. This has been accompanied by parallel cuts in public sector and minimum wages elsewhere in the Eurozone.

This approach overlooks wages' role in supporting demand, inviting deflation and stagnation. Likewise, EU intervention is fragmenting wage-setting in crisis countries while encouraging divergence between them and core countries. In response, unions must defend free collective bargaining through legal challenges and more European-level coordination of wage-setting, but must also promote macroeconomic policy that goes beyond wages and that focuses on demand-led growth.

Dalila Ghailani

“Vicissitudes of the social case law of the Court of Justice in times of recession”

Ghailani discusses important decisions in case law in the European Court of Justice in 2012 and their effects, especially during times of austerity. The author highlights the dangers of the EU's desire to increase flexibility in the labour market as a means of ending the recession without corresponding improvements in public services and the protection of workers' rights.

Ghailani underscores such issues as the Member States' obligation to prevent the abuse of successive fixed-term contracts, which have become increasingly common through the crisis; minimum requirements for the entitlement to paid leave when employees become unfit or work; and the definition of a worker in Community law. What is more, Ghailani demonstrates how the EU directly affects the daily life of its citizens, by examining judgments in working time, equal treatment for men and women, discrimination, flexicurity, and the burden of proof.

Her conclusions emphasize that EU law has not prevented companies from increasing the flexibility of their labour supply by using short-term contracts, and that the separation of the entitlement to paid leave from any period of actual work will require further implementation of provisions on basis of sickness, as well as grounds for the suspension of contract and entitlements to paid leave. They also highlight the significance of legislative guidelines and definitions, and that companies should be more forthcoming with information so as not to conceal discriminatory practices.

David Natali

“Future prospects – *Vademecum* to address EU policy and political challenges”

Natali uses the main conclusions from the book to develop a four step ‘Vademecum’ for the European Union as a roadmap of potential measures and future dialogue. He achieves this by dividing the literature and explaining the current challenges, which he finds to be of both a policy and political nature.

Natali stresses the need for robust European banking supervision and a resolution framework, fiscal union, and the need for further innovations in economic coordination. The author also notes the ill-effects of growing divergences and misconceptions amongst rich and poor Member States. The policy challenges noted in the chapter directly affect political ones. The most important are political tensions and a lack of legitimacy in EU institutions as a result of the massive shifts of power among Member States and EU institutions. Indeed, the EU's shortcomings have led to a reinforcement of technocracy at EU-level and populist reactions at national-level.

Finally, Natali proposes four broad lines of action: a more balanced map of growth, a more effective strategy to address growing geographical divides, steps to improve democratic legitimacy, and a new vision for Europe. Crucially, these measures call for a better allocation of resources, changing mandates, short and long term measures, changing institutional procedures, greater citizen participation, and the implementation of structural reforms.

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