The End of the European Social Model as we have envisioned it?
Political Economy Principles in Europe may be changed by the Economic Crisis Governance

Abstract

“The European social model has already gone”, stated the President of the European Central Bank, Mario Draghi, in 2012 with view on the crisis in the Eurozone and enacted reforms to overcome it. However, the main exit door out of the crisis had not been found yet and the December 2012 European Council showed how unlikely it is to find a compromise to take necessary steps in political integration, to complete the existing monetary union with a fully-fledged fiscal and political union in order to correct the main deficits of the Maastricht Treaty. In fact we are circling around the same problems which could have been obvious already in 1992. But politicians do not like to confess constitutional shortfalls of the Eurozone. As a matter of fact, the dominant crisis management has concentrated for three years now on strengthening fiscal discipline of the Member States. In the absence of political will and unanimity for a general revision of the basis on which the monetary union functions, the focus was laid on austerity and a fine-tuning of the existing elements of European economic governance. Will the crisis course lead to an end of the European Social Model, understood as a socially balanced market economy with strong market regulation by the state and a comprehensive set of welfare state arrangements to achieve a high degree of decommodification? In this paper, an overview on the main aspects of the economic governance tools implemented so far will be given and evaluated. Special attention will be paid to the shortcomings of the new established governance instruments with regard to the consequences for the social dimension of the EU.

Keywords: Economic Governance, Social Dimension, Policy Coordination, European Semester, Welfare Retrenchment
1. Introduction

The continuing crisis of the Eurozone is for sure one of the severest situations the European Union (EU) has ever been in. Right after the decay of the global financial crisis from 2007 onwards, the EU found itself entering a new dimension of economic crisis, starting with the detection of Greece’s exorbitant public debts by the newly elected government in October 2009. Since then the European Economic and Monetary Union (EMU) has been operating in a permanent crisis management modus. Although there is some controversy among economists and politicians on the origins of the crisis and its classification as a systemic crisis of EMU design or as a sovereign debt problem in some Member States, the latter perception dominates the crisis management decisions (Busch 2012). It brought to light a reaction one may call “conditioned solidarity approach”. States in refinancing troubles received credit lines guaranteed by their neighbours in EMU and the condition of a stark austerity regime on public finances.

As well, existing rules like the Stability and Growth Pact (SGP) were strengthened and a set of new instruments and procedures implemented to overcome the crisis and prevent further similar developments. After more than three years of constant reform activities it is clear that this crisis has shaped the EMU extensively. While this was a taboo or no-go topic before the crisis, politicians claim now the necessity to move forward with European integration by changing the design of the European economic governance architecture. Some call for steps towards the establishment of a fiscal union, others envision a “European Economic Government” and again others see the best solution in strengthening and extending the existing toolbox of governance architecture.

While so much attention is paid to the economic functioning of the single currency, the question arises, in how far the crisis-driven changes will affect as well the welfare state landscape in Europe and the European Social Model. Will the crisis course lead to an end of the European Social Model, understood as a socially balanced market economy with strong market regulation by the state and a comprehensive set of welfare state arrangements to achieve a high degree of decommodification? Is the European Social Model as a social and political project (Jepsen/Pascual 2005), as a normative idea of welfare state approximation with the target of social cohesion (Aust/Leitner/Lessenich 2002) already dead and gone, like the President of the European Central Bank (ECB), Mario Draghi, stated in 2012?

This paper wants to trace changes in economic governance in the EU and allude to the possible impact of these changes on Europe’s social dimension. In order to draw profound conclusions it is necessary to firstly go back to explanations on how the situation of economic and social policy making was prior to the crisis in Europe. Therefore, Chapter 2 explains the underling and long-existing constitutional asymmetries of European integration between market-enhancing and market-correcting developments. Chapter 3 then reminds of the experiences made with soft governance instruments in the time of the Lisbon Strategy, while Chapter 4 presents the six most important new governance instruments implemented during the crisis of the Eurozone from 2010 to 2012. In Chapter 5 of this paper existing assessments of recent developments in three main areas of European social policy-making are brought together and mapped. The impact of the new economic governance architecture on the social part of the European Growth Strategy Europe 2020, on wages and collective bargaining and on the coordination efforts of social security systems are discussed in the final chapter, in which missing elements of the new governance architecture are mentioned as well.
2. Constitutional asymmetries in the EU

Already long before the current crisis it was clear that the EU is split in an asymmetric development of positive and negative integration (Scharpf 1999). The removal of all kind of tariff and non-tariff trade barriers as well as the guarantee of free competition and movement is part of the negative integration process which can primarily be seen as market-enhancing. The positive integration is characterised by the implementation of common regulative and political competences, which can be defined as market-correcting interventions in the free play of the markets (Tinbergen 1954/1965, Pinder 1968).

It was Joseph Weiler who paid attention on the dualism between supranational European law and European intergovernmental policy in the European integration process (Weiler 1981). Fritz Scharpf connects both distinctive levels (Scharpf 1996): In the history of the EC / EU mainly negative integration was the beneficiary of supranational law. This was expressed in primary law obligations first to abolish internal custom duties and quantitative import restrictions, later in ensuring the unrestricted mobility of the four market freedoms: goods, labour, capital and services. Contract violations are punishable by the European Commission and delineated the scope of negative integration through the European Court of Justice (ECJ) in its judgments. In contrast positive integration, aiming to establish new common policies, is highly dependent on political agreements in the European multi-level system, particularly through the agreement of national governments. The result is the constitutional asymmetry between the negative and positive opportunities of integration in European politics (Scharpf 1999:53).

In a purely neoclassical and monetarist understanding, negative integration is an important requirement for increasing economic prosperity in the Member States located in the integration space. In contrast, positive integration is acceptable only insofar as it serves directly market-making purposes, as in the central enforcement of market freedoms, the regulation of competition, or the warranty of a single monetary policy. But from a Keynesian economic policy point of view, too much emphasis on market-creating policies appears problematic. From this perspective, the negative integration needs urgently to be completed by market-correcting policies. These go beyond the "market-conforming" range of positive integration, and work through the establishment of social, employment, labour market, financial and environmental policy liabilities to correct the free play of the market forces (Scharpf 1999:49ff.; Leibfried/Pierson 1992: 336f.).

The most conflict-ridden confrontations of European integration are based around the issue of social competence provided by the European Union (Platzer 2009: 95). This is understandable when one considers that the nation-state succeeded over a long period to balance its capitalist economic system with an adequate level of social security. However, the more the individual state lost its sovereign control over economic policy, the lower was its potential for the implementation of market-correcting policies. This loss of control is due to the process of European economic integration and the growing global interdependence through growth in world trade and opening of the capital markets. The first time the welfare states in the European Economic Community got aware of this fact was the economic downturn following the oil crisis of 1973. At that time, the so-called "Golden Age" of economic growth and the expansion of the postwar welfare state in Europe came to an end (Scharpf 1996: 16). Since then, the asymmetry between negative and positive integration processes, understood
as a conflicting tension between economic and socio-political integration in the EU, significantly increased (Scharpf 2002: 665f.).

European integration has primarily been a process of economic unification of European countries, with the realization of two major projects in the center: the single market and monetary union. In the area of positive integration a process of small steps can be observed, which implemented various phases of different market-correcting policies. Especially the Maastricht Treaty can be highlighted here as a decisive event. With this treaty there was an appreciation of labour and gender legal regulation, hitherto primarily seen as an accompaniment to the single market integration. The abolishment of unanimity in the Council in some socio-political topics has helped to overcome the "policy decision trap" in the EU's social policy, described by Scharpf (1985). Furthermore, the meaning and increased power for the relations between employers and employees has led to the exit from the "corporatist decision gap", noted by Wolfgang Streeck (1995), for example with the European works councils and the institutionalisation of the Social Dialogue. Furthermore, the EU gender policy anchored off as an own primary legal action field of the social dimension, constitutionalised in scope and range mainly by the expansive jurisprudence of the ECJ.

Despite all these examples, positive integration still lacks far behind compared with the common European regulation set for the functioning of the single market and monetary union. For the political decision makers it was always easier to abolish market restrictions than to establish new common market-shaping policies. This was especially observable in the negotiations of establishing the monetary union. The costs of monetary integration of a country are lower and the benefits higher the more open the national economy is vis-à-vis the currency area (Molle 1997: 405). Therefore, a profitable monetary union is the most probable, if the participating countries have gone through a far-reaching process of real integration. While intra EU trade has increased steadily, one cannot speak of a deep integration of the Eurozone regarding the economic and fiscal policies. The underlying reasons are to be found in the sharp conflict between a monetarist view on fiscal discipline and a Keynesian perspective on economic coordination at the time of negotiating and establishing EMU. In the end prevailed the concept of strong budget discipline of Member States and price stability as the most important central bank objective. Until today there is no economic policy equivalent to the common monetary policy carried out by the ECB (Pisani-Ferry 2006). The macroeconomic coordination in the frame of the Cologne process, started in 1999, remained weak and also the Eurogroup as a smaller entity of the ECOFIN Council did not show many signs of independency until the appearance of the crisis.

3. Bridge over troubled water: The soft governance approach

Already the Stability and Growth Pact (SGP) as well as the Macroeconomic Dialogue and the Broad Economic Guidelines have been steps to bridge the gap of missing common European legislation in budget and fiscal policies by a soft governance approach. Common rules have been agreed by the Member States, but compliance stays with the Member States themselves. The same holds true for the Lisbon Strategy, implemented as a ten year agenda in 2000. The Lisbon Strategy started with the idea to closely coordinate economic and social policy in the EU. Within ten years, the European Union should have been transformed into the “most competitive and dynamic knowledge-based economy in the world”, thereby
achieving “sustainable economic growth with more and better jobs and greater social cohesion”. The Lisbon Strategy followed the idea of a “double engagement” to foster economic prosperity as well as social security (Hemerijck 2007). The ambitious reform programme went far beyond the level of integration achieved up to that point in the inclusion of policy areas in which the Member States largely remained sovereign and the EU had few regulatory competences. Its central instrument consisted in the Open Method of Coordination (OMC), a recursive fourfold process of:

1. The decision on common European guidelines and objectives,
2. the formulation of quantitative and qualitative indicators and benchmarks to measure progress,
3. the transfer of the European guidelines in national policy projects, and
4. regular monitoring, evaluation and mutual assessment through a comprehensive system of reports by the Member States and the EU.

The OMC was gradually introduced in Social Inclusion, Pensions, Health and Long-term Care. Already the introduction of the European Employment Strategy (EES) in 1997 was tied with the hope to strengthen the social dimension of the EU by setting common objectives and a monitoring process for the single States employment policies (Goetschy 1999). The idea of an open coordination should have enacted a process of mutual learning, whereby the Member States coordinate their social policies while keeping their national sovereignty in the concerned policy fields. These soft governance instruments aimed to overcome the gap between the far-reaching economic integration of the EU on the one, and the relatively low level of social integration on the other hand.

While economic integration was speeded up with single market rules and a common monetary policy, there was no consensus in enhancing positive integration. The reason is simple to explain: This would of course have harmed the national sovereignty in areas like budget and tax policies, public investments, social spending and design of the welfare state institutions. The Member States did not allow walking that path (Knelangen 2005: 34ff.). The application of a soft governance method shows that the EU enjoys the least legitimacy in the respective policy field (Cram 2011: 645). Looking at the low progress in positive integration policies, some researchers conclude a “regulatory minimalism” (Keller 2008) and see the latest developments with the Lisbon treaty remaining in a “status quo ante” (Platzer 2009: 96). The alternative was a growing tendency towards voluntary, legally non-binding coordination of policies in the EU (Leiber/Schäfer 2008).

This concept could, however, not fill up the deep dyke of growing asymmetries in the EU. Within the framework of EMU, Member States compete for capital investments, production locations and jobs in a regime of “communitised” monetary but largely nationally determined fiscal policies, utilising comparative advantages arising from low wages and ancillary wage costs and low taxes. In the Single Market the principle of competition, by guaranteeing the free movement of people, goods, capital and services, has a higher priority than national employment protection and social standards (Höpner/Schäfer 2010: 18). By means of mutual economic dependence, Monetary Union offers “political incentives to free-riding” (Collignon 2010: 4) at the expense of partner countries. Based as it is on competition rather than solidarity, this system has been unable to curb the Community’s socio-economic heterogeneities. Instead, the economic asymmetries and social disparities within the EU have in-
creased considerably (Dauderstädt 2010). This is demonstrated by, for example, the different savings and investment rates, increasingly diverging income distribution and the unequally distributed current account surpluses or deficits of EU states.

The EU’s constitutional asymmetry between market-creating and market-correcting policy instruments is intensified appreciably by the chosen path of maximum competition between the Member States. Stepping up competition between Member States as a principle of Community organisation makes a mockery of the urgent need for political coordination in the face of growing common challenges – for example from further market globalisation, climate change and resource scarcity, not to mention demographic development. The asymmetries that have not been tackled are therefore one major reason for the culmination of the Eurozone crisis.

4. Faster, higher, further: A firework of new governance packs and pacts in the Crisis

Two developments coincided at the end of the first decade of the new century: The first ever growth strategy of the EU – the Lisbon Agenda – expired and was replaced by the Europe 2020 Strategy. And with the newly elected Greek government of Giorgos Papandreou in October 2009 and the detection of a much larger public debt than expected, the refinancing problems of Greece entered into a new phase, which can be seen as a starting point for the until today ongoing crisis of the Eurozone. The development of new governance instruments in 2010 was therefore strongly affected by the first impressions of this crisis as well as the lessons of the Lisbon Strategy. To tackle the aggravating crisis, European politicians saw themselves obliged to develop further instruments. All these new strategies, packs and pacts have changed the economic governance structure of the outgoing 2000s profoundly. Particularly relevant for measuring their impact on the social dimension are the Europe 2020 strategy, the European Semester, the Euro-Plus Pact, the Six-Pack, the Fiscal Compact and the Two-Pack. These six elements of new economic governance initiatives shall be presented in detail in the next paragraphs.

4.1 New instruments in the first year of the Crisis: 2010

The successor of the Lisbon strategy was the Europe 2020 strategy which was introduced in 2010. This strategy concentrates on five common objectives: Under the headline to promote “smart, sustainable and inclusive growth”, quantitative goals are defined. Accordingly, the EU Member States coordinate their policy action with regard to:

- promoting employment: by 2020, 75 per cent of the population aged between 20 and 64 should be in employment;
- improving the conditions for research and development: by 2020, three per cent of GDP should be allocated to this;
- achieving European climate protection and energy goals: by 2020, greenhouse gas emissions should be reduced by 20 per cent in comparison to 1990 levels, the share
of renewable energies in total energy consumption should be increased to 20 per cent and energy efficiency should be raised by 20 per cent;

- improving levels of education: the school dropout rate should fall below ten per cent by 2020 and the share of higher education graduates among those 30–34 years of age should be increased by at least 40 per cent;

- reducing poverty and social exclusion: by 2020, at least 20 million fewer people should be at risk of poverty.

These five objectives are detailed in seven flagship initiatives. They include improving the basic conditions for research and development within the framework of an »Innovation Union«; setting a »digital agenda for Europe«; and instituting a »European Platform for Fighting Poverty«. The European Council is responsible for directing the strategy and adopting the outlines of economic policy and the ten – integrated – economic and employment policy guidelines that have been formulated. The Member States are required to report regularly on their policies aimed at attaining the common objectives. The European Commission monitors and evaluates, based on a series of indicators, overall progress and discusses policy recommendations with the responsible Councils of Ministers for the guidance of individual Member States (European Commission 2010a).

With the new growth strategy in 2010 a new EU level policy coordination tool was introduced at the same time: the European Semester. It enables the EU to bring together two formally independent governance streams: the fiscal surveillance under the Stability and Growth Pact and the economic surveillance and thematic coordination under the Europe 2020 Integrated Guidelines. The European Semester starts annually in November with a growth report by the Commission which sets out the macroeconomic development of the EU and identifies the challenges ahead. On this basis, the ECOFIN Council will issue its first policy recommendations in March of the following year. The following month, the Member States are requested to submit their Stability and Convergence Programmes in which they explain their mid-term budgetary planning with respect to the SGP as well as their National Reform Programmes, in which they state their reform plans with respect to the Europe 2020 strategy to Brussels. The June Council will evaluate these Programmes and submit country-specific recommendations. In the second half of the year, the Member States are to transpose the EU’s recommendations into national policy (European Commission 2010b).

This new cycle of policy coordination started at the same time the Eurozone was hit by the severe crisis with Greece having a refinancing problem on the financial markets and asking for aid of its European neighbours. And indeed, older plans to better align different policy coordination cycles in the EU have been retrieved now in the wake of the crisis: “The unravelling of the Greek crisis showed that a robust framework for crisis management for euro area Member States is needed” (European Commission 2010d: 9).

4.2 New instruments in the second year of the crisis: 2011

In 2011, the March summit implemented the Euro-Plus Pact, an intergovernmental Franco-German initiative, signed by all Euro-Member States as well as Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. The pact was intended to foster competitiveness and to
strengthen fiscal consolidation. The participating Member States agree on common principles, concentrating on actions where the competence lies with the Member States. It is recommended to review wage setting arrangements and indexation mechanisms, to foster employment by labour market flexibilisation and lowering taxes on labour, by aligning the pension system to the national demographic situation and by translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation, e.g. by financial debt brakes (European Council 2011: 13-20). New commitments shall be included in the National Reform and Stability Programmes, as the Euro-Plus-Pact shall fit into the existing economic governance system (ibid: 14).

After a long time of inter-institutional discussions and amendments, the so called Six-Pack, a new set of rules for economic and fiscal surveillance, entered into force on December 13, 2011. It consists of five regulations and one directive and is aimed to strengthen the existing Stability and Growth Pact:

- A preventive arm with a country-specific Medium-Term Objective (MTO) whereto the Member States budgetary balance shall converge.

- A corrective arm, in which the public debt level objective of 60% of GDP will receive the same attention like the 3% budget deficit target. If a country is not respecting this benchmark, a deficit procedure will be opened, even if the Member State has a budget deficit below 3%. A gap between its debt level and the 60% reference needs to be reduced by 1/20th annually (on average over 3 years).

- The Excessive Deficit Procedure (EDP) is implemented with different levels of surveillance and sanctions up to a fine of 0.5% of GDP. Most sanctions can be adopted by reverse qualified majority voting, meaning a financial sanction can be imposed by the Council on the basis of a Commission recommendation unless a qualified majority of Member States votes against it.

- Completely new is the Macroeconomic Imbalance Procedure (MIP). This is an alert system that uses a scoreboard of indicators in order to observe and prevent the occurrence of large current account imbalances between the Member States. The indicators of the Scoreboard contain for example the development of national investments, unit labour costs, private sector debt or the unemployment rate. The violation of certain thresholds leads to an Excessive Imbalance Procedure (EIP). A three year backward-moving average of the current account balance as a percentage of GDP, with thresholds of a current account surplus of maximum +6% of GDP and a current account deficit of maximum -4% of GDP, are allowed. A violation of the benchmarks defined in the Scoreboard can enact an EIP as well.

In total, the existing structure of the SGP is strengthened with a new focus on public debt levels besides the 3% annual deficit criterion, simplified decision modes for deficit procedures and an ex-ante governance mechanism for deficits and macroeconomic imbalances (for an overview cf. European Commission 2011).
4.3 New instruments in the third year of the crisis: 2012

Originally named a “competitiveness pact”, the “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union” (TSCG), more plainly named “Fiscal Compact” was signed in March 2012 as a new intergovernmental treaty. This treaty stands outside general EU legislation and is signed by 25 Member States of the EU (United Kingdom and Czech Republic are not participating). It is only binding for Members of the Eurozone, while others are invited to fulfil the criteria. The Fiscal Compact entered into force on January 1, 2013, after the provided minimum of twelve Contracting Parties whose currency is the Euro has ratified it. The States having ratified the Fiscal Compact are Austria, Cyprus, Germany, Denmark, Estonia, Spain, France, Greece, Italy, Ireland, Lithuania, Latvia, Portugal, Romania, Finland and Slovenia. Within five years, the treaty shall be incorporated into the legal framework of the EU.

At minimum twice times a year a special summit of the Heads of States belonging to the Eurozone shall reflect on economic governance issues with the Presidents of the Commission and the ECB. The main part of the Treaty is made of regulations for the national public budgets, which shall in principle be balanced or in surplus (“balanced budget rule”). The lower limit of the annual structural deficit (without cyclical effects) should not exceed 0.5% of GDP. The latest one year after being in force, a debt brake rule shall be implemented in national legislation of the participating countries, with preference in constitutional law. This refers to the debt brake already established by the Six-Pack (see above): A country with a higher deficit-to-GDP-ratio of 60% is obliged to reduce its public debt by 1/20 annually on the basis of a three year average.

If national implementation is not enacted in time or the balanced budget rule not fulfilled, the European Court of Justice may decide on financial sanctions against the Member State, like a deposit guarantee up to a fine of 0.1% of its GDP. The Fiscal Compact refers to the Six-Pack and strengthens some of its elements, for example that all stages of the EDP the proposals of the Commission and recommendations of the Council will be enacted, unless a qualified majority of the Member States votes against it (TSCG 2012).

The so-called Two-Pack, based on two regulations proposed by the Commission, is built on the Six-Pack and aims at improving the ex-ante fiscal monitoring and ex-post surveillance:

- Member States should be obliged to send their draft budgetary plans for the following year to the Commission in November, even before they are adopted in the respective national parliament. If these draft budget plans are not in line with the rules and recommendations of the SGP and the European Semester, the Commission can require a revised draft budgetary plan.

- Member States with severe financial difficulties, for example in need of or already receiving financial assistance by the EFSF or the ESM, shall automatically fall under enhanced fiscal and economic surveillance. This should involve review missions and quarterly reporting by the Commission, an obligation to adopt certain measures to tackle instabilities as well as a procedure for deciding and monitoring a macro-economic adjustment programme. If the Member State does not comply with this programme, the Council may decide on financial consequences.
The Commission proposals on the two regulations have been published already in November 2011. Also Commission and Council several times throughout 2012 tried to push the implementation of these two regulations, the Two-Pack was for a long time in the discussion between both institutions and the European Parliament. This is because the latter has declared some critics with the original plans. The Members of Parliament stress the need for growth enhancing measures on the agenda instead of pulling further into the direction of cutting spending. The parliamentarians fear that the envisaged budget cuts would lower investments for economic growth and harm important state sectors such as social spending and education. An agreement was found in February 2013, enhancing the information rights of the European Parliament (2013). The new legislation entered into force in June 2013.

To sum up, these six instruments have until the year 2013 shaped extensively the European economic governance architecture. In only three years and by relatively quick decision modes – partly of an intergovernmental nature – this is a remarkable firework of new procedures, regulations and objectives. Already a short look at the concrete stipulations and targets shows a concentration on budgetary issues and a tendency for supply-side reform strategies. This can be explained by the prevailing understanding of the crisis in the Eurozone as a sovereign debt crisis as well as in the dominance of neoclassical economic thinking. In the next section the consequences of this bias for the social dimension of the EU and the welfare states shall be assessed into detail.

5. A definitive priority shift? New economic rules put pressure on the welfare states

The new economic governance rules emerging in the crisis strengthened a model of the monetary union, which is not able to implement a political union as a further step of integration. Instead, this model relies on procedural governance and the deregulation of social models (Schelkle 2013). Philippe Pochet and Christophe Degryse identify a “social moment” in European integration, lasting one decade from 1995 to 2005 (Pochet/Degryse 2013: 108f.). During this time, new coordination tools emerged, like the Employment and the Lisbon Strategy as well as the possibilities of Trade Unions for a regulation of self-regulation in the field of Social Dialogue (Platzer 2005: 161) and wage bargaining coordination. The end of this “social moment” came already in 2005/06 with the refocusing of the Lisbon Strategy on growth and competitiveness by turning away from its original concerns. Later the global financial and economic crisis as well as the crisis in the Eurozone helped to introduce new rules and procedures as shown above in order to turn the social models “into an adjustment variable for monetary union” (Pochet/Degryse 2013: 109f.).

Is it only a threat or “will we see the Commission and Council telling Member States to cut wages, reduce public sector employment, or issuing other labour policy-related recommendations?” (Verdun 2013: 32). It is important to look at several fields of European social policy making and coordination, to draw on the consequences of the enforced economic governance structure. Here, we will concentrate on the Europe 2020 growth strategy, wages and collective bargaining and the coordination of social security systems.
5.1 Europe 2020 Growth Strategy

Although the Europe 2020 Strategy started with the main objectives of a balanced approach to foster "smart, sustainable and inclusive growth" and appeared closer to the original Lisbon Strategy than to the revised agenda of 2005/06 (Armstrong 2012: 288f.), its concentration on only a small set of main objectives plus a number of so-called flagship initiatives did not appear to be very ambitious. Instead of implementing a new and better framework for the OMC in social security, like the Commission was already thinking of in 2008 (European Commission 2008), the social dimension of the ten year strategy was reduced to poverty and employment issues. Albeit with quantitative targets to reduce the risk of poverty and to increase the employment rates, the recommended policy tools stayed with employability and flexicurity the same like in the late Lisbon agenda (Saraceno 2013: 7). The prominence of poverty reduction as one of the headline initiatives of Europe 2020 tries to combine three different dimensions and allows the Member States to choose the indicator to measure progress relatively free. Mary Daly shows that some states use child poverty as an indicator for reaching the objective (e.g. UK), others look at selected households with low work intensity (e.g. Denmark) and again others have chosen long-term unemployment rates (e.g. Germany) as the best indicator to reduce the risk of poverty (Daly 2012: 281). The effect is not only incoherence and a lack of comparability, but a dominance of social investment and market liberal philosophies: “The main solution to poverty and social exclusion is involvement in a less regulated, poorer quality labour market” (Daly 2012: 283).

Legislative proposals of the European Commission made in 2011 for the field of cohesion policy show the objective of implementing a conditionality of distributional social policy with the fulfilment of targets in the Europe 2020 strategy and the SGP. This development was already obvious in the former Lisbon Strategy, where the allocative function of structural funds, like the European Social Fund, was shifted towards the fulfilment of an increase in competitiveness, growth and employment by the Member States (Becker 2009: 13f.). Now, growing linkages between cohesion policy and Europe 2020 “gives rise to a concern that Member States’ flexibility in the use of EU funds will be reduced and centralized control increased” (Armstrong 2012: 294).

The understanding of social policy as a productive factor to enable the individual to live with and within the market and not to correct and regulate misallocations was enforced by the implementation of the European Semester. Europe 2020 is just a part of the broader framework of the new European governance architecture. And here the coordination of budgetary and fiscal issues through the stability and convergence programmes is of higher importance than boosting the social dimension. This is understandable with reference to the above mentioned asymmetries of European Integration. However, there is no need to run a ten years growth strategy based on principles which are too one-sided supply-side and market orient-ed. Even the positive elements of the Europe 2020 Strategy appear to be dominated by the demand for budget policy consolidation and boosting Member State competitiveness. This can be seen as well by all the political approaches and tools which are not mentioned in Europe 2020. Demand-side policies like redistribution, taxation, solidarity mechanisms and social integration are barely cited (Degryse 2012: 73). The same holds true for qualitative considerations to complement the quantitative employment goals, such as the “decent work” concept or the target criterion of full employment (Hacker/van Treeck 2010: 7f.).
Instead of intervening as a social corrective into the market-enhancing driven process of European integration, Europe 2020 subordinates itself to the “liberal overtones” (Daly 2012: 283) of the economic governance measures. These measures have been enforced during the crisis by the strengthening of the SGP and the Fiscal Compact, without any attempt to foster the social dimension of the EU. More than ever, it is clear that “developments within the five headline targets are dependent upon the public finances of the member states” (ibid.). Leschke et al. (2012) show that poverty and social exclusion is rather on the rise in many Member States and assign this development to a consequent subjugating of the Europe 2020 objective to reduce poverty to fiscal consolidation pressures in the context of the European Semester. “Since no resources were committed by the EU to achieve its social policy targets, since there are no effective levers to influence policy in the stronger states and since the weaker ones have to subordinate social objectives to deficit reduction, the targets are empty aspirations” (Gral/Teague 2012: 686).

5.2 Wages and collective bargaining

For years, European initiatives had relatively low impact on the practice of wage policy due to an underlying consensus that wage-setting should be the result of national arrangements. Thorsten Schulten and Torsten Müller analyse a paradigm shift in the wake of the crisis in the Eurozone from the acceptance of free collective bargaining to direct political intervention (Schulten/Müller 2013). This is of course the case with respect to the Member States under surveillance by the Troika of the European Commission, the ECB and the International Monetary Fund IMF (Greece, Ireland, Portugal), and States with financial assistance arrangements with the IMF (Hungary, Latvia, Romania) as well as for Spain committing itself to far-reaching reforms. Interesting in our context here is not the fact that the “Memorandum of Understanding” between the respective State and the Troika is intervening in the field of wage policy. Besides this direct implementation of austerity policy there is an even more challenging development and that is the impact of the newly introduced economic governance tools on wages and wage-setting arrangements.

Like in the above mentioned Europe 2020 Strategy, the channel of intervention comes along with the European Semester. In the 2011/12 cycle the EU addressed country-specific recommendations to 12 Member States in the field of wages and collective bargaining. These recommendations range from a call for a moderate development of wages (Bulgaria, Finland, Italy, Slovenia) or minimum wages (France, Slovenia) to a reform of wage-setting systems by a decentralisation of collective bargaining (Belgium, Italy, Spain) or a change of automatic wage indexation rules (Belgium, Cyprus, Luxembourg, Malta). The recommendations for Sweden demand an extension of the low wage sector and Germany is warned that the wage developments should stay in line with productivity growth (Schulten/Müller 2013).

This sort of supranational intervention in collective bargaining was strengthened by the implementation of the Euro-Plus Pact in 2011, explicitly committing the signing States to foster competitiveness by referring to wages as the main adjustment variable to overcome economic imbalances. Wages should stay in line with productivity increases and this shall be monitored on the EU level by reviewing the wage setting arrangements and the public sector
wage settlements (European Council 2011: 16). Member States shall commit themselves annually to concrete actions and these will be reflected and assessed in the European Semester. With the introduction of a scoreboard in the frame of the Six-Pack legislation, unit labour costs are explicitly mentioned as one of the 11 indicators for the Macroeconomic Imbalance Procedure. Within a period of three years a maximum of a 9% increase is allowed for the members of the Eurozone. This provision “entirely ignores the problem of potential deflationary pressures resulting from stagnating or even falling wages during a period of economic downturn” (ETUI 2013: 45).

Member States ignoring the recommendations obtained in the European Semester process risk financial sanctions, which are now easier to impose, as the Six-Pack, the Two-Pack and the Fiscal Compact enabled a quasi-automatic enrolment of non-compliance procedures. First reviews of the reforms carried out in the last three years conclude all massive changes in the wage policy and wage setting arrangements (Busch et al. 2013; Clauwaert/Schömann 2012; Schulten/Müller 2013). Even though the most assertive leverage have been and still are the direct agreements with the Troika, many other States feel themselves obliged to follow the recommendations issued in the European Semester, e.g. Italy or many states in central and eastern Europe.

What is missing at all in the new economic governance architecture with regard to wages and collective bargaining is a plea for a renaissance of the Macroeconomic Dialogue, which since its invention in 1999 has been no more than a forum of exchange with rather low influence between the European institutions and the social partners. As well, attempts to establish a system of European wage policy coordination around the rule that real wages should at least increase in line with productivity are still outstanding (Pusch 2012). The same holds true for the definition of a European minimum wage, measured in terms of the respective national average earnings (Schulten/Müller 2013). Trade Unions fear the increasing central state interventionism because it harms the principle of collective bargaining autonomy. Instead of using wages as one variable among others to enable a true macroeconomic policy mix at the European level and instead of recognising the stabilising role wages can play in an economic downturn, the new economic governance principles see wages as the core variable to tackle economic imbalances without prevention and rather supporting a wage policy downward spiral (Busch et al. 2013: 13).

5.3 Coordination of social security systems

The coordination of social policies between the EU Member States in form of the non-binding soft law governance called European Employment Strategy and Open Method of Coordination was regarded by many researchers as the Trojan Horse of neoliberal policy making (Offe 2003), while others welcomed it and expected new tools for overcoming the problems of diversity and sovereignty claims in welfare state policies by mutual learning and diffusion (Hemerijck 2002; Vandenbroucke 2002). The truth may be found in the middle, where the potential of the EES and the OMC to catalyse certain reform trends is acknowledged (Büchs 2007; Erhel/Manier/Palier 2005). But this “selective amplifier” (Visser 2005) was used dominantly by the advocates of fiscal sustainability and social cutbacks than by those wishing to extend the social dimension of the EU (De la Porte/Pochet 2002; Hacker
Nevertheless one may argue that the original idea of social policy coordination in the EU was meant to refer to the idea of a "double engagement" (Hemerijk 2007) of the Lisbon Strategy: financial sustainability and social coherence. This was mirrored in the objectives of the single OMC processes, e.g. in the OMC on pensions with its three overarching objectives of first adequate pension entitlements, second the financial sustainability of the old-age system and third its modernisation.

In our context, it is interesting that even the (seldom used) possibility of using the OMC as an amplifier or catalyst for strengthening social policy seems to be taken from the agenda with the beginning of the new economic governance architecture in 2010. Kenneth A. Armstrong detects that the social OMC was "effectively left in abeyance" (Armstrong: 2012: 296) with the end of the Lisbon Strategy in 2010 and sees the threat of its complete absorption into the new economic policy coordination framework. This development began already with the re-alignment of the Lisbon Agenda on growth and jobs in 2005/06. Then the Lisbon Treaty of 2009 settled only "a discretionary power to coordinate social policies alongside the mandatory coordination competence in the economic and employment spheres (Article 5 TFEU). This reflected the apparent drift between the social OMC and integrated economic and employment coordination processes and the revised Lisbon agenda" (Armstrong 2012: 292). But with the implementation of the European Semester and the low-key social policy agenda of Europe 2020, the dominance of economic and fiscal coordination seems increasingly to incorporate and subordinate all existing instruments of social policy governance.

The ambiguity of putting together different strands of governance like soft law tools as the poverty and employment targets of Europe 2020 and hard regulations as the provisions of the Six and the Two Pack is solved by an "economic reading of social policy goals" (Bekker 2013: 16). This can be analysed by looking at pension schemes, which are an important aspect of externalities in EMU due to their high financial burden on Member States budgets.

With regard to pensions, the Commission published in 2010 a Green Paper, followed by a White Paper in 2012. Both choose an above all on fiscal consolidation orientated path. To link the retirement age to life expectancy thereby increasing the statutory retirement age is becoming the norm (Pochet/Degryse 2012: 213f.) and private pension savings are despite the financial crisis seen as the best solution to safeguard the adequacy of pension benefits. Although the White Paper acknowledges the labour market potential and the quality of jobs as important conditions for a well-functioning old-age system, "a more ‘economics-oriented’ reading of pension policy" (Natali 2012: 357) is evident. David Natali judges that not mentioning the OMC in pension policies while referring quite often to the European Semester and its Annual Growth Survey with "cost-containment as the top priority" (ibid.) clearly marks the shift away from a progress of social rights in the EU (Natali 2012). This is in line with the last Joint Report of Commission and Council on Social Protection and Social Inclusion from 2010, in which both institutions have implicitly to confess that an evaluation of nearly a decade of pension policy coordination has proven that many of the structural reforms go back to the requirements of the SGP rather than to the OMC (European Commission 2010c: 118).

By looking at some National Reform Programmes between 2009 and 2011, prepared by the Member States in the Europe 2020 Strategy, Sonja Bekker analyses an increasing reference to budgetary rules and explicit plans to change social policies in order to reduce government expenditure (Bekker 2013). The Euro-Plus Pact as well reminds Member States “in order to
secure the full implementation of the Stability and Growth Pact” to take care of sustainable
debt levels, based explicitly on pension schemes, health care and benefit systems. It is rec-
commended to align the effective retirement age with life expectancy and to limit early re-
tirement schemes (European Council 2011: 18). Armstrong’s hypothesis of a ‘cannibalisation’
of the social policy coordination by the new economic and employment governance frame-
work accordingly seems to be right (Armstrong 2012: 296).

6. No balance palace: The EU on its way towards a liberal European Social Model

Summarizing the first impressions and evaluations of the new economic governance regime
in the EU, proofs the constitutional asymmetry between negative and positive integration
not only to be still valid, but to enter in a phase where all market-correcting measures are
constantly abolished. This seems to be true for the few targets of the Europe 2020 growth
strategy with a capability to foster positive integration, like the reduction of social exclusion.
With the new framework of economic governance wages and collective bargaining experi-
ence growing pressure and as well the coordination of social policies has now for sure left its
underlying idea of an “open” mutual learning process because its subordination under the
ever stronger rules of fiscal sustainability and consolidation.

The look back tells us that there have been only few market-correcting instruments in the
toolbox on a supranational level and that they always had to cope with the challenge of the
two big integration projects, namely the Single Market and EMU. As well, the pressure by
the widened transnational economic framework of the EU on the single welfare states is not
a new effect. Neither new are the recommendations for a sort of “permanent austerity”
(Pierson 2001) with cutbacks of social provision and a weakening of trade unions power in
order to enlarge the promises of a free market.

But what is new is firstly the undercutting of the existing supranational coordination frame-
work for the establishment of a social dimension. This “bridge” over the gap of missing
common European legislation by a soft governance approach established mainly at the turn
of the century with the Lisbon Strategy, the Macroeconomic Dialogue, the EES and the OMC
may not have been a success story in many respects (Fischer et al. 2010). Nevertheless these
instruments have been signs of a political persistency that the EU ought to be more than a
pure market driven economic union. In establishing common forums, targets and political
exchange, these instruments “undoubtedly widened the panorama and institutionalized dis-
course and comparison of objectives, practices and instruments of domestic social and em-
ployment policies” (Bothfeld/Leschke 2012: 243). Therewith they prepared – in theoretical
terms – the ground for doing one day in the future the step from soft law towards a stronger
regulation with the definition of common objectives in hard law. With the new economic
governance framework of the European Semester, Europe 2020, the strengthened SGP, the
Euro-Plus Pact and the Fiscal Compact we are in the middle of this step. But other than
thought by the proponents of a social dimension, tighter supranational regulation did not
come with the establishment of a political union in order to balance the economic heel of
the EU.
What is secondly new is the increased precision of the EU institutions recommendations for the Member States to change their policies, the strengthened rules for central monitoring and evaluation and the quasi-automatic sanctioning procedures for not complying with the common rules (Pochet/Degryse 2013: 112). This is extreme in the case of the Member States who had to sign a Memorandum of Understanding with the Troika, which enables the EU to interfere in former sovereign national economic and social policies with its austerity course. As one could argue that this is only a temporary phenomenon due to the difficult crisis situation in EMU, this paper has left aside an evaluation of this kind of direct austerity policy on the Member States and the common social norms and standards of the EU, which is done elsewhere (see for example Busch et al. 2013). But also with a concentration on the general governance rules for all Member States, we can conclude that the step towards more binding coordination in budgetary and financial issues was done at the expense of the existing macroeconomic and social coordination.

The structural reforms recommended in the European Semester will have long-lasting impacts on the welfare states and its social and labour market policies. The system of competition between the Member States on capital and real investments already in force before the crisis may be intensified by downward pressures on national systems of social security provision and collective bargaining (Bieling 2012: 264). Now, within the new framework of economic governance and the streamlining process in the European Semester, we’ll move from free competition over the question which welfare state model adapts best to the economic integration scheme (Hacker 2011), to a sort of codified ‘right path’ on a supranational level, forcing all Member States to follow. This path may lead the way to a liberal European Social Model, relying on the promises of market self-regulation and getting rid of the social coherence objective as an important principle of European economic policy-making. Pochet and Degryse judge this path of European Governance as only possible due to the crisis in the Eurozone as a window of opportunity, in which people have been told there would be no alternative than following the austerity course. They bemoan that “the social policy question is seen exclusively from the standpoint of the coordination of economic policies” and that “no debate whatsoever is being conducted on a project for a social union” (Pochet/Degryse 2013: 113).

And indeed, in nearly four years of crisis management the leftovers of the coordination tools of the Lisbon agenda as well as the shortcomings of the Lisbon Treaty have almost not been touched, even though one could turn around the argument and use the crisis as a leverage for boosting the social dimension of the EU. Its elements would include among others:

1. A **Social Clause** in all EU legislation for guaranteeing the equal prominence of social rights and economic freedoms.

2. Setting common social standards in the Europe 2020 Strategy beyond the narrow focus on employment rates and poverty reduction and by introducing more qualitative targets which should be mirrored in a **Social Scoreboard** in the European Semester.

3. **Re-establishing the OMC** as a coordination tool, albeit with a higher vigour on de-commodifying policies and by taking into account different welfare state pathways.

4. Launching a **European Social Stability Pact** with common rules for minimum wages, social spending and cooperation taxes in dependence to the economic power of the single Member States.
5. A **renaissance of Macroeconomic Dialogue** with the aim of enabling a true policy mix and building a framework for transnational wage policy coordination.

We are still far from going into such a direction: “The Eurozone crisis has rendered core social policies at the EU level completely unrealistic” (Grahl/Teague 2012: 686). So Scharpf was right and his analyses of a constitutional asymmetry between negative and positive integration with the Eurozone crisis is proven to not only persist. In fact, the gap has widened and already discussed plans in 2013 to implement further new governance tools, like an ex-ante coordination of economic reforms in the Member States (European Commission 2013a) and a so-called Convergence and Competitiveness Instrument (CCI) for direct contractual agreements between the single Member States and the EU to realize structural reforms (European Commission 2013b), show the continuation of the path towards a liberal European Social Model.

The settled hierarchy between market-enhancing and market correcting policies is disillusioning for those believing in the EU being more than an economic and monetary integration space. But growing discontent with the lopsided focus of the new governance architecture, its incapability to tackle the crisis and its responsibility for partly increasing economic and social problems might bring the question of the “costs of non-social policy” in Europe (Begg 2005) to the fore in order to rebalance European governance.

**References**


