

# **Social developments in the European Union 2012**

—

Edited by

**David Natali and Bart Vanhercke**

## Social developments in the European Union 2012



# **Social developments in the European Union 2012**

**Fourteenth annual report**

—

Edited by  
David Natali and Bart Vanhercke

European Trade Union Institute (ETUI)  
European Social Observatory (OSE)

## Acknowledgements

*Social developments in the European Union* is the product of a collective effort. In addition to the authors of the various contributions (see list at end of volume), we are particularly grateful to the researchers of the European Trade Union Institute (ETUI) for their careful scrutiny of the text and judicious comments. We naturally take full responsibility for the views expressed in this volume.

We should also like to thank Maria Jepsen and Philippe Pochet of the European Trade Union Institute (ETUI).

On the organisational side, we are greatly indebted to Valérie Cotulelli for formatting the text.

We should like to dedicate this edition of *Social developments in the European Union 2012* to Janet Altman, our translator for nearly 20 years, who passed away recently aged 57. We always appreciated her accuracy, the quality of her work and her faithful support in translating every volume of the 'Social developments' series into English, from the very outset. At the same time, Rachel Cowler and her team have been able to ensure a smooth transition as regards translation of this volume from French, as well as English-language editing.

Brussels, 2013

© Publisher: ETUI aisbl, Brussels

All rights reserved

Print: ETUI Printshop, Brussels

D/2013/10.574/12

ISBN: 978-2-87452-291-8

Report commissioned from the European Social Observatory, aisbl  
by the European Trade Union Institute and the European Trade Union  
Confederation.

The ETUI is financially supported by the European Union.

The European Union is not responsible for any use made of the information contained  
in this publication.

# Table of contents

Preface.....	9
David Natali and Bart Vanhercke	
<b>Foreword</b>	
<b>The EU and the ever-changing crisis: what is the political cost of austerity?.....</b>	<b>11</b>
Paul De Grauwe	
<b>From financial to social and political risks in the eurozone.....</b>	<b>31</b>
Introduction.....	31
1. The ECB became the lender of last resort in government bond markets.....	32
2. New risks for the eurozone .....	34
3. Failures of macroeconomic management in the eurozone.....	35
4. Towards symmetric macroeconomic policies in the eurozone .....	39
Conclusions.....	42
Alexander H. Trechsel and Claudius Wagemann	
<b>The EU in 2012: political and institutional tensions.....</b>	<b>45</b>
Introduction.....	45
1. Democratic 'hot spots' in 2012 .....	46
2. Citizens' views on a solution to the economic crisis.....	54
Conclusions.....	60
Georg Feigl, Sven Hergovich and Miriam Rehm	
<b>Beyond GDP: can we re-focus the debate? .....</b>	<b>63</b>
1. The BGD in the context of European economic policy .....	65
2. The main dimensions of reformed statistical indicators.....	69
3. The BGD in the 1970s and thereafter – lessons learned? .....	79
4. Employment, distribution and conversion as the way beyond GDP?.....	82
Conclusions.....	85

Bart Vanhercke

<b>Under the radar? EU social policy in times of austerity</b> .....	91
1. A (thin) EU social policy after all?.....	94
2. A new strategy for Europe until 2020: architecture and governance.....	98
3. The changed governance of social policy in Europe 2020.....	103
4. Summary and outlook.....	112

Ramón Peña-Casas

<b>Desperately seeking the European Employment Strategy in the new economic governance of the European Union</b> .....	123
Introduction.....	123
1. From the beginnings of the EES to the Growth and Employment Strategy.....	124
2. The EES, Europe 2020 and the new economic governance.....	132
Conclusions.....	138

Chiara Agostini and Giliberto Capano

<b>Education policy: comparing EU developments and national policies</b> .....	147
Introduction.....	147
1. European governance in education.....	149
2. 2012: the main events of reinforcing European cooperation.....	161
3. The governance of education: what impact at national level?.....	168
Concluding remarks.....	176

Thorsten Schulten and Torsten Müller

<b>A new European interventionism? The impact of the new European economic governance on wages and collective bargaining</b> .....	181
Introduction.....	181
1. The role of wage policy under the new European economic governance.....	182
2. European interventions in national wage policies.....	185
3. Impact of the new European interventionism on recent developments in national wage policies.....	190
4. Outlook: what future for a European wage policy?.....	201

Dalila Ghailani.....215

<b>Vicissitudes of the social case law of the Court of Justice in times of recession</b> .....	215
Introduction.....	215
1. Abuse of successive fixed-term contracts: the <i>Kücük</i> and <i>Huet</i> cases.....	217
2. The right to paid annual leave, allowances in lieu and interaction with other types of leave: <i>Dominguez</i> , <i>Anged</i> and <i>Neidel</i> .....	222

3. The definition of 'worker' in Community law: <i>O'Brien</i> and <i>Sibilio</i> .....	229
4. Discrimination on grounds of age: <i>Tyrolean Airways</i> and <i>Hörnfeldt</i> .....	233
5. The burden of proof in cases of discrimination at the time of recruitment: <i>Meister</i> .....	237
Conclusions.....	240

David Natali

<b>Future prospects – <i>Vademecum</i> to address EU policy and political challenges</b> .....	245
Policy and political challenges facing Europe.....	246
The Four Presidents' Report to save the EU.....	254
An alternative path: four lines of action.....	256

Cécile Barbier

<b>Chronology 2012 – Key events in European policy</b> .....	265
--	-----

List of abbreviations.....	293
----------------------------	-----

List of contributors .....	297
----------------------------	-----





## Preface

Last year's *Social developments in the European Union* book provided a rather gloomy picture of European integration at the time of the euro crisis. The *leitmotif* of the published volume was the destabilisation of the EU in the context of the financial and budgetary tensions related to the euro. We first stressed the 'quantum leap' of the problems in Europe: from a budgetary crisis of a number of Member States, to an attack on the credibility of the EU project as such. We then focused on the apparent incapacity of the European institutions to address the major challenges facing them, both from a political and institutional point of view. The rather depressing conclusion confirmed our recognition of a potential clash between the increased constraints on national public finances on the one hand and the defence of social and employment policies protecting against major social risks on the other. The European social model was perceived as being under attack.

This year we still see a complex and to some extent worrying picture. Most Member States have pursued austerity programmes targeted at both public and private sector workers, but also at welfare programme beneficiaries: the unemployed, pensioners, patients. This is particularly the case for those (Southern European) countries that have been under the strict control of the EU, with a view to encouraging them to exit the crisis through retrenchment and the 'stabilisation' of their public budgets. At the same time, both the political scene and the institutional landscape continued to change. Presidential elections in France have led to the comeback of the Socialist Party at the Elysée. The so-called Merkozy (Merkel-Sarkozy) European leadership crumbled, and this left room for a more complex and differentiated political game between the Member States. At the same time, the pro-active strategy pursued by the European Central Bank (ECB) has progressed with some tangible effects on the stability of the eurozone.

This year our focus has thus shifted. While last year the reading we proposed for the EU was very much about discovering internal inconsistencies and contradictions in the European strategy to exit the

crisis, *Social developments in the European Union 2012* is more concentrated on the potential for a more effective approach to address the 'European disease'. All the chapters attempt to identify an alternative path for helping the EU to survive and pursue a more balanced policy package aimed at more dynamic and inclusive growth. They also look at the room for manoeuvre for making these alternatives work 'on the ground'. As was the case in the past, the present edition consists of two parts: one on the main issues at stake in the integration process; the other more focused on the specific development of single policy areas (at the EU and national level).

The European Trade Union Institute has worked together with the European Social Observatory to draw up this new edition of *Social developments in the European Union*. The aim has again been to contribute to the debate on the future of the European Union, and to enrich the debate between policymakers, stakeholders and public opinion in general.

Maria Jepsen, Philippe Pochet, David Natali and Bart Vanhercke

## **Foreword**

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

**David Natali and Bart Vanhercke**

Recent editions of *Social developments in the European Union* (Degryse and Natali, 2011; Natali and Vanhercke, 2012) have been marked by scepticism about the EU and its capacity to address the Great Recession while strengthening its political and institutional foundations. This year we still have doubts as to the capacity of the European Union to react to the present stalemate. Nonetheless, contributors have also tried to be more pro-active and to figure out an alternative strategy to bring us out of the multidimensional crisis in which we find ourselves.

Let us start with a brief review of the economic and political context. As we show in the following passages, 2012 has been a complex year, with dramatic developments in the economic and financial crisis. Austerity has continued to be put forward as the key to overcoming the crisis, despite evidence of ongoing economic difficulties in a large number of Member States. Southern Europe in particular is still trapped in a 'double dip' economic recession. A vicious circle of austerity plans, ongoing budgetary tensions and political and social dissatisfaction has characterised the last months. In Continental and Northern Europe the economic cycle seems more reassuring. But the whole picture is largely unstable and marked by growing asymmetries.

In the meantime, other economic indicators show cause for concern (as was the case in 2011). As the Commission puts it (2012a), five years after the start of the crisis, Europe is the only major world region where unemployment is not decreasing. Long term and structural unemployment have continued to grow in most Member States. Poverty and social exclusion are on the rise in one third of EU Member States. This is most

visible in the increase in the numbers of people living in jobless households, and those suffering severe material deprivation. Children and young people have been most seriously affected: young people increasingly face considerable problems in making the transition from education into employment, and many of those in work often hold unstable jobs with unfavourable conditions (ibidem, 11).

Polarisation of EU labour markets also remains strong. Young people, non-nationals and the low-skilled are still the most affected by deteriorating labour market conditions. The employment rate for women is no longer rising, and has not increased since 2008. This negative context is confirmed by indicators relating to labour conditions. On average, the share of labour in total income has declined. Household incomes have declined in two thirds of the Member States since 2009, and much more so than in the first phase of the crisis. Social spending, however, began to weaken after 2009 (European Commission, 2012b). What is more, the EU is seeing increased divergences across its Member States. In short, European citizens are in the midst of a crisis which has been far less appreciated than the economic/financial side of the crisis.

In the following sections we briefly introduce the key facets of the EU's current situation. In section 1, we examine the sixth phase of the crisis. Challenges to the eurozone have led to a clear lack of political legitimation and growing dissatisfaction directed against national and EU policymakers. An increased lack of confidence has now spread over the continent and is undermining both the economic and the political foundations of our societies. After depicting the new turn taken by the ongoing crisis, we then refer to the main events in the EU in 2012. Section 2 summarises both the low points and the (few) glimmers of hope that have marked the last twelve months. This last year has seen many reforms to EU economic governance. The ECB in particular has grown in importance, leading the Union in addressing its main short-term challenges. European leaders have for the first time started thinking about how to 'redesign' the integration process to encourage more growth. However, EU strategy has still been characterised by austerity, while the huge reinforcement of governance (through the European Semester, the Euro Plus Pact, and the revision of the Stability and Growth Pact) has led to increased pressures on the countries most

in trouble. This is all proof of the need for new arrangements to address both economic and social problems.

Section 3 looks at the most current reviews of the EU's strategy. These have come from international organisations, such as the ILO, OECD and IMF, which have stressed the deficiencies of the EU's strategy in reacting to the crisis. The organisations are therefore suggesting an alternative approach, as are the trade unions (see the concluding chapter). Section 4 concludes this introductory chapter by providing more information about the book's outline. As stressed above, this year's contributors have tried to go beyond a description of the *status quo*, and have highlighted possible alternatives to austerity programmes.

## **The sixth step of the crisis: the political weakness of Europe**

So far the crisis has been characterised by five distinct phases (or steps) (Degryse and Natali, 2011). The first phase consisted of the financial market and banking crash, i.e. the sub-prime crisis (2008-2009). The second step consisted of its transformation into an economic recession (2009-2010). The need for the public budget to buffer the main consequences of the crisis on both banks and citizens led to the third step, with the further transformation into a budgetary crisis (2010-2011). Austerity measures have thus marked these last years, with further consequences: the social crisis, with higher unemployment and more people at risk of poverty. This fourth phase impacted many Member States between 2010 and 2012, and is spreading to others. In parallel, the 'euro' crisis truly came to a head as the institutional fragility of the eurozone became evident in 2011 and 2012. This was the fifth step.

The last couple of years have shown that the crisis is now entering its sixth and even more dangerous stage. This is a political challenge, both at national and supranational level (Bordignon, 2012). At national level, this challenge faces the countries most severely hit by the economic recession. Italy, Spain, Greece, and Portugal are showing growing social and political dissatisfaction, and mass mobilisation against their political leadership is increasing. Hungary is also experiencing growing public unrest, which can easily be exploited by populist movements and

protest parties, with uncertain consequences for its democratic institutions.

The same dissatisfaction is also evident at the supranational level (Cohn-Bendit and Verhofstadt, 2012). The European Union, taking an approach based on austerity and ‘stick’ measures, without ‘carrot’ initiatives, is not appealing to European public opinion. For Southern countries (and those of Central and Eastern Europe) the EU asks for sacrifices but does not do anything to solve long-term problems. Cutbacks have not led to any improvements in the circumstances of ordinary citizens, while dramatic measures such as those introduced in the savings plan for Cyprus (e.g. forced taxation of bank accounts) are extremely detrimental to the image of the EU. There is ample evidence, in the eyes of public opinion, that the austerity demanded by the EU has resulted in huge sacrifices: increased unemployment, stagnant, if not decreased wages, a reduced role for trade unions (and collective bargaining practices), economic stagnation (if not brutal and protracted recession). This has been enough to trigger massive protests and anti-EU sentiment. For the richest countries, a ‘transfer Union’ based on an explicit solidarity from the rich part of the Union towards its less well-off areas is inconceivable: German public opinion (and Northern-European opinion in general) is not ready to aid those countries most in trouble. No solidarity is conceivable if it means further sacrifices. To sum up: Europe seems to be in a vicious political circle, which increases this mutual lack of trust between Northern and Southern Countries.

In the words of Liddle *et al.* (2012: 15), there is widespread discontent with the road embarked upon by the EU and its Member States. The political crisis has two dimensions. On the one hand, the decision to bail out countries and to impose structural adjustment on them has proved to be controversial on both sides. Rich creditor countries and poor debtor ones have been set against each other, fearing to pay the price for others’ misconduct. On the other hand, EU governance and its new institutions are seen as largely illegitimate. The success of anti-EU parties is the consequence. In the current situation, democratic legitimacy seems to be missing. The absence of a greater identification with Europe and a weak sense of Europe-wide solidarity run counter to the logic of deeper integration. Citizens are not involved in this dramatic process of change. This is a crucial issue for the future of Europe. While nation states seem incapable of taking decisions crucial

to their future, supranational institutions are too weak to take their place. Moreover, the latter are still lacking a truly democratic policymaking process where leaders are accountable for the decisions they take.

## **The EU has addressed the dramatic crisis through partial and unclear decisions**

At the time of the 10<sup>th</sup> anniversary of the euro, this last year saw the full implementation of the revisions to EU economic governance largely decided in 2011. In the following section we look at what seems to us to be the most decisive events: the completion of the treaty revision for the Fiscal Compact, the long discussions on the new EU budget, the introduction of the Outright Monetary Transactions (OMT) and the agreement on the new ‘Compact for Growth and Jobs’<sup>1</sup>. While all these measures have showcased the EU’s capacity to start addressing major problems, they have also highlighted the inability of EU leaders to provide a coherent line of thought and action to tackle the crisis<sup>2</sup>.

### The Fiscal Compact

The Treaty on Stability, Coordination and Governance (2012) – the so-called ‘Fiscal Compact’ – signed by 25 Member States including all eurozone countries, was adopted on 30 January 2012 (Degryse, 2012). At its core, the ‘Fiscal Compact’ (Article 3) sets a new cap of 0.5% of GDP on Member States’ structural deficits, a target extendable to 1% only when ‘risks in terms of long-term sustainability of public finances are low’. Member States must implement this ‘debt brake’ in national law within one year. A Member State can be sued by one or several Member States in the Court of Justice if the Commission finds that it has failed to comply with this requirement. The new rules allow for

- 
1. The publication of the four presidents’ (Van Rompuy, Barroso, Draghi and Juncker) report ‘Towards a genuine economic and monetary Union’ was another key event in 2012. We will look at it in the concluding chapter.
  2. Many commentators have judged these steps to be insufficient to tackle the main governance problems of Europe (see Baglioni, 2012).



discretion in dealing with exceptional economic circumstances (Liddle *et al.*, 2012).

The Six-pack extends the scope of macro-economic surveillance with a new procedure to correct imbalances. Under this new framework, external and internal imbalances are monitored through indicators such as current accounts, nominal unit labour costs, real effective exchange rates, credit flows, and private indebtedness. Every year in the spring the Commission issues an 'Alert Mechanism Report' which provides for more in-depth country-specific reviews and recommendations. Unless a reverse majority overturns the Commission's recommendation to the Council, an 'excessive imbalances procedure' can be launched against a Member State whose situation is considered dangerous for the euro area as a whole. Sanctions, first in the form of an interest-bearing deposit, and then in the form of a fine, can be adopted if the Member State does not take appropriate action.

Revision of the methods of budgetary governance has been consistent with the old paradigm of EU economic governance: fiscal stability and competitiveness (Thillaye, 2013). Reinforced surveillance from the centre and painful supply-side adjustment by Member States in the current context are still proposed as the solutions to the current difficulties (Liddle *et al.*, 2012).

## The EU budget drama

Another key moment in EU politics in 2012 was the struggle over the EU budget for 2014-2020 and the subsequent stalemate. In November 2012, European Union leaders failed to agree on the next seven-year budget. At stake is a spending plan for the years 2014-2020 that would total about 1% of EU-wide gross domestic product. While that sum is paltry compared to the average 50% of GDP that each country spends inside its borders, its political resonance is far larger (Neuger and O'Donneell, 2012). While the stalemate was overcome in early 2013, the whole process of negotiation has underscored the persistent inconsistency of EU policies.

The first point underlined by the budget-row is (again) the cleavage between rich and poor countries. Wealthier countries such as Germany,

the U.K., Denmark, Sweden and the Netherlands banded together to reduce what they pay to the collective pool, pounding away at the original proposal of 1.033 trillion euros (\$1.3 trillion) that came out in mid-2011. Germany led a bloc demanding austerity in Greece and three other bailed-out euro countries in exchange for rescue aid (*ibidem*). Led by Poland, defenders of EU financing pointed out that spending at the European level goes further than money that stays within national borders, since EU subsidies often back international projects. European Parliament President Martin Schulz countered the wealthier countries' insistence on paying less with the contention that it is cheaper for them to promote European projects.

The second point emerging from the budget stalemate is more closely related to the institutional dynamics at EU level. As argued elsewhere (Vanhercke *et al.*, 2012), the discussion demonstrated the weakness of the Commission, which was notably absent from any diplomatic activity to strike deals between Member States, and seemed to have no clear vision on the future of the budget (Quatremer, 2012). Such a weakness was addressed by having the Council and President Van Rompuy managing the multilateral negotiations. The Parliament, finally, opposed any low-profile agreement.

The third point to stress is more substantial: negotiations in 2012 and the final agreement in 2013, saw a reduction of funding for social cohesion (Kanter and Higgins, 2013). The reduction of the resources for the European Regional Development Fund (ERDF) signifies a cut in the means to promote economic and employment growth in the less-developed areas of the Union, while decreasing the capacity to tackle territorial and economic inequalities. The same is true for the European Social Fund (ESF). Reducing its resources means limiting the EU's capacity to intervene and support investments in training, education and fighting poverty<sup>3</sup>.

---

3. 'The budget negotiations are the most visible sign of Member States winning and losing from the European Union', said Hugo Brady, a senior research fellow at the Center for European Reform, adding that 'the result is a totally parochial budget that is poorly adapted to rapidly changing times' (quoted in Kanter and Higgins, 2013).

## The ECB's Outright Monetary Transactions (OMT)

While policymakers were active in redesigning economic governance, they also managed to save the eurozone. One example of this was last summer, when Mario Draghi announced an unlimited European Central Bank bond-buying programme<sup>4</sup>. After a few failed attempts, the ECB decided on an approach with 'two legs', namely bond purchases and conditionality (Forex Promos, 2012). The Outright Monetary Transaction (OMT) is a monetary programme that provides funds to eurozone nations that are currently struggling with their debts. OMT is an open-ended programme without restrictions or limits. It involves the ECB in purchasing government bonds on the secondary markets. A sovereign government/nation issues bonds in order to raise money. When a country's credit rating is weak, bond purchases become risky, resulting in a higher interest rate. At times, interest rates may increase sharply, making it almost impossible for the government to sell the bonds.

The ECB purchases these bonds in order to drive down interest rates. This makes it easier for such debt-ridden countries in the eurozone to issue government bonds and thus raise money to finance their budget deficits. While Germany opposed the plan, other Northern nations such as Finland and Belgium were pushing for stricter conditionality, while Southern countries like Spain pushed for the opposite. Ultimately, the verdict of the market was clear: spreads on Spanish and Italian bonds over German bonds were dramatically reduced. Shares in European financials such as Banco Santander and Deutsche Bank were up, while global U.S. banks JPMorgan Chase, Citigroup, and Morgan Stanley surged.

As stressed by analysts (Aiginger *et al.*, 2012; De Grauwe, 2011) this was the major step in helping to avoid the break-up of the euro and the EU. It is, however, insufficient to provide a clear, long-term approach to strengthening the European Union and its economic governance.

---

4. The ECB President helped to stop the crisis by stating that 'the ECB is ready to do whatever it takes to preserve the euro, and believe me it will be enough'.

---

## The first steps towards a more growth-friendly approach to the crisis

In the spring, many voices continued to criticise the EU, while urging it to take a new approach to fighting the recession (see Krugman, 2012). In the meantime, as stressed by Emmanouilidis (2012), the crisis deteriorated. The borrowing costs for Italy and Spain – the EU’s third and fourth largest economies – reached unsustainable levels of around 6-7%. Madrid was even forced to ask for up to €100 billion from the EU rescue funds to recapitalise its collapsing banking sector. In the summer, when the country was about to take over the rotating Presidency of the Council, Cyprus became the fifth country to apply for a bailout.

Despite these tensions, or perhaps because of them, at the June 2012 European Council, EU leaders were able to strike a compromise on three key issues: the possibility of directly recapitalising banks and providing the European Financial Stability Facility (EFSF) / European Stability Mechanism (ESM) support without a full programme, adopting a ‘Compact for Growth and Jobs’, and agreeing the next steps in a process ‘Towards a Genuine Economic and Monetary Union’. After long and controversial discussions, the leaders of the Euro 17 agreed on two measures to ease market conditions for Spain and Italy. Following severe pressure from Prime Ministers Monti and Rajoy, who had refused to accept the ‘Growth and Jobs Pact’, the Euro Summit agreed on a direct recapitalisation of banks and the possibility of granting EFSF/ESM support without a full programme.

The first measure – which had been strongly advocated by Spain and supported by Italy, France, the European Commission, and the European Central Bank (ECB) – aims to break the perverse link between shaky banks and indebted sovereigns by opening up the possibility of direct recapitalisation of banks in the eurozone through the ESM. The second measure agreed allows euro countries, acting on their Country-Specific Recommendations and their other commitments under the European Semester, the Stability and Growth Pact, and the macroeconomic imbalances procedure, to receive financial support from the EFSF/ESM without becoming subject to a full programme such as that adopted by Greece, Portugal, or Ireland. The June 2012 summit then decided to grant the ECB the status of supervisor for the eurozone. While this is a necessary step forward towards integration

before the ESM can directly recapitalise stricken banks within the eurozone, it leaves the status of the European Banking Authority (EBA) unclear (Liddle *et al.*, 2012).

Following the agreement, Prime Ministers Monti and Rajoy lifted their 'veto' and EU leaders were able to officially sign off the so-called 'Compact for Growth and Jobs', which aims to inject €120 billion into Europe's stalled economy. The Compact is a political declaration of the 27 Heads of State and Government designed to demonstrate that EU institutions and Member States are keen to support growth. Two tools are of interest here. The first involves a €10 billion increase to the paid-in capital of the European Investment Bank (EIB). These additional funds were intended to strengthen the EIB's capital base and lending capacity. The second new element in the Compact relates to the so-called Project Bonds (not to be confused with Eurobonds or Stability Bonds), created to attract institutional investors to co-finance large European infrastructure projects. EU leaders have decided to launch the Project Bond pilot phase immediately, which the Commission estimates will bring additional investments of up to €4.5 billion for pilot projects in key transport, energy, and broadband infrastructure.

As stressed by the commentators, the summit saw a small move in the right direction on bank supervision, although nothing was done to address the public debts in several countries and there is no end in sight to the recessions in an increasing number of countries. What is more, beyond a formal commitment from the European Union, this compact 'costs little and will do nothing for the eurozone debt crisis' (Wyplosz, 2012).

## The (supposed) relaunch of the EU's social dimension

In parallel with the attempts to save the eurozone and to relaunch the European project, the EU tried (again) to relaunch its social dimension, in order to adopt a more balanced approach to the crisis. This new effort consisted of three main 'packages' (on employment, youth employment and social investment), focusing on the most urgent social challenges. In April 2012, the Commission first adopted the 'Employment Package', setting out medium term guidance for a job-rich recovery, in line with the Europe 2020 strategy and the Employment Guidelines (European Commission, 2012c). The aim was to support growth and jobs, to

strengthen EU institutions and the position of the social partners, and to create a genuine EU labour market. The European Commission's proposed 'Action for Stability, Growth and Jobs', released in May 2012, further developed this new approach. In particular, the Action recommends that Member States 'ensure that their wage setting mechanisms appropriately reflect productivity developments and stimulate job creation' (European Commission, 2012d: 14) and calls for greater implementation of active labour market policies.

At the end of 2012, the 'Youth Employment Package' was added to address the dramatic risk of 'missing' younger generations (European Commission, 2012e). The Commission's Youth Employment Package includes a proposed Recommendation to Member States on introducing the Youth Guarantee to ensure that all young people up to age 25 receive the offer of a quality job, continued education, an apprenticeship, or a traineeship within four months of leaving formal education or becoming unemployed. The Commission confirmed its support to Member States through EU funding by promoting exchanges of good practice among Member States, monitoring the implementation of Youth Guarantees in the European Semester exercise, and awareness-raising. To facilitate school-to-work-transitions, the Package also launches a consultation with the European social partners on a 'Quality Framework for Traineeships', so as to enable young people to acquire high-quality work experience under safe conditions. Furthermore, it announces a 'European Alliance for Apprenticeships' to improve the quality and supply of apprenticeships available by spreading successful apprenticeship schemes across the Member States and outlines ways to reduce obstacles to mobility for young people.

In 2013 the Commission then presented a 'Social Investment Package' containing medium term priorities to support Member States in increasing the effectiveness and efficiency of social protection systems, strengthening active inclusion policies, as well as fighting poverty and social exclusion (European Commission, 2013). All these measures have been consistent with the re-activation of the social dimension of Europe, while attempting at the same time to rebalance the integration process. However, as stressed above with reference to negotiations on the new EU budget, the problem is how to give substance to the formal agreements and to avoid empty declarations (Vanhercke *et al.*, 2012; see also Barbier, 2013).

## **Growing criticism of EU austerity measures**

Despite the attempts to revise the European roadmap out of the recession, the above pages show a paradoxical combination of gloomy social trends and austerity-based policy strategies proposed by the EU and implemented at national level. The last year has seen a shift in the sources of the latent criticism: from single analysts to more formal statements from international organisations. This section examines the position of three of them. The ILO, IMF and OECD have to some extent given a critical reading of the austerity trap into which the EU has fallen.

### **ILO**

On many occasions, the International Labour Organisation (ILO) has accused the EU of taking the wrong path. Three main problems are diagnosed: the recessive effects of austerity, the limited action taken for a more effective regulation of financial markets, and the risk of growing imbalances between Member States.

As stressed in the text ‘The youth employment crisis’ (ILO, 2012a), the EU approach, based narrowly on fiscal austerity, has a negative effect on employment, while also failing to cut fiscal deficits significantly. Economies with a more growth-oriented strategy show better performance in terms of jobs, investment, and financial stability. So far, fiscal austerity has entailed sharp cuts in public investment and in pro-employment programmes, thereby directly affecting domestic demand. The pace and scale at which these measures were introduced have outweighed any positive demand components, and overall have been recessionary.

The second source of criticism is the very ineffective response to the deficiencies of financial markets. The austerity approach has sidelined the much-needed reform of the financial system, the epicentre of the crisis. The third problem is that little attention has been paid to the role that a coordinated growth and jobs strategy could play in attenuating intra-eurozone competitiveness imbalances. Going further, addressing competitiveness problems without provoking a deep and long recession will require measures that boost productivity and achieve price

.....

moderation in deficit countries, and a recovery in wages in surplus countries (ILO, 2012b).

For the ILO, an alternative strategy needs to include a significant role for social dialogue in the area of income policy. Far from preventing adjustment, coordinated collective bargaining would facilitate the transition to a more competitive eurozone, while boosting confidence that responses are fair. In this respect, recent moves in some countries to weaken or suspend collective bargaining are interpreted as counterproductive.

The ILO thus advocates a job-friendly approach to fiscal consolidation that would not only be socially responsible but would also help boost economic growth and meet budget goals. In particular, some of the above-mentioned policies require fiscal support. This may be partly offset by cuts in wasteful spending or by tax measures. In this regard, the broadening of the tax base on property or certain types of financial transactions would be necessary. Refocusing European Structural Funds on jobs and mobilising the European Investment Bank to support investment projects would also be strategic. More importantly, the evidence presented in the report shows that such a policy would be rewarded by better job prospects and improved fiscal balances in the medium term.

## IMF

The most surprising attack on the EU came from the International Monetary Fund (IMF). The first hint of a more critical reading of the European situation came from the fiscal monitor update of January 2012 (IMF, 2012). Having summarised all the consolidation measures introduced by European countries (especially Spain, France and Italy, together with Germany and the UK), IMF analysts stressed the rapid pace of such consolidation projected for 2012.

However, the fall in their budget deficit was due to discretionary spending cuts and tax increases rather than cyclical economic improvement. As stressed by Cottarelli and Jaramillo (2012), investors proved to be focused more on short-term growth than on long-term perspectives, due to strong risk aversion. A further decline in deficits



was deemed ‘undesirable’ from both a growth and a market perspective. From a growth perspective, huge budgetary cutbacks were expected to depress economic outlooks and to contribute to a vicious circle of austerity. From a market perspective, the ‘new’ view of the IMF acknowledged that interest rates on public bonds (borrowing costs) are the consequence of two factors: public deficit and debt trends, and output growth. If the former element improves, but is followed by a decline in output, then the overall effect is null. Thus, ‘further tightening of fiscal consolidation during a downturn could exacerbate rather than alleviate market tensions through its negative impact on growth’ (ibidem, 5). In other words, cutting deficits too aggressively could result in higher debt-to-GDP ratios.

As stressed by Olivier Blanchard (2012), chief economist of the IMF, two forces continue to pull down growth, namely fiscal consolidation, and continued weakness in the financial system. In most countries, fiscal consolidation is proceeding according to plan. While this consolidation is needed, it is clearly weighing on demand, and the evidence increasingly suggests that, in the current environment, the fiscal multipliers are large—larger than in normal times (see Blanchard and Leigh, 2013).

The financial system is still not functioning efficiently. In many countries, more so in Europe than in the United States, banks are still weak, and their position is made worse by low growth. As a result, many borrowers still face tight borrowing conditions. Worse still, there seems to be more at work than just these mechanical forces; call it a general feeling of uncertainty about the future.

## OECD

The Organisation for Economic Cooperation and Development (OECD) has joined other international institutions in demanding that the EU change its plans. In May 2012, in its half-yearly Economic Outlook, it asked the EU to revise its economic policies to give more priority to growth. Economic forecasts from its Paris headquarters remained gloomy for 2013, with a worrying -0.1% growth in eurozone GDP (ranging from 1.2% in Germany to -5.3% in Greece), compared with growth of 2.4% in the US (OECD, 2012). The OECD warned that the

sluggish growth in the eurozone and, ultimately, the survival of the euro, are the 'biggest risk' to the global economy, while urging measures to restore confidence and growth.

Some of the measures proposed were the launch of jointly guaranteed government bonds to refinance the banking sector, an increase in resources for the European Investment Bank to finance new projects in transport, energy and communication infrastructure, and growth-friendly structural reforms. What is more, OECD economists called for stronger fiscal stimuli using so-called 'quantitative easing': China and Germany in particular should spend more to boost economic activity.

## **The need to exit the 'austerity trap'**

The above passages show growing demand for a revision of the EU's plan for growth. This is also the theme at the core of this edition of *Social developments in the European Union*. While in past editions we focused on the nature of the crisis, the following chapters address the most appropriate strategy to give new hope to the EU. Starting from the present, still worrying, situation, the contributors explore ways to exit the crisis.

As in the last edition, the book has two parts. In part one, the contributors primarily examine the main developments in EU governance in socio-economic matters. Three chapters provide an integrated view, giving complementary but diverse readings.

Paul De Grauwe analyses both the good and bad points of the financial and macroeconomic strategy followed by the EU and the Member States these last years. The good news about 2012 is that the eurozone is still alive! Despite evident tensions (especially in the first part of the year) and the attacks on the financial markets, EU authorities have saved the euro. This is particularly true of the European Central Bank. As stressed by De Grauwe, the decision to commit to unlimited purchases of eurozone government bonds has helped to reduce the pressure on the weakest EU economies. However, and these are the less hopeful signs, there are huge problems still to be addressed. The main problem, beyond the institutional deficiencies of the eurozone setup, is the asymmetry between the rich North and the poor South. Stronger

growth in the North could provide new sources of economic dynamism in the South via the European internal market<sup>5</sup>. However, if no action is taken, there is a risk that the next big crisis will be a political crisis.

It is the challenge to the legitimacy of the EU that is at the core of the contribution from Alexander Trechsel and Claudius Wagemann. These authors shed light on the major crisis of the EU integration process, looking at surveys of public opinion. The most striking evidence concerns the growing pessimism as to the capacity of EU institutions to tackle the crisis and deliver effective solutions.

The third contribution in part one is from George Feigl, Sven Hergovich and Miriam Rehm. They analyse the recent trends in the debate on alternative strategies for economic and social development in Europe. The debate on alternative economic strategies – ‘beyond GDP’ – has stagnated since the start of the Great Recession. In Europe, at least, this is unfortunately still the case. While recognising the missed opportunity to renew the debate on alternative growth, the authors put forward ideas for an employment, distributional, and socio-ecological transition.

Part two of this year’s edition analyses, from various angles, the impact of the crisis on European-level social policies and the broad range of solidarity tools in the EU toolkit. Bart Vanhercke – in chapter four – looks into the details of the ongoing debate surrounding Europe 2020 and its social dimension. While new initiatives were launched in recent months, there is a risk that they will be no more than empty shells unless more financial resources are committed. Chapter five sheds light on the most recent trends in employment policy. Ramón Peña-Casas examines the state of the European Employment Strategy (or what remains of it) in the broad context of EU economic and social governance.

The future of education systems is the focus of chapter six, where Chiara Agostini and Giliberto Capano conduct a critical appraisal of developments in the education sector at both EU and national level. Similar to last year’s analysis of pensions and health care, the authors

---

5. Benchmarking Europe 2013 (ETUI, 2013) provides evidence of this striking territorial cleavage.

---

analyse current developments in EU policymaking and their potential influence on the reform process at national level in future. In education we see a trend towards renewed interest from the EU in increasing investment in knowledge and skills. EU coordination, however, seems incapable of delivering convergence towards common targets and objectives. In this policy area too, we see a growing gap between the most affluent countries, where spending on education and training is increasing and maintained at a high level, and those countries (clustered in Southern and Eastern Europe) where the crisis has led to cutbacks and disinvestment, with potentially dramatic consequences for their future economic and social prospects.

Chapter seven provides an evaluation of the state of industrial relations in the European countries. The focus is on collective bargaining and wage setting. Thorsten Schulten and Torsten Müller provide evidence of dramatic changes in the social dialogue of many countries. This is one of the most evident challenges to the European Social Model. Traditional concertation is increasingly at risk: Southern European countries in particular seem to be abandoning coordinated wage-setting, while a more decentralised and unilateral strategy from both public and private employers is marginalising the labour movement. There is ample evidence of a growing territorial cleavage between rich and poor countries.

Lastly, Dalila Ghailani dissects in chapter eight the case law of the European Court of Justice, examining its judgements on the organisation of working time, the struggle against discrimination, equal treatment for men and women, and flexicurity. In so doing, she demonstrates the extent to which the European Union directly affects the daily life of its citizens.

February 2013

## References

- Aiginger K., Cramme O., Ederer S., Liddle R. and Thillaye R. (2012) Reconciling the short and the long run: governance reforms to solve the crisis and beyond, European Policy brief WWW.ForEurope project, No.1 ([http://www.foreurope.eu/fileadmin/documents/pdf/Policybriefs/WWWforEurope\\_PB\\_no01\\_D404.1.pdf](http://www.foreurope.eu/fileadmin/documents/pdf/Policybriefs/WWWforEurope_PB_no01_D404.1.pdf)).
- Baglioni A. (2012) Le politiche europee (<http://www.lavoce.info/le-politiche-europee/>).
- Barbier J.-C. (2013) Europe sociale: état d'alerte, working paper series, Opinion paper, 13, Brussels, OSE.
- Blanchard O. (2012) Global economy: Some bad news and some hope (<http://blog-imfdirect.imf.org/2012/10/08/global-economy-some-bad-news-and-some-hope/>).
- Blanchard O. and Leigh D. (2013) Growth Forecast Errors and Fiscal Multipliers, IMF Working Paper, WP/13/1, International Monetary Fund, January 2013 (<http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf>).
- Bordignon M. (2012) Europa. La casa comune in fiamme, Bologna, Il Mulino.
- Cohn-Bendit D. and Verhofstadt G. (eds.) (2012) For Europe. Manifesto for a post-national revolution in Europe, Milano, Mondadori.
- Cottarelli C. and Jamarillo L. (2012) Walking Hand in Hand: Fiscal Policy and Growth in Advanced Economies, IMF working paper, 137, International Monetary Fund, May 2012 (<http://www.imf.org/external/pubs/ft/wp/2012/wp12137.pdf>).
- De Grauwe P. (2011) The European Central Bank: Lender of Last Resort in the Government Bond Markets?, CESifo Working Paper, 3569, September 2011.
- Degryse C. (2012) The New European Economic Governance, working paper series, 14/12, Brussels, ETUI.
- Degryse C. and Natali D. (2011) Social developments in the European Union 2010, Brussels, ETUI and OSE.
- Emmanouilidis J.A. (2012) The prospects of ambitious muddling through. The results of an EU Summit in deep crisis mode, Post Summit Analysis, European Policy Centre, 2 July 2012 ([http://www.epc.eu/documents/uploads/pub\\_2765\\_post-summit\\_analysis\\_-\\_2\\_july\\_2012.pdf](http://www.epc.eu/documents/uploads/pub_2765_post-summit_analysis_-_2_july_2012.pdf)).
- ETUI (European Trade Union Institute) (2013) Benchmarking Europe 2013, Brussels, ETUI.
- European Commission (2012a) Main Employment and Social Challenges 2013, Issue Paper.
- European Commission (2012b) Employment and Social Developments in Europe 2012 ([http://ec.europa.eu/employment\\_social/esde/2011](http://ec.europa.eu/employment_social/esde/2011)).
- European Commission (2012c) Towards a job-rich recovery, COM (2012) 173 final of 18 April 2012.

- European Commission (2012d) Action for Stability Growth and Jobs, COM (2012) 299 of 30 May 2012.
- European Commission (2012e) Moving Youth into Employment, COM (2012) 727 final of 5 December 2012.
- European Commission (2013) Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020, COM (2013) 83 final of 20 February 2013.
- Forex Promos (2012) ECB's Outright Monetary Transactions (OMT) Explained.
- ILO (2012a) The youth employment crisis: A call for action Resolution and conclusions of the 101<sup>st</sup> Session of the International Labour Conference, Geneva ([http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_185950.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_185950.pdf)).
- ILO (2012b) eurozone job crisis. Trends and Policy Responses, Studies of Growth with Equity, Geneva, International Labour Organisation.
- IMF (2012) World Economic Outlook, International Monetary Fund (<http://www.imf.org/external/pubs/ft/weo/2012/02/index.htm>).
- Kanter J. and Higgins A. (2013) European Leaders Agree, Finally, to a Lower Budget, The New York Times, 8 February 2013 (<http://www.nytimes.com/2013/02/09/business/global/european-union-budget-talks.html?pagewanted=all&r=0>).
- Krugman P. (2012) What ails Europe?, The New York Times, 26 February 2012 (<http://www.nytimes.com/2012/02/27/opinion/krugman-what-ails-europe.html>).
- Liddle R., Cramme O. and Thillaye R. (2012) Where next for eurozone governance?, Policy Network Policy brief (<http://www.policy-network.net/publications/4222/Where-Next-for-Eurozone-Governance>).
- Natali D. and Vanhercke B. (2012) Social developments in the European Union 2011, Brussels, ETUI and OSE.
- Neuger J.G. and O'Donnell S. (2012) EU Budget Summit Fails in Echo of Debt-Crisis Stalemate (<http://www.bloomberg.com/news/2012-11-23/eu-budget-summit-fails-in-echo-of-debt-crisis-stalemate.html>).
- OECD (2012) Economic Outlook 2012, Paris, Organisation for Economic Cooperation and Development.
- Quatremer J. (2012) Budget: Barroso euthanasie la Commission, Libération, 22 November 2012 (<http://bruxelles.blogs.liberation.fr/coulisses/2012/11/budget-barroso-euthanasie-la-commission.html>).
- Thillaye R. (2013) Gearing EU governance towards future growth, Policy Network paper (<http://www.policy-network.net/publications/4355/Gearing-EU-Governance-towards-Future-Growth>).
- Vanhercke B., Peña-Casas R. and Paillet, M. (2012) Au-delà des postures: vers un budget européen social et durable, Opinion paper, 12, Brussels, OSE.
- Wyplosz C. (2012) One more summit, the crisis rolls on, VoxEU, 30 June 2012 (<http://www.voxeu.org/article/one-more-summit-crisis-rolls>).



# **From financial to social and political risks in the eurozone**

**Paul De Grauwe**

## **Introduction**

Last year saw fundamental changes in the workings of the eurozone. The most important change was the decision of the ECB, announced in July and formulated in September, to commit itself to unlimited purchases of eurozone government bonds in the secondary market in times of crisis. Surely, this constituted a regime change. Prior to this decision the eurozone had been a fragile construction. This fragility was the result of the fact that when becoming a member of the eurozone, national governments lost their power to call in their own central bank in times of crisis to pay out the bondholders. Thus bondholders had no guarantee that the cash would always be available to pay them out at maturity. This lack of guarantee could and did generate self-fulfilling liquidity crises. The slightest doubts that a government might experience payment difficulties were sufficient to lead investors to massive sales of government bonds thereby precipitating a liquidity crisis (De Grauwe, 2011a).

In this chapter I first argue that the decision of the ECB to commit itself to unlimited purchases of government bonds has eliminated the existential fears about the future of the eurozone and has stabilised financial markets. In section 2 I ask the question of whether financial stabilisation will be sufficient to save the euro. I argue that new risks have arisen from the continuing deep recessions in Southern eurozone countries (Greece, Italy, Portugal, Spain). In section 3 I formulate how the macroeconomic policies should be redesigned in the eurozone so as to reduce these new risks.



## **1. The ECB became the lender of last resort in government bond markets**

What the system needed was a lender of last resort. Last year, the ECB stepped in and committed itself to be a lender of last resort (LOLR). Although the ECB prefers to call these operations ‘Outright Monetary Transactions’ (OMT), these are true lender of last resort operations. Although the ECB attached a number of conditions to the application of its OMT facility, in particular that countries should apply for it and commit themselves to further austerity programs, the fact that the ECB provided such a facility, in which it committed itself to unlimited purchases of the bonds of troubled governments, dramatically reduced the fragility of the system. It also took away the existential fear that existed in the eurozone and that destabilised the system. Prior to the ECB’s decision investors feared that the eurozone might collapse. The new stand taken by the ECB reduced this existential fear that was destroying the eurozone.

Figure 1 shows that the government bond market has been pacified since July 2012. Thus the many critics, especially in the North of Europe, who asserted that the ECB should not intervene in the secondary bond markets have been proven wrong. The ECB has made the right decision to become a lender of last resort, not only for banks but also for sovereigns, thereby re-establishing a stabilising force needed to protect the system from the boom and bust dynamics. This view was forcefully argued by a number of economists before the ECB decided to act (see De Grauwe, 2011b; Wyplosz, 2011 and Wolf, 2011).

However, the credibility of the OMT-program suffers because of continuing vehement criticism. Many arguments continue to be voiced against the view that the ECB should be a lender of last resort in the government bond markets. Some of them are phony, in particular the inflation risk argument (see De Grauwe, 2011b; Wyplosz, 2011). Others are serious, like the moral hazard risk. This is the risk that governments that profit from the bond purchase programme of the ECB will have less incentive to reduce budget deficits and debts.

This moral hazard risk, however, should be taken care of by the establishment of separate institutions aimed at controlling excessive government debts and deficits. These are in the process of being set up

(European Semester, Fiscal Pact, automatic sanctions, etc.). This disciplining and sanctioning mechanism then should relieve the ECB from its fears concerning moral hazard (a fear it did not have when it provided €1,000 billion to banks at a low interest rate in the context of the LTRO programme at the end of 2011 and early 2012).

The continuing fierce criticism against the notion that the ECB should be a lender of last resort in the government bond markets explains why the ECB attached a number of conditions to its OMT-programme. These conditions are likely to reduce the effectiveness of that programme. First, the ECB will restrict its bond purchases to bonds with a maturity of three years or less. There is no good economic argument to impose such a restriction. In fact, it may even increase the fragility of the sovereigns. These will now have an incentive to issue bonds with shorter maturities than they would have done otherwise, making them more vulnerable to liquidity crises.

Second, the ECB has attached as a condition to the use of the OMT-programme that the countries concerned apply to the ESM which may then subject these countries to additional austerity programmes. This creates the problem that countries are pushed further into a recession as a condition of obtaining relief from the ECB. It is difficult to understand the economic logic of such an approach. It is in my view the result of a moralistic approach to the problem that is very popular in the North of Europe and that wishes countries applying for support to be punished first for their sins.

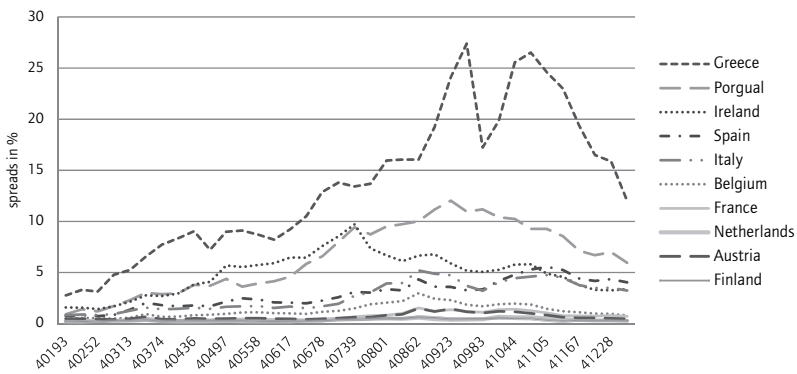
There is an additional danger to this second condition. The ESM will be at the centre of the procedure for triggering the ECB's liquidity provision in the context of the OMT programme. The decisions of the ESM, however, will de facto be subject to a veto power of Germany and other countries. One can only hope that common sense will prevail and that the popular opposition in Germany against the ECB's lender of last resort activities will not make it impossible for the ECB to exert these activities.

## 2. New risks for the eurozone

From the previous analysis one can conclude that the ECB saved the eurozone from imminent collapse during 2012. But does this mean that the eurozone is saved? In the short and medium run, yes. In the long run, no. The greatest threat for the eurozone today does not come from financial instability but from the potential social and political instability resulting from the economic depression into which Southern European countries have been pushed and that has led to increases in unemployment not seen since the Great Depression. In some Southern eurozone countries, the unemployment rate now stands far above 20% (in Greece, Spain and Portugal). The most dramatic development is the increase in youth unemployment, that in Greece and Spain now stands above 50% and around 30-40% in Italy and Portugal. If not reversed soon, this situation may lead to social and political upheaval in societies that have become incapable of providing a future for their young citizens.

Thus, the most important development during 2012 is the change in the nature of the risks in the eurozone. In the beginning of 2012 the risks were mainly financial, i.e. there was a risk that some governments might not find the cash to pay out the bondholders. The ECB solved that problem. At the start of 2013 the risk has become a social and political one.

Figure 1 Spreads 10-year government bond rates in eurozone



Source: Datastream.

It is the risk that in some countries the continuing increase in unemployment and decline in real income might lead desperate young people to start listening to politicians who promise them that life outside the eurozone would be better.

There can be little doubt that part of the problem faced by Southern eurozone countries is related to the poor functioning of their labour markets. For example, in these countries strong employment protection laws have the effect of making it difficult for the young to enter the labour markets. As a result, youth unemployment has become a severe structural problem. However, these structural problems cannot explain the dramatic decline in economic growth in these countries and the equally dramatic increase in unemployment. This state of affairs is the result of a deep failure of macroeconomic management in the eurozone.

### **3. Failures of macroeconomic management in the eurozone**

Macroeconomic policies in the eurozone have been dictated by financial markets. The Southern European countries (including Ireland) are the countries that have accumulated trade account deficits in the past, while the Northern eurozone countries<sup>1</sup> have built up trade account surpluses. As a result, these countries have become the debtors and the Northern countries the creditors in the system. This has forced the Southern countries to beg the Northern ones for financial support. The latter have reluctantly done so but only after imposing tough austerity programmes pushing these countries into quick and deep spending cuts.

The recent explosion of the government debt to GDP ratios makes spending cuts in the South indeed inevitable. But these cuts were enforced too fast and too drastically. More importantly, the Northern countries were not willing to offset the spending cuts in the South by increasing their own spending, in order to stabilise growth in the eurozone as a whole. The necessary austerity imposed on the Southern European countries could have been offset by demand stimulus in the

---

1. We define Northern eurozone countries as Austria, Belgium, Finland, Germany, and the Netherlands.

Northern European countries. Instead, under the leadership of the European Commission, tight austerity was imposed on the debtor countries while the creditor countries continued to follow policies aimed at balancing the budget.

This has led to an asymmetric adjustment process where most of the adjustment has been done by the debtor nations. The latter countries have been forced to reduce wages and prices relative to the creditor countries (an ‘internal devaluation’) without compensating wage and price increases in the creditor countries (‘internal revaluations’).

In figure 2, I show some evidence about the nature of this asymmetry. The figure shows the evolution of the relative unit labour costs<sup>2</sup> of the debtor countries (where we use the average over the 1970-2010 period as the base period). Two features stand out. First, from 1999 until 2008-2009, one observes the strong increase of these countries’ relative unit labour costs. Second, since 2008-2009 quite dramatic turnarounds of the relative unit labour costs have occurred (internal devaluations) in Ireland, Spain and Greece, and to a lesser extent in Portugal and Italy.

These internal devaluations have come at a great cost in terms of lost output and employment in the debtor countries. As these internal devaluations are not yet completed (except possibly in Ireland), more losses in output and employment are to be expected.

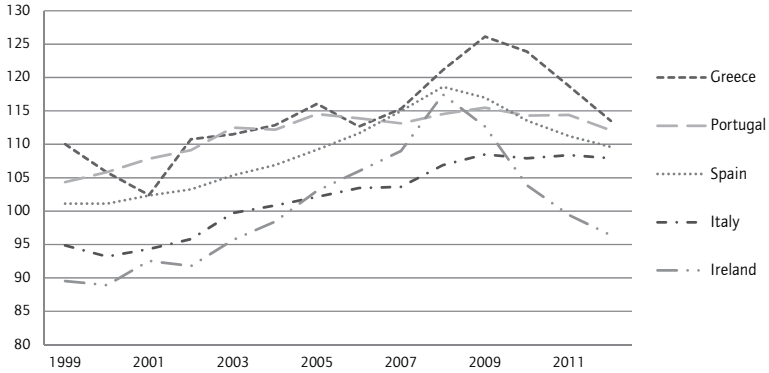
Is there evidence that such a process of internal revaluations is going on in the surplus countries? The answer is given in figure 3, which presents the evolution of the relative unit labour costs in the creditor countries. One observes that since 2008-2009 there has been very little movement in the relative unit labour costs in these countries. The position of Germany stands out. During 1999-2007 Germany engineered a significant internal devaluation that contributed to its economic recovery and the buildup of external surpluses. This internal devaluation stopped in 2007-2008. Since then no significant internal revaluation has taken place in Germany. One also observes from figure 3 that the

---

2. The Relative unit labour cost of a country is defined as the ratio of the unit labour costs of that country and the average unit labour costs in the rest of the eurozone. An increase in this ratio indicates that the country in question has seen its unit labour costs increase faster than in the rest of the eurozone, and vice versa.

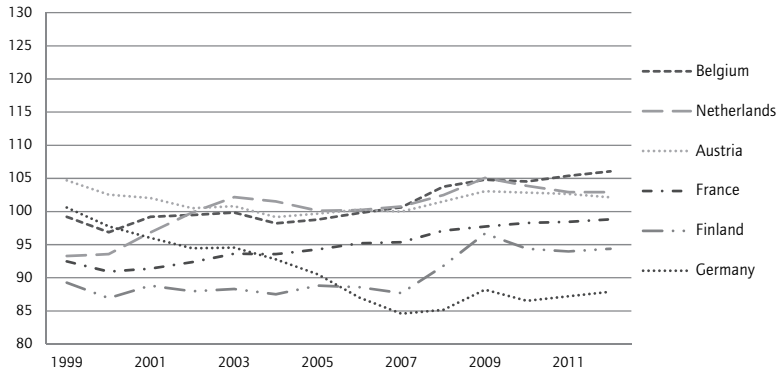
other countries remain close to the long-run equilibrium (the average over 1970-2010) and that no significant changes have taken place since 2008-2009.

Figure 2 Relative unit labour cost (average 1970-2010=100)



Source: European Commission, AMECO.

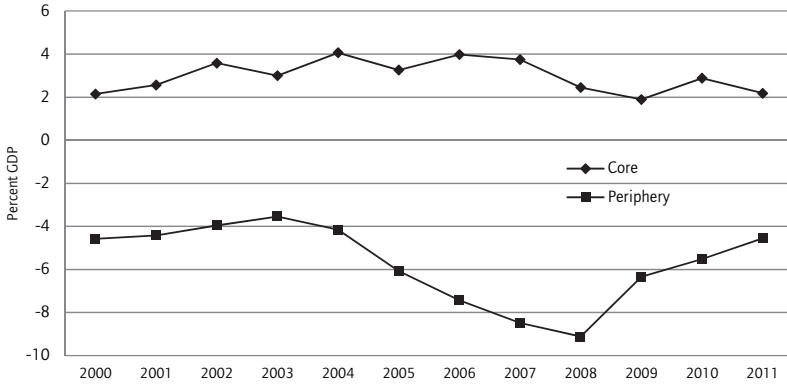
Figure 3 Relative unit labour cost (average 1970-2010=100)



Source: European Commission, AMECO.

We obtain a similar conclusion from figure 4. There we see that the Periphery countries have started a process of reduction of current account deficits that is much more spectacular than the decline in the current account surpluses of the Core countries.

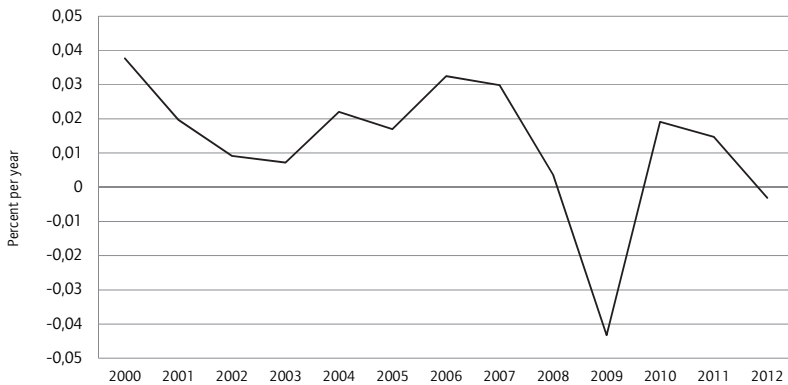
Figure 4 Current account surpluses (deficits) in the eurozone



Source: European Commission.

Note: Core countries are Austria, Belgium, France, Germany, Netherlands, Finland; Periphery is Greece, Italy, Ireland, Portugal, Spain.

Figure 5 Growth of GDP in the eurozone



Source: European Commission, AMECO.

Thus, one can conclude that the burden of the adjustments to the imbalances in the eurozone between the debtor and the creditor countries is borne almost exclusively by the debtor countries in the periphery. This creates a deflationary bias that explains why since 2012 the eurozone has been pulled into a double-dip recession, as can be seen from figure 5.

As argued earlier, the risk is real that citizens in Southern European countries that are subjected to prolonged deep economic downturns, increasing unemployment to levels not seen since the 1930s, revolt and reject a system that was promised to them to be economic heaven.

#### **4. Towards symmetric macroeconomic policies in the eurozone**

How can macroeconomic management be organised in a way that will avoid a prolonged period of historically low growth, with the risk of creating lost generations in many member countries of the eurozone?

The answer is that macroeconomic policies should be organised symmetrically. This symmetric approach should start from the different fiscal positions of the member countries of the eurozone. In figures 6 and 7 I show this difference. I present the government debt ratios of two groups of countries in the eurozone, the debtor and the creditor countries. One observes from figures 6 and 7 that while the debtor countries have not been able to stabilise their government debt ratios (in fact these are still on an explosive path), the situation of the creditor countries is dramatically different. The latter countries have managed to stabilise these ratios. This opens a window of opportunity to introduce a rule that can contribute to more symmetry in the macroeconomic policies in the eurozone.

Here is my proposed rule. The creditor countries that have stabilised their debt ratios should stop trying to balance their budgets now that the eurozone is entering a new recession. Instead they should stabilise their government debt ratios at the levels they have achieved in 2012. The implication of such a rule is that these countries can run small government budget deficits and yet keep their government debt levels constant. Germany, in particular, which in 2013 is close to achieving a



balanced budget, could afford to have a budget deficit of close to 3% of GDP while keeping its debt to GDP ratio constant<sup>3</sup>. This would provide a significant stimulus for the eurozone as a whole.

Figure 6 Gross government debt ratios in creditor countries of the eurozone

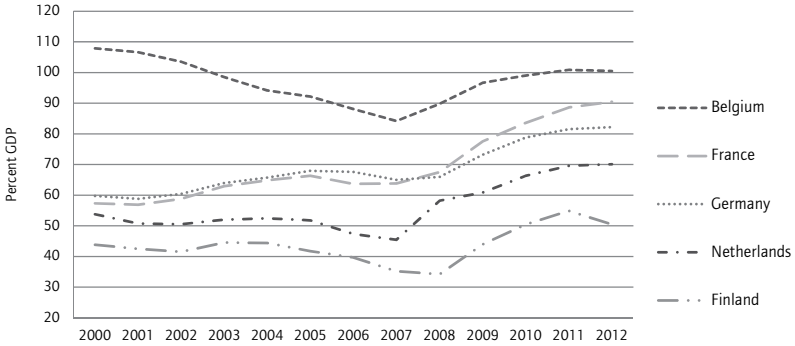
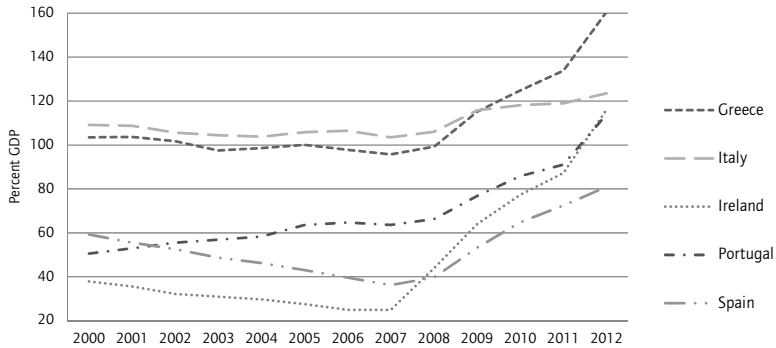


Figure 7 Gross government debt ratios in debtor countries of the eurozone



Source: European Commission, AMECO.

3. I use the forecast of nominal growth of GDP in Germany in 2013 (real growth + inflation) made by the European Commission at the end of 2012. This forecast was 3.5%. This allows Germany to stabilise its Debt to GDP ratio while running a budget deficit of 2.9%.

The idea that Germany should take a leadership role and stimulate its economy is often criticised on two grounds. First, it is said, Germany's financial capacity is limited and second, a German stimulus would have only limited effects on the rest of the eurozone. This criticism is unfounded. First, the German government now can borrow at historically low interest rates (about 1.5% for 10-year bonds). This means that investors are signalling to the German government that they would be happy to buy more German government bonds. It is difficult to understand why the German government does not want to borrow more when it is so cheap to do so. There must be investment projects in Germany that have a higher social rate of return than 1.5% a year.

Second, the German economy represents about 33% of the eurozone's GDP. In addition, about 60% of its trade is with the rest of the eurozone. Thus a stimulus in Germany would lead to significant increases in imports from the rest of the eurozone, thereby stimulating growth in the eurozone. In this connection the IMF has estimated that the fiscal multipliers (that measure by how much GDP increases when the government increases spending by one euro) are now significantly higher than 1.

Such a stimulus would also make it easier to deal with the trade account imbalances between the North and the South of the eurozone, as noted earlier. By stimulating spending the Northern countries would wind down the surpluses they have accumulated against the South. This is a necessary condition for the South to be able to reduce its trade account deficits *vis-à-vis* the North.

Whether the symmetric rule proposed here will be implemented very much depends on the European Commission. The latter should invoke exceptional circumstances, i.e. the start of a recession affecting the whole eurozone and threatening to undermine its stability, and urge the creditor countries to temporarily stop trying to balance their budgets. As an alternative rule, the European Commission should convince the creditor countries that it is in their and the eurozone's interests that they stabilise their government debt ratios instead.

## Conclusions

The recent decision by the ECB to act a lender of last resort is a major regime change for the eurozone. It has significantly reduced the existential fears that slowly but inexorably were destroying the eurozone's foundations.

The ECB's new role although necessary is not sufficient, however, to guarantee the survival of the monetary union. I have argued that it is necessary that macroeconomic policies be made more symmetric. The asymmetric nature of the macroeconomic adjustments, which put most of the adjustment burden on the deficit countries, has created a deflationary bias in the eurozone. It also explains the double dip recession into which the eurozone has been pushed at the end of 2012. More symmetric macroeconomic adjustment mechanisms are key to avoid a long and protracted deflation that will not be accepted by large parts of the eurozone population. Indeed the greatest risk for the survival of the eurozone today is the risk emanating from social and political upheavals in countries that are forced into a deflationary spiral. Thus while the ECB's decision to act as a lender of last resort has reduced the risk of a financial implosion, this risk has been substituted by a new risk, i.e. the risk of implosion due to uncontrollable social and political disturbances in the South of Europe.

In order for more symmetric macroeconomic policies in the eurozone to be implemented, the citizens in these countries must be convinced that this is the right approach. There is a very strong sense of moral hazard thinking in Northern Europe today that implies that 'well-behaved' countries should not assist those that have misbehaved. Doing so would reward bad behavior. Fundamentally, citizens from Northern Europe should be made aware that the crisis is not only the result of Southern European countries' irresponsibility in accumulating large external debts. It is also the result of Northern Europe, which during the boom years was very happy to provide too much bank credit to the South. For every reckless borrower in the South there was a reckless lender in the North. Thus the responsibility for the Euro crisis is shared between the North and the South of the eurozone. Solutions to the crisis therefore also imply that everybody take their share of the responsibility.

## References

- De Grauwe P. (2011a) The Governance of a Fragile eurozone, CEPS Working Documents, Economic Policy, Brussels, Centre for European Policy Studies, 4 May 2011 (<http://www.ceps.eu/book/governance-fragile-eurozone>).
- De Grauwe P. (2011b) The European Central Bank: Lender of Last Resort in the Government Bond Markets?, CESifo Working Paper 3569, Munich, Center for Economic Studies, September 2011.
- Wyplosz C. (2011) They still don't get it, VoxEU, 25 October 2011 (<http://www.voxeu.org/article/eurozone-leaders-still-don-t-get-it>).
- Wolf M. (2011) Be bold Mario, put out that fire, Financial Times, 25 October 2011 (<http://www.ft.com/intl/cms/s/0/bd60ab78-fe6e-11e0-bac4-00144feabdc0.html#axzz1cJuylOkj>).



# The EU in 2012: political and institutional tensions

Alexander H. Trechsel and Claudius Wagemann

## Introduction

2012 marks the fourth year into the financial crisis that has hit most capitalist, modern and liberal democracies since the Lehman Brothers went bankrupt. In Europe, this crisis has given rise to profound effects on European integration. It has arguably stopped (with the exception of Croatia) the process of enlargement. It has furthermore put the common currency, the Euro, under enormous pressure and led to growing inequalities within the eurozone and between countries of the eurozone and EU Member States outside the eurozone. Finally, the crisis had such strong effects on national economies, most prominently those of the PIIGS countries (Portugal, Italy, Ireland, Greece and Spain), but now also France, that the level of European integration achieved up to now is being questioned, since economic and political issues are so strongly related. In 2012, an increasingly important number of observers started to think about a potential process of European *disintegration*. While in the past such voices could be heard above all in the UK, they now became *salonfähig* in the heartland of European integration, Germany, France, Italy, the Benelux and other Member States.

In this short contribution we will focus on two major developments that are important, in our view, to understand the situation in which the European Union finds itself in the year 2012. Both developments focus on the topic of democracy. We first identify a number of democratic 'hot spots', *loci* of tension, tipping points and general trends that mark the year 2012. Second, we focus on the relation between the EU and its citizens, adopting a 'view from below'. We argue that citizens are not only becoming more strongly involved in policy making generally, but also that their attitude towards European integration in times of crisis must be properly understood.

## 1. Democratic 'hot spots' in 2012

For 2012, the year on which this contribution concentrates, several tipping points can be identified which help us to illustrate the current state of democracy in Europe. This description is not limited to the EU level, but it also takes into account current developments (usually failings) at the nation-state level. This list is of course not complete, and this is not our goal. We intend, rather, to provide an illustration of what we think of as currently occurring democratic dilemmas. Also, while we focus on the year 2012, some of the examples mentioned here are not strictly limited to the year 2012, but refer to a longer time horizon: some developments had already set in before 2012, and others will be with us in the (shorter or longer-term) future.

A first point is that incumbent governments are currently very much at risk when it comes to elections. The most recent years saw new governments in Great Britain, France and Spain, that is, in three central European democracies; in all these cases, the incumbent leader was a candidate, but was impressively defeated. Only the German Chancellor remained in office, since the electoral cycle did not foresee any national elections, while the incumbent German *national* government was defeated several times in *regional* elections. In Italy, the incumbent government was not replaced through elections, but through an emergency 'technocratic' government. However, this situation was short-lived: in the most recent Italian elections, this incumbent technocratic government under the leadership of Mario Monti was, one could say, almost brutally, punished by the voters for its politics. Even more, the outcome of the elections led to a chaotic situation, not least because of the high level of dissatisfaction in Italy with the incumbent (technocratic) government which, strictly speaking, they had not even voted in. But also in other, smaller countries, recent years have shown rapid changes of governments. Greece is certainly a case where two elections were needed in order to form a new government. In short, incumbency is no longer helpful for being re-elected. Rather, the contrary seems to be true. While government alternation (or at least the possibility thereof) is usually regarded as a sign of functioning democracies, observers of contemporary European democracy have to wonder if the changes are not a little too frequent.

However, incumbent government leaders or top-level politicians face a risk of losing their office not only at election time. Political and private scandals are leading to relatively quick replacements. This does not necessarily mean that, today, politicians are more involved in scandals than in the past; nor does it mean that the public is more sensitive and more reactive towards scandals; the reason might rather be that journalists and citizens now get to know of scandals more easily. Ever-increasing public visibility, the omnipresence of (old and new) media, and the fact that private life is becoming more and more public (also, because politicians seek such a public life): all these factors contribute to the spreading of information. Additionally, as is well known, news about scandals obviously sells well.

Paradoxically, while being an incumbent becomes more and more risky for a political future, the political importance of those individuals who do hold government offices is increasing. We can observe that political power is increasingly shifting from legislative actors to executive actors. As well as a 'presidentialisation' of Europe's (parliamentarian) political systems, we can also observe an 'executivisation' of policy-making. In times of crisis, political decisions have to be taken so quickly that there is hardly any time for in-depth discussions in parliaments. Decisions are increasingly, then, taken at the level of the executive, with the legislative power just rubber-stamping them *ex post*. This does not only attribute more power to the executive, but also undermines the control function of parliament, and, even more worryingly, fundamental principles of political representation in parliaments are discarded.

There is no doubt that this trend towards 'executivisation' has been intensified through the European economic and currency crisis. There are two more recent effects of the crisis on current European democracies: first, political decisions increasingly have to be taken under enormous time pressure, not only due to the necessity of finding solutions for urgent problems, but also because the durability of solutions has become very short. Developments on the international financial markets, but also within single European countries, force governments into rapid decisions, the efficacy of which is based on assumptions which (might) change very quickly.



Secondly, the current European crisis is complex and requires well thought through solutions. Not even scientific experts are able to advise governments in a clear way. Thus, it is an illusion to assume that ordinary citizens without any particular skills would be able to follow the substance of the discussion. Already, the sheer number of ever new ‘rescue packages’ and quickly introduced European institutions is creating some confusion among European citizens. The broad level of disagreement among experts and the partial incapacity of even top journalists to explain to the citizens what the crisis and potential solutions are about, just further underline this complex character of decision-making. This also became manifest when the German President Joachim Gauck criticised the German Chancellor Angela Merkel for not explaining her policy decisions well enough to the people. In such a way, politicians risk losing contact with the true sovereign, i.e., the citizens, whom they should represent. We will come back to this most important ‘view from below’ in the subsequent part of this contribution.

A possible consequence of ‘executivisation’, the new speed of politics, and the complexity of the issues at stake is that ‘technocrats’, instead of democratically elected politicians, are endowed with political decision-making power. This is most visible in the Italian 2011/2012 government, which has been a technocrats-only government. While certainly the term of a ‘technocratic government’ (*governo tecnico*) is chosen in order to express – somewhat euphemistically – that the government does not receive its legitimacy from the people as a sovereign but through its technical expertise, the term also refers to the fact that elected representatives who would be the ‘mirror image’ of the general population would not be able, in terms of substance, to tackle the tasks presently before them.

While most of these changes mainly affect political institutions, we are witnessing a number of additional developments affecting European democracies that are not linked to formal state institutions.

For a few years now, several European countries have been showing a strengthening of right-wing extremism or right-wing populism, mostly manifested in increasing electoral success of their respective political parties. France and Austria are confronted with continuously high (if not increasing) vote shares for the *Front National* and the FPÖ, respectively; the Swiss SVP is becoming more and more radicalised and

gains high numbers of votes in elections; but also Geert Wilders' Freedom Party in the Netherlands, the 'True Finns', Jobbik in Hungary, or *Chrysi Avgi* in Greece are just various facets of one and the same development. Above all the latter two – Jobbik and *Chrysi Avgi* – show that right-wing extremism does not necessarily hide itself any longer by expressing more toned-down anti-system views which make racist and extremist stances less visible: now, topics and opinions which can easily be called 'neo-Nazi' have become part of the political discourse. Apart from the fact that this development is a negative sign for democracy as such – some if not most of these actors clearly voice their anti-democratic stance – the high vote (and thus seat) shares of these parties is increasingly complicating the formation of coalition governments.

However, it is not only right-wing radicalism which is challenging current political party systems.

Yet another, but similar development is the rise of a populist (more rarely truly extremist) political left: the Greek SYRIZA and its leader Alexis Tsipras are the most prominent examples of this. These actors have advocated policy positions which seem – to say the least – unrealistic: e.g., while SYRIZA proposes on the one hand that Greece should not obey the EU austerity measures imposed on them, it also claims that, on the other hand, the European international community should still continue its attempts to save Greece from a complete financial disaster. As the two Greek elections in 2012 have shown, such reasoning attracts many votes, but also complicates government formation and policy making. As the Tsipras case shows, strong political (populist) leaders are not only emerging on the political right, but also on the political left.

Populism, however, does not necessarily imply extremism. European integration has often been taken as an opportunity to win more votes, above all when Europe was in a (real or perceived) crisis, even by mainstream political parties. There cannot be any doubt that the British Prime Minister David Cameron's announcement has not only revived the public debate about the future of the European Union (not only in Britain), nor that this has been a fundamental step towards a more populist exploitation of European topics. However, unlike in the past, Cameron's move is not a single-issue stance (such as voting on a Treaty), but questions the project as a whole. As such, it has revealed many hidden negative feelings among the British population.

The radicalisation of (party) politics mentioned above is also in part connected to a more general radicalisation of the European public sphere. While Europe has been suffering for some time from an immanent conflict between Western and Eastern Europe (with Eastern Europe here being defined as the group of new EU Member States that entered with the enlargement rounds since 2004), a new – perhaps even stronger – dimension has been added recently, namely the North-South conflict. While the North portrays the South as the lazy area which only claims money from the rich North without wanting to reform the structures at home, the South complains about a lack of solidarity from the North of Europe and about the unfair measures with which the Southern countries (and the lives of the people living there) are confronted. These attitudes have even reawakened old resentments thought to be dead: when an Italian newspaper, controlled by Italy's former Prime Minister Berlusconi, announces the advent of a fourth German *Reich*, linking requests for structural reforms to the Nazi dictatorship, then clearly the quality of discussions has deteriorated alarmingly. Dante Alighieri's famous call for the German Kaiser to come South of the Alps to put in place some law and order strangely comes to mind. This also became manifest in the most recent Italian election campaign when Silvio Berlusconi's centre-right alliance and the populist five star movement – two otherwise extremely different political actors – distanced themselves substantially from EU integration in general and the imposed austerity measures in particular; the latter have often been presented as policies designed largely to suit German interests. Similar developments had already been visible in the last two Greek election campaigns and are to be expected in similar occasions in Spain, Portugal or Cyprus. This can also be understood as a transnationalisation of national election campaigns, which will probably also be seen, but in reverse, in the North of Europe: one big issue in the upcoming elections in Germany and Austria will certainly be how to deal with the Southern European crisis states, a topic which had already become implicitly important during the last elections in Finland and the Netherlands, as mentioned above.

Unfortunately, this emergence of new stereotypes and stigmatisation in Europe does not mean that these new scapegoats have replaced the former ones with which Europe has had to live over the last years. Quite to the contrary: phenomena such as anti-immigration movements and activities have not disappeared, but indeed seem to have become more

intense. Certainly, the emphasis has shifted: during recent years, immigration issues have been increasingly framed from a religious perspective, usually leading to strong disapproval of Muslims. Islam itself has become a new policy issue: questions such as the construction of mosques (and minarets) and teaching the Muslim religion in schools, as well as the observance of religious rituals and habits (ranging from *burkas* to children's circumcision), have raised the public awareness of the Muslim presence in European societies – with the effect that anti-Islam stances have also intensified.

However, not all new tendencies and actors on the political scene belong to the extreme ends of the political spectrum. The year 2012 (and the previous years) have shown the advent of new political parties and movements, competing for seats in Parliament. The most prominent example of 2012 are the 'Pirate Parties', which started their success story in Sweden in 2009 when they surprised the European public by gaining more than 7% of the electoral share in the EU elections; they then continued their good performance at the *Land* level in Germany, although their heyday seems to be past, and the Pirates may even soon disappear completely from the political spectrum. Their temporary success cannot only be traced back to their policies, i.e., that they advocate a new form of liberalism, extended to internet topics, but also to questions of political style. 'Liquid democracy' and a very intensive inclusion of party members in intra-party processes characterise this new form of political party.

A similar phenomenon can be observed in Italy, where the *Cinque Stelle* movement (M5S) of the comedian Beppe Grillo has become a key player on the political scene. In the most recent elections, the M5S surprised everybody and became the strongest single party in Italy. Although the institutional conditions (such as the electoral law) made it unlikely from the outset that the *Cinque Stelle* would reach such impressive levels of success, with one out of four voters opting for Grillo, such extreme shifts have become reality.

Clearly, new entries into a party system result in high levels of contestability and reactivity – something that is positive at a first glance. However, without necessarily being extremist, the new additions also give us indications as to the current situation of party democracy in Europe. These new actors do not just add yet another ideology to the

party spectrum, but question the system (or important parts thereof) as a whole. Thus, their emergence and their strength reflect a negative evaluation of existing options. Therefore, they are not only instances of the reactivity and the openness of the political system, but also imply the failure of the established forces to aggregate people's interests and to meet their expectations. The results of the Italian elections of 2013 are the most drastic recent exemplification of this thesis.

In a similar vein, if we turn our attention to the organisational realities *within* political parties, we arrive at a number of both interesting and worrying observations. While there is, on the one hand, a growing tendency to allow for more participation of the rank-and-file (through primaries, 'liquid democracy', open-access conferences with party leaders, etc.), we also witness a stronger professionalisation of political parties. Many conceptual and operative activities of political parties are outsourced, ranging from the planning of election campaigns up to the distribution of electoral propaganda. The phenomenon of the party member who, in his/her leisure time, knocks on doors or puts up electoral posters is slowly disappearing. This is paradoxical, if we consider that this continuing professionalisation of party life is paralleled with ever more intensive attempts to allow for participation of party members in internal decision-making processes. We can assume two (not completely mutually exclusive) developments behind this: for one, it can simply be that the attempt to integrate party members into a political party's life is logical and appropriate, in the sense that political parties imagine that their followers expect to be integrated into internal processes. Or, alternatively, it could simply be that the expectations of the party members, and their readiness to contribute to the party life, has changed: participating in the operative business of a political party has become less attractive, while participation in decision-making is more and more desired.

These processes of professionalisation and outsourcing cannot only be observed for political parties, but also in the case of interest groups. These observations are the more relevant if we additionally consider that political parties and interest groups are increasingly challenged by other political actors, usually referred to as social movements. And with regard to this phenomenon, the year 2012 (and the years before) has provided us with some new examples: first and foremost, the *indignados* and the 'occupy' movement. We have to distinguish here

between two variants: firstly, there are demonstrations, strikes, and protests in those countries which were directly affected by the Euro crisis and externally imposed austerity measures, most prominently Greece, but also Spain and to a certain extent Italy. Secondly, there are also similar movements in countries which were not directly affected by the crisis, such as Germany, where protesters expressed a more general and less specific feeling of unease with contemporary capitalism.

However, the importance of social movements does not stop here. The year 2012 and the recent past have also seen some other forms of protest against public policy measures. Considering the German example of the protests against the new railway station in Stuttgart, we have to conclude that the general public can be easily mobilised, that new groups participate in protests (the Stuttgart case also included many bourgeois protesters), and that these protests tend to criticise the system as a whole, claiming that people's opinions are no longer respected. The same goes for the international protests against ACTA (Anti-Counterfeiting Trade Agreement) and SOPA/PIPA (Stop Online Piracy Act and Protect IP Act) by activists from the anti-Internet-regulation spectrum, and most notably the Anonymous Movement. These protests were very broad in scope, explosive and, in the end, highly effective and successful.

It is also here where the main problem lies for European democracy. Certainly, it is very positive that political systems provide protest opportunities, and that citizens become engaged in political and social life. Nevertheless, these protests emerge from a certain unhappiness with the current situation, and a growing share of these protests express a more general critique of the system. If protests become frequent or strong, this is a sign of a more general crisis of the system.

One of the most pressing questions for European democracy, therefore, centres around the attitudes of citizens, arguably the main actors in a system of democratic governance, towards possible solutions to the crisis. In the next section of this contribution we therefore focus on the 'view from below', i.e. whether the crisis has led, as some observers argue, to the emergence of a new 'European cleavage' and what this implies for the state of European Democracy.

## **2. Citizens' views on a solution to the economic crisis**

The issue of mass attitudes towards Europe is central for our understanding of current political trends at all levels of government. For sure, in today's politics, European or not, one cannot do without a closer look at public opinion. With an increased role played by participatory governance and a proliferation of more direct forms of decision making, including at the EU level, ignoring mass attitudes would mean neglecting a major political actor, the citizens.

Before addressing the current developments of mass attitudes towards Europe, let us briefly reflect on what has been named by observers the emergence of a new cleavage regarding European integration, a so-called 'Euro cleavage'. We remain strongly sceptical of the idea of expressing the current tensions transcending electorates on the question of Europe in terms of a 'cleavage'. The relevant literature from the field of social science, and most notably the contribution of the late Peter Mair and of Stefano Bartolini, underlines that three conditions need to be fulfilled for a cleavage to appear. Firstly, there needs to be a socio-structural division of society in groups along lines of conflict; secondly, the members of these groups must understand that they are part of the latter and identify with their respective group; and, thirdly, this conflict must be politically reflected by mobilisation and competition, most prominently in electoral terms. European integration, from such a perspective, does not really constitute a foundation for a proper 'cleavage' in the sense in which it is used by the most prominent political scientists.

It fails the test because, arguably, the division of 27 European electorates into rather homogenous pro- and anti-European groups is at best far-fetched. Let us nevertheless assume that we do have two groups with more or less clearly defined boundaries. Let us even assume that the emergence of a European identity vs. some kind of proto-nationalism overlapped with these two groups. We would still lack the organisational condition, such as, for instance, the partisan manifestation of this phenomenon. Therefore, most prominent observers concluded for a long time that Europe had, at best, a very limited impact on national party systems. In the midst of the current financial and economic crisis, however, this view must probably be qualified, as more recent developments could indeed lead to the emergence of a re-politicisation or simply a politicisation of Europe within the Member

States. However, we argue here that this politicisation will most probably not be expressed through the emergence of a new cleavage but, rather, through a sort of Europeanisation of traditional cleavages, such as the class cleavage. As Europe starts to impact the wallet of not just French farmers but of taxpaying workers, the unemployed, the pensioners and those in education, the European dimension may very well 'sneak into' the traditional socio-economic conflict lines that are at the basis of the class cleavage. We would argue that the European Union is still seen by the majority of survey respondents as the major *locus* for solving the problem of the financial and economic crisis, therefore interfering with and possibly offering a solution for a crisis that affects tangible concerns of citizens, such as unemployment, taxes, pensions, salaries etc. But just because the link between European Integration and these areas traditionally reserved for domestic sovereignty is becoming clearer, does not necessarily mean that we are witnessing the emergence of a 'euro-cleavage'. Rather, Europe is becoming a *platform*, a *locus*, an *arena* or a *level* for resolving very traditional problems of economic governance, rather than a force to be supported or rejected as a priority. The possible exception to this are the protests in Greece and elsewhere, some of which are explicitly directed at the European Union, though even in these instances it is not entirely clear, in our view, at what in particular – the European institutions, the integration process, the Troika, the common currency, the dominance of some Member States or their leading politicians, or all of the above. In the most recent elections in Italy, Europe did not emerge as one of the major themes in the campaign, with the exception, possibly, of Beppe Grillo's call for a referendum on whether Italy should remain in the eurozone. The effects of the Italian elections on European democracy are therefore rather indirect: the outcome of the elections matters greatly, although the campaign leading to this outcome did not focus on the effects on Europe.

In short, we therefore argue that despite Geert Wilders, the True Finns, the M5S and more generally the emergence of anti-European, nationalist and/or populist parties and actors, mainly, but not only, to the right of the political spectrum, there is no such thing as a developed 'European cleavage'. Nor do we see one emerge. We have serious reservations as to whether, as is claimed, attitudes towards Europe and European integration play the role of an independent variable, directly causing systemic changes in electoral outcomes and even party system structures.



Let us now more closely look at mass attitudes towards Europe. Here, a broad range of literature shows how public opinion *vis-à-vis* the EU has evolved over time, how it is context-dependent and how it is shaped by a multitude of social and economic factors. These analyses attempt to explain mass attitudes towards Europe using cognitive skills, value-based, utilitarian, socio-economic or other types of theories. Without delving further into this literature in a systematic way, let us briefly consider how attitudes towards the European Union have changed over the past few years, during the most serious financial and economic crisis Europe has witnessed in decades, and how they have culminated, so far, in the year 2012.

At the European Union Democracy Observatory (EUDO), we started to produce a series of so-called 'Spotlights', short analyses that focus on changes in public opinion due to recent changes in the political agenda. Let us here briefly draw on these Spotlights, authored by Danilo di Mauro, Marta Fraile and Claudius Wagemann, as well as recent Eurobarometer data.

Mass attitudes towards Europe have been fairly stable over time – at least until the outbreak of the financial and economic crises some four to five years ago. Let us make a few observations regarding the potential link between the crisis and support for Europe.

Our first observation is that we have recently witnessed a marked change in the hierarchy of concerns among Europeans. Unemployment and the general economic situation are now by far the two most important concerns of citizens, both domestically as well as in relation to the situation of the European Union. While on average, at the national level, unemployment remains the most important concern, 11 percentage points ahead of the general economic situation (Eurobarometer 78, Autumn 2012), for the European Union the situation is the opposite: here, 53% of Europeans think that the economic situation is the most important issue the EU has to face, coming 17 percentage points ahead of the second-placed issue of unemployment.

Secondly, we witness an enormous variance between countries when it comes to judging the current situation. Recent data (Eurobarometer 78, Spring 2012) show that 75% of Swedes think the current situation is good but only 1% of Greeks think the same thing. This 'spread', so to

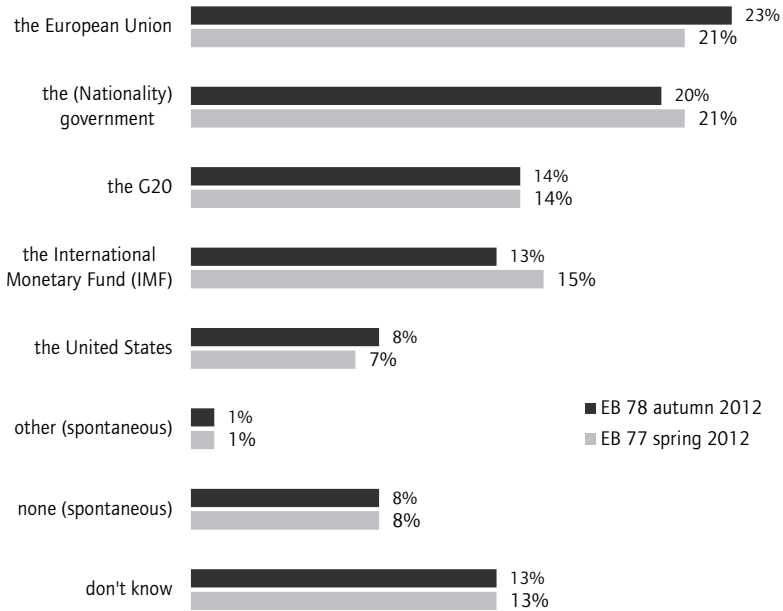
say, has reached alarmingly high levels. Note, however, that just one year before, in the autumn of 2011, Swedes ranked 10 percentage points higher, with 85% of them thinking the situation of the national economy was good. Since then, their evaluation has deteriorated to the level of German public opinion, where still three out of four respondents judge the situation of the national economy as good.

Our third point is that at the same time, our analyses could show a certain ‘Europeanisation of public attitudes towards the economy’. Until recently, and independently from their optimism or pessimism, citizens’ expectations of the national and European economy tended to differ with expectations of the European economy being structurally more positive. Nowadays, expectations of the economy at both levels, national and European, coincide. This apparent consistency is mainly caused by pessimism. The worse off one feels oneself to be, the more consistently negative one feels about the economic future at national *and* at European level. Note, however, that here as well, there is a very large context-dependent variation in this Europeanisation of attitudes towards the economy, directly linked to the performance of the respective national economies. The most negatively affected contexts display the highest rates of consistency.

Fourthly, it is remarkable that almost a quarter of all Europeans think that it is the European Union that is the best able to take effective action against the financial and economic crisis. 23% of all respondents to the Eurobarometer 78 (Autumn 2012) answered ‘The European Union’ when asked the question ‘In your opinion, which of the following is best able to take effective actions against the effects of the financial and economic crisis?’ This puts the European Union ahead of one’s national government, the G20 or the IMF (figure 1).

Figure 1 Who can best take action against the crisis?

QC3a. In your opinion, which of the following is best able to take effective actions against the effects of the financial and economic crisis?



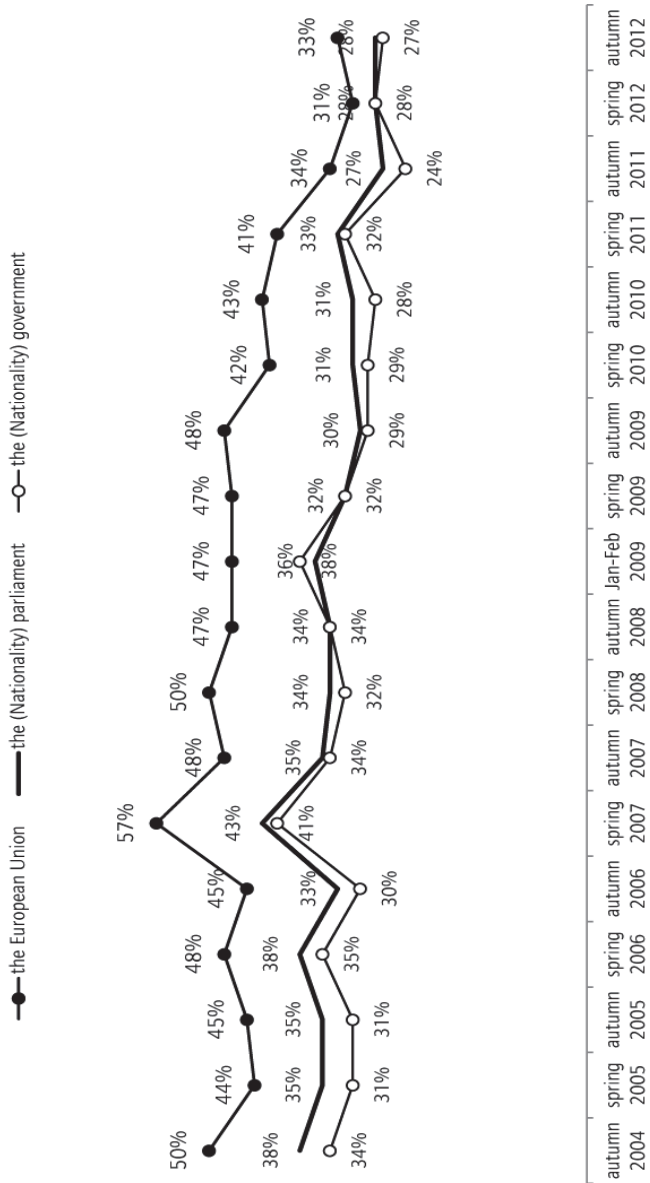
Source: Standard Eurobarometer 78, Autumn 2012, Public Opinion in the European Union – First Results.

Note, however, that the formulation of the question and the answer categories leave it completely open what exactly is meant by ‘The European Union’. At the same time, the EU is also the biggest loser when it comes to measurements of trust (figure 2).

Since September 2007, in just four years, trust in the EU has been eroded from 57% to 33% (Eurobarometer 78, Autumn 2012). It is true that trust in national parliaments and governments has also been eroded since then. Taken together, the cumulated trust in the EU, national Parliaments and national Governments has declined from 141 points to only 88 points, or, in other words, a cumulated loss of trust of almost 40%. However, the biggest losers are the European institutions.

Figure 2 The evolution of trust in institutions (2004-2012)

QA11 I would like to ask you a question about how much trust you have in certain institutions. For each of the following institutions, please tell me if you tend to trust it or tend not to trust it.



Source: Standard Eurobarometer 78, Autumn 2012, Public Opinion in the European Union – First Results.

So while Europeans continue thinking that the solution for the crisis should be primarily found at the European level, only a third of all Europeans still trust the EU. And this loss of trust in the EU is quite similarly distributed across major institutions, such as the European Parliament, the Central Bank, the Commission and the Council.

In these times where incumbent governments and parliamentary majorities tend to be punished at the ballots, with any alternative to the previous government being seen as potentially better, one may hypothesise that this mechanism of blaming those in charge is hitting the European Union particularly hard, mainly because at the European level there is no such thing as an alternation in power. And where there is no alternation in power, where there is no credible opposition, there is a sort of permanent incumbency. It might therefore not be surprising that while recognising the need for action at the European level, the institutions at this level are not seen as trustworthy enough to deal with the problems at stake. Coming back to our earlier point: it might well be that Europe is becoming a platform or an arena rather than an actor seen as credibly able to resolve the current problems.

## **Conclusions**

It goes without saying that European democracies are not living through easy times. There are worrying developments both at the nation-state level and at the supranational EU level. Clearly, many challenges have resulted from the current economic and financial crisis; however, it is impossible to find out what would have happened had the crisis not occurred. We can only speculate that some phenomena would have appeared even if the crisis had not hit the continent. For example, Italian politics have been volatile for a long time; the respective views, opinions, and stereotypes of Northern and Southern Europeans have also been around for quite some time; and the trends towards such phenomena as populism, new forms of intra-party democracies, protest attitudes, executivisation of politics, the importance of scandals, etc., are also nothing new. We can, at this point, only assume that the crisis in Europe has worked as a catalyst for processes which were already under way. However, it cannot be excluded that, if the crisis continues and if institutional problems of various European Member States cannot be quickly solved, a 'Europeanisation of the conflicts' could occur. First indications that such a development could be possible are

already observable. However, as we argue in this contribution, a 'euro-cleavage', at least in electoral terms, is not yet a reality.

As our discussion of survey research on the EU has shown, Europe, the EU and the crisis are mainly seen from an *economic* perspective. However, there cannot be any doubt that, at a certain point, the crisis might also be discussed from a *political* point of view. Above, we have already identified a number of phenomena that point in this direction. The question now becomes in how far political leaders (those elected and those who are on the rise) agree with the general European consensus as to the positive aspects of European integration.

Looking at the nation-state level, there seems to be a prevalent need to 'bring citizens back in'. Traditional arrangements of contemporary democracies, such as the (usual and most common) representational form of institutional systems, are evidently under stress. This does not necessarily mean that they are dysfunctional *per se*; it can also mean that they are not being fully used by the main political actors. In other words, they have high potential which, however, does not unfold in political practice. From the point of view of political science, this does not necessarily mean that research agendas have to be changed. It means, rather, that new factors are affecting well-known processes and that observers in general - and political scientists in particular - have to adjust to these new challenges.

What also becomes evident from our discussion is that the supranational EU level and the nation-state level cannot be analytically held separate any longer. These two levels influence each other, from both a political and a political science perspective. This should also sharpen our analytical capacities and research agendas. In fact, it is in itself testimony to a high degree of Europeanisation – if political phenomena can no longer be regarded separately, then something has changed in our outside world. When European politicians, citizens, journalists and social scientists speak about politics or democracy, they cannot ignore the existence of (at least) *two* levels of politics. It is now the task of practitioners, observers and scientists to translate the concept of democracy in a way which does not only take into account the multi-level principles of European democracy, but also the new developments, no matter whether linked to or dating from prior to the current crisis. Only in this way will our political and scientific account of European democracy become more accurate.



# Beyond GDP: can we re-focus the debate?

**Georg Feigl, Sven Hergovich and Miriam Rehm**

Even before the start of the financial and economic crisis in 2007, a feeling emerged that something had gone wrong in the economy, despite relatively high growth rates and declining unemployment. At least in Europe, economic growth seemed decoupled from subjective well-being, while there were rising concerns about its ecological consequences.

The discussion gained prominence in 2008 with the ‘Commission on the Measurement of Economic Performance and Social Progress’ (Stiglitz *et al.*, 2009), better known as the Stiglitz-Sen-Fitoussi Commission (SSFC). Although a lot of similar initiatives had been started in the past 40 years, this Commission sparked off a new broad debate. It became widely known in the European political sphere under the headline of ‘Beyond GDP’ (European Commission, 2009).

In 2012, the Commission should have presented a report on the implementation of ‘indicators that do what people really want them to do, namely measure progress in delivering social, economic and environmental goals in a sustainable manner’ (ibidem: 11). These could have laid the foundation for the future economic and social policy

The deep economic crisis since 2008 should have made it obvious that the current economic strategy failed to deliver sustainable progress for everybody in Europe, and thus fuelled the initiative. Furthermore, the crisis also demonstrated painfully that a lack of growth and especially a shrinking GDP can have disastrous negative effects on subjective well-being, especially through rising unemployment and poverty, and the concomitant pessimism and misery. However, what happened was a fragmentation of the different initiatives: ‘Beyond GDP’ more or less ceased to be an issue, and even the related Europe 2020 strategy has seen major setbacks, as the policy was entirely focused on short-term crisis measures. This is a lost chance for more coherent economic governance in Europe.



The lack of growth since 2008 leads directly to a crucial point in the Beyond GDP debate (BGD). GDP is not a goal in itself, but it can be a means to achieve progress. The nature of this progress is difficult to define a priori as it is the result of a deeply political process. Philosophy has nonetheless attempted to give some answers – the well-known capabilities approach of Amartya Sen (2009) and Martha Nussbaum (2000), for instance, focuses on the ability to reach happiness rather than the actual achievement of desired ends. Robert and Edward Skidelsky (2012), economist and philosopher, in contrast develop a set of basic goods that are elements of a ‘good life’, reviving a debate that dates back at least to Aristotle.

Some strands of this debate seem relevant for the discussion here. First, economic activity can either be funnelled into a higher standard of living, or into increasing leisure. Both ‘lead us out of the tunnel of economic necessity into daylight’ as Keynes stated it ardently in 1930 (Keynes, 1963: 7). Secondly, we have to look at the distribution of these possibilities, which are determined mainly by income and wealth. Thirdly, as GNP ‘measures everything [...] except that which makes life worthwhile’, as Senator Robert F. Kennedy put it in 1968 (see Taylor, 2012), it is important to incorporate various other aspects which influence the quality of life and which are not directly measured by the level of economic activity. These include (non-exhaustively) health, social inclusion, individuality, a broadly defined security, leisure, harmony with nature and religious principles, and high-quality public services. The SSFC largely skirts around the philosophical pitfalls by asking which statistical information is missing for better, evidence-based policies. This contribution follows their pragmatic approach while acknowledging that the determination of the set and ranking of additional indicators is a fundamentally political question which cannot be decided by experts.

The first part of this contribution places the BGD in the context of current European economic policy and governance. We argue that these two hardly fit together and that the latter has to be changed if the former is to be taken seriously. The second part attempts to shed some light on the main dimensions of the triple crisis in economic performance, social progress and their potential (ecological) limits, and relates these crises to the attempts to find a better way of measuring progress. The third part outlines the historical background of the BGD,

which had its first peak in the 1970s. In particular, we ask why GDP became an ever more important indicator while the alternatives are hardly known today, and what can be learned for the current debate from discussions that took place over 40 years back. Finally we propose employment, distribution and socio-ecological transition as the three pillars of a project to increase welfare, which we find necessary to move beyond a focus on GDP.

## **1. The BGD in the context of European economic policy**

In August 2009, when the first positive quarterly growth rates after the deepest economic crisis in Europe in decades occurred, the European Commission set out a roadmap ‘to better measure progress in a changing world’ (European Commission, 2009: 4).

The first change was a reformulation of the initiative of 2007, which was the first sign of a significant change of direction. No longer was the goal to go ‘beyond GDP’, but to focus on ‘GDP and beyond’. The thesis set out in the communication was that GDP ‘is a powerful and widely accepted indicator for monitoring short to medium term fluctuations in economic activity, notably in the current recession’ which ‘is still the best single measure of how the market economy is performing’ (ibidem: 10). It stated implicitly that additional indicators are only needed in the long run to measure economic and social progress, as if this were a luxury after the main mission of growth has been accomplished.

However, the Commission got one of the main points right when it noted that ‘EU policies will be judged on whether they are successful in delivering these goals and improving the well-being of Europeans’ (ibidem). By 2012, five key actions should have been undertaken in this direction:

- Complementing GDP with highly aggregated environmental and social indicators;
- Near real-time information for decision-making;
- More accurate reporting on distribution and inequalities;
- Developing a European Sustainable Development Scoreboard;
- Extending National Accounts to environmental and social issues.

Up to now, there is hardly any sign that the Commission has put this agenda forward politically, although there was significant progress on the technical level via Eurostat, the European Statistical System (see part 2 of this article). The only Commission activity outside Eurostat in 2012 on the joint website [www.beyond-gdp.eu](http://www.beyond-gdp.eu) is the website's 5<sup>th</sup> anniversary. The European Council does not fare much better. It only recalls the need to use 'indicators that complement GDP' as one of 35 conclusions in the context of Rio+20 (see [www.beyond-gdp.eu/news.html](http://www.beyond-gdp.eu/news.html)).

We suggest two main reasons for the observed shortcomings. One is the quite ambitious nature of the project. For example, there is a huge gap in the area of reliable distribution indicators at EU-level, which is not easy to fill within three years without noteworthy new resources. Especially in times of crisis with tighter government finances this is a difficult task. But first of all, the current lack of ambition is caused by ideology. At least as early as the Greek financial crisis, starting in 2010, Europe witnessed a rapid shift in crisis management from coordinated economic stimulus management and tackling the roots of the crisis to an exit strategy based on macroeconomic surveillance (see Degryse and Pochet, 2012) of national economic policies, with a focus on some kind of macroeconomic trinity consisting of austerity, structural reforms and competitiveness. This ideological tightening leaves no space for an equal treatment of social indicators. It is clear that slashing social spending, a reduction of social security to gain flexibility, and real wage cuts to improve cost competitiveness will lead to negative results in well-being indicators.

The Europe 2020 strategy faces similar problems. Its headline targets such as higher employment, better educational outcomes and less social exclusion – which can be read as a specific, less ambitious and too narrow version of 'indicators that measure progress in delivering social, economic and environmental goals' – also came into contradiction with austerity measures.

It is therefore not surprising that social actors challenging current European economic policy are also those trying to push the BGD (and to a smaller extent the Europe 2020 strategy) further. In 2012, parts of the trade union movement started a number of initiatives. The IG-Metal conference 'Changing Course For a Good Life' stressed that 'financial market-driven capitalism is a mistake and what is needed is changing

the course towards a good life, which includes preventing the exploitation of nature and the destruction of social systems' (IG Metall, 2012). The connection between social and ecological aims is also accentuated by the discussions on the nature of progress, started by the Upper-Austrian Chamber of Labour. They highlight that from an employees' perspective, environmental problems cannot be solved by the market, in the same way as questions of wage policy or income distribution cannot be solved by the market. In addition, the European Federation of Public Service Unions (EPSU) and the European Trade Union Institute (ETUI) organised a Beyond GDP conference in March 2012 and a conference 'From (un)economic growth to future well-being' in October 2012. These activities show that the trade union movement recognises that the BGD is of high and growing relevance, and that a socio-ecological transition with a concomitant set of alternative statistical indicators of well-being are necessary for real progress and an improvement in well-being without the exploitation of the environment.

However, despite this positive picture it should be borne in mind that the actions taken by the trade unions so far fall short of their rather ambitious discourse (see Galgóczi and Pochet, 2012). A shift from 'the social partnership model that developed in Europe after World War II [which] was based on the resource-intensive industry and consumption paradigm' to a strategy of a 'just transition' (ibidem: 252f.) is an ongoing process, which in practice is not yet free of contradictions.

Meanwhile, the emerging new European economic governance stressed the need for a statistical work programme focused on the development and enforcement of a new Macroeconomic Scoreboard and more detailed statistics on public finances. This was the new political priority where 'more comprehensive information to support policy decisions' (Eurostat, 2011: 11) should be provided, and not aims such as social progress or environmental issues.

A direct link between the indicators programme and the new macro-economic surveillance approach can be found in the bilateral work of the economic advisory councils in Germany and France (Conseil d'Analyse Économique and Sachverständigenrat, 2010). Their follow-up report to the SSFC, published at the end of 2010, contained a set of various indicators with an overwhelming focus on economic sustainability in the third pillar. Some of them have a clear connection to European

guidelines, such as the rate of R&D-expenditure to GDP, the cyclically adjusted public deficit or the credit-to-GPD-ratio (ibidem: 27).

This shift is quite ambiguous. On the one hand, it became clear that macroeconomic stabilisation cannot be entrusted to market forces, and thus has to be a topic for economic policy intervention – and therefore supported by some indicators. On the other hand, it could open a backdoor for a new merely GDP growth-focused economic strategy that covers up environmental conflicts by watering down the sustainability concept.

Such a concept of an indicator-based economic policy, focused on macroeconomic stability and using central surveillance mechanisms, was further developed in the ‘Six-pack’ and the ‘Euro Plus Pact’. The new so-called Macroeconomic Imbalance Procedure, in particular, with the set of indicators, the ‘scoreboard’ (see European Commission, 2012a) might be interpreted as some kind of ‘GDP and beyond’, as it implicitly sets out additional indicators to measure good/stability-oriented economic policies.

However, this development has the potential to narrow the broader guidelines for economic policy stated in the Treaty on the Functioning of the European Union (TFEU), where the ‘well-being of its peoples’ is the basic aim, followed by some kind of a ‘magic polygon’ of economic policy (Rothschild, 2005) with the ‘corners’ being balanced growth, price stability, full employment, social progress, quality of the environment and scientific and technological advance. The Europe 2020 strategy also has a broader focus than the macroeconomic scoreboard.

The BGD can only become a success if the new indicators are directly linked to the economic agenda through broad long-term goals. Dullien and van Treeck (2012) propose – in the context of Germany – a reformulation of the magic polygon through legislation, highlighting ‘social sustainability’, ‘material prosperity and economic sustainability’, ‘ecological sustainability’ and ‘sustainability of public activity and finances’, all of which should be treated equally and further specified by a set of indicators. This should be the basis on which economic policy is evaluated. For that purpose, they propose an ‘annual prosperity report’, which should clearly point to development in these fields, lay out the basic trade-offs between the goals and suggest what should be done to establish a balanced policy-mix. In the European context, such a report

could replace the annual growth report and become a basic tool to broaden the economic debate in the European Semester.

An important precondition for such a report would be timely data, comparable time series and at least rough projections for the near future. For example, the European Quality of Life Survey (Eurofound, 2012) aims at measuring the overall objective of the TFEU and contains a lot of pertinent information. It also shows that a publication interval of four years is a major barrier for policy relevance. At the same time, quarterly reports would probably not add a lot of information, since the broad determinants of well-being and happiness are known (see for example Layard, 2005) and rather stable. On the other hand, some of the available indicators, for example in the case of unemployment, are published in a more timely manner and with higher accuracy than GDP. The importance of data quality should thus not be overestimated.

## **2. The main dimensions of reformed statistical indicators**

As mentioned, Europe witnessed some positive developments regarding statistical indicators. In the last years a consensus emerged on better measurements of progress, at least on a relatively general level. The SSFC laid the basis with its twelve reform recommendations. This ground-breaking work was referred to in the more detailed work of the ‘Sponsorship Group on Measuring Progress, Well-being and Sustainable Development’ launched by the European Statistical System Committee, the joint report of the French and German economic expert councils and the OECD’s ‘Better life’ initiative (see Eurostat, 2011). They identified three areas that should be at the centre of such indicators: economic performance, societal well-being and the sustainability of these, with a special focus on the environment. This section is structured along these lines, since these are also the areas in which Europe is facing a crisis.

This is certainly a new quality of treatment, as the SSFC provided a coherent and integrated approach with a scientific foundation that enjoyed significant political backup, and which led to coordinated efforts by major international organisations. Although economists play a leading role, the approach is interdisciplinary, with an at least implicit

grounding in happiness research (see Layard, 2005). The main findings of this research area are that after reaching a certain level, further increases in aggregate production and income have only a minor effect on subjective well-being. It is instead determined more by the distribution of financial resources, unemployment, job quality, leisure and other non-economic factors such as health or social inclusion. This evidence is corroborated by a recent survey by the OECD (2008), which concludes that there are large and robust negative effects of unemployment on well-being, after age, education and even household income are controlled for.

The SSFC integrated environmental sustainability into the thinking about progress. Their focus is limited to avoiding irreversible damage, which they postulate as a guideline for an ecological transformation of the economy. However, it is not always clear how this can be applied in practice. For example, from this point of view, finance can be considered as one of the 'sustainable' economic sectors on account of its being a service sector. This, however, is subject to a few reservations that should be mentioned here. First, the financial sector can endanger macroeconomic stability and is thus not necessarily sustainable in this particular economic sense. Furthermore, while the ecological effects of boom and bust cycles are not clear and would merit further research, there is no reason to believe that financial markets will be successful in incorporating long-term ecological risks into business and government policy valuations, since they fail at appropriately pricing even medium-term economic risks. Finally, rather than being an end in itself or even a means to an end, finance is a 'means to a means', since it serves the purposes of investment and economic growth, which themselves are means to the end of a good life or a good society. The regulatory framework of the economy should therefore be formulated to take this subordinate status of the financial sector into account. An inversion of the importance of finance through the back door of 'sustainability' is counter-productive to this debate. A more stringent formulation of the sustainability goal might thus improve the framework within which the BGD is conducted.

The following subsections put the BGD debate in context within the economic, social and environmental crisis in Europe. These are areas which would need to be addressed by policy-making at European level, but the positive response so far remains limited to the area of technical indicators.

## 2.1 Economic performance

Welfare as measured by standard indicators has fallen in Europe. While worries regarding a double dip in the U.S. have so far proven unfounded, the European economy experienced its second year of recession in 2012 after the shared recession experience in the U.S. and in Europe in 2008-2009. The European slump deepened throughout the year 2012, and it is both the EU and the eurozone area that have seen negative growth rates for two consecutive quarters in the aggregate. Europe is thus undoubtedly in an economic downturn.

From a viewpoint not centred on GDP, this does not, a priori, give rise to worry. It is quite possible for low output levels to go together with fairly high living standards and vice versa, as the differences in the ranking of per-capita GDP and the human development index for, among others, Cuba and India demonstrate. However, this does not necessarily extend to falling output, i.e. negative growth rates. Standard indicators of economic hardship, such as poverty and unemployment rates, have risen sharply in the eurozone with the crisis. Much-cited disastrous record unemployment rates above 25% and youth unemployment rates reaching around 60% in Spain and Greece provide an indication of the extent of the negative effects of falling output on the quality of life. The bleak picture is described in detail by the European Commission's report (European Commission, 2012b) on employment and social developments.

The negative effects of unemployment on both health and happiness have been known for decades, as the research by Jahoda *et al.* (1975 [1933]) in their seminal study of Austrian unemployed demonstrates. Economic crises thus have the potential of worsening alternative welfare indicators. Some reports' evidence from the European crisis countries and in particular from Greece suggests that health service quality and coverage have declined, and that suicide rates have increased.

Beyond their aggregate impact, one reason for this substantially negative effect of economic crises on the quality of life is their differential impact on income groups; in particular, low income groups may be less capable of cushioning negative income shocks and preventing slides into poverty – defined by Eurostat as the inability to afford basic necessities for a good life. Since inequality also leads to



negative effects with respect to health outcomes, especially regarding psychological illnesses, lower educational outcomes, higher prevalence of gender discrimination and higher crime and incarceration rates (Wilkinson and Pickett, 2009), the particularly negative effects of the crisis on low income groups is likely to impact the quality of life for society as a whole. In this context, broader measures for economic well-being, that focus more on consumption than on production and income, are required. Furthermore, better measures for wealth and consumption and of the distribution of income, wealth and consumption will make a discerning investigation of differential policy impacts possible. The steps taken by Eurostat (2011) towards providing these indicators are ambitious and very useful, even though the measurement of household assets beyond housing are likely to be available only in the medium term. Similarly, those capturing distribution will likely take some time due to the difficulties in harmonising the EU- Statistics on Income and Living Conditions (SILC data) across countries.

Transfers and public services in European welfare states are designed, among other things, to insure against these losses in welfare resulting from economic crises. As a consequence, so called structural reforms that reduce the redistributive effects of the public sector in the midst of an economic slump can have a negative effect on social indicators. This insight lies at the root of John Maynard Keynes' request to rekindle growth in the short run during an economic downturn, and postpone the focus on growth reduction. Viewed from a quality of life perspective, it is therefore crucial to address the cyclical nature of the current economic downturn.

The attempt to resolve the severe imbalance of aggregate demand within the eurozone one-sidedly leads to a generalised inadequacy of aggregate demand, which is exacerbated by debt overhang in some countries. Unless the import deficit countries like Austria or Germany begin to address their weakness, the downward spiral of deficit cuts and reduced economic growth in the eurozone and the European Union is likely to continue unabated. The repeated downward revisions of economic growth projections by the European Commission are a warning indication of the pressures on quality of life in Europe in the near future.

In this light, the governments in Europe should institute growth packages to stimulate demand in the short run. These should be formulated bearing in mind the long-term environmental effects of economic

growth, and could therefore include increases in government expenditures to finance employment-intensive projects with a small ecological footprint, such as government services in health, education, research and care, as well as investments in renewable energy.

While the overwhelming recent evidence on fiscal multipliers (Romer and Romer, 2010; Blanchard and Leigh, 2013) shows that especially in economic crises the financing of such measures need not be a primary concern, eurozone countries have to contend with their self-imposed austerity. Given these constraints, countries with fiscal leeway under the existing framework should balance their import deficits by expanding government demand.

However, given the current macroeconomic policy setting in the eurozone, one promising route to stabilising growth and the quality of life in Europe are Haavelmo-neutral government reforms. Named after Norwegian Nobel prize-winning economist Trygve Magnus Haavelmo, the theorem states that extending public expenditure while at the same time increasing taxation has an expansionary effect. The effect will be even stronger if the policy includes redistribution from groups with high saving propensities to those with high consumption propensities, as this can foster growth while maintaining a balanced budget. Since inequality, along with macroeconomic imbalances and unregulated financial markets, was one of the main causes of the financial and economic crisis, its reduction will have important stabilising effects on economic development.

## 2.2 Quality of life

Over the past 130 years, average work hours have fallen between one half and a third in continental Europe, and by about a quarter in Anglo-Saxon countries. For instance, weekly hours in Germany decreased from about 68 to 39 hours per week from 1870 to 1929. However, most of that fall took place at an accelerating pace until 1929, when European weekly hours reached 46 in Germany and 49 hours in Switzerland (Huberman and Minns, 2007: 548). Subsequent reductions in work time have been comparatively small, leading us to an average of about 37 hours per week in 2000.

These averages undoubtedly miss out on important differences between and within countries, including national determinants such as gender, age, job type and sector, but also internationally religion and culture, and, crucially, the strength and strategy of trade unions. Nonetheless, a secular trend of an overall fall in work hours, which is marked by a decelerating reduction since the 1930s, can be clearly distinguished across all countries.

In contrast, labour productivity increased by about 2% per year, reasonably in line with Keynes' predictions in his essay on the 'economic possibilities of our grandchildren'. However, the continued rise in productivity resulted in higher production and incomes, not a levelling off of production and extended leisure time. In addition, income-inequality increased after a period of low inequality following World War II, not just between labour incomes but especially between labour and capital income. The gains from increased productivity thus did not accrue to the working population on average in the form of either decreases in work time at constant pay, nor remuneration rising in line with labour productivity gains.

The slowdown in the reduction of working time is what lies behind the failure of the 'economic possibilities of our grandchildren' to materialise, namely, for 3-hour work days to produce the means for a comfortable life for the entire population. As a consequence, despite the remarkable productivity growth, these gains did not provide the material basis for a fulfilling and leisurely paced, yet productive work life and ample opportunities for other welfare-enhancing activities for the vast majority of the population. These other elements of a good life beyond leisure feature heavily in more philosophy-based characterisations of a good society. Social ties, health, security in a broad sense, individuality, democratic participation, and the natural environment are considered to play a part in a good quality of life. SSFC address these concerns by recommending indicators that capture the quality of life. Eurostat proposes to base itself on a set of indicators - that are, crucially, to be published individually, and not aggregated into a single index - on the data from the EU-SILC project. While the harmonisation of the country-wise developed and collected indicators is a formidable task, the thrust of the SILC data is well aligned with the measurement of quality of life, including the differential access by various socio-economic groups. The indicators proposed by Eurostat are by-and-large

outcome-based, and can be expected to give a comprehensive and comparable picture of the quality of life in Europe, even though additional indicators like involuntary unemployment and under-employment provide useful information.

The vision of a good society underlying both Keynes' essay and the SSFC recommendations contrasts starkly with the situation in Europe today, where mass unemployment co-exists with a rising toll of (mainly psychological) health problems from overwork. Unemployment in many countries in Europe, and in particular in the eurozone, is reaching levels that are threatening social cohesion. Unemployment rates of around 11% in Europe blight lives, depress aggregate demand, and polarise societies. High youth unemployment rates have a devastating effect on the job market prospects of an entire generation of recent graduates.

It is therefore crucial to distinguish between falls in average work hours due to layoffs, short work hours and involuntary part-time work, and across-the-board reductions of work time following policy changes in the standard working week and legal work time limits.

## 2.3 Sustainability

One goal of Eurostat is to further develop the data collection system concerning the environmental goods and services sector. The focus on the 'green sector' is problematic if social criteria, such as the quality of work, and economic factors, such as the net effect on the number of jobs from the change towards more eco-friendly products, are not included in the analysis. Most importantly within the environmental logic, estimating the ecological benefit of the environmental goods and service sector is difficult, because this effect depends on the basis scenario to which the ecological gain is compared. For instance, a boom in the environmental goods and service sector could be caused by more waste that requires cleaning up. Similarly, the sale of an eco-friendly car may be more eco-friendly than that of a conventional car, but it is less eco-friendly than an increase in public transport. Both the waste treatment and the eco-friendly car would result in a growing environmental goods and services sector. The environmental goods and services sector thus shares the problems of GDP of which it forms a

part, in that its size is not an indication of its environmental quality. The green economy should therefore be evaluated by results. It might thus be useful to concentrate on sustainability indicators that measure the outcome of an activity, such as for example greenhouse gas emissions, and not the activity itself, such as recycling.

Some people argue that our economic system is based on depleting natural and environmental resources and that this system could reach its limits. However, it is important to bear in mind that there are certain biophysical limits beyond which the ecological system approaches the risk of a 'tipping point'. This contribution takes an anthropocentric view, so we concentrate here on environmental problems that may threaten so-called 'life support systems', and sustainability indicators that signal whether the economic system is located within or beyond the 'safe operating space of humanity'. Research initiated by the Stockholm Environment Institute identified nine such 'life support systems' that exhibit limiting boundaries. These are climate change, the rate of terrestrial and marine biodiversity loss, interference with the nitrogen and phosphorus cycles, stratospheric ozone depletion, ocean acidification, global freshwater use, the change in land use, chemical pollution, and atmospheric aerosol loading (Rockström *et al.*, 2009).

In three of the nine life support systems, the economic system is in the danger zone. These are the interference with the nitrogen cycle, the rate of biodiversity loss and climate change (Rockström *et al.*, 2009). The latter receives the most attention in environmental issues, which is in part due to its feedback effects on other environmental problems. For instance, 15-40% of all species on earth are considered at risk of extinction because of climate change (Stern, 2007). Because of this key function, and because of its impact on human life, we concentrate here on climate change.

The main indicator for evaluating the effects of policy measures that aim at tackling climate change are greenhouse gas emissions. These are measured in tons of CO<sub>2</sub> equivalents, and the available evidence shows clearly that greenhouse gas emissions are increasing.

While some countries in the northern hemisphere could potentially benefit from moderate climate change that brings about slightly higher temperature, the consequences of the current pace of climate change

are negative, especially for low-income regions and the poorest. Climate change increases damage from extreme weather events, it leads to declining agricultural yields and rising sea levels (Stern, 2007).

Addressing climate change would have beneficial side effects. First, economic effects in the medium to long run include reduced cost from climate damages. According to some calculations, expenditures on tackling climate change would cost just 1% of GDP, while unhampered climate change could lead to costs of at least 5% of GDP (Stern, 2007)<sup>1</sup>. Second, tackling climate change ameliorates social imbalances. While the high-income groups and countries disproportionately cause climate change, the negative consequences of climate change affect the poor more severely.

New, greener technologies can play a pivotal role in reducing emissions, mostly through the realisation of efficiency gains. However, the rebound effect counteracts this benefit of technological change, since efficiency gains can cause more energy or natural resources to be used. If prices are lower due to improved technology, then this can lead to higher consumption. In the aggregate, some or all of the reduction in resource use per unit produced may be thus offset. The price effect can also work through the paradoxical effect of a successful reduction in energy consumption. The lower resource demand resulting from improved technology can lead to falling energy prices, which then induce higher energy consumption.

As a consequence, most countries have not managed absolute decoupling of GDP growth from material and resource use. While the European Union's decreases in greenhouse gas emissions could be seen as an example for absolute decoupling, it is important to recognise that this decrease was essentially due to the devastating deindustrialisation in Eastern Europe and, more recently, a by-product of the dramatic economic crisis. However, there are some positive examples. The United Kingdom and Germany were able to reduce greenhouse gas emissions in growing economies. This effect holds even when the

---

1. It should be noted that these results hinge on the discount rate, and that the one used in the Stern Review is extremely low (0.1%). A higher discount rate affects the size of the results, but leaves them qualitatively unchanged.

deindustrialisation in the former German Democratic Republic is taken into account.

It should also be noted that for emissions, their global level is the relevant factor. Shifting emissions between countries, for instance by relocating production, does not improve the overall situation with respect to climate change.

For the purpose of this chapter, the relevant question is which economic policy measures could support a socio-environmental change, which includes tackling climate change. In this context, the social consequences of policy solutions are crucial not just because quality of life encompasses social goals, but because of social justice and pragmatic policy considerations. As mentioned, the rich are disproportionately responsible for causing climate change, while the poor are affected disproportionately. From a realpolitik point of view, governments disregarding social issues are unlikely to have sufficient clout to take strong measures to address climate change.

On this basis, some economists and many environmentalists argue that no growth or even de-growth strategies can help overcome environmental problems (see Jackson, 2009). The reason is that greenhouse gases are primarily determined by population, the level of per-capita GDP and the greenhouse gas intensity of GDP, that is, technology. Because population growth is not easy to influence quickly and while respecting human rights, and reductions in the greenhouse gas intensity have not taken place fast enough at least historically, zero or negative growth seems to them to be the only feasible way to reduce emissions.

However, such a strategy has substantial disadvantages. De-growth endangers social security systems, it exacerbates conflicts in distribution and it increases unemployment. Falling income can even exacerbate local environmental problems.

The relationship between greenhouse gases and growth also depends on the nature of growth. On average, it seems plausible that growth in the secondary sector is more greenhouse gas intensive than growth in the tertiary sector.

Even proponents propose de-growth only as a solution for rich countries. As a consequence, many countries including China, the world's largest greenhouse gas emitter, would not be affected by this solution.

Considering the political and social hurdles, a political consensus for de-growth seems very unrealistic. Finally, from a political economy point of view the argument is logically inconsistent. Because politicians have been demonstrably unable to take measures against climate change, they are requested to take even stronger measures against growth.

### **3. The BGD in the 1970s and thereafter – lessons learned?**

As the current BGD is quite similar to critiques of GDP as a measure of progress in the 1970s, this section asks how this time could be different, and what factors can be identified as supportive to the establishment of new indicators for the measurement of economic performance and social progress. These historical aspects have received limited attention in the current debate, although such an analysis could be a good starting point.

In the 1970s, the critique of GDP had two main dimensions. On the one hand, there was a discussion on the ecological limits to growth, mainly triggered by the eponymous study on behalf of the Club of Rome (Meadows *et al.*, 1972). On the other hand, there was a discussion about social/welfare statistics as a complement to the system of national accounts, mostly driven by international organisations.

Illustrating the first aspect of these critiques, Gunnar Myrdal (1973: 208) put it bluntly by concluding that 'The concept of GNP and the whole structure of theoretical approaches built up with the GNP as a central axis, will have to be dethroned.' However, he was realistic about the difficulties of such a project, because 'the psychology and ideology of unrestrained economic growth has meanwhile retained its hold over peoples' minds' (*ibidem*: 219). Necessary as it might have been from an ecological point of view, a planned slowdown of economic growth or even de-growth did not seem likely (Chaloupek and Feigl, 2012).



The second strand of the BGD in the 1970s, concerning social indicators, did not fare much better in terms of changing economic debate, even though it received more attention. The basic idea was to create a broader set of relevant indicators, which should then be the main focus in evaluating the progress of societies. GDP or another indicator from the system of national accounts could be part of the set, but would not receive more relevance than for example employment, health or education. In the economic policy debate, the ‘magic polygon’ (Rothschild, 2005) can be seen as a first attempt to include not only economic growth, but also full employment, price stability, income distribution and a balanced foreign sector into the analysis. However, this formulation did not lead to the definition of concrete indicators. It did make clear, though, that a balanced economic policy mix cannot focus on one single indicator or even a composite index, as there are trade-offs between the policy goals.

A more specific project was first launched in the context of the United Nations even earlier, when the international foundations for the system of national accounts – and therefore GDP and GNP – were established in the 1940s and 1950s. Costanza *et al.* (2009: 5) mention the Bretton Woods conference as a starting point, where the political goal was to foster ‘economic progress everywhere’ to prevent war and destruction. At that point, GNP became the key indicator. However, before the final report was published in 1953, the UN Economic and Social Council appointed an international expert group to elaborate ‘the most satisfactory methods of defining and measuring standards of living and changes therein in the various countries’ (United Nations, 1954: 176). They proposed a set of indicators as ‘... levels of living must be approached in terms of a series of components (health, nutrition, education, etc.) and their statistical indicators, rather than in terms of any unitary monetary index, such as per capita national income’ (ibidem).

However, the implementation of the social indicators was sluggish due to a lack of political support, technical problems and poor coordination between the UN organisations, while the system of national accounts became the central reference point for economics. In 1970 the OECD launched a social indicator project on their own (see Beirat für Wirtschafts- und Sozialfragen, 1976) with similarly mixed results. The successor report, ‘Society at a Glance’, was published two decades later in 2001 and did not gather widespread public attention either.

The only example of a successfully established new indicator is the UNDP's Human Development Index (HDI), which is now part of every country profile. Amartya Sen was one of HDI's 'parents'. As he also played an important role in the current efforts to go beyond GDP, there might be reason to hope that the current debate will lead to tangible outcomes. The HDI is theoretically based on Sen's capability approach and thus includes education, life expectancy, and GDP per capita as a measure of the potential for 'the conversion of income into the fulfilment of human needs' (UNDP, 1990: 13). This strategy of going beyond GDP without abandoning it entirely might have been one of the ingredients for the HDI's relative success.

However, in sum the proposals for alternative indicators did not achieve the same statistical quality, nor did they receive similar attention, as GDP. On the contrary, GDP itself has become ever more important. Today even minor changes in projected economic growth are covered extensively by the media and discussed in politics. The reasons for the limited importance of alternative indicators may lie in developments in the economy and in society more generally. After the second oil price shock, the golden age of full employment drew to an end, with a major shift of policy away from redistribution and growth of the real economy towards financialisation and liberalisation. Andrew Sharpe, Director of the Canadian 'Centre for the Study of Living Standards' characterises the era as one of 'tighter government finances; a more conservative ideology adopted by a number of governments; and a perceived lack of usefulness of social indicators in policy making' (Sharpe, 1999: 7). He relates this to alternative indicators by noting that 'this latter factor in turn may have been due to the overly simplistic view of how knowledge influences policy that had been put forward by the social indicators movement.'

With the ensuing slowdown of economic growth and a tightening of public finances, the attention has since been no longer focused on the problem of 'too much' but 'too little' economic growth. This slowdown was not a harbinger of the ultimate limits to growth, as demonstrated by the next decade, which saw a long upswing with yearly growth rates around 2.5 % of GDP.

A report in the context of the UN Statistical Commission comes to a similar conclusion, but furthermore highlights the role of societal structures, group interest and decision making (Becker *et al.*, 2000: 404):

‘Society expends resources on the collection of official statistics because of the perceived need by the society for the data in public policy decision-making. Most of the central discussions, in market economies at least, have been economic ones. In many cases social discussions have taken a back seat to economic ones.’ Therefore, more and better information is no guarantee for better policies. The major barrier is rather the lack of homogenous interests and the resulting conflicts over welfare decisions.

In the early debate in Austria, Herbert Ostleitner concluded that it is unlikely that social indicators will take the place of GDP in a capitalistic society. That is because the latter is related to private capital accumulation, which can be seen as the central systemic variable of capitalism (Ostleitner, 1975: 15). Following Polanyi (1977), this begs the question of how the economic system can be re-embedded into society, that is, how the logic of enforced growth can be fenced in so that societal goals achieved through democratically legitimated decisions can be moved to the foreground. This includes the question of how ecological boundaries can be respected, since societies are ultimately embedded in nature.

This section provided a brief brush over the historical debate on alternative indicators of societal progress. A more thorough evaluation of past initiatives would be helpful to inform the current BGD, but the general thrust is clear: notwithstanding the HDI, the debate in the 1970s failed to sustainably shift the focus of policy makers from GDP to well-being and the environment. Against this background and the conclusion from the first section that the current debate in Europe is threatened with a similar fate despite the economic, social and environmental crises, the next section focuses on policy suggestions, from a progressive vantage point that can possibly lead to improvement in all three of these areas.

#### **4. Employment, distribution and conversion as the way beyond GDP?**

If there was political will to shift the focus from GDP and macro-economic surveillance to topics that are more directly linked to well-being, such as a more balanced policy-mix, it would not be that hard to find appropriate indicators measuring progress. Furthermore, there are

some areas of economic policy where stronger engagement can reinforce other economic goals, with only minor conflicts with other aims. These potential areas of increasing well-being without harming other goals should be the central focus point of economic policy. We think that there are basically three areas: good and sufficient employment, a more equal distribution of income, working time and wealth, and stronger investment in the conversion of the economy so that environmental degradation will be constrained.

If the European governance and policy framework were thus focused more on combating unemployment, fostering a fair distribution of income, wealth and working hours and encouraging an ecological transformation of the economy, it would feed more naturally into an agenda of progress and well-being. De-growth, on the other hand, cannot be a viable common solution for environmental, social and financial problems. As a consequence, we propose a reduction in working hours as one central measure of a socio-ecological transition. Furthermore, we argue that redistribution is a precondition to a reduction in working hours and that both have favourable environmental effects.

Theory tells us that productivity gains can be channelled into an increase in production and consumption, or into a reduction of working hours. An important caveat to an environmentally and socially effective reduction in working time is that it is usually found to raise productivity (Foley and Michl, 1999; Rezai *et al.*, 2013). However, these gains are not sufficient to offset the decrease in work hours entirely. Another caveat concerns the affordability of work time reductions, especially for low-income groups. Here it is important to remember that these measures are the result of a political process. As a consequence, their costs have to be shared between employers and employees, so that the outcome will have to lie somewhere between the two extremes of a full pay cut and a continued payment of wages in their entirety. Under a socially responsible solution, the reduction in work time per person can decrease unemployment rates, it has the potential of improving the gendered imbalance in market work and unpaid care work, and it can improve health through a better work-life balance and therefore increase well-being. Decreasing working hours also means less greenhouse gases. Moreover, more time for leisure is also an incentive for an environment-friendly lifestyle, because people are able to switch from energy intensive but time-saving consumption styles to more time

intensive consumption styles, such as for example walking instead of driving a car. Both effects are established in the empirical literature (Rosnick and Weisbrot, 2006; Knight *et al.*, 2012; Hayden and Shandra, 2009). A crucial obstacle to an effective reduction in working time and an ecological transition of consumption and lifestyle patterns is the ‘rat race’, in which the members of high-income societies are caught despite the latter being able to afford a high standard of living for everybody. Known among economists as the ‘relative income hypothesis’ (Stiglitz, 2008; Bowles und Park, 2005), it describes the situation in societies with entrenched inequality, where top earners try to increase income gaps by working more and harder, while the poor and the middle class try to reduce the gap to the top by also working more and harder. This behaviour is a zero sum game. If everybody works more, nobody gains in relative status, and everyone including the environment is worse off. Inequality is therefore not only a social and financial problem, but because it prevents a reduction in working hours, it is also an environmental problem (see Sturn and van Treeck, 2010). Redistribution, as part of a changed economic policy framework that improves the quality of life, is thus the central element in the strategy proposed here.

Redistribution helps the environment beyond its effect on working hours. Eco-friendly behaviour can be explained as a form of altruism, because it is unclear how much of its positive effects will accrue to the individual undertaking it. At the same time, more egalitarian societies engender altruism, because they are experienced as fairer, which increases the likelihood of non-self-serving behaviour. This is the reason why people in more egalitarian societies recycle more waste, the acceptance of environmental friendly measures is higher and greenhouse gas emissions tend to be lower (Wilkinson and Pickett, 2010).

Redistribution also has positive effects on a number of social indicators. More unequal societies tend to have lower educational outcomes, they have worse gender discrimination and they also exhibit higher crime and incarceration rates (Wilkinson and Pickett, 2009). In the context of the ongoing crisis in Europe, redistribution, especially of working time, would be a crucial step in coping with the effects of the ongoing crisis and changing the economic policy framework to one that is more conducive towards a better quality of life. High and increasing inequality was one of the key contributors to the build-up of imbalances in the eurozone

(Fitoussi and Stiglitz, 2009; Horn *et al.*, 2009). Redistribution fosters stable economic growth due to adequate aggregate demand, and the shrinking of volatile speculative capital which results from the high saving rates of high-income groups.

Finally, this socio-environmental transition needs to be supported by investments in environmentally-friendly technologies. Investments in, for instance, renewable energy, public transport and thermal insulation would not only help reduce greenhouse gas emissions but also improve current accounts. Whereas the net employment effects of a transition to renewable energy are small, yet positive, investment in public transport systems and thermal insulation can help reduce unemployment substantially.

## Conclusions

This contribution aimed at giving an overview of the current Beyond GDP debate. Although its start in Europe was promising, it was brought up short by the ideological shift in the wake of the financial crisis towards a narrow macroeconomic trinity consisting of austerity, structural reforms and competitiveness. This effectively closed off the opportunity to shift the economic policy focus in the European Union to well-being and social progress within environmental boundaries.

This development shows remarkable parallels to a similar debate in the 1970s. At that time, neoliberal forces gained momentum in an economic crisis which pushed the development of alternative indicators out of the focus of economic policy makers. Yet, there is hope that the debate will be kept on the agenda this time by the fact that the debate today is much more evidence-based, and by the growing literature on the shortcomings of GDP as a measure of well-being and societal progress. The advances in European statistics in developing alternative indicators of economic, social and environmental well-being nourish this view. However, it is far from clear whether more statistical indicators by themselves will necessarily lead to tangible policy outcomes of continued progress along social and environmental lines. This contribution thus proposed central measures to improve the quality of life, including a reduction in work time, redistribution and investments in socio-ecological transformation.

The success of the project depends on continuing political pressure from environmental groups, as well as from the European labour movement and others, to change the economic policy-mix. Their critique needs to be combined with a new social-ecological project with common goals, which in turn will have to be measured. Conferences like that organised by IG Metall in 2012 on 'Change for a good life' (IG Metall, 2012), with the aim of combining good working conditions, ecological transformation and democracy, prove that important players are conscious of the need to establish such alliances.

## References

- Becker B., Habermann H. and Melnick D. (2000) Measuring social phenomena 1954 to 1997- Progress?, Handbook of National Accounting – Studies in Methods, Series F 75, United Nations, New York, 401-407.
- Beirat für Wirtschafts- und Sozialfragen (1976), Qualitative Aspekte der wirtschaftlichen und gesellschaftlichen Entwicklung (Wohlfahrtsindikatoren), Beirat, Wien.
- Blanchard O. and Leigh D. (2013) Growth Forecast Errors and Fiscal Multipliers, IMF Working Paper, 13/1, International Monetary Fund.
- Bowles S. and Park Y. (2005) Emulation, Inequality, and work hours: was Thorsten Veblen right?, *The Economic Journal*, 115, 397–412.
- Chaloupek G. and Feigl G. (2012) Die Wachstumskontroverse vor vierzig Jahren und heute, *Wirtschaft und Gesellschaft*, 38 (4), 771-800.
- Conseil d'Analyse Économique and Sachverständigenrat (2010) Monitoring economic performance, quality of life and sustainability ([http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/Expertisen/2010/ex10\\_en.pdf](http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/Expertisen/2010/ex10_en.pdf)).
- Costanza R., Hart M., Posner St. and Talberth J. (2009) Beyond GDP: The Need for New Measures of Progress, *The Pardee Papers 4*, Boston University, January 2009 (<http://www.bu.edu/pardee/files/documents/PP-004-GDP.pdf>).
- Degryse C. and Pochet P. (2012) Worrying trends in the new European governance, in Natali D. and Vanhercke B. (eds.) *Social developments in the European Union 2011*, Brussels, ETUI and OSE, 81-108.
- Dullien S. and van Treeck T. (2012) Ziele und Zielkonflikte der Wirtschaftspolitik und Ansätze für Indikatoren und Politikberatung, *IMK Policy Brief*, Düsseldorf, Institut für Makroökonomie und Konjunkturforschung, November 2012 ([http://www.boeckler.de/pdf/p\\_imk\\_pb\\_5\\_2012.pdf](http://www.boeckler.de/pdf/p_imk_pb_5_2012.pdf)).

- Eurofound (2012) Third European Quality of Life Survey – Quality of life in Europe: Impacts of the crisis, Luxembourg, Publications Office of the European Union.
- European Commission (2009) GDP and beyond – Measuring progress in a changing world, COM (2009) 433 final of 20 August 2009.
- European Commission (2012a) Employment and Social Developments in Europe 2012. DG Employment, Social Affairs and Inclusion, Brussels.
- European Commission (2012b) MIP Platform ([http://ec.europa.eu/economy\\_finance/indicators/economic\\_reforms/eip/](http://ec.europa.eu/economy_finance/indicators/economic_reforms/eip/)).
- Eurostat (2011) Report of the Sponsorship Group on Measuring Progress, Well-Being and Sustainable Development ([http://epp.eurostat.ec.europa.eu/portal/page/portal/pgp\\_ess/0\\_DOCS/estat/SpG\\_Final\\_report\\_Progress\\_wellbeing\\_and\\_sustainable\\_deve.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/pgp_ess/0_DOCS/estat/SpG_Final_report_Progress_wellbeing_and_sustainable_deve.pdf)).
- Fitoussi J.-P. and Stiglitz J. (2009) The Ways Out of the Crisis and the Building of a More Cohesive World, Document de travail 17, Paris, OFCE.
- Foley D. and Michl T. (1999) Growth and Distribution, Harvard University Press.
- Galgóczy B. and Pochet P. (2012) How Trade Unions Cope with the Challenge of the Green Transformation in Europe?, in De Munck J., Didry C., Ferreras I. and Jobert A. (eds.) *Renewing Democratic Deliberation in Europe*, Brussels, Peter Lang, 239–254.
- Hayden A. and Shandra J. (2009) Hours of work and the ecological footprint of nations: an exploratory analysis, *Local Environment: The International Journal of Justice and Sustainability*, 14 (6), 575–600.
- Heller W. (1973) Coming to Terms with Growth and Environment, in Schurr S.H. (ed.) *Energy, Economic Growth and the Environment*, Baltimore, Taylor&Francis.
- Horn G., Dröge K., Sturn S., van Treeck T. et Zwiener R. (2009) Von der Finanzkrise zur Weltwirtschaftskrise (III): Die Rolle der Ungleichheit, IMK Report 41, Düsseldorf, Institut für Makroökonomie und Konjunkturforschung, September 2009 ([http://www.boeckler.de/pdf/p\\_imk\\_report\\_41\\_2009.pdf](http://www.boeckler.de/pdf/p_imk_report_41_2009.pdf)).
- Huberman M. and Minns C. (2007) The times they are not changin: Days and hours of work in Old and New Worlds, 1870-2000, *Explorations in Economic History*, 44, 538-567.
- IG Metall (2012) Kurswechsel für ein gutes Leben (<http://www.igmetall-kurswechselfkongress.de>).
- Jackson T. (2009) *Prosperity without Growth – economics for a finite planet*, London, Earthscan.
- Jahoda M., Lazarsfeld P. F. and Zeisel H. (1975 [1933]) *Die Arbeitslosen von Marienthal. Ein soziographischer Versuch über die Wirkungen langandauernder Arbeitslosigkeit*, Frankfurt a.M., Suhrkamp.
- Keynes J. M. (1963) *Economic Possibilities for our Grandchildren* (<http://www.econ.yale.edu/smith/econ116a/keynes1.pdf>).



- Knight K., Rosa E. and Schor J. (2012) Sustainability: The Role of Work Hours, Working Paper, 304, Political Economy Research Institute, Amherst, University of Massachusetts.
- Layard R. (2005) Happiness: Lessons from a new science, London, Penguin.
- Meadows D. H., Meadows D. L., Randers J. and Behrens W. W. (1972) The Limits to Growth, New York, Universe Books.
- Morgenstern O. (1972) Descriptive, Predictive and Normative Theory, *Kyklos*, 25 (4), Blackwell, 699-714.
- Myrdal G. (1973) Against the Stream, Critical Essays on Economics, New York, Pantheon Books.
- Nussbaum M. (2000) Women and Human Development: The Capabilities Approach, Cambridge, Cambridge University Press.
- OECD (2008) Employment Outlook, Paris, Organization for Economic Cooperation and Development.
- Ostleitner H. (1975) Wachstum und gesellschaftliche Stabilität, *Wirtschaft und Gesellschaft*, 1, Wien, AK Wien, 15-32.
- Polanyi K. (1977) The great transformation, New-York, Academic Press Editions.
- Rezai A., Taylor L., Mechler R. (2013) Ecological macroeconomics: An application to climate change, *Ecological Economics*, 85, 69-76.
- Rockström J. *et al.* (2009) A safe operating space for humanity, *Nature*, 461, 472-475, 24 September 2009.
- Romer C. and Romer D. (2010) The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks, *American Economic Review*, 100, 763-801.
- Rosnick D. and Weisbrot M. (2006) Are Shorter Work Hours Good for the Environment? A Comparison of U.S. and European Energy Consumption, Washington, Center for Economic and Policy Research.
- Rothschild K. (2005) Some Primitive Robust Tests of Some Primitive Generalizations, *post-autistic economics review*, 35, 2-10 (<http://www.paecon.net/PAERreview/issue35/Rothschild35.htm>).
- Sen A. (2009) The Idea of Justice, London, Allen Lane.
- Sharpe A. (1999) A Survey of Indicators of Economic and Social Well-being, Ottawa, Centre for the Study of Living Standards.
- Skidelsky R. and Skidelsky E. (2012) How much is enough? Money and the good life, New York, Other Press.
- Stern N. (ed.) (2007) The Economics of Climate Change: The Stern Review, New York, Cambridge University Press.
- Stiglitz J. (2008) Towards a General Theory of Consumerism: Reflections on Keynes' Economic Possibilities for our Grandchildren, in Lorenzo P. and

- Gustavo P. (eds.), *Revisiting Keynes: economic possibilities for our grandchildren*, Cambridge, MIT Press, 41-85.
- Stiglitz J., Sen A. and Fitoussi J.-P. (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress* (<http://www.stiglitz-sen-fitoussi.fr>).
- Sturn S. and van Treeck T. (2010) *Wachstumszwang durch Ungleichheit und Ungleichheit als Wachstumsbremse*, SPW (ed.) 2, 15-20.
- Taylor T. (2012), *Robert Kennedy on Shortcomings of GDP in 1968* (<http://conversableeconomist.blogspot.co.at/2012/01/robert-kennedy-on-shortcomings-of-gdp.html>).
- UNDP (United Nations Development) (1990), *Human Development Report*, New York, United Nations.
- United Nations (1954), *Yearbook of the United Nations*, New York, United Nations.
- Wilkinson R. and Pickett K. (2009) *The Spirit Level*, London, Allen Lane.
- Wilkinson R. and Pickett K. (2010) *The impact of income inequalities on sustainable development in London*, A report for the London Sustainable Development Commission on behalf of the Equality Trust.



# Under the radar? EU social policy in times of austerity

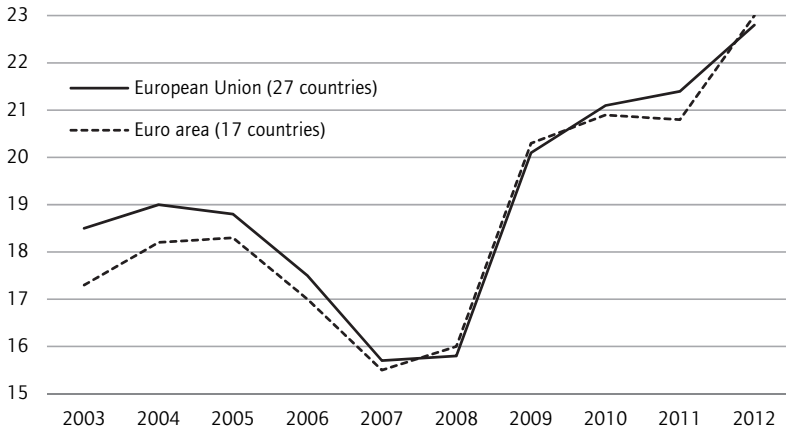
**Bart Vanhercke**

## Introduction<sup>1</sup>

It would be a considerable understatement to say that the European Union's stance on social policy is not living up to expectations, especially in view of the social problems the Member States – or more accurately their populations – are currently facing. At face value, Europe 2020's poverty target seems a poor consolation when the most recent data show that 24.2% of the European population is at risk of poverty and social exclusion and that this number is likely to rise further in the future<sup>2</sup>. During 2012, unemployment rose in 16 Member States and youth unemployment in the European Union has reached the dizzying rate of 22.8% (European Commission, 2013) (see figure 1). The predictions of future social inequalities for countries that have signed a Memorandum of Understanding are unsettling<sup>3</sup> (Greer, 2013) while in their recent book David Stuckler and Sanjay Basu (2013) conclude that in Greece, austerity measures in health care are leading to a public-health disaster to the extent that 'austerity kills'.

- 
1. The sections of this chapter relating to the Europe 2020 strategy draw heavily on extensive joint research with Jonathan Zeitlin, who co-authored section 3. The author is indebted to Shannon Dinan, Ivan Dumka and Nadine Langerak for their research assistance. Their critical feedback, as well as that from David Natali, André Simon and Annemie Pernot, helped to sharpen the arguments. All interpretations and remaining mistakes are mine only.
  2. The data are from 2011 (European Commission, 2012a).
  3. The conclusions from a broad review of the literature on structural adjustment policies suggest that the Economic Adjustment Programmes (EAPs) will be badly implemented; be neutral or bad for growth; be bad for equity and the poor; have unpredictable policy consequences; and will allow incumbent elites to preserve their positions (Geer, 2013).

Figure 1 Youth unemployment rates (EU27 and EA17)



Source: European Commission (2013).

At a time when strong solidarity mechanisms seem more warranted than ever, Mario Draghi, president of the European Central Bank, raised serious doubts about the traditional social contract (Wall Street Journal, 2012)<sup>4</sup>. Referring to the EU's responses to the crisis, some are critical of the paradigms underlying the 'social dimension of Europe 2020' (Daly, 2012; EAPN, 2012). Others take this criticism even further and refer to the 'failure of Social Europe as public policy' (Crespy, 2012) or even claim that the European social model is being deconstructed through mismatched ideology (Barbier, 2012) and conclude that there is an 'attack on European social policy' (Menz, 2012). In part these comments reflect the finding that current social policy initiatives have often fallen victim to the financial crisis and are overshadowed by economic integration and budgetary constraints. Or, as some have put it: Europe 2020 has been 'kidnapped' by the Directorate General for Economic and Financial Affairs (DG ECFIN) and the Economic and Financial Affairs (ECOFIN) Council from its conception (Pochet, 2010).

---

4. Mario Draghi explained that 'The European social model has already gone when we see the youth unemployment rates prevailing in some countries' (Wall Street Journal, 2012). Unsurprisingly, Noam Chomsky (2012) pushes the idea further and describes the welfare state in Europe as being 'under attack'.

Perhaps unsurprisingly then, confidence in the EU's capacity to come up with solutions to the social challenges it faces has also changed dramatically. One recent poll conducted by the European Commission shows that between 2007 and 2012, euroscepticism has risen to a striking degree (Euronews, 2012). In the case of Spain it rose 59% to settle at a new high of 72%, and countries such as the U.K., Germany, France, Italy and Poland echo the sentiment. There is no denying that such distrust among the population stems from social as well as economic problems, and the incapacity of the EU to formulate an effective response to them.

And yet, this chapter argues that a number of European Union and domestic actors are *still pushing for an EU social policy agenda*, which has undergone important developments in 2012. To a large extent these developments are taking place 'under the radar': far away from the public eye, and thus from public scrutiny (which is problematic in itself). While this social dimension below the surface has been ignored so far, because there are as yet few tangible *results*, our take is that the *processes* governing social policy at European level, namely in the context of the Europe 2020 strategy, are slowly maturing and are being taken more seriously by key actors. This could prove to be highly consequential, as more refined decision-making processes and sharper tools are emerging, which in turn could produce significant results in future.

The remainder of the chapter is organised as follows. Section 1 briefly describes the various initiatives that together constitute the EU's *light* social policy agenda today. As a result, the broader environment in which Europe 2020 is embedded is becoming somewhat more attuned to issues of social protection/social inclusion. Section 2 discusses the general architecture of the Europe 2020 strategy (including macroeconomic and fiscal surveillance and the cycle of the European Semester), as this is vital to understanding the place of the social dimension in it. Section 3 is the heart of this chapter, as it discusses how the governance of social policy has been maturing since the launch of the Europe 2020 strategy. We argue that (a) social affairs actors are being involved (a bit) more systematically, (b) decision-making processes are maturing and networks are being deepened, and (c) policy instruments are being sharpened so that actors in the field of social policy have more effective means for pursuing the priorities that they set. Section 4 then draws some conclusions and briefly envisages some scenarios for the future, drawing on Albert Hirschman's (1970) notions of

*exit* (withdrawal of the social dimension from Europe 2020), *voice* (reinforce the social dimension from within), and *loyalty* (accept the *status quo*, and wait for better times).

## 1. A (thin) EU social policy after all?

The European integration process has long been described as ‘asymmetrical’, prioritising economic over social objectives (Scharpf, 1996). Although it is certainly true that market-making ‘negative integration’ has made remarkable strides, ‘Social Europe’ cannot be reduced to Europe 2020 or the European semester.

While the EU’s *legislative agenda* in the area of social policy is clearly in slow motion (also because the *social acquis communautaire* is rather impressive), it was still being developed throughout 2012:

- the Commission announced legislation with the aim of attaining an objective of 40% of women in non-executive board-member positions;
- in the area of health and safety, Member States reached agreement on the review of European legislation concerning the protection of workers exposed to electromagnetic fields;
- the negotiation regarding a revision of the Directive on Institutions for Occupational Retirement Provision (‘IORP II’) are ongoing (even if it may not provide better protection for workers’ supplementary pensions);
- the Commission proposed a Directive intended to improve implementation and enforcement of the Posting of workers Directive;
- in other areas, such as the proposed Council Directive on equal treatment between persons irrespective of religion or belief, disability, age or sexual orientation, the stalemate between the Member States is complete.

The struggle over the EU budget for 2014–20 represented a key moment in EU politics in 2012. In November 2012, European Union leaders failed to agree on the next seven-year budget, which would amount to about 1% of EU-wide gross domestic product. The stalemate around the EU budget (again) underscores the cleavage between rich and poor countries: *politically*, wealthier countries banded together to reduce what they pay

to the collective pool. The Structural funds therefore represent a splendid illustration of the ‘games real actors play’: in this case, what matters is the financial interest of the Member States. In *institutional* terms, the discussion demonstrated the weakness of the Commission, which was largely absent from the diplomatic activity to strike deals between Member States (for a further discussion see Vanhercke *et al.*, 2012).

*Substantively*, the outcome of the budget negotiations implies a reduction of funding for social cohesion. The reduction of the resources available for the European Social Fund (ESF), for example, limits the EU’s capacity to intervene and support investments in training, education and the fight against poverty. Now that the EU calls for more ‘social investment’ and is tying the Europe 2020 strategy more closely to the EU budget<sup>5</sup>, the glaring lack of ambition of the EU budget has become even more striking. Which is why the European Trade Union Confederation (ETUC) called upon the Member States to put their money where their mouth is. At the same time, it should be noted that the newly created ‘Fund for the Most Deprived’ will allow the Member States to provide food<sup>6</sup> and goods for homeless people and materially deprived children, which can be seen as a significant innovation.

While the *European Social Dialogue* has not been very lively in recent years, there has been increased attention given in 2012 to transnational company agreements. In addition, a limited number of agreements have been reached through sectoral social dialogue: in the food and drink industry a sectoral social dialogue committee was set up in January 2012; sectoral social partners signed an agreement on working time for inland waterway transport; social partners in professional football signed an agreement on minimum standards for players’ contracts; there was an agreement on health and safety in the hairdressing sector (incl. provisions on exposure to chemicals and other irritants, especially for pregnant women); and there was the sea fisheries sector agreement<sup>7</sup>

- 
5. When it formally adopted the Europe 2020 strategy, the European Council stressed that all common policies, including the common agricultural policy and cohesion policy, will need to support it (European Council, 2010a).
  6. The EU’s Food Distribution programme will be discontinued at the end of 2013 as a result of the expected depletion of agricultural surpluses.
  7. Covering occupational health and safety aboard fishing vessels, mandating a minimum age for workers in the sector, regular medical checkups, written work agreements, and that social security protection (at a minimum) should cover work-related sickness, injury, or death.



to Adopt ILO Convention no 188. By contrast, negotiations over the revisions to the Working Time Directive failed, even if the Commission agreed an extension of the deadline for the Social Partners until December 31, 2012. The ETUC withdrew from the negotiations in early December, calling the employers' final offer 'unbalanced' and stressing links between long and irregular working hours and health.

In other areas the Commission tried to keep the political debate about social protection and social inclusion going throughout 2012. This was more particularly the case in the area of *pensions*: the White Paper for adequate, safe and sustainable pensions (European Commission, 2012b) provided a broad analysis of both reforms and policy challenges, focusing in particular on population ageing. This is considered to be the most evident risk to the long-term viability of pension systems in Europe. An important and innovative study was produced by the European Commission and the Social Protection Committee (European Commission and SPC, 2012) on the social adequacy of pensions. Its key point is that tackling the demographic challenge demands an encompassing approach. This involves combining measures in the area of pensions with measures affecting labour market policies (increasing employment rates among younger generations, improving working conditions), education and training (improving skills formation and updating) and health care and social services for the elderly (Ghailani and Natali, 2013).

The year 2012 was also the Year of Active Ageing, which represented a focal point to attract the interest of stakeholders and policymakers alike. 'Active ageing' has been addressed from a lifelong perspective: all generations and age classes must contribute to a more adequate and sustainable pension system. Finally, note the emergence of the issue of 'taxation and pensions' on the European agenda. Various EU reports and events in 2012 (incl. the abovementioned White Paper) stressed the need to have an approach addressing spending *and* revenues as regards the sustainability of pensions. The Commission emphasises that it would be better to avoid an increase of tax on labour, which could harm employment levels, and invites the Member States to shift the tax burden towards energy and the environment.

Importantly, the European institutions laid the foundations in 2012 for a political initiative on '*social investment*'. Acknowledging the magnitude of social challenges in most Member States, the European Commission

created a high-level group of independent experts on social investment with the aim of identifying viable strategies to strengthen the European social (and especially anti-poverty) dimension (Agostini *et al.*, 2013: 29). The group was able to draw on work done throughout 2012 by several academics on social investment (Hemerijck, 2012; Morel *et al.*, 2012; Vandenbroucke *et al.*, 2011). These publications also fed into the appeal from the European Parliament (2012) for a Social Investment 'Pact' as a response to the crisis. While the Parliament clearly made a (rhetorical) link to the (constraining) Stability and Growth 'Pact', the European Commission published its (non-constraining) Social Investment Package in February 2013. One of the more interesting issues on the table was the proposal that for the forthcoming budget period at least 25% of cohesion policy funds should be used for social investment; and that at least 20% of the European Social Fund of each MS should be allocated to the thematic aim of 'promoting social inclusion and combating poverty'.

The issue of youth unemployment was also raised onto the political agenda in 2012. Amongst others, through the Youth Employment Package of 2012 and the Youth Guarantee recommendation (European Parliament, 2013; European Commission, 2012d<sup>8</sup>), as well as the Youth Opportunities Initiative which provides tools to lower youth unemployment (European Commission, 2011a). All of these are the result of the initial Youth on the Move Flagship to promote education and employment for youth in the European Union (European Commission, 2010a). Moreover, the Country-Specific Recommendations adopted by the Council in July 2012 gave considerable attention to the issue of youth employment, while the Commission funded some research projects in the context of Youth Guarantee schemes at national, regional and local level. Finally, note that some (strictly limited) opportunities were created in 2012 for further reflection about a European minimum income, amongst others through studies being launched by the European Commission and the European Economic and Social Committee (EESC).

---

8. The Youth Guarantee recommendation provides tools to enable individuals up to 25 years of age find a job, continued education or an apprenticeship within four months of finishing education or of unemployment (European Commission, 2012d).

## 2. A new strategy for Europe until 2020: architecture and governance

The Europe 2020 strategy was launched in March 2010 with the aim to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion (European Council, 2010b). This new Strategy is based on enhanced socio-economic policy coordination, and is organised into three priorities, which are expected to be mutually reinforcing: *smart growth*, *sustainable growth* and *inclusive growth*. While the strategy was originally aimed at creating 'jobs and growth', its emphasis has shifted a great deal since its emergence. A quick look at the general architecture of Europe 2020 is essential to understanding the place of the social dimension in it.

### 2.1 Silent revolutions: macroeconomic and fiscal surveillance

Europe 2020 has been organised around three (supposedly integrated) pillars that differ significantly in their relative (political and legal) weight: macroeconomic surveillance, fiscal surveillance and thematic coordination. While these labels have remained unchanged, their actual content and tools for implementation have changed quite radically in the past year.

*Macroeconomic surveillance* aims at ensuring a stable macroeconomic environment conducive to growth and employment creation. In accordance with so-called 'Integrated Guidelines', it covers macroeconomic and structural policies addressing macroeconomic imbalances, macro-financial vulnerabilities and competitiveness issues which have a macro-economic dimension. This is the responsibility of the ECOFIN Council. Crucially, a new surveillance and enforcement mechanism entered into force in December 2011 as part of the so-called 'Six-pack' legislation, which reinforced economic governance in the EU and the euro area. The *Macroeconomic Imbalance Procedure* (MIP) relies on the following main elements<sup>9</sup>:

---

9. [http://ec.europa.eu/economy\\_finance/economic\\_governance/macroeconomic\\_imbalance\\_procedure/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm).

- 
- An *early warning system*: an alert system is established based on a ‘MIP scoreboard’ consisting of a set of – by now – eleven indicators covering the major sources of macroeconomic imbalances (see Appendix 1). The scoreboard is published in the Alert Mechanism Report (published for the first time in February 2012) that marks the starting point of the annual cycle of the MIP.
  - *Preventive action*: the MIP allows the Commission and the Council to adopt *preventive recommendations* at an early stage before the imbalances become large. These recommendations are embedded in the package of Country-Specific Recommendations which the Commission puts forward in the context of the European Semester (see section 2.2).
  - The MIP also has a *corrective arm* which applies in more severe cases: an Excessive Imbalance Procedure (EIP) can be opened for a Member State if it is found to experience excessive imbalances. The corrective arm for euro area countries consists of a two-step enforcement regime:
    - an interest-bearing deposit can be imposed after one failure to comply with the recommended corrective action;
    - after a second compliance failure, this interest-bearing deposit can be converted into a fine (up to 0.1% of GDP).

The single most significant change brought about by the Six-pack is that it introduces *reverse qualified majority voting* (RQMV) for most sanctions. Reverse qualified majority voting implies that a recommendation or a proposal of the Commission is considered adopted in the Council *unless* a qualified majority of Member States votes against it. In practice it is very difficult for Member States to form a blocking majority. RQMV can therefore be considered as a ‘semi-automatic decision-making’ procedure which gives wide-ranging power to the Commission.

The second pillar of the Europe 2020 strategy is *fiscal surveillance* under the Stability and Growth Pact (SGP), which is supposed to contribute to strengthening fiscal consolidation and fostering sustainable public finances. Here, again, key developments took place in the past few months. First of all, the abovementioned Six-pack strengthens the SGP and more particularly the Excessive Deficit Procedure (EDP), which applies to Member States which have breached either the deficit or the debt criterion (sanctions under the EDP are also adopted via RQMV). During 2012, Member States furthermore agreed on the two

additional Regulations – also known as the ‘Two-pack’ – which introduced additional coordination and surveillance of budgetary processes for all eurozone members.

The Two-pack complements the SGP’s requirement for surveillance, by enhancing the frequency of scrutiny of Member States’ policymaking. Member States now have to submit their draft fiscal budget for the upcoming year to the European Commission; the Commission can require a revised draft budgetary plan if its assessment concludes that the draft budgetary plan shows serious non-compliance with the SGP. Importantly, the Two-pack integrates some elements of the ‘European Fiscal Compact’ directly into EU law. This Compact (or Fiscal Stability Treaty) – signed on 2 March 2012 by 25 EU Member States (EU)<sup>10</sup> – is an intergovernmental treaty introduced as a new, stricter version of the previous Stability and Growth Pact. Some of the provisions of the Fiscal Compact (which already entered into force on 1 January 2013 in the states which completed ratification) are more stringent than the Six-pack<sup>11</sup> which was adopted only a year before. This clearly reflects the sentiment of our interviewees that ‘the house is on fire’, as a result of which the rules of the game are constantly changing.

## 2.2 Thematic coordination and the European semester (basic architecture)

Europe 2020’s third pillar, thematic coordination, focuses on structural reforms in the fields of innovation and research and development (R&D), resource efficiency, the business environment, employment, education and social inclusion. Thematic coordination combines EU priorities (‘Integrated Guidelines’ 4-10), EU headline targets (translated into national targets that underpin them) and EU flagship initiatives. It is conducted by the sectoral formations of the EU Council of Ministers. This includes, for employment, social protection and inclusion matters, the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO). In other

---

10. All Member States except the Czech Republic and the United Kingdom.

11. For example, the Fiscal Compact foresees that if a euro area Member State breaches the deficit criterion, a kind of reverse qualified majority voting (RQMV) applies to all stages of the EDP, even if not foreseen in the Six-pack.

words, this is where we find (some would argue, with a magnifying glass) the former European Employment Strategy and the Social OMC in the new architecture.

### Box 1 Cycle of the European semester

**November:** the Commission publishes its Annual Growth Survey (AGS), identifying the key economic challenges faced by the EU and suggesting priorities for action. The AGS draws on ten Integrated Guidelines: six broad guidelines relate to the economic policies of the Member States and the EU, and four guidelines concern the employment and social inclusion policies of the Member States.

**March:** based on the 'Annual Growth Survey', the European Council endorses annual EU and national-level priorities, provides orientations for action and reflects on the implementation of the previous cycle.

**April:** Taking account of the European Council's orientations, Member States publish their National Reform Programmes in which they set out the action they will undertake, with a view to making progress towards the Integrated Guidelines and five agreed EU headline targets (including the aim to lift at least 20 million people out of the risk of poverty and exclusion). At the same time, Member States submit their Stability or Convergence Programmes, the fiscal surveillance instruments based on the Stability and Growth Pact

**May:** the Commission publishes Country-Specific Recommendations (CSRs), which assess the NRPs. Although most of the recommendations focus on economic and employment reforms, an increasing proportion also address social cohesion issues, including combating poverty and social exclusion.

**June-July:** discussion and in some cases amendments by the committees preparing the work of the ECOFIN and EPSCO Councils: the Economic Policy Committee (EPC), the Employment Committee (EMCO), the Social Protection Committee (SPC), and the Economic and Financial Committee (EFC). The CSRs are then endorsed by the European Council and adopted formally by the Council. The Commission's reports in the following year assess how well this advice has been implemented, and whether sanctions are appropriate.

As can be seen in Box 1, the basic architecture of Europe 2020 consists of building blocks, which taken together constitute the 'European semester'. This was introduced in 2011 and refers to the first half of each year when EU institutions together with the Member States decide on the EU's priorities and actions, to be taken at European and national

levels. Seven flagship initiatives underpin the semester targets and are supposed to ‘catalyse progress under each priority theme’, including on ‘Youth on the move’, and the ‘European platform against poverty’ (EPAP). Note that the latter initially gave rise to a lot of controversy as it seemed to ‘replace’ the Social OMC; however, it now looks as if the EPAP has been reduced to the (ad hoc) Annual Convention on Poverty.

While the formal architecture of the thematic coordination of Europe 2020 has remained largely stable since its launch (see Vanhercke, 2011), a lot has changed in terms of the procedures for its actual implementation, especially as regards mutual surveillance, and the examination and adoption of the CSRs, to which we will turn in section three. Having established the broad picture of the Europe 2020 strategy, the question then is how to qualify its ‘social’ dimension. When comparing the subsequent Annual Growth Surveys, to begin with, the Commission initially regarded pensions and health care as a burden on government budgets, and reforms intended to ‘balance the books’. As importantly, the first AGS narrowed down social policy in the context of the new strategy to policy against poverty and social exclusion (European Commission, 2010b: 6).

In the second Annual Growth Survey (published in November 2011), the Commission took a somewhat more nuanced approach. First, based on the finding that the crisis ‘has disproportionately hit those who were already vulnerable and has created new categories of people at risk of poverty’, the AGS considers that Member States should give priority to further ‘improving the effectiveness of social protection systems and making sure that social automatic stabilisers can play their role as appropriate, avoiding precipitate withdrawals of past extensions of coverage and eligibility until jobs growth substantially resumes’ (European Commission, 2011b: 12). The section with regard to pensions now stresses the need to give priority to ‘reform’, but also for the ‘modernisation’ of pension systems, with a view to ensuring the financial sustainability *and* the ‘adequacy’ of pensions.

The AGS 2013 (published in 2012) confirmed ‘tackling unemployment and the social consequences of the crisis’ as a new priority within the AGS, thereby giving it a proper social dimension (European Commission, 2012c). Even if austerity policies have remained the overwhelming message of the European Semester (EAPN, 2012: 7), in

the framework of the new priority mentioned above, ‘active inclusion’ is considered to be one of the main policy answers to address the social consequences of the crises (Agostini *et al.*, 2013).

A similar tendency can be found when one takes a closer look at the *Country Specific Recommendations*: between the first and the second cycle of the European Semester, an increasing proportion also address social cohesion issues, including combating poverty and social exclusion. Thus, in 2011 only three countries received CSRs which (also) touched upon poverty (BG, CY, EE). In 2012 the European Commission and the Council decided on a specific paragraph on poverty for four countries (BG, LV, LT, ES) while in other cases the topic was addressed through other headings (CY, PL, UK) (*ibidem*). In 2012, 17 CSRs addressed pensions, 5 health and long-term care, 7 poverty reduction, 3 Roma inclusion, and 5 the effectiveness of social protection more generally, though the pension recommendations in particular were criticised for their narrow focus on financial sustainability (SPC, 2012), while proposing a one-size-fits-all solution: adjust the retirement age to life expectancy.

All in all, it would seem that while the CSRs and AGS are largely focused on economic issues (Degryse, 2012) and ‘the only cross-country consistency in all recommendations lies in the call for fiscal consolidation’ (Derruine and Tiedemann, 2011: 6), the social dimension is slowly acquiring its substantive place in Europe 2020. The next section discusses how this came about.

### **3. The changed governance of social policy in Europe 2020**

#### **3.1 Involving social affairs actors (a bit) more systematically**

To the surprise of quite a few observers, the Social Affairs Ministers of the Member States of the EU declared, in June 2011, that the Open Method of Coordination for Social Protection and Social Inclusion (Social OMC) had proved a flexible, successful and effective instrument and that it would be reinvented (read: relaunched) in the context of the new Europe 2020 strategy (Council of the European Union, 2011a). In practice, however, it is quite clear that the Ministers for Social Affairs and the Social Protection Committee were largely excluded from the



initial Europe 2020 strategy. This was quite clear from the EPC note on the implementation of the second phase of the European Semester, which discusses cooperation with EMCO; the SPC is not mentioned once. The note rather explicitly says that ‘all related pension issues would be discussed by EPC’, even if the SPC Chairman ‘would also be invited to the EPC discussion to pass on the views of the SPC on pensions adequacy issues’ (EPC, 2011).

To a large extent, this attitude as regards the SPC can be attributed to the fact that the CSRs are based on the Treaty articles governing the Stability and Growth Pact, the Broad Economic Policy Guidelines and the Employment Guidelines. As a result, the EPC and especially the EFC clearly remain the dominant committees, which have only just begun to recognise the SPC as a legitimate actor in the game. But even for EMCO the battle over territory with the EPC and the very powerful Economic and Financial Committee<sup>12</sup> (its members have direct access to the finance ministers) is a permanent challenge<sup>13</sup>. Unsurprisingly then, the SPC (2011) labeled its involvement in the decision-making process around the CSRs as ‘symbolic rather than influential’ in 2011, as its messages were not heard outside the inner crowd.

And yet it seems that the role of the Social Affairs players has begun to change in 2012, and that they began to acquire their place around the table. Drawing on intensified social monitoring, mutual surveillance, and peer review (see section 3.3 below), the SPC produced its own input into the adoption of the CSRs. Thus, in 2012 the committee conducted a multilateral examination of the Commission’s draft CSRs jointly with EMCO, and successfully proposed amendments on social issues to the Council. However, as a combined result of (a) serious time pressure (Member States had four working days to analyse the CSRs addressed to their own country), (b) the lack of procedural arrangements between the SPC and the EFC (also because the latter had not used RQMV for adopting the CSRs) and (c) a lack of competence in the EMCO to

---

12. The EFC is composed of senior officials from national administrations and central banks, the ECB and the Commission. It works through ad-hoc and sub-committees. Its membership is still not public, although the committee seems to be a bit more in the spotlight through its renewed collaboration with EMCO.

13. Thus the EPC proposed a meeting together with EMCO on labour market issues, to be co-chaired by EPC and EMCO chairmen, but limiting EMCO members to one person, and only for those MS which have a labour market and wage recommendation (EPC, 2012).

convincingly convey the SPC messages on pensions to the EFC, the results of the SPC/EMCO joint multilateral examination were not brought to the EPSCO Council. As a result, 'at the last hour', the economic actors (helped by the Danish Presidency) managed to impose their views on the key issue of pensions: the SPC's proposed amendments never reached the EPSCO Council, leaving decisions about the CSRs in this field to be taken by the EFC and the ECOFIN Council, which focused on financial sustainability rather than social adequacy (SPC, 2013a).

This experience gave rise to a great deal of emotion at the EPSCO Council in June 2012 ('which was entirely hijacked by the incident' according to one of our respondents), and provoked extensive mobilisation throughout 2012 over political 'ownership' of social issues by the EPSCO Council as well as the SPC. This in turn resulted in a revised procedural framework for the 2013 European Semester, based on a clearer allocation of responsibilities and cooperation in areas of overlapping competences between the various committees involved (Council of the European Union, 2012a). Thus the SPC reviewed the implementation of the 2012 CSRs on pensions *jointly* with the EPC, and was scheduled to meet with the EFC and EMCO to finalise amendments to the 2013 CSRs on pensions and health, and on social inclusion aspects of employment, respectively (Barcevičius *et al.*, 2013). The proof of the pudding will, as always, be in the eating: clearly the 'battle for territory' over who discusses – and ultimately decides – the different issues tackled by the CSRs is not settled yet.

And yet, what is already clear is that both the SPC and the EMCO have begun to take a more critical stance as regards the Commission-proposed employment and social protection CSRs. The latter are no longer seen as 'given', but rather as up for debate and amendment and contestation (the CSRs help MS to figure out what to do, no less but also no more). The fact that some significant amendments were indeed obtained through RQMV, points to a shift away from Member States simply accepting that the EC 'knows what is good for them'. In a similar vein, the EPSCO Council's conclusion that 'Member States need some leeway to choose the implementation path that best suits their national conditions, in particular in areas which remain in Member States' competence' (Council of the European Union, 2012b: 2) can be interpreted as a push back against the behavior of the Commission in imposing

one-size-fits-all solutions while refusing to deliberate. The negotiations over the 2013 CSRs will show whether social affairs players in the Member States are ready – and able, for example through coalition-building in the committees and ESPCO Council – to ‘fight back’, in spite of the high burden of RQMV.

### 3.2 Maturing decision-making processes and deepening networks

The Europe 2020 strategy has considerably changed the decision-making processes of the EMCO and SPC in the last year, even in comparison with 2010 and 2011. The most significant change is certainly the introduction of the abovementioned reversed qualified majority voting (RQMV) in the Employment Committee<sup>14</sup>. Again, this means that the *default position* for the EMCO opinion is that the EC proposal for CSR is accepted, *unless* a Member State proposal for a change is accepted by the whole of the committee (in other words: the EC does not need a majority *supporting* its proposed CSR, the Member States need a large majority *opposing* it). One of our key interviewees estimated the success rate of amending a CSR at 10%, at the most.

Since EMCO has so far always worked through consensus decisions or occasionally a simple majority vote, this shift represents a quantum leap for this committee (one interviewee refers to a ‘culture shock, the dust of which took a long time to settle’). At the same time, the use of RQMV also meant that ‘any changes agreed by EMCO could be strongly defended by the Presidency in Council. This has considerably enhanced the reputation of EMCO as ‘a core player in Europe 2020’ (EMCO, 2012a). Our respondents confirm that, while RQMV is by no means their preferred ‘way of doing things’, using it had a positive impact on EMCO’s relationship *vis-à-vis* the EPC (which also uses this procedure in the context of the CSRs). The decision has been taken to start using RQMV in the Social Protection Committee as well (as from 2013<sup>15</sup>), at least when the SPC operates in its role of preparing decisions to be

---

14. Technically speaking, it is not an actual vote but an ‘indicative test’ for support of the MS amendments. The actual votes can only take place in the Council.

15. This required changing the internal rules of procedure of the SPC.

taken by the Council. In conducting its own business, the Committee, like EMCO, can be expected to continue taking decisions by consensus or simple majority.

A second change in the decision-making processes is that in each case, amendments to the CSRs (i.e. any changes to the Commission's proposals) are to be justified<sup>16</sup> by the results of the *multilateral surveillance reviews* conducted within the committees. The EMCO indeed notes that its work on multilateral surveillance was extensively used as a negotiation mandate to justify the adoption or rejection of amendments to the EC's proposed CSRs. The other side of the coin is that amendments that have *not* been (extensively) discussed during the multilateral surveillance, do not stand a chance of acquiring the needed RQMV. The consequence of this is that the Europe 2020 framework pushed Member States towards 'multilateralism', as opposed to the earlier bilateral work (read: negotiations) between the EC and the MS. The EC indeed pushes the Committees to 'speak as one' on the CSRs, while avoiding 'a series of bilateral discussions between a Member State and the Commission within the plenary of the Committee Meeting' (European Commission, 2012e).

Note that the shift from bilateral to multilateral work in both the EMCO and the SPC is still ongoing. MS are still reluctant to be openly critical towards each other; the Commission has therefore asked them to explicitly present their views and not limit themselves to asking questions (EMCO, 2012b). One key actor (cynically) explained that MS do not really have an incentive to be openly critical towards each other: 'the only thing they need to do to disapprove of the policy of another Member State is to abstain from supporting the proposed CSR amendment'.

A third change in the decision-making processes is that the collaboration between the committees involved is not only being intensified, but is also being institutionalised. In a way, the fact that most of the CSRs deal with *several* issue areas, forces the EPC, EFC, EMCO and (ideally) the SPC to work together to find an agreement on the proposed

---

16. Furthermore, under the 'comply or explain' rules of the European Semester, the Council is obliged to provide a written explanation of its reasons for modifying the Commission's recommendations: both EMCO and the SPC were therefore expected to produce a formal report on the CSR examinations, justifying their amendments.

amendments (note that MS are expected to agree on a common position across *all* committees about the amendments they wish to obtain for 'their' CSR). Hence we see more joint Opinions between EMCO and the SPC (e.g. on the examination of the NRPs, Council of the European Union, 2011b and 2012a). And there is a gradual move from the minimalistic scenario where one representative from EMCO or SPC is 'allowed to attend', to genuine joint sessions<sup>17</sup>. Arguably EMCO realised that excluding the SPC on key decisions (including on pensions) in the end undermined its own position, *vis-à-vis* the EPC/EFC. As mentioned above, the SPC was scheduled to examine the implementation of the CSRs on pension policy with the participation of EPC Members as well as the EMCO chair, which may be a sign that the SPC is (finally) confirming its prerogatives (Barcevičius *et al.*, 2013). At the same time it is rather clear that EMCO has safely established itself as the 'hub' of the social committees, which now also includes a newly created Education Committee. All in all it seems fair to say that the networks of decision-makers around social policy are becoming denser (read: involves more of the relevant actors).

### 3.3 Sharpening policy instruments: mutual surveillance and monitoring

As suggested above, the SPC has established itself as a significant player in monitoring, reviewing, and assessing national reforms within the European Semester, alongside the economic and employment committees. By producing sound analysis and political messages about how broad social protection (social insurance) and social inclusion strategies are to be considered as a productive factor, the SPC tries to provide a counterweight to the dominant EU economic discourse. Following EMCO's lead, the SPC not only contributes to the Europe 2020 Joint Assessment Framework (JAF) for monitoring the Employment Guidelines (European Commission, 2011c), but has also developed its own Social Protection Performance Monitor (SPPM) (see Box 2 below). Alongside this, the EMCO has continued to refine its Employment Performance Monitor

---

17. For example, the joint EMCO/EPC thematic review on the tax wedge; joint meeting of EMCO and SPC on active inclusion and on the financing of employment friendly social protection systems; joint EPC and EMCO meeting on labour market and wage issues.

(EPM)<sup>18</sup>. With a view to developing these tools, the Employment Analysis and Social Analysis Units in the Commission's DG for Employment, Social Affairs and Inclusion (DG EMPL) have been considerably strengthened through a reallocation of resources. At the same time, 'employment' and 'social' analysis teams increasingly pool their expertise, in spite of the dividing lines within DG EMPL.

**Box 2      The Joint Assessment Framework (JAF) & Social Protection Performance Monitor (SPPM): a brief excursion**

The JAF is an indicator-based assessment system, covering both general and specific policy areas under Integrated (Employment) Guidelines 7 to 10. It consists of two main elements:

- The monitoring and assessment of structural reforms under the Employment guidelines through a quantitative and qualitative assessment methodology, leading to the identification of key employment challenges and potential risk areas.
- The quantitative monitoring of progress towards the EU headline and related national targets in the light of the implementation of the integrated guidelines.

The results produced by these two elements feed into an Employment Performance Monitor and the Social Protection Performance Monitor: clear, transparent, concise and easy to communicate summaries that can be used to identify at a glance the main challenges and that can periodically be submitted to the EPSCO Council. The SPPM includes a 'dashboard' of overarching and context indicators to monitor the social dimension of Europe 2020 across all three pillars of the Social OMC, detailed country profiles, and common 'trends to watch'.

The SPC and EMCO are committed to using the JAF as an analytical tool that can underpin multi-lateral surveillance and evidence-based policy-making, and also support Member States in establishing their reform priorities, benefiting from mutual learning and identifying good practices<sup>19</sup>.

Sources: European Commission (2011c) and SPC Indicators Sub-Group (2012).

---

**18.** The December 2012 version of the EPM contained a benchmarking of the Europe 2020 headline targets relating to the labour market (EMCO, 2011).

**19.** For more information on the JAF see the Commission website:  
<http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=972&furtherNews=yes>.

This extended social monitoring goes hand in hand with a significant intensification of mutual *country surveillance*. Whereas until 2011 (ad hoc and rather superficial) SPC peer reviews occurred once a year focused on the National Strategic Reports, now mutual surveillance activities are conducted throughout the year, with in-depth thematic reviews<sup>20</sup> in the autumn and country reviews of the NRPs (reviewing the implementation of CSR as well as the NRPs) in the spring (SPC, 2012). SPC Members were asked if they were ready to give country surveillance a new orientation: 'less descriptive, more critical' and more analytical (*ibidem*).

The thematic reviews in the SPC in particular are aimed at fostering mutual learning<sup>21</sup> and stimulating multilateral discussion on promising approaches to tackling specific policy challenges (namely those identified as 'trends to watch' by the SPPM). They invite countries performing weakly in a particular area to examine those achieving better outcomes. Thematic reviews also include a final evaluation of the work done over the year in the context of mutual surveillance (accumulation of knowledge). At the same time, the EMCO and SPC have also continued to organise an extensive programme of peer reviews, namely through the Mutual Learning Programme and PROGRESS. Many of these reviews focused on core themes related to Europe 2020<sup>22</sup>. The EMCO has also discussed the possibilities of strengthening and intensifying peer reviews (which should become more explicit, and political), in spite of overloaded committee agendas. At the same time, there are several examples of innovative learning tools that are emerging: (a) it has been proposed that the 'learner' and 'tutor' roles should be reversed for certain reviews (the country facing challenges reviews the policies of a successful complier); (b) external experts are now being invited to provide a brief ex-ante assessment during EMCO's thematic reviews; (c) 'peer counselling' (tailor-made peer-learning related to CSR is being proposed in the Education Committee (European Commission, 2012f);

---

**20.** In 2012 the in-depth reviews focused on pensions and active inclusion.

**21.** For a detailed description of the Social OMC's learning tools, see Lelie and Vanhercke (2013).

**22.** The theme and activities for the MLP in 2012 remained the same as in 2011: 'Working towards the employment targets and priorities of the Europe 2020 strategy'. PROGRESS Peer Reviews covered topics such as active inclusion, child poverty, setting national poverty targets, and improving the efficiency of social protection systems (Agostini *et al.*, 2013).

and (d) EMCO is considering the possibility of organising two-day meetings and parallel workshops (EMCO, 2012c).

Clearly, both EMCO and the SPC are looking for ways to combine 'tougher' mutual surveillance in employment and social policies with increased mutual learning opportunities. This is nicely illustrated by the EMCO Chair's intervention during the EPSCO Council of 4 October 2012, when he felt the need to reject the 'accusation that we will give Member States leeway'. Rather, he explained, the idea is to provide for mutual learning opportunities (by challenging each other, reasoning), with a view, among other intentions, to creating stronger commitment to the needed reforms. In other words, while the feet of the MS are held over the fire through the RQMV, it would seem that 'deliberation' is increasingly acknowledged as being part and parcel of effective implementation of the European semester, also in view of the complex nature of the problems being dealt with.

Finally note that the SPC publishes its annual 'Social Europe' report (SPC, 2013b), which draws on the European Commission's annual report on 'Employment and Social Developments in Europe'<sup>23</sup> (European Commission, 2012g) as well as 'EU Employment and Social Situation Quarterly Review' (European Commission, 2012h). The production of these punchier and more reader-friendly documents has been rather successful, in that they are now regularly picked up by mainstream printed and social media<sup>24</sup>. Note that other attempts to develop additional monitoring tools are less successful: neither the proposed 'Reform Tracking Device' (prepared by the EC) nor the suggested new employment scoreboard, that would reflect the degree of reform implementation through a 'weather forecast' (sunny, cloudy, rainy) seem to produce much enthusiasm amongst Member States (European Commission, 2012i).

---

**23.** This single report replaces the Commission's earlier 'Social Situation Report' and the 'Employment in Europe' report.

**24.** In January 2013, the Employment and Social Developments in Europe 2012 Report was discussed in The Telegraph ([http://www.telegraph.co.uk/finance/comment/ambroseevans\\_pritchard/9798790/Mario-Draghi-has-saved-the-rich-now-he-must-save-the-poor.html](http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/9798790/Mario-Draghi-has-saved-the-rich-now-he-must-save-the-poor.html)) and on Jonathan Porte's Blog (Not the Treasury's View, see <http://niesr.ac.uk/blog/european-labour-markets-six-key-lessons-commission-report#.Ua3QQ9CTz>). It was equally discussed in the Frankfurter Allgemeine Zeitung.



## 4. Summary and outlook

This chapter began by illustrating that even in these adverse economic times, the EU still took initiatives in 2012 that complement the rather impressive *acquis communautaire* in the social field. This was accomplished using the various tools the EU has at its disposal: legislation, social dialogue, and funding. As a result, the broader environment in which Europe 2020 and the European Semester are embedded became somewhat more attuned to issues of social protection/social inclusion, at least compared to previous years. The Commission contributed to this by pushing the debate on issues such as pensions, youth employment, and social investment. It has also (finally) begun raising some important questions about the adverse effects of its own austerity policies. This does not alter the fact that the EU's dominant discourse is still embedded in 'ordoliberalism' (Barbier, 2012), even though it has now been firmly established that recession hurts, but austerity kills.

This is not to say that the EU is an immovable object. Indeed, this chapter has demonstrated that after two years of 'trial and error' in the implementation of the European Semester, decision-making processes are maturing, and involve more of the relevant actors. That is to say that the social and employment actors involved in the Europe 2020 strategy have begun to formalise their positions in the mutual surveillance process, and thereby their influence in the European Semester, the conclusions of which are no longer accepted as given, but may now be challenged. All in all, it seems fair to say that the networks of decision-makers around social policy are becoming denser. Certainly, this is a slow evolution (e.g. the role of the SPC in Europe 2020 still needs further clarification) that still leaves a lot of discretion to the economically-minded actors. Nevertheless, it is remarkable that in an environment so strongly defined by the economic crisis, EMCO, the SPC, and DG EMPL of the European Commission have used the context of intensified mutual surveillance (which can be seen as a spillover effect in response to strong economic monitoring tools) to strengthen their own policy instruments. The analytical toolbox has been improved through better monitoring, sharper indicators, and a refining of mutual learning processes. Taken together, these measures provide actors in the field of social policy with more effective means for pursuing the priorities that they set. At the same time, Member States seem to have chosen to combine 'being tough' on each other (one of the effects of the *intensified*

*collaboration* between the committees involved) on the one hand, and securing much-needed mutual learning opportunities on the other. In other words, the dichotomy between ‘enforcement’ and ‘deliberation’ would seem to be a false one.

The real test will be whether such (strengthened) *social* monitoring can at some point be fed into the *mainstream* system of economic governance. The ‘MIP Scoreboard’, for example (see section 2.1 above), which is used in the Macroeconomic Imbalances Procedure, needs to be further refined with social indicators, so as to alert ministers to the danger of serious (‘excessive’) employment and social imbalances that could threaten the stability of the EMU. These new monitoring tools, which are broader than the Europe 2020 targets, are indeed essential for the effective implementation of the European Semester and the recently proposed Social Dimension of a Genuine EMU (Barcevičius *et al.*, 2013). In a similar vein, the social and employment indicators discussed above should also play their part in monitoring the impact of the far-reaching social and labour market reforms that are being imposed in those Member States that have signed a Memorandum of Understanding in exchange for a financial rescue package.

Clearly, several issues that help define the decision-making procedures and the positions of the actors in the European Semester need further clarification. Indeed, three years after its launch, Europe 2020 is by no means ‘set in stone’. In fact, it has changed so rapidly that some national delegates in the abovementioned committees struggle to navigate the various instruments of the Semester. Key questions for the future include:

- What will be the role of the SPC in the proposed preventive coordination of social protection measures and the social dimension of EMU (a contractual approach, or sanctions and funding)?
- Which CSRs are discussed where (i.e. in what committee or Council formation) and with which voting procedures? There is a considerable amount of legal uncertainty around these issues (‘confusion’ according to the Cypriot Presidency).
- What place is left for stakeholders (social partners, NGOs, and civil society)? They seem to have lost much of the influence they had gained during the Lisbon strategy, in spite of recurrent appeals to take stakeholders more seriously (EAPN, 2012; EESC, 2012)?

- What mandate does the Commission have to negotiate (and to discuss) the CSRs in the respective committees?
- How should the timing of discussions be managed, in view of the more general complaint about the extremely tight deadlines that are set for organising work between the EFC, EPC, EMCO and SPC?
- What use is being made of multilateral surveillance carried out by EMCO and the SPC by other committees?

In a way, all of these questions start from the assumption that the existing framework is unsatisfactory, but accept that it cannot be simply abandoned. That is to say, there is no easy 'exit', to frame it in the terms of Albert Hirschman (1970). It is indeed difficult to imagine to what extent a withdrawal of the social dimension from the Europe 2020 strategy would provide any kind of solution, even if it may seem tempting in the current climate. Pessimism is indeed rife, including among those who point out that the Europe 2020 targets are inconsistent and ineffective in addressing poverty and social exclusion (Copeland and Daly, 2012). Nonetheless, such an exit would to some extent imply a return to the Lisbon period, when those active in social affairs had far more freedom to say what they wanted, but in a way were 'preaching to the converted', and largely ignored by the dominant players.

For this reason, the questions above can be framed in what Albert Hirschman would call 'voice': an attempt to remedy the current situation by reinforcing the social dimension 'from within' the mainstream strategy. The scholarly debate on the social dimension of the EU at least presents a certain consensus that while the current 'state of alert' of Social Europe is not a desirable one, the social element is still relevant to the European Union in the long term (Barbier, 2013). In fact, some authors argue not only that a clearly defined social Europe is imperative to the future of the European Union, but that a true European social model is needed to promote the 'European way of life' (Vandenbroucke, 2012: 18 and 21). Furthermore, others suggest that, faced with such anti-democratic measures as reversed qualified majority voting and the coercive nature of macroeconomic policy, NGOs, trade unions, and citizens alike must voice their opinions and act as 'the guard dogs' of democracy (Barbier, 2012: 10-11). The debate on the welfare state is ongoing and these authors do not only state the obvious, but give precise explanations of where and what to address (Vandenbroucke, 2012; Vignon and Cantillon,

2012; Morel *et al.*, 2012). Thus, Hirschman's notion of voice is an integral part of the forthcoming dialogue on the European social model.

It seems rather clear that Hirschman's third possible line of action, namely 'loyalty' (accepting the *status quo* and waiting for better times) is unacceptable. The worst possible outcome would indeed be the confirmation that the current policy is, in fact, 'social policy'. Even authors such as Maurizio Ferrera, who explains that Europe's current liberal neowelfarism provides interesting avenues of development for the future, clearly point to the fact that the current environment of fiscal austerity limits such progress (Ferrera, 2013: 10).

All this being said, the debate as to the road to be taken – exit, voice or loyalty – is ongoing: whether trade unions, political parties, NGOs and other social actors choose to exit or to build up a progressive coalition of the willing crucially depends on the EU's ability to provide them with better prospects on the social front. This requires that the EU, as a political entity that intervenes profoundly in the daily lives of its citizens, should urgently invest in a further social project, and in so doing, find new sources of legitimacy. Indeed, 'the present goals of the European Union are not only inadequate from a social democratic viewpoint, but they are intrinsically too narrowly defined to hold any prospect of success' (Vandenbroucke, 2012: 33-34). At the same time, this chapter explained that even in the absence of a formal 'European social agenda', social stakeholders have been able to reclaim some of the position they lost with the introduction of the Europe 2020 strategy, and have (between 2010 and 2012) been able to gradually strengthen – albeit thus far largely unnoticed the social dimension of the European Semester. While this fragile social dimension may not be visible in these times of austerity, one must acknowledge the fact that at least some actors are effectively developing it 'under the radar'. If it receives enough support, the social dimension may very well surface again. What's more, it may yet have a significant impact in the future.

## References

- Agostini C., Sabato S. and Jessoula M. (2013) Europe 2020 and the fight against poverty: searching for coherence and effectiveness in multilevel policy arenas, Working Paper-LPF 2, Centro Einaudi, Laboratorio di Politica Comparata e Filosofia Pubblica, Torino.
- Barbier C. (2012) Ordolibéralisme et économie sociale de marché: la voie allemande de l'Europe?, Opinion Paper 10, Brussels, OSE, July 2012.
- Barbier J-C. (2013) Europe sociale: l'état d'alerte, Opinion Paper 13, Brussels, OSE, January 2013.
- Barcevičius E., Weishaupt T. and Zeitlin J. (2013) chapter 2. Tracing the Social OMC from its Origins to Europe 2020, in Barcevičius E., Weishaupt T. and Zeitlin J. (eds.) *Assessing the Open Method of Coordination: Institutional Design and National Influence of EU Social Policy Coordination*, Palgrave (forthcoming).
- Chomsky N. (2012) Europe's Policies make Sense only on one Assumption: That the Goal is to unravel the Welfare State, *Social Europe Journal*, 4 December 2012 (<http://www.social-europe.eu/2012/12/europes-policies-make-sense-only-on-one-assumption-that-the-goal-is-to-unravel-the-welfare-state/>).
- Copeland P. and Daly M. (2012) Varieties of poverty reduction: Inserting the poverty and social exclusion target into Europe 2020, *Journal of European Social Policy*, 22 (3), 273-287.
- Council of the European Union (2011a) Endorsement of the Opinion of the Social Protection Committee on reinvigorating the Social OMC in the context of the Europe 2020 strategy, 10405/11, SOC 418, Brussels (<http://register.consilium.europa.eu/pdf/en/11/st10/st10405.en11.pdf>).
- Council of the European Union (2011b) Examination of the National Reform Programmes 2011 – Joint Opinion of the Employment Committee and of the Social Protection Committee, Endorsement, 10664/11, Brussels, 14 June 2011.
- Council of the European Union (2012a) Incoming Presidency Note for the Chairs of Committees Involved in the Process Leading to the Adoption of Country-Specific Recommendations (CSRs) by the Council under the European Semester, Irish Presidency, December 2012.
- Council of the European Union (2012b) European Semester 2012 – Lessons Learned, 13439/12, Brussels, 18 September 2012.
- Crespy A. (2012) Explaining the failure of Social Europe as public policy: the case of services of general interest, paper prepared for the international workshop 'Quo vadis social Europe?', Université Libre de Bruxelles, 6-7 December 2012.
- Daly M. (2012) Paradigms in EU social policy: a critical account of Europe 2020, *Transfer: European Review of Labour and Research*, August, 18 (3), 273-284.

- Degryse C. (2012) The new European economic governance, Working paper 2012.14, Brussels, ETUI.
- Derruine O. and Tiedemann A. (2011) The first European Semester and its contribution to the EU2020 strategy (<http://www.greens-efa.eu/de/the-first-european-semester-and-its-contribution-to-the-eu2020-strategy-4638.html>).
- EAPN (2012) An EU Worth Defending – Beyond Austerity to Social Investment and Inclusive Growth. EAPN analysis of the 2012 National Reform Programmes (NRPs) and National Social Reports (NSRs)
- EMCO (2011) Europe 2020. Employment Performance Monitor December 2012. Draft. The Employment Committee, INDIC/24/23112012/EN.
- EMCO (2012a) The 2012 Europe 2020 process. Emco discussion Note. The Employment Committee, The Support Team, EMCO/10/130912/EN.
- EMCO (2012b) The EMCO Multilateral Surveillance. Discussion Note, The Employment Committee, The Support Team, ADHOC/09/05092012/EN.
- EMCO (2012c) The EMCO Multilateral Surveillance. Revised Working Methods, The Employment Committee, The Support Team.
- EPC (2011) EPC review of policy guidance under the European semester – Cooperation with EMCO, Economic Policy Committee, Brussels, 12 May 2011.
- EPC (2012) The European Semester 2012, Implementation and practical organization of the second phase, Economic Policy Committee and Economic and Financial Committee Alternates, Brussels, 12 March 2012.
- Euronews (2012) Euroscepticism on the rise, says EU poll (<http://www.euronews.com/2013/04/25/euroscepticism-on-the-rise-says-eu-poll/>).
- European Commission (2010a) Youth on the Move, COM (2010) 477 final of 15 September 2010, Luxembourg, Publications office of the European Union.
- European Commission (2010b) Annual Growth Survey: Advancing the EU's Comprehensive Response to the Crisis, COM (2011) 11 of 12 January 2010.
- European Commission (2011a) Youth Opportunities Initiative, COM (2011) 933 final of 20 December 2011.
- European Commission (2011b) Annual Growth Survey 2012, VOL. 1/5, COM (2011) 815 final of 23 November 2011.
- European Commission (2011c) Europe 2020 Joint Assessment Framework. Proposals for undertaking the qualitative assessment and identifying key challenges and best practices (Steps 2 and 3 of the JAF), Discussion note, European Commission, EMCO ADHOC/09.220311/EN.
- European Commission (2012a) Eurostat Newsrelease 171/2012 ([http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-03122012-AP/EN/3-03122012-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-03122012-AP/EN/3-03122012-AP-EN.PDF)).
- European Commission (2012b) White Paper for Adequate, Safe and Sustainable Pensions, COM (2012) 55 final of 16 February 2012.

- European Commission (2012c) Annual Growth Survey 2013, COM (2012) 750 of 28 November 2012.
- European Commission (2012d) Council Recommendation on Youth Guarantees, Roadmap ([http://ec.europa.eu/governance/impact/planned\\_ia/docs/2012\\_empl\\_086\\_youth\\_guarantees\\_en.pdf](http://ec.europa.eu/governance/impact/planned_ia/docs/2012_empl_086_youth_guarantees_en.pdf)).
- European Commission (2012e) Letter from the Director General to the SPC and EPC Chairs of 21 May 2012.
- European Commission (2012f) Commission non-paper for the Education Committee of 19/20 January 2012.
- European Commission (2012g) European Commission. Employment and Social Developments in Europe 2012, Luxembourg, Publications Office of the European Union.
- European Commission (2012h) EU Employment and Social Situation: Quarterly Review, September 2012.
- European Commission (2012i) Discussion note on employment benchmarking and employment scoreboard, Commission services non-paper, Brussels, 23 May 2013.
- European Commission (2013) Eurostat Unemployment Statistics ([http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Unemployment\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics)).
- European Commission and SPC (2012) European Commission and the Social Protection Committee report on 'Pension Adequacy in the European Union 2010-2050', Luxembourg, Publications Office of the European Union (<http://ec.europa.eu/social/BlobServlet?docId=8930&langId=en>)
- European Council (2010a) Presidency Conclusions, EUCO 13/10, Brussels European Council 17 June 2010.
- European Council (2010b) Presidency Conclusions, EUCO 7/10, Brussels European Council 25-26 March 2010.
- EESC (2012) Europe 2020 strategy: The first European semester from a civil society perspective, European Economic and Social Committee, Brussels (<http://www.eesc.europa.eu/resources/docs/qe-30-12-753-en-c.pdf>).
- European Parliament (2012) Social Investment Pact – as a response to the crisis, 2012/2003(INI) ([http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2012/2003\(INI\)&l=en](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2012/2003(INI)&l=en)).
- European Parliament (2013) Resolution on Youth Guarantee, Text adopted by Parliament, single reading, 2012/2901(RSP) (<http://www.europarl.europa.eu/oeil/popups/summary.do?id=1243558&t=d&l=en>).
- Ferrera M. (2013) Liberal Neo-Welfarism: New perspectives for the European Social Model, Opinion Paper 14, Brussels, OSE, February 2013.
- Ghailani D. and Natali D. (2013) Cost effectiveness of pensions and the role of taxation – an emerging European debate, Working paper OSE/Eurelpro (forthcoming).

- Greer S. (2013) (Why) Did we forget about history? Lessons for the eurozone from the Failed Conditionality Debates in the 80s, Research paper 11, Brussels, OSE, May 2013.
- Hemerijck A. (2012) *Changing Welfare States*, Oxford, Oxford University Press.
- Hirschman A. O. (1970) *Exit, Voice and Loyalty, A response to decline in firms, organizations and states*, Harvard, Harvard University Press.
- Lelie P. and Vanhercke B. (2013), *Inside the Social OMC's Learning Tools: How 'Benchmarking Social Europe' really worked*, Research Paper 10, Brussels, OSE, February 2013.
- Menz G. (2012) *Collapsing New Buildings: The Three-Pronged Attack on European Social Policy*, paper prepared for the international workshop 'Quo vadis social Europe?', Université Libre de Bruxelles, 6-7 December 2012.
- Morel N., Palier B. and Palme J. (2012) *Towards a Social Investment Welfare State? Ideas, Policies and Challenges*. University of Bristol, The Policy Press.
- Stuckler D. and Sanjay B. (2013) *The Body Economic, Why Austerity Kills*, New York, Basic Books.
- Pochet P. (2010) *What's wrong with EU2020?*, ETUI Policy Brief, 2/2010, Brussels, ETUI.
- Scharpf F. W. (1996) *Positive and Negative Integration in the Political Economy of European Welfare States*, in Marks G., Scharpf F. W., Schmitter P. C. and Streeck W. (eds.) *Governance in the European Union*, London, Thousand Oaks, CA: SAGE Publications Ltd, 15-39.
- SPC (2011) *Analysis of the SPC Experience in the First European Semester*, SPC/2011.09.03, 7 September 2011.
- SPC (2012) *SPC Evaluation of the second European semester: preparing for the 2013 European semester*, SPC/2012.09/1b, Brussels, The Social Protection Committee, The Secretariat, 7 September 2012.
- SPC (2013a) *Strategic Social Reporting 2013: Guidance Note*, SPC/2013.01/9, January 2013.
- SPC (2013b) *Social Europe, Current challenges and the way forward*, Annual Report of the Social Protection Committee (2012) (<http://ec.europa.eu/social/BlobServlet?docId=9760&langId=en>).
- SPC Indicators Sub-Group (2012) *Social Protection Performance Monitor (SPPM), Methodological Report*, 17 October 2012.
- Vandenbroucke F. (2012), *Europe: The Social Challenge. Defining the Union's social objective is a necessity rather than a luxury*, Opinion Paper 11, Brussels, OSE, July 2012.
- Vandenbroucke F., Hemerijck A. and Palier P. (2011) *The EU Needs a Social Investment Pact*, Opinion Paper 5, Brussels, OSE, May 2011.



- Vanhercke B. (2011) Is 'The Social Dimension of Europe 2020' an Oxymoron?, in Degryse C. and Natali D. (eds.), *Social developments in the European Union 2010*, Brussels, ETUI and OSE, 141-174.
- Vanhercke B., Peña-Casas R. and Paillet M. (2012) *Au-delà des postures: vers un budget européen social et durable*, Opinion Paper 12, Brussels, OSE, November 2012.
- Wall Street Journal (2012) *Europe's banker Talks Tough*, 24 February 2012 (<http://online.wsj.com/article/SB10001424052970203960804577241221244896782.html>).

## Appendix 1

### Scoreboard for the Macroeconomic Imbalance Procedure

The headline indicators consist of the following eleven indicators and indicative thresholds, covering the major sources of macroeconomic imbalances:

- 3 year backward moving average of the current account balance as percent of GDP, with a threshold of +6% of GDP and -4% of GDP;
- net international investment position as percent of GDP, with a threshold of -35% of GDP;
- 5 years percentage change of export market shares measured in values, with a threshold of -6%;
- 3 years percentage change in nominal unit labour cost, with thresholds of +9% for euro-area countries and +12% for non-euro-area countries;
- 3 years percentage change of the real effective exchange rates based on HICP/CPI deflators, relative to 35 other industrial countries, with thresholds of -/+5% for euro-area countries and -/+11% for non-euro-area countries;
- private sector debt in % of GDP with a threshold of 160%;
- private sector credit flow in % of GDP with a threshold of 15%;
- year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6%;
- general government sector debt in % of GDP with a threshold of 60%;
- 3-year backward moving average of unemployment rate, with a threshold of 10%;
- year-on-year changes in total financial sector liabilities, with a threshold of 16.5%.

Source: [http://ec.europa.eu/economy\\_finance/economic\\_governance/macroeconomic\\_imbalance\\_procedure/mip\\_scoreboard/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/mip_scoreboard/index_en.htm).



# **Desperately seeking the European Employment Strategy in the new economic governance of the European Union**

**Ramón Peña-Casas**

## **Introduction**

The year 2012 marked the fifteenth anniversary of the decision by the Member States of the European Union (EU) to introduce a 'flexible' coordination process in employment policy. It was at the Luxembourg Summit in November 1997 that the EU Member States agreed to launch a European Employment Strategy (EES). During its fifteen years of existence, the EES has been linked to no less than three European overarching 'meta-strategies': the Lisbon Strategy (2000-2004), the Growth and Employment Strategy (2005-2010) and, since 2011, the Europe 2020 strategy. Whilst the content and form of the EES have evolved over this period, particularly its relationship to other European policies, its essence has changed very little. Over and above its doctrinal content, any discussion of the EES must also consider the distinctive method of governance which it introduced at European level. This process provided a new framework for cooperation between the Member States and the EU, with a view to encouraging convergence of national policies towards certain common objectives in political areas subject to subsidiarity, but where shared issues and challenges required a certain amount of coordination at European level. The EES was not only a set of political guidelines: it was also a procedural method. This method could be divided into a number of steps: (a) the identification by Member States of common objectives, set out in policy guidelines, (b) the development of shared statistical indicators for the purposes of evaluation and monitoring, (c) the drawing up of national action plans for employment based on these guidelines and (d) a peer review of the performances of all countries and the identification of good practices. The European Commission was given the job of monitoring and supporting

the process. This flexible method of cooperation, though not binding in itself, would be placed at the heart of the Lisbon Strategy, known as the ‘Open Method of Coordination’ (OMC), and would be extended to other subsidiary policy areas such as pensions, social inclusion, healthcare and education (Zeitlin, 2007).

To assess, then, the role of the EES within the new Europe 2020 strategy, we must consider how it has developed, over time and in terms of its procedures. The EES, as part of the Europe 2020 strategy, is the product of its own history, but also the result of developments which have affected the whole European context. The history of the EES, then, can be divided into three key periods. The first of these, from 1997 to 2004, can be described as a maturing period. This can be divided into three sub-phases: the development of its own tools and procedures (1998-2000), its integration with other policy areas as part of the Lisbon Strategy (2001-2002), followed by a time of evaluating and redefining its content (2003-2004). A second key period then began with the closer integration of the EES into macroeconomic and budgetary policies as part of a European strategy now focused on growth and employment (2005-2010). Finally, the last of the three periods began in 2011 with the new Europe 2020 strategy.

A first section of this chapter contains a brief run-through of the development of the EES, its ‘instruments’ and the ‘ideology’ behind it, from its beginnings to the dawn of the new European strategy. The second section gives a more in-depth analysis of the place and role of the EES within Europe 2020 and the new economic governance.

## **1. From the beginnings of the EES to the Growth and Employment Strategy**

In this chapter we do not set out to give a detailed description of the EES, or of the Lisbon Strategy as a whole, as a policy or method, nor to assess its (in)effectiveness. A great deal of literature has already been published specifically on these subjects, to which we would refer the reader (cf., for example, Conter, 2012; Van Rie and Marx, 2012; Barbier J-C., 2011; Amable *et al.*, 2009; Natali, 2009 and Heidenreich and Zeitlin, 2009). Rather, we will briefly describe the context and the factors which determined the content and role of the EES during this

period, in order to provide perspective as to its current role within the Europe 2020 strategy. This development of the content of the EES was largely determined by the follow-up to the Employment Guidelines (EG), the doctrinal backbone of the EES.

There are a number of clear similarities between the current context and the circumstances which encouraged this major change in the governance of social and employment policies in Europe. These many points in common include the relative abandonment of national sovereignty after the Maastricht Treaty and the creation of Economic and Monetary Union (EMU), public finances subject to the tough rules of the Stability and Growth Pact (SGP), a context of economic crisis linked to financial speculation, worry generated by the social consequences of the crises and the rise in unemployment more or less throughout Europe, a weakening of domestic economic demand, and a worsening discontent among the people of Europe with and detachment from the European integration process, increasingly seen as undemocratic and too neo-liberal in its economic policies. One thing, however, which is totally lacking today, is the political will to change things. The ‘pink wave’<sup>1</sup> of the 1990s and the momentum provided by a pro-active Commission to encourage a Community approach have both now disappeared, to be replaced by frenzied intergovernmentalism in Europe, which itself is more diverse and divided than ever (Barbier J-C., 2011; Natali, 2010).

## 1.1 The birth of the EES

As stated above, the Luxembourg Summit of 1997 sketched the outlines of the EES for the first time, with a view to future implementation of the Treaty of Amsterdam. This Treaty contained, in particular, a chapter on employment encouraging a Community approach to the issue, and set out the legal basis for the functioning of the OMC as a flexible governance process. It also established the Employment Committee and created the European social dialogue. The Treaty also added ‘full employment’ to the list of Union objectives, and introduced qualified majority voting for issues relating to employment, in order to avoid stalemates.

---

1. This expression was often used at the time to refer to the then predominance of Social-democratic national governments in the EU-15.

From the very beginning, the EES was based on certain doctrinal principles which have changed very little over time. The main purpose of the EES was to commit Member States to a set of objectives concerning so-called ‘structural’ reforms, which were generally agreed to be in the common interest, even if the political measures required to meet them were still strictly national. In the context of the time, with increased liberalisation of the markets (globalisation), objectives such as maximising labour participation, promoting a skilled and ‘adaptable’ workforce and increasing the flexibility of the labour markets were intended to allow EU countries to react more quickly to economic changes. The EES gave the appearance of a strategy essentially geared to labour market supply, with a dual purpose: to minimise unemployment while maximising employment (Van Rie and Marx, 2012; Serrano Pascual, 2009). This was, in fact, the only option remaining in terms of structural employment reforms, since the other measures traditionally used by public authorities to influence demand for labour – monetary and budgetary policies – were now subject to more binding provisions: those of the EMU and the Stability and Growth Pact. In order to achieve high employment rates while increasing competitiveness and controlling inflation, Member States were left with few options apart from reforms aimed primarily at bringing non-workers onto the labour market, and at boosting individual employability by enhancing the human capital of those in work, as well as increasing the internal and external flexibility of work (Raveaud, 2007; Salais, 2004). These measures, therefore, sat well with a neo-liberal approach to the labour market, with a monetarist aspect aimed at containing inflation, the promotion of supply-side economics (deregulation/administrative simplification) and a reduced role for the State (Raveaud, 2007; Salais, 2004). This three-way relationship between economic, budgetary and employment policies, still perceived at the time as a sort of virtuous balance, can be found in the founding texts of the EES and, a little later on, at the heart of the Lisbon Strategy, which then adds social and environmental considerations<sup>2</sup>. This

---

2. While respecting the exclusive competence of Member States in the area of employment policy, the employment chapter of the Amsterdam Treaty strengthens the Community approach by calling for the implementation of a ‘coordinated strategy for employment’. This strategy aims to create greater consistency between political areas based on the interaction of three processes: (i) the Cardiff process to reform and modernise the markets for products, services and capital; (ii) the Cologne process on economic policy coordination and improving the interaction between wage developments and monetary, budgetary and financial policies and (iii) the Luxembourg process, which directly concerns employment policies.

specific form of neo-liberalism, unique to Europe, uses rather vague concepts such as ‘the social market economy’ or ‘social capitalism’ (Amable *et al.*, 2009).

In procedural terms, these political guidelines were reflected in the various instruments of the EES, as an OMC, mainly by means of the Employment Guidelines (EG). These acted as the doctrinal backbone of the EES: a common framework for interpretation which provided the basis for the development of indicators and national action plans, as well as for the peer review and Commission examination of the consistency of the reforms implemented, as expressed, in particular, in the Commission recommendations, endorsed by the European Councils. This early period of the EES was also one of intense work by the parties involved, to draw up and gradually implement the other instruments in the process, particularly those with a Community dimension. Such as setting up the Employment Committee, rapid development of a battery of European indicators reflecting the Employment Guidelines, setting out the procedures for reporting and peer reviewing, financial support for the reforms (European Social Fund) and for the participation and cognitive aspects of the OMC process (financing for the European bodies involved in the dialogue, support for research into and gathering of comparable data, setting up the European Employment Observatory and a peer review system to identify and promote good practices). As well as focusing on the technical and logistical aspects of the process, it was vital to reach agreement on the content and use of these key elements or bodies of the EES OMC. The first Employment Guidelines, published in 1998, were then structured around four fundamental pillars, which would remain the same until 2001: employability (activation and employability), entrepreneurship, adaptability (of both labour markets and workers) and equal opportunities. These pillars were broad enough to ensure that the reforms undertaken by Member States at national level could be housed under the Employment Guidelines, without overturning Member States’ own political priorities and decision-making/consultation systems.

## 1.2 The Lisbon Strategy

In the wake of the implementation of the Treaty of Amsterdam, the EU, at the Lisbon Council in March of 2000, adopted an overarching



strategy. The main objective of which was to enable Europe, over the next decade, 'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' (European Council, 2000). According to the Lisbon Strategy, this goal would be achieved by encouraging positive interaction between economic, employment and social reforms. The Göteborg European Council of June 2001 would also include environmental considerations. The OMC, as a tool for flexible policy coordination, was extended to a number of social policy areas (combating poverty and social exclusion, pensions and healthcare), and the EES was given an important role within this overall strategy.

This desire for the integration of various policy areas resulted in considerable diversification of the Employment Guidelines during this period. In line with the Lisbon Agenda, Member States' employment policies had to pursue three general and interdependent objectives: full employment, quality and productivity at work, and social cohesion and inclusion. Gender equality, and then employment quality, were cross-cutting objectives which applied to each guideline. In other words, each guideline must also be considered in terms of its specific implications in these two areas. Around ten guidelines would then be (re)defined to meet the general objectives of the EES<sup>3</sup>. Essentially, themes already contained in the broad chapters used to structure the Employment Guidelines were redistributed to separate guidelines. Some themes thus became more prominent and were given more importance within the EES (active ageing, financial incentives, undeclared work, professional and geographical mobility, etc.) whilst others rapidly disappeared (regional disparities) or were realigned (the transformation of undeclared work into regular employment was replaced by the need for a considerable reduction in undeclared work). The end-result was a multi-faceted but somewhat complex and unclear picture of structural employment policy reforms interacting with economic, social and

---

3. 1. Active and preventative measures for the unemployed and inactive; 2. Job creation and entrepreneurship; 3. Coping with change and promoting adaptability and mobility; 4. Promoting the development of human capital, education and lifelong learning; 5. Increasing the labour supply and promoting active ageing; 6. Gender equality; 7. Promoting the integration of disabled people on the labour market and combating discrimination against them; 8. Using incentives to enhance work attractiveness; 9. Transformation of undeclared work into regular employment; 10. Addressing regional employment disparities.

environmental policies. The content of these Employment Guidelines would change only slightly in the years up to 2003. In 2003-2004, the processes and general thrust of the Lisbon Strategy EES would be reassessed in a very partial and non-consensual way. Nevertheless, it would undergo a drastic reform, which would take the form of the introduction of the Growth and Employment Strategy in 2005 (Conter, 2012; Barbier J-C., 2004; Peña-Casas, 2004; Pochet, 2004; Watt, 2004).

### 1.3 The Growth and Employment Strategy

In 2005, the content and procedures of the Lisbon Strategy and the EES underwent a radical change. The recast Lisbon Strategy, renamed the Growth and Employment Strategy (GES), was adopted by the Spring Council of March 2005, thus marking an important turnaround in the development of the EES (European Council, 2005). The economic agenda was clearly given pride of place and the key role within the GES: the other aspects were valued only in so far as they made a quantitative contribution to growth and employment. The priorities set for the EES, and, more broadly, the Lisbon Strategy, were strongly refocused on growth and the Broad Economic Policy Guidelines (BEPG). The GES must be geared, in essence, to models involving innovation, the internal market and administrative deregulation to promote economic growth and employment (Zeitlin, 2007; Begg, 2006).

In this context, the EES had to give priority to a quantitative increase in employment, through greater flexibility of labour markets and workers. The qualitative side of work was pushed into the background, even though it was still referred to in the main objectives. From now on, the EES would be focused on three principal objectives (attaining full employment, improving quality and productivity at work and strengthening social and territorial cohesion), and its scope would be clearly defined in terms of key priorities (attracting and retaining more people on the labour market, increasing labour supply and modernising social welfare systems, enhancing the adaptability of workers and businesses, and investing more in human capital by improving education and skills).

Apart from this change in doctrine, the governance processes for the GES and the EES were also significantly modified. The process was rationalised, to encourage maximum convergence of national structural

reforms to meet economic objectives (streamlining). The process would now be multiannual and simplified, with a view to improving coordination of the cooperation processes for social policy (EES and Social OMCs), economic (BEPG) and budgetary policy (SGP). The Employment Guidelines were now merged with the Broad Economic Policy Guidelines to form the Integrated Guidelines for Growth and Jobs (IGGJ), which became the backbone of the GES. The Employment Guidelines themselves became just a minor sub-set (one third of the IGGJ), relatively unimportant compared to the microeconomic and macroeconomic guidelines. They were set for a three-year period (2005-2008)<sup>4</sup> and were then renewed with no major changes. The Social OMCs were also rationalised and re-synchronised to coincide with the GES timetable, while remaining separate from the IGGJ. Their content was also refocused on their contributions to employment and growth. The Member States no longer had to submit separate national action plans, but, rather, National Reform Programmes (NRPs), bringing together economic, employment and social reforms. The Commission drew up a 'Community Lisbon Programme', which set out the actions to be carried out at Community level to support the GES. The processes were thus very similar, but, at this stage, still relatively autonomous. The national institutions involved in planning employment, economic and social reforms still decided, relatively autonomously, on the strategy priorities for these reforms. They also continued to use existing instruments (plans, indicators, joint reports, peer-reviews, etc.). The Commission would then bring together the outcomes of the three policy areas in one single document, highlighting the actions taken by Member States to implement structural and budgetary reforms. On this basis, it made draft recommendations, which were then discussed and adopted at each Spring Council. This system already foreshadows the process of the Annual Growth Survey, which would later be used to implement the Europe 2020 strategy.

- 
4. Guideline 17: implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion; - GL 18: promote a lifecycle approach to work; - GL 19: ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive; - GL 20: improve matching of labour market needs; - GL 21: promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners; - GL 22: ensure employment-friendly labour cost developments and wage-setting mechanisms; - GL 23: expand and improve investment in human capital; - GL 24: adapt education and training systems in response to new competence requirements.

One of the consequences of the re-targeting of the GES measures and the rationalisation of the economic, employment and social policy processes would be to affect the sometimes delicate balances existing between the various parties involved in the processes. Synchronisation with the budgetary process (SGP) and the integration/assimilation of the EES with the BEPG would increase the power of economic policy institutions compared to their counterparts in the area of employment and social policy. This shift in balance occurred at both European and national levels. Within the Commission, the Directorate General for Economic and Financial Affairs (DG ECFIN) increasingly imposed its policy directions on the other DGs, particularly DG Employment and Social Affairs. At national level, the bringing together of policies into one sole strategy, and the practical need to express this at European level in one programme (NRP) covering all the strands, meant that now programmes were subject to more coordination from Prime Ministers (or their equivalent) and Councils of Ministers. These Councils themselves had their own traditional hierarchies of portfolios. The fact that the Commission had generally been hesitant to strike a balance between divergent views both in its own ranks and between Member States only strengthened this tendency (Conter, 2012; Barbier J-C., 2011). An implicit hierarchy became explicit. In some ways, it was not only political processes which were integrated and made subject to a new hierarchy: the same occurred to the parties to the process. This was a long way from the vision, which now seemed somewhat naïve, of a harmonious and positive balance between economic, budgetary and employment policy areas. Such was the vision proclaimed at the outset of the Lisbon Strategy, which some were now referring to as an 'incoherent combination of economic liberalism, social-democratic aspirations and neo-Schumpeterian technological determinism' (Amable *et al.*, 2009: 25). The various economic crises affecting Europe in the past few years have merely intensified this process. As well as an imbalance between powers, we see a democratic deficit, which has worsened with the introduction of the Europe 2020 strategy, and, especially, of the new European economic governance. National, regional and local governments have little space and time to examine, and try to influence, the content of the NRPs and recommendations. The same is true for the social partners and civil society; their views carry little weight in the discussion, compared to the threat of sanctions if countries do not respect the binding commitments entered into as part of the strengthened system of economic and budgetary governance. (Barbier C., 2012; Degryse, 2012; Barbier J-C., 2011).

## **2. The EES, Europe 2020 and the new economic governance**

### 2.1 The EES and Europe 2020

The dramatic economic crises which shook Europe at the end of the first decade of the 21<sup>st</sup> century, the effects of which may well remain with us for years to come, helped to further increase the imbalance between policy areas and political processes at the time when the EU's new overarching strategy for 2010-2020 was being drawn up. Once again, no thorough, consensual analysis was carried out of the result of the strategies applied during the previous decade or the lessons to be learned from this – as was the case when the Lisbon Strategy mutated into the GES (Conter, 2012; Peña-Casas, 2010; Pochet, 2010). In a context more than ever constrained by the need for budgetary austerity, the new strategy could not be ambitious in its objectives or require a significant change to the dominant paradigms. It took over, therefore, most of the content of the GES while accentuating the 'rational' and 'simplified' integration of policies to the benefit of economic growth. The Europe 2020 strategy, adopted at the European Council of June 2010, also came up with a strategic slogan: to turn the EU into a 'smart, sustainable and inclusive economy, delivering high levels of employment, productivity and social cohesion, and setting out a vision of Europe's social market economy for the 21<sup>st</sup> century' (Council of the European Union, 2010a). This is extremely close to the famous slogan of the Lisbon Strategy, except that, interestingly, the reference to job quality has been dropped, replaced by productivity. The strategy is centred on three fundamental political priorities, referring to 'drivers' of growth (so-called smart, sustainable and intelligent growth), which must be stimulated. Five headline targets are set for the EU, to be met by 2020, as well as national targets which the Member States set themselves and which they must endeavour to meet by the same date. These are assessed by the use of eight indicators (cf. appendix 1 for details). The general directions for the structural reforms to be undertaken by the Member States in their NRPs are still set out in integrated guidelines. There are, however, far fewer of these than previously: their number has been reduced from 24 to 10. The Member States must set national targets, list 'brakes on growth', and present structural policies to remove these. As was previously the case, various financial instruments are made available to Member States to help with these reforms. These

are the same as those used in the GES, as they were already agreed upon for the budgetary programming period 2007-2013 (European Social Fund, Globalisation Adjustment Fund, PROGRESS programme, etc.). The Commission, for its part, assesses the progress made and makes political recommendations. As well as providing financial support from the structural funds, the Commission has also developed 'initiatives' designed to stimulate growth and sustainable jobs at European level. It has introduced a set of seven 'flagship initiatives', linked to 'engines for boosting growth' (cf. appendix 1). The flagship initiatives 'Youth on the move' and 'An agenda for new skills and jobs' are those most explicitly related to employment. As well as these flagship initiatives, there is an 'Employment Package' and a 'Social Investment Package', both of which are designed to support the flagship initiatives relating to employment and social inclusion. Recently, another support measure has been added to these: the 'Youth Guarantee', to provide extra help with finding jobs to young unemployed people, of which there are many, particularly in these years of economic crisis.

## 2.2 The EES and the new economic governance

The new economic governance of the EU is based on three 'pillars': a reinforced economic programme subject to closer surveillance, measures to maintain stability in the eurozone and measures to help recovery in the financial sector. The first of these three is of particular interest here, since it deals with the workings of the Europe 2020 strategy. However, this pillar of European economic governance provides, above all, the context for a further strengthening of economic and budgetary processes. A set of agreements or 'pacts' between Member States (Euro+, Six-pack, Two-pack) and even a new budgetary pact (the 'Treaty on stability, coordination and governance in the EU') considerably tighten up budgetary discipline and rectitude. This change in the system of European governance is particularly radical since sanctions are put in place, to be applied if Member States do not meet their commitments. It is not possible here to go into the details of this systemic overhaul (for a detailed critical analysis, cf., in particular, Conter, 2012; Degryse, 2012 and Barbier C., 2012). We will, however, underline three aspects. The first is that the Europe 2020 strategy is clearly sidelined in this new system of governance, especially since, unlike the budgetary and economic processes, no sanctions can be applied. The second point

relates to the introduction of a new working method, the ‘European Semester’, which enables a discussion of economic and budgetary priorities at the same time each year. This method is not as new as it might seem, since it continues, largely, the monitoring and coordination process already introduced in the GES. The time-frame, however, is even shorter (six months), which has certain consequences, particularly on the participation of the various parties to the process. Finally, with the sidelining of Europe 2020, the EES as such has become far less prominent in the overall system of governance.

### 2.3 Does the EES still exist?

So what remains of the EES in the new European economic governance? The question seems justified, since the EES seems somewhat lost in the middle of these new arrangements for European governance.

It has disappeared, firstly, from European rhetoric. The EES as such is no longer mentioned anywhere in the European texts. Instead, we see references to the Europe 2020 strategy. It has also disappeared from current procedures. In a previous edition of this collection, we gave a detailed analysis of how the Social OMCs, particularly the Social Inclusion OMC, had gradually faded into the background, as they were brought more closely into the Europe 2020 strategy and the new European economic governance. We also wrote of the damaging effect of this sort of shift, and referred to the considerable efforts which had to be made by the parties to these OMCs to clarify whether these processes, and their contributions to Europe 2020, were to continue (Peña-Casas, 2012). The same seems to be occurring with the EES, as a method. The procedural measures of the EES, as a political process in its own right, are gradually fading away or even disappearing completely.

The Employment Guidelines, now included in the Integrated Guidelines, are now only three in number, but still reflect the content of the previous EGs<sup>5</sup>. Europe 2020 contains something new: one of its

---

5. Guideline 7: increasing labour market participation of women and men, reducing structural unemployment and promoting job quality; Guideline 8: developing a skilled workforce responding to labour market needs and promoting lifelong learning; Guideline 9: improving

employment guidelines refers to social inclusion. In its wording it contains the main points of the common objectives of the Social OMC, while clearly highlighting labour market participation as a key weapon in the fight against poverty (active social inclusion) and the need to reform social protection systems to ensure that they are sufficiently effective, at the same time respecting budgetary constraints and the need for long-term sustainability. This new guideline also refers to the more cross-cutting aspects which were previously included in the EES guidelines, such as equal opportunities or non-discrimination.

The National Action Plans on Employment, as key documents in the EES OMC process, are no longer mandatory, since the content of the employment reforms is set out as required in the NRPs. Nevertheless, these national plans play a key role in the OMC, since they reflect a national consensus on employment policies, and are to be used as the starting point for the Commission's analysis and, ultimately, the recommendations made to Member States. Member States, however, still have the option to retain their National Action Plans, but only as documents annexed to the NRP, if they so wish. The most recent Annual growth survey process showed that not all EU Member States felt it necessary to draw up a national plan and to maintain its use at Community level. In a recent Resolution, the European Parliament strongly deplores the fact that some Member States have not felt it necessary to provide a national plan, by way of an annex, and regrets also that the Commission has not required countries to provide such a plan (European Parliament, 2013). The resolution goes even further, and criticises certain Member States for not engaging with most of the Europe 2020 employment and social policy objectives. It also highlights the democratic shortcomings of Europe 2020 and urges the Commission and the Council to substantially improve participation of national parliaments and social partners in the drafting of the strategic guidelines.

The extensive range of more than 100 indicators for monitoring progress on the EES, patiently developed over time, have also disappeared from the scene. The *Compendium* of EES indicators, which listed them,

---

the quality and performance of education and training systems at all levels and increasing participation in tertiary or equivalent education; Guideline 10: promoting social inclusion and combating poverty.



has not been officially updated since 2010. New tools, to be used by the Employment Committee and the Social Protection Committee, have been developed, but these cover a far more restricted set of areas (Joint Assessment Framework). Indeed, this is not the only example of closer integration between employment and social policy. The two Commission flagship reports on employment (Employment in Europe) and social affairs (The Social Situation in the EU) have now been brought together into one sole report on Employment and Social Developments in Europe (European Commission, 2013).

The Joint Employment Report (and social issues), which was at the heart of the EES OMC process, has been very much streamlined (22 pages) and now essentially gives a brief diagnosis of the situation on European labour markets, and highlights the key issues for the Commission's Annual Growth Survey. It is now just one of several annexes to this survey (European Commission, 2012). Since Europe 2020 is centred on examination of the NRPs, the guidelines given in these take precedence when it comes to the final analysis of the Annual Growth Survey, leading to the recommendations made to Member States.

The main procedures used for the EES have, therefore, been significantly altered in Europe 2020. However, the key principles of the EES are more present than ever in Europe 2020 (activation, employability, adaptability, and flexicurity). The difference is that they are no longer presented as EES principles, but, rather, as Europe 2020 principles helping to overcome the obstacles to growth. In this context, as underlined by Bernard Conter, ideas such as minimising labour costs (wages) and social protection expenditure receive greater emphasis in the Europe 2020 agenda, since they are strongly supported by economic actors in times of strict economic and budgetary restraint (Conter, 2012). These founding principles of the EES have lasted, because the strategy includes so-called 'key concepts' which have survived the various changes in the dogma of the EES, from its birth until now. They have done so largely because they were originally included with a view to coordination between the various EMU processes (the Cardiff and Cologne processes), and have, over time, become established as agreed models for developing employment policies. Most of these key-words have lasted throughout the lifetime of the EES (activation, employability, adaptability, flexibility, active

ageing, balancing work and non-working life, modernising social protection), while others (quality of employment, gender equality and non-discrimination) were soon sidelined (Conter, 2012; Barbier J-C., 2011). The reason for the survival of the former principles is linked to their very nature. These are not well-structured concepts in the original epistemological sense of the word, but, rather, 'quasi-concepts'. This is the expression used by Paul Bernard to describe 'these hybrid mental constructs increasingly used by politicians, both in order to identify possible shared readings of a situation and then to confirm and strengthen these. I describe them as 'hybrid' because they have two aspects: they are, firstly, based, partially and selectively, on an analysis of the relevant data. This enables them to be relatively realistic and to enjoy the aura of legitimacy conferred by a scientific method. Secondly, they are vague enough to be adapted easily to various situations, flexible enough to follow the day-to-day meanderings and requirements of politics' (Bernard, 1999: 2). It is this lack of clear definition which makes it so difficult to say exactly what is meant by these concepts, in practical terms, but which also explains why they are accepted and used so readily and widely by all participants in flexible governance procedures such as the EES or the OMCs. These quasi-concepts give the impression that progress is being made – convergence towards common goals – while, at the same time, masking the differences between national situations and between the reforms undertaken to meet these goals. Their somewhat vague outlines enable relative agreement to be reached between parties to the OMC, since each can understand them in a way to suit his or her own national circumstances (Heidenreich and Zeitlin, 2009; Serrano Pascual, 2009; Mailand, 2008). The perfect example of this sort of quasi-concept is 'flexicurity', which has been accepted, with some difficulty, as a key principle of the EES and the GES since the middle of the first decade of this century, but which Member States still understand in varying ways (Bekker, 2011; Jorgensen and Madsen, 2007). To give an example involving countries which first used this quasi-concept – Denmark and the Netherlands – while both speak of flexicurity, they use it to mean different things. This ambivalence also explains why it has not been possible, at European level, to go beyond a definition of 'common principles of flexicurity', which are couched in broad enough terms to cover diverse national policies. The risk when these quasi-concepts become widely used is that their complex content will be very much over-simplified. The debate on flexicurity, for example, has gradually

lost its complexity and has been reduced, in political debates, to an over-simplistic trade-off between flexibility for companies, on the one hand, and security for workers on the other (Bekker, 2011; Burroni and Keune, 2011). This lack of clear definitions also largely explains why these ‘quasi-concepts’ have survived in Europe 2020 and the new European economic governance. Their imprecise and consensual nature has meant that they can easily be adapted and assimilated by these processes, to pursue, almost exclusively, objectives relating to growth and budgetary discipline, which have been present in the background since the beginnings of the EES. In the future, however, these quasi-concepts will no longer be presented as products of the EES, but of Europe 2020.

## **Conclusions**

During its fifteen-year lifetime, the EES has been re-formed to fit three overarching European strategies, at a time of almost-permanent economic crisis, interspersed with brief periods of recovery and growth. During this time, even if there have been some changes to its content, the EES has retained its main approach of focusing on labour supply, and has sought to find synergy with the other cooperation-based processes relating to the economic and budgetary aspects of EMU. Ultimately, the real changes over this period have been to the hierarchical relations between economic, social, employment and environmental policy areas. The Lisbon Strategy aimed at sustainable economic development based on a reasoned and harmonious equilibrium between the various spheres of political action. Now, however, the focus has shifted to an approach in which employment and social policies are strongly subordinated to the objectives of growth and budgetary discipline. The ideological shift from the Lisbon Strategy, to a growth and employment strategy in 2005, altered the fragile equilibrium between employment, economic and budgetary policies. Economic and budgetary policies now overshadowed employment policies, and, increasingly, determined alone the content of the latter. This hierarchy was very much reinforced with the introduction of the new Europe 2020 strategy, and, above all, with the inclusion of this strategy in a new framework for European economic governance. It is true that the ‘ideas’ of the EES survived these changes, but they would be seen, from then on, as part of Europe 2020.

In this context, the EES was centred around a core of key-concepts, the primary goals of which were to enable labour markets and workers to adapt more easily to the ups and downs of the market (employability, human capital and flexicurity), and to maximise the numbers in employment, by keeping people in work and helping to find work for those currently inactive. The hybrid and undefined nature of these 'quasi-concepts' made it easier for the parties involved to agree on the EES 'ideas' during its lifetime, especially since these key guidelines for employment policy had always been closely linked to the economic and budgetary processes of the EMU (Cardiff and Cologne) (Verdun, 2013). It was therefore relatively easy to 're-focus' them on their contributions to increasing employment and boosting economic growth. This doctrinal shift, already clearly established in 2005 with the reformulation of the Lisbon Strategy to create the Strategy for Growth and Employment, reached its pinnacle in Europe 2020, and, especially, in the new framework for European economic governance. With the help of the economic crisis, this subordination of employment (and social) policies became an absolute value.

In this context, the EES has faded into the background, to such an extent that we could well ask if it still exists; it seems to have vanished from European rhetoric and in terms of its procedures. The EES is no longer mentioned, yet its basic principles remain in Europe 2020, where they play, indeed, a key role. However, the original method of flexible political cooperation between Member States, and the consensus-forming tools patiently developed through this method, are no longer clearly to be seen. This does not mean that they have disappeared: they have just moved into the background. In a previous contribution to this collection, we described the patient and determined reaction to these changes, initiated by the vast majority of European and (often) national parties to the Social OMC process, with a view to restoring participation of these parties, as well as retaining the key principles and the status of the OMC itself, as a contribution to and recognised part of Europe 2020 (Peña-Casas, 2012). The European and national participants in the EES took similar action for similar reasons. Social partners, Parliaments and Ministers of Employment and/or Social affairs strongly voiced their desire to be more closely and visibly involved in the Europe 2020 process (European Parliament, 2013; ETUC, 2013).

Even if these voices of protest might encourage some optimism as to the long-term survival of the EES OMC within Europe 2020, it is still difficult to say whether the EES might at some stage gain in prominence within the new European governance system. The effects of the economic crisis, which seem unlikely to disappear in the medium-term, and the current degree of subordination of these policies to economic growth objectives seem to suggest otherwise, as does our experience of the first three years of implementation of Europe 2020. Even though it is becoming increasingly clear that budgetary austerity, as an absolute goal, is very damaging, and although some Member States are calling it into question, most other Member States are still convinced that such austerity is necessary. This is where the real problem lies. There is no longer a real consensus between Member States as to a common project for economic and social development; and the glue holding the project together – European solidarity – is increasingly called into question by some. The gradual disintegration of the EES OMC is also, and above all, the outcome of a stated lack of interest of some Member States in a process for the shared coordination of policies. The Commission, by doing away with the mandatory status of the OMC and its measures under Europe 2020, has opened a Pandora's box which it had been possible to keep closed up until then. It will therefore be difficult in coming years to reach a consensus in Europe as to the 're-Lisbonisation' of Europe 2020, in order to achieve a balanced approach to policies which will be more propitious to growth and economic and social development. One way out of this stalemate could be to allow a multi-speed Europe, where groups of countries could share common goals, or a single currency, and could agree on limited reforms (Defraigne, 2013). What is certain is that such a solution would not be viable in the long term.

The situation is unlikely to change until 2014, when the mid-term review of Europe 2020 will take place. Past experience shows that these times of assessment and redefining strategy do not necessarily result in fundamental changes to the dominant paradigm: ever more of a financial market economy and ever less of a social market economy. 2013 will be the year to attempt to make a significant change in the guiding principles of Europe 2020 and of economic governance. It will also be a crucial time to try to restore some of the autonomy of employment policies, by re-formulating the EES and giving it greater visibility. Nevertheless, as the previous strategic evaluations of 2004

and 2010 were somewhat summary and not particularly democratic, we should not, perhaps, expect too much.

## References

- Amable B., Demmou L. and Ledezma I. (2009) Stratégie de Lisbonne et réformes structurelles en Europe, *La Revue de L'IREES*, 60, Numéro spécial – Stratégie de Lisbonne: échec ou solution pour le futur?, 25-46.
- Barbier C. (2012) La prise d'autorité de la BCE et les dangers démocratiques de la nouvelle gouvernance économique dans l'UE, *Research Paper 9*, Brussels, OSE, November 2012.
- Barbier J.-C. (2004) Une européanisation des politiques de l'emploi? réflexions d'étape à propos de la stratégie coordonnée pour l'emploi, *Travail et Emploi* 100, October 2004, 11-26.
- Barbier J.-C. (2011) Changes in political discourse from the Lisbon Strategy to Europe 2020, *Working Paper 2011.01*, Brussels, ETUI.
- Begg I. (2006) *Lisbon Relaunch: What Has Changed? Is it Working Better?*, CEPS Special Report, Brussels, Center for European Policy Studies.
- Bekker S. (2011) *Flexicurity – Explaining the Development of a European Concept*, Phd Thesis, Tilburg University.
- Bernard P. (1999) La cohésion sociale: critique dialectique d'un quasi concept, *Lien social et politique*–RIAC: Les mots pour le dire, les mots pour le faire: le nouveau vocabulaire du social, 41, printemps, 47-59.
- Burroni L. and Keune M. J. (2011) Flexicurity: a conceptual critique, *European Journal of Industrial Relations*, 17 (1), 75-91.
- Conter B. (2012) *La Stratégie Européenne pour l'Emploi : de l'enthousiasme à l'effacement*, Brussels, Centre de recherche et d'information socio-politiques.
- Council of the European Union (2010) Council Decision of 21 October 2010 on guidelines for the employment policies of the Member States (2010/707/EU), *Official Journal of the European Union*, L 308, 24 November 2010.
- Defraigne P. (2013) *Fédérer l'eurozone sur un modèle social commun?*, (published on [www.madariaga.org](http://www.madariaga.org)).
- Degryse C. (2012) *The new European economic governance*, Working Paper 2012.14, Brussels, ETUI.
- ETUC (2013), *ETUC Position on Europe 2020 strategy – an assessment*, adopted at the ETUC Executive Committee meeting of 5 and 6 March 2013.
- European Commission (2010) *Europe 2020 – A strategy for smart, sustainable and inclusive growth*, COM (2010) 2020 final of 3 March 2010.

- European Commission (2012), Draft Joint Employment Report – annexed to the Communication from the Commission on the Annual Growth Survey 2013, COM (2012) 750 final of 28 November 2012.
- European Commission (2013) Employment and Social Developments in Europe 2011, Directorate-General for Employment, Social Affairs and Inclusion, Luxembourg, Publications Office of the European Union.
- European Council (2000), European Council Conclusions, 100/1/00, Lisbon, 23 and 24 March 2000.
- European Council (2005) European Council Conclusions, EUCO 10255/1/05 REV 1, Brussels, 22 and 23 March 2005.
- European Parliament (2013) European Parliament resolution on the European Semester for economic policy coordination: employment and social aspects in the Annual Growth Survey 2013, 2012/2257(INI).
- Heidenreich M. and Zeitlin J. (eds.) (2009) Changing European Employment and Welfare Regimes: The Influence of the Open Method of Coordination on National Reforms, London, Routledge.
- Jørgensen H. and Madsen P.K. (eds.) (2007) Flexicurity and Beyond - Finding a new agenda for the European Social Model, Copenhagen, DJOF Publishing.
- Mailand M. (2008) The uneven impact of the European Employment Strategy on Member States' employment policies: a comparative analysis, *Journal of European Social Policy* 18(4), 353-365.
- Natali D. (2009) La Stratégie de Lisbonne après une décennie : revue critique d'une littérature pluridisciplinaire, *La Revue de L'IREs*, 60, Numéro spécial – Stratégie de Lisbonne: échec ou solution pour le futur?, 108-136.
- Natali D. (2010) The Lisbon Strategy, Europe 2020 and the Crisis in Between, in Marlier E. and Natali D. (eds.) with Van Dam R., *Europe 2020: Towards a More Social EU?*, Brussels, Peter Lang, 93-113.
- Peña-Casas R. (2004) La Stratégie de Lisbonne, *Notabene*, 136-137, Brussels, OSE, December 2004.
- Peña-Casas R. (2010) Europe's employment and social inclusion policies amidst the crisis: an opportunity for the future?, in Degryse C. (ed.) *Social developments in the European Union 2009*, Brussels, ETUI and OSE, 91-112.
- Peña-Casas R. (2012) Europe 2020 and the fight against poverty and social exclusion: fooled into marriage?, in Natali D. and Vanhercke B. (eds) *Social developments in the European Union 2011*, Brussels, ETUI and OSE 159-178.
- Pochet P. (2004) The new European Employment Strategy, in Degryse C. and Pochet P. (eds.) *Social developments in the European Union 2003*, Brussels, ETUI and OSE, 77-96.
- Pochet P. (2010) What's wrong with EU2020?, *Policy Brief*, Brussels, ETUI.

- Raveaud G. (2007) The European Employment Strategy: Towards More and Better Jobs?, *Journal of Common Market Studies*, 45 (2), 411-434.
- Salais R. (2004) La politique des indicateurs – Du taux de chômage au taux d'emploi dans la Stratégie européenne pour l'emploi (SEE), in Zimmermann B. (dir.), *Les sciences sociales à l'épreuve de l'action*, Paris, Éditions de la Maison des Sciences de l'Homme, 287-331.
- Serrano Pascual A. (2009) Bataille d'idées dans l'espace européen: la lutte contre le chômage et le combat pour le nommer, *La Revue de L'IREs*, 60, Numéro spécial – Stratégie de Lisbonne: échec ou solution pour le futur?, 47-64.
- Van Rie T. and Marx I. (2012) The European Union at Work? The European Employment Strategy from Crisis to Crisis, *Journal of Common Market Studies*, 50 (2), 335-356.
- Verdun A. (2013) The building of economic governance in the European Union, *Transfer: European Review of Labour and Research*, 19, February 2013, 23-35.
- Watt A. (2004) Reform of the European Employment Strategy after Five Years: A Change of Course or Merely of Presentation?, *European Journal of Industrial Relations*, 10 (2), 117-137.
- Zeitlin J. (2007) A Decade of Innovation in EU Governance: The European Employment Strategy, the Open Method of Coordination, and the Lisbon Strategy, *Perspectives on Employment and Social Policy Coordination in the European Union*, Portuguese Ministry of Labor and Social Solidarity, Lisbon, July 2007, 129-144.
- Zeitlin J. (2010) Towards a Stronger OMC in a More Social Europe 2020: A New Governance Architecture for EU Policy Coordination, in Marlier E. and Natali D. (eds.) with Van Dam R., *Europe 2020: Towards a more social EU?*, Brussels, PIE-Peter Lang, 253-273.



## Appendix 1

### The EES and Europe 2020

#### *European common targets*

- Employment: 75% of 20-64 year olds to be employed;
- Research, development and innovation: 3 % of the EU's GDP to be invested in research and development;
- Climate change and energy: greenhouse gas emissions to be reduced by 20% (even by 30%, if the conditions are right) compared to 1990; 20% increase in the share of renewable energy; 20% increase in energy efficiency;
- Education: reducing the school drop-out rate to less than 10 %; at least 40% of 30-34 year olds completing tertiary education;
- Poverty and social exclusion: at least 20 million fewer people in or at risk of poverty and social exclusion.

#### *Indicators for monitoring national targets*

- Employment rate by gender for 20-64 year olds;
- Gross domestic expenditure on R&D (GERD);
- Greenhouse gas emissions – base year 1990; (4) Share of renewable energies in gross final energy consumption;
- Energy intensity of the economy (indirect indicator of energy intensity of the economy, currently being developed);
- Early school/training leavers, by gender;
- Tertiary education by gender, 30-34 year olds;
- People at risk of poverty or social exclusion (combination of three sub-indicators: people living in households with very low work intensity, people at risk of poverty after social transfers, people living in a situation of severe material deprivation).

#### *The flagship initiatives of Europe 2020*

- A digital agenda for Europe: creating sustainable economic and social benefits from a digital single market based on fast, secure internet and interoperable applications;

- Innovation Union: turning ideas into jobs, green growth and social progress with action to support innovation and innovative businesses;
- Youth on the Move: mobility programmes offering young Europeans the opportunity to study, train, work or start a business in another EU country;
- Resource efficient Europe: supporting the shift towards a resource-efficient, low-carbon economy that offers opportunities for sustainable growth;
- An industrial policy for the globalisation era: maintaining and supporting a strong, diversified and competitive industrial base in Europe, offering well-paid jobs in a less carbon-intensive economy;
- An agenda for new skills and jobs: concrete actions to improve flexibility and security in the job market, ensure people have the right skills for today's jobs, improve the quality of jobs and the conditions for job creation;
- European platform against poverty and social exclusion: supporting work at all levels to meet the objective set by the EU: at least 20 million fewer people living in poverty and social exclusion by 2020 (European Commission, 2010).



# Education policy: comparing EU developments and national policies

Chiara Agostini and Giliberto Capano<sup>1</sup>

## Introduction

In the field of education, European cooperation goes back a long way (Hingel, 2001; Corbett, 2005; Pépin, 2006 and 2007; Walkenhorst, 2008; Ertl, 2003 and 2006; Lawn and Grek, 2012). However, with the launch of the Lisbon Strategy, education and training gained new momentum. Under this strategy, the ‘Education and Training 2010’ (ET, 2010) work programme established the first comprehensive framework for European cooperation in the field of education. As a result, the Open Method of Coordination (OMC) was introduced in education and training.

In 1992, the Maastricht Treaty explicitly excluded any harmonisation of education and training policy. For this reason the Lisbon Strategy has been accompanied by intergovernmental agreements. This is the case of the so-called Bologna and Copenhagen Processes (Ertl, 2006), developed in the fields of Higher Education (HE) and Vocational Education and Training (VET) respectively.

When in June 2010 the Lisbon Strategy was officially brought to a close and Europe 2020 launched in its place, the primary European instruments for coordination in the field of education were the Bologna Process, the OMC, and the Copenhagen Process. These instruments had been launched at different times, pursue different goals, and involve

---

1. We would like to thank the book’s editors and the anonymous reviewers for the very useful comments and detailed corrections, which we found very constructive and helpful to improve our manuscript.

different groups of countries<sup>2</sup>. In this context, Europe 2020 represents a chance to integrate these instruments and to promote their reorganisation under a new umbrella that further reinforces the strategic role of education.

This chapter is developed around two main points. On one hand, we analyse the reinforcement of European governance in education and training achieved by the integration of the ‘old’ instruments (introduced before or during the Lisbon era) and the ‘new’ ones (set up under the umbrella of Europe 2020). We highlight that, as a result, the current framework for coordination is more coherent and contains more instruments than in the Lisbon era. On the other hand, we consider the impact of this reinforced European governance at national level. Specifically, we examine, firstly, the influence on the Member States’ priorities in public spending and, secondly, the outcomes of national systems of education and training (both are assessed using national data on education).

The chapter is divided into four sections. The first section investigates the main instruments of coordination. More specifically, it first examines their aims, their evolution, and the way they function. It then examines the progressive overlapping of their aims and their way of functioning. It also examines the process by which these instruments have been integrated under the umbrella of Europe 2020. This analysis shows that, in the field of education and training, European coordination has been progressively reinforced.

The second section examines the main events of 2012, and the ways in which they have reinforced European coordination in education. This includes the Council/Commission Joint Report published at the beginning of 2012, the entire cycle of the European Semester for 2012, and the most recent Communication from the Commission, which was published at the end of the year. In a time of austerity, the strategic role of education and training has been emphasised by the Commission at every available opportunity. Indeed, throughout 2012, its strategic role was stressed in every official document that (directly or indirectly) considered education and training.

---

2. At present Bologna involves 47 countries, the OMC 31, and Copenhagen 33.

The third section focuses on the impact of European-level coordination at national level. This is not an all-encompassing assessment, but we look at two indicators: 1) the level of public expenditure on education, and 2) the performance of national education and training systems (measured against the benchmarks set out in the framework of the OMC). This part of the analysis shows, firstly, that reinforced European coordination has not affected Member States' decisions about education policy expenditure. In fact, many Member States reduced their investment in education despite the EU's emphasis on it (both under the umbrella of Lisbon and Europe 2020). Secondly, it shows that European coordination has not improved the performance of education policy at national level and there is little evidence of convergence among participant countries. Indeed, an analysis of the benchmarks set in the framework of the OMC and Europe 2020 shows that targets in education are consistently missed. The fourth section concludes with some reflections on the apparent contradiction between the enhanced coordination at European level and the limited impact at national level.

## **1. European governance in education**

### 1.1 The Bologna Process

The Bologna Process did not come into being under the auspices of the European Union, although the Commission had been involved in the drafting of the Bologna Declaration (Corbett, 2011). Subsequently, in 2004, Bologna came to include the Commission, and more significantly, was included as part of the EU's education policy (Pepin, 2011; Gornitzka, 2010). The success of the Bologna Process quickly drew the Commission's interest. Indeed, the Commission has not only become a partner in the Process, but has also tried to "Lisbonize" Bologna since 2005 (Haskel, 2009; Capano and Piattoni, 2011).

The Bologna Process began with the Sorbonne Declaration, signed in 1998 by four ministries of HE (in France, Germany, the UK and Italy). They proposed to make the national HE systems more homogeneous, through the introduction of commonly recognised degrees in HE. This became the core of the Bologna Process. The Sorbonne Declaration and, later, the Bologna Process aimed to establish a 'European Higher Education Area' (EHEA). This idea of an 'area' or 'space' is concerned

with mobility (of students, staff and knowledge) and the need for common institutional architecture (West, 2012).

The Bologna Declaration fixed six targets, to be reached by 2010, in order to build the EHEA: 1) the adoption of a system of easily readable and comparable degrees to promote European citizens' employability and the international competitiveness of Europe's higher education system; 2) the adoption of a system based on two main cycles, undergraduate (Bachelor's degree) and graduate (Master's degree); 3) the establishment of a system of credits (such as in the European Credit Transfer and Accumulation System ECTS) to promote student mobility; 4) the promotion of mobility by overcoming obstacles to the effective exercise of free movement; 5) the promotion of European co-operation in quality assurance by developing comparable criteria and methodologies; 6) promotion of the necessary European dimension in higher education, particularly in curriculum development, inter-institutional co-operation, mobility schemes, and integrated programmes of study, training and research.

Every two years, 'Ministerial Conferences' have taken place and the ministers have produced the respective communiqués: Prague (2001), Berlin (2003), Bergen (2005), London (2007), Leuven (2009) and Bucharest (2012). It has been pointed out that these communiqués have significantly expanded the number of participating states, (non-governmental or supranational) actors, and targets being pursued as part of the Process (Voegtle *et al.*, 2011). In 2001 the European Commission became a full member of the Process, while several other organisations (such as the European University Association - EUA and the European Association of Institutions in HE – EURASHE) have come to participate in the Process in an advisory role. These organisations, along with the Commission and a representative from each of the signatory states, became part of a follow-up organisation called the Bologna Follow-Up Group (BFUG).

The number of targets included in the Process has been progressively expanded as well, for example by: 1) introducing a reference to lifelong learning in the Prague Communiqué (2001), recognising it as an

essential part of the EHEA; 2) promoting a link between EHEA and the European Research Area – ERA<sup>3</sup> (Berlin Communiqué, 2003); 3) advancing the notion that HE be equally accessible to all, and thus introducing a ‘social dimension’ into HE; 4) increasing the attractiveness (to potential students) of the EHEA and promoting cooperation with education authorities in other parts of the world (Bergen Communiqué, 2005); 5) fostering greater employability (London Communiqué, 2007).

In 2009, the Leuven Communiqué established the priorities of the EHEA for 2020. These priorities are focused on: 1) the social dimension (equitable access to quality education and equal opportunity within HE); 2) lifelong learning; 3) employability; 4) student-centred learning and the teaching mission of higher education; 5) education, research, and innovation; 6) international openness; 7) mobility; 8) improving data collection to monitor progress; 9) developing tools for improving transparency 10) a greater attention to seeking new and diversified funding sources and methods.

After Leuven, Ministerial Conferences took place in March 2010 in Budapest and Vienna, as the ‘anniversary conferences’ to celebrate a decade of the Bologna Process. On this occasion the EHEA (as a common European framework for HE) was officially launched. The subsequent Bucharest Communiqué (2012) reiterated the need for providing quality HE for all, enhancing employability, and strengthening mobility.

## 1.2 The Open Method of Coordination

As mentioned above, under the umbrella of the Lisbon Strategy, the ‘Education and Training 2010’ (ET, 2010) work programme established the first solid framework for European cooperation and introduced the OMC into this field. ET 2010 defined three strategic objectives of EU policies concerning, respectively: 1) improvements to the quality and

---

3. The ERA is composed of all research and development programmes, activities, and policies in Europe which adopt a transnational perspective (see [http://ec.europa.eu/research/era/index\\_en.htm](http://ec.europa.eu/research/era/index_en.htm)).



effectiveness of education and training systems, 2) the facilitation of access to education and training; 3) the opening up of the education and training system to the wider world (Council of the European Union, 2002). Cooperation was renewed in 2009, when 'Education and Training 2020' (ET, 2020) was launched. It included updated strategic objectives for 2020, specifically: 1) making lifelong learning and mobility a reality; 2) improving the quality and efficiency of education and training; 3) promoting equity, social cohesion and active citizenship; 4) enhancing creativity and innovation, including entrepreneurship, at all levels of education and training (Council of the European Union, 2009). The use of the OMC in education is intended to improve the performance of national educational systems, and to promote convergence among them by sharing best practices. Both ET 2010 and ET 2020 fixed strategic objectives for EU policies (Council of the European Union, 2002 and 2009) and benchmarks at national level to evaluate national performance (Council of the European Union, 2003 and 2009).

The benchmarks set for ET 2020 show a degree of continuity with the previous ones, although they do include some important new features. Firstly, the new benchmarks set more ambitious targets, even though only one target for ET 2010 has been met. Secondly, there is a new focus on early childhood education. Thirdly, the focus on medium-level educational attainment (where in ET 2010, the target had been for 85% of young people to complete upper-secondary education) has been replaced by a new benchmark focusing on tertiary educational attainment (ETUI, 2011).

Furthermore, new benchmarks were added recently, while another new benchmark will be introduced in 2013. In December 2011 a new benchmark on 'learning mobility' was launched (Council of the European Union, 2011). This benchmark refers both to initial VET and HE, and requires that 20% of higher education graduates and 6% of 18-34 year-olds with an initial VET qualification have a period of study or training abroad. In May 2012 a benchmark on employability was introduced (Council of the European Union, 2012). It calls for the share of employed graduates (20-34 year-olds) having left education and training no more than three years before the reference year to be at least 82%. Finally, a further benchmark on language competences is currently being developed and will be adopted in the first semester 2013 (European Commission, 2012a). Table 1 summarises these benchmarks.

Table 1 ET 2010 and ET 2020: strategic objectives and benchmarks

ET 2010	ET 2020
<b>Strategic objectives</b>	
Improving the quality and effectiveness of education and training systems in the EU	Making lifelong learning and mobility a reality
Facilitating the access of all to education and training systems	Improving the quality and efficiency of education and training
Opening up education and training systems to the wider world	Promoting equity, social cohesion and active citizenship
	Enhancing creativity and innovation, including entrepreneurship, at all levels of education and training
<b>Benchmarks</b>	
By 2010, an EU average rate of no more than 10 % early school leavers should be achieved.	By 2020, the share of early leavers from education and training should be less than 10%
The total number of graduates in mathematics, science and technology in the European Union should increase by at least 15 % by 2010 while at the same time the level of gender imbalance should decrease.	By 2020, at least 95% of children between 4 years old and the age for starting compulsory primary education should participate in early childhood education.
By 2010, at least 85 % of 22 year olds in the European Union should have completed upper secondary education	By 2020, the share of 30-34 year olds with tertiary educational attainment should be at least 40%
By 2010, the percentage of low-achieving 15-year-olds in reading literacy in the European Union should have decreased by at least 17% compared to the year 2000	By 2020, the share of low-achieving 15-year-olds in reading, mathematics and science should be less than 15%
By 2010, the European Union average level of participation in Lifelong Learning, should be at least 12.5% of the adult working age population (25-64 age group)	By 2020, an average of at least 15 % of adults should participate in lifelong learning
	By 2020, an EU average of at least 20 % of higher education graduates should have had a period of higher education-related study or training (including work placements) abroad, representing a minimum of 15 ECTS credits or lasting a minimum of three months.
	By 2020, an EU average of at least 6% of 18-34-year-olds with an initial vocational education and training qualification should have had an initial VET-related study or training period (including work placements) abroad lasting a minimum of two weeks, or less if documented by Europass.
	By 2020, the share of employed graduates (20-34 year olds) having left education and training no more than three years before the reference year should be at least 82% .

Source: authors' composition.

### 1.3 The Copenhagen Process

The Copenhagen Declaration, on VET, was signed following a request from the European Council (2002 : 19), as part of the implementation of the Lisbon Strategy. However, the emergence of the Copenhagen Declaration is also closely connected to the Bologna Process. At the end of the 1990s, the broad consensus regarding Bologna (and its ability to promote important reforms at the national level) favoured a ‘spill-over’ from Bologna to Copenhagen. As a result, the Copenhagen Declaration referred to both the Bologna Declaration and the Lisbon Strategy<sup>4</sup>. On the one hand, it was expected to be the equivalent of the Bologna Process in the field of VET (Cedefop, 2010). On the other hand, it has also become one of the major elements in the implementation of the work programme ‘ET 2010’, and has strongly interacted with the OMC (Pépin, 2007).

Moreover, the launch of the Copenhagen process was also closely linked to the emergence, since the mid-90s, of the lifelong learning (LLL) strategy (see the Delors White Paper of 1993). In particular, in 2001 the Commission promoted the establishment of a ‘European area for lifelong learning’. In the view of the Commission, this area had to ensure that citizens can move ‘freely between learning settings, jobs, regions, and countries in pursuit of learning’ (European Commission, 2001: 3). In this context, it is clear that VET played an important role in supporting the LLL strategy. While the LLL strategy was not able to automatically improve mutual recognition of qualifications and competences, the Copenhagen process could promote this further.

The Copenhagen Declaration set out four priorities: 1) to reinforce the European dimension of VET in order to facilitate mobility and raise the profile of European education and training; 2) to increase transparency, information, guidance, and counselling on VET; 3) to develop instru-

---

4. In particular, the first page the Copenhagen Declaration, on the one hand, highlights that ‘In Barcelona, in March 2002 the European Council (...) called for further action to introduce instruments to ensure the transparency of diplomas and qualifications, including promoting action similar to the Bologna-process, but adapted to the field of vocational education and training. On the other hand, the Declaration also emphasises that ‘The European Council sets the strategic objective for the European Union to become the world’s most dynamic knowledge- based economy. The development of high quality vocational education and training is a crucial and integral part of this strategy (...)’.

ments for the mutual recognition and validation of competences and qualifications; 4) to improve VET quality assurance.

Similarly to the Bologna Process, since the ‘Copenhagen Declaration’, the Commission, the ministers responsible for VET in participating countries, and the European social partners have met every two years to evaluate progress and to rearrange short-term priorities or define new ones. Also resembling the Bologna Process, these meetings have developed different ‘*communiqués*’. These *communiqués* have progressively expanded the objectives of the Process. In 2004, the Maastricht Communiqué reaffirmed the importance of VET. Furthermore, in the Maastricht Communiqué the ministers responsible for VET, the Commission, and the European social partners agreed for the first time to use common instruments, references, and principles to develop the competences of teachers and trainers, and to increase investment in VET. At the same time, the Maastricht Communiqué fixed the aim of making VET more flexible in order to define individual pathways, and address the needs of groups at risk.

Two years later, the Helsinki Communiqué confirmed the priorities fixed in Maastricht. It also emphasised the need to improve the quality and attractiveness (for potential students) of VET, as well as the need for good governance. Furthermore, this second review emphasised the importance of completing and implementing common instruments, references and principles (Cedefop, 2007).

In 2008, the Bordeaux Communiqué also reiterated the importance of implementing common European instruments. Finally, in 2010, the Bruges Communiqué provided long-term strategic objectives for the period 2011-2020. These objectives aim to respond to current challenges and to take into account the principles established during the 8 years of the Copenhagen Process. As a result of the Bruges Communiqué, the Copenhagen Process became part of the ET 2020 work programme and will contribute to achieving the education targets of the Europe 2020 strategy. This is in line with the previous Communication from the Commission entitled ‘A new impetus for European cooperation in Vocational Education and Training to support the Europe 2020 strategy’. This Communication argues that VET should contribute to excellence in lifelong learning systems and to achieving the objective fixed by the Europe 2020 strategy (European Commission, 2010a).

Since the start of the Copenhagen Process, four different instruments have been established: 1) the European Qualification Framework (EQF) that helps compare qualifications throughout Europe to support educational and job mobility - at present, the Member States are defining their own National Qualification Frameworks (NQFs) to connect with the EQF; 2) the European Credit System for VET (ECVET) that helps to recognise, validate, and accumulate work-related knowledge and skills abroad; 3) the European Quality Assurance Framework for VET (EQUAVET) that helps Member States to evaluate, improve, and develop the quality of their VET systems; 4) EUROPASS, a collection of documents to support job mobility (Cedefop 2007, 2010).

## 1.4 Europe 2020 and the European Semester

Europe 2020 has been organised around three integrated pillars (macro-economic surveillance, thematic coordination, and fiscal surveillance under the Stability and Growth Pact), and three priorities (smart growth, sustainable growth, and inclusive growth). In June 2010, the European Council established 'five EU headline targets' to be translated into national targets. One of them concerns education, and highlights the need to improve education levels by reducing school drop-out rates to less than 10% and by increasing to 40% the share of 30 to 34-year-olds having completed tertiary education or an equivalent. As part of Europe 2020, the Council (October 2010) also adopted ten 'Integrated Guidelines'. One of them (Guideline 9) explicitly considers education and training, referring to the need for 'improving the performance of education and training systems at all levels and increasing participation in tertiary education'. Other Guidelines involve this sector as an essential part of active labour market policies. For instance, Guideline 8 calls for 'developing a skilled workforce responding to labour market needs, [as well as] promoting job quality and lifelong learning' (Frazer *et al.*, 2010; Vanhercke, 2011).

The Europe 2020 strategy also introduces seven flagship initiatives, which should promote progress in the priority themes and incorporate a wide range of action at international, European, and national level. Two flagship initiatives involve education policies, specifically 'Youth on the move' and 'An agenda for new skills and jobs'. The aim of 'Youth on the move' is to respond to the challenges that young people face and to

help them succeed in the knowledge economy. It is a comprehensive package of policy initiatives on education and employment involving young people in Europe. This framework agenda announces key new actions, reinforces existing activities, and ensures the implementation of others. 'An agenda for new skills and jobs' includes a series of actions intended to improve flexibility and security in the labour market, to equip people with the right skills, to ensure job quality and better working conditions, and to improve the conditions for job creation. This flagship initiative is implemented in close connection with the initiative (launched in 2008) 'New skills for new jobs' through which Member States should improve their ability to anticipate the skill-needs of European citizens and employers.

In order to enhance socioeconomic governance, the Council has introduced the 'European Semester', which aims to improve economic policy coordination and to help strengthen budgetary discipline, macroeconomic stability, and growth. The Semester starts each year in March, when the Council, on the basis of the European Commission's 'Annual Growth Survey' (AGS), identifies the main economic challenges, and gives advice about policies.

Table 2 **The governance architecture of education in Europe 2020**

<b>EU priorities</b>	(10) Integrated Guidelines	N.8 Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning N. 9. Improving the performance of education and training systems at all levels and increasing participation in tertiary education
	(5) Headline targets	The share of early school leavers should be under 10%, and at least 40% of 30 to 34-year-olds should have completed a tertiary or equivalent education
<b>EU-level tools</b>	(7) Flagships	'Youth on the move'; 'An agenda for new skills and jobs'
	European Semester	Annual Growth Survey; Country-Specific Recommendations
<b>National level tools</b>	National Reform Programmes (NRPs)	Include national targets on 'early school leavers' and 'tertiary education'

Source: our own table.

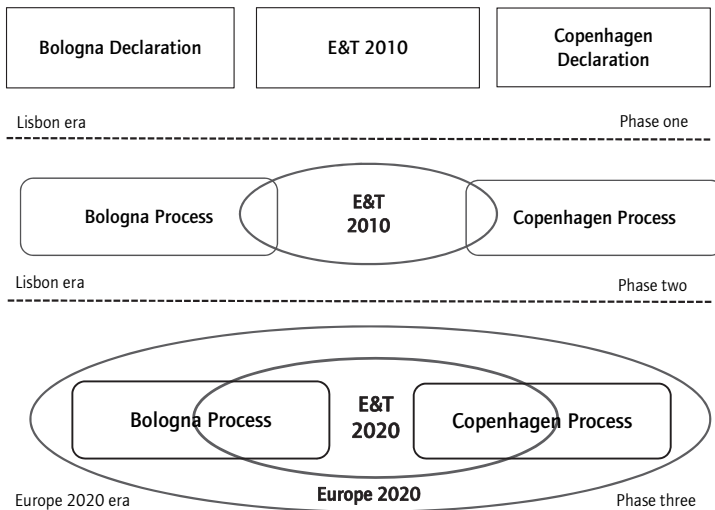
On the basis of this European advice, during April, Member States review their medium-term budgetary strategies and prepare their National Reform Programmes (NRPs), which set out the actions they will undertake, and fix their national headline targets. Afterwards, in June and in July, the European Commission and the Council provide opinions and recommendations to countries before they settle their budget for the following year (Frazer *et al.*, 2010; Vanhercke, 2011). All the instruments introduced by Europe 2020 (directly and indirectly) concern education and training. This sector is increasingly at the centre of the strategy for economic growth and social cohesion. The main instruments for education and training in Europe 2020 are summarised in table 2.

## 1.5 The integration of European governance instruments

The European instruments of governance in education were developed at different times, pursue different targets, and involve different numbers of countries. For this reason, these instruments tend to be very fragmented, and the launch of Europe 2020 represented a chance to promote their integration.

Since their inception there has been a partial convergence of the Bologna and Copenhagen Processes, and the OMC. This convergence has been progressively reinforced, with their ends and means increasingly overlapping, before finally being integrated and incorporated into Europe 2020. From this point of view, the evolution of the soft policy instruments in education can be divided into three main phases (figure 1). These instruments were launched separately (phase one). With the implementation of ET 2010 they slowly began to overlap (phase two). In the early stages, this was more significant for the Copenhagen Process than with Bologna. With the end of the Lisbon Strategy (June 2010), the targets and the means employed by these instruments were incorporated into the new Europe 2020 strategy (phase three), which further reinforced the strategic role of education.

Figure 1 The evolution of the soft policy instruments



Source: our own figure.

The overlap of these instruments can be considered from four different angles. Firstly, we can consider the complementarity between Europe 2020 and ET 2020. As we saw before, Europe 2020 defines five 'headline targets' to be translated into national targets. One of them emphasises education and is fully consistent with two of the ET 2020 benchmarks. Europe 2020 aims to improve education levels by reducing school drop-out rates to less than 10% and by increasing to 40% the share of 30-34 year olds having completed tertiary or equivalent education. These are two of the eight benchmarks of ET 2020.

Secondly, we can consider the features of the last Joint Report (Council and European Commission 2012a) and the related accompanying documents (European Commission, 2011a). This document is published every two to years to evaluate the implementation of the ET work programme. The 2012 Joint Report is clearly an attempt to incorporate ET 2020 into Europe 2020 and the European Semester. Indeed, the structure of the document, for instance, is organised on the basis of the AGS and Europe 2020 priorities rather than those of ET 2020. Considerations as to the contribution of education and training in the context of Europe 2020,



investment in education and training (in line with the priority of the AGS), and the headline targets for education (defined under the umbrella of Europe 2020) are emphasised at the very beginning of these documents.

Thirdly, all of these European governance instruments overlap, not only in the targets that they set, but also in the means by which they pursue them. This is particularly evident with Bologna and ET 2010. Since 2001, the Bologna Process has been linked to lifelong learning. Indeed, the Prague Communiqué recognised it as an essential part of the EHEA. Likewise, ET 2010 fixed a benchmark on lifelong learning. Similarly, in 2009 the Louvain-la-Neuve Communiqué made revisions to the goals of the Bologna Process. They emphasised the social dimension of HE, employability, improving student learning and teaching activities, internationalisation, as well as the development of research and innovation through the promotion of PhDs. They also reemphasised mobility by requiring that ‘in 2020, at least 20% of those graduating in the EHEA should have had a study or training period abroad’ (Louvain-la-Neuve Communiqué, 2009: 4). The Communiqué highlighted the need to define ‘the indicators used for measuring and monitoring mobility and the social dimension in conjunction with data collection’ (6). Indicators and data collection are core elements of the OMC<sup>5</sup>, where measuring and monitoring are crucial to its functioning.

The same may be said of the Copenhagen Process. As the Cedefop (2010) points out, from 2005, the special Copenhagen working groups became part of a broader process of coordination within the framework of ET 2010. From that moment, the Copenhagen Process has overlapped with ET 2010 and, as a consequence, with the OMC. This has resulted, first of all, in a change in goals: while at the beginning its goals mainly concerned qualifications, attempting to replicate the Bologna Process in the field of VET, they came to include goals more in keeping with the Lisbon

---

5. In line with the definition of the Presidency Conclusions of the Lisbon European Council (23-24 March 2000), the OMC is composed of four main components: 1) fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium, and long terms; 2) establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world that are tailored to the needs of different Member States and sectors as a means of comparing best practice; 3) translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences; 4) periodic monitoring, evaluation, and peer review organised as mutual learning processes.

Strategy. The main targets were linked to the Lisbon Strategy and established within the framework of the Copenhagen Process: improving the attractiveness of VET as a learning option, encouraging investment in VET: promoting mobility, and improving quality. Furthermore, the overlap between Copenhagen and ET 2010 has also changed the way in which the Process works. As we have seen, the Copenhagen working groups have been absorbed into a broader framework, and now the Copenhagen Process can be considered as ‘an example of the Open Method of Coordination’ (Cedefop, 2010: 17).

Finally, the Bologna and Copenhagen Processes share a handful of specific tools, such as the National Qualification Framework (NQF). This is a tool intended to coordinate qualifications in order to promote international comparability and transferability. This tool was introduced in HE through the Bologna Process. However, in 2008 the formal adoption (in the framework of the Copenhagen Process) of the European Qualification Framework (EQF) for lifelong learning encourages the development of ‘comprehensive NQFs’ able to include all levels and types of education, so that Member States develop only one framework able to include both HE and VET. At present, the Member States are working to develop their NQFs and to link them with the EQF. Furthermore, these NQFs are now monitored by the European Centre for the Development of Vocational Training (Cedefop), an agency that supports the Commission in promoting and developing vocational and continuing training at the European level. Crucially, this agency is closely involved in the monitoring of the Copenhagen Process as well, and by the implementation of NQFs is promoting further overlap between Bologna and Copenhagen.

## **2. 2012: the main events of reinforcing European cooperation**

### **2.1 The Joint Council/Commission progress reports on education and training**

As we saw in section 1.5, under the framework of OMC, every two years a Council/Commission Joint Report is published in order to evaluate the progress being made on the implementation of the ET work

programme. The last Joint Report proposed priorities for the period 2012-2014 (Council of the European Union and European Commission, 2012a). In the framework of the strategic objectives fixed in ET 2020 (see table 1), the Joint Report has to identify priority areas for the biennial work cycle. These priorities are summarised in table 3.

Table 3 **Priority areas for European cooperation in education and training 2012-2014**

#### **Making lifelong learning and mobility a reality**

##### **Lifelong learning strategies**

Work together to complete the development of comprehensive national lifelong learning strategies covering all levels from early childhood education through to adult learning, and focusing on partnerships with stakeholders, competence development of low-skilled adults, measures to extend access to lifelong learning and integrate lifelong learning services (guidance, validation etc.). In particular, implement the Council Resolution of 28 November 2011 on a renewed agenda for adult learning

---

##### **European reference tools**

Work together to link national qualifications frameworks to the EQF, establish comprehensive national arrangements to validate learning outcomes; create links between qualification frameworks, validation arrangements, quality assurance and systems for credit accumulation and transfer (EQAVET, ECVET, ECTS); cooperate in projecting demand for skills and better matching of such demand and the provision of learning opportunities (Skills Panorama, European Classification of Skills/Competences, Qualifications and Occupations-ESCO); improve the visibility, dissemination and use of European reference tools in order to accelerate their implementation.

---

##### **Learning mobility**

Promote learning mobility for all learners, within Europe and worldwide, at all levels of education and training, focusing on information and guidance, the quality of learning mobility, removing barriers to mobility and promoting teacher mobility. In particular, implement the Council Recommendation 'Youth on the move – promoting the learning mobility of young people'.

---

#### **Improving the quality and efficiency of education and training**

##### **Basic skills (literacy, mathematics, science and technology), languages**

Capitalise on evidence on reading literacy, including the report of the High Level Expert Group on Literacy, to raise literacy levels among school students and adults and to reduce the proportion of low-performing 15 year olds in reading. Address the literacy challenges of using a variety of media, including digital, for all. Exploit and develop the results of cooperation to tackle low performance in mathematics and science at school; pursue work to improve language competences, in particular to support learning mobility and employability.

---

##### **Professional development of teachers, trainers, and school leaders**

Improve the quality of teaching staff, as this is a key determinant of quality outcomes, focus on the quality of teachers, attracting and selecting the best candidates into teaching, quality in continuing professional development, developing teacher competences, and reinforcing school leadership.

---

---

### **Modernising higher education and increasing tertiary attainment levels**

Work together to increase the number of graduates, including extending alternative pathways and developing tertiary VET; improving the quality and relevance of higher education; raising the quality of higher education through mobility and cross-border cooperation; strengthening the links between higher education, research, and innovation to promote excellence and regional development; improving governance and funding.

---

### **Attractiveness and relevance of VET**

Work together, in line with the Bruges Communiqué on enhanced European Cooperation in Vocational Education and Training for the period 2011-2020, in particular on making initial VET more attractive, promoting excellence and the labour market relevance of VET, implementing quality assurance mechanisms, and improving the quality of teachers, trainers, and other VET professionals.

---

### **Efficient funding and evaluation**

Examine funding mechanisms and evaluation systems, with a view to improving quality, including targeted support to disadvantaged citizens and the development of efficient and equitable tools aimed at mobilising private investment in post-secondary education and training.

---

### **Promoting equity, social cohesion and active citizenship**

#### **Early school leaving**

Help Member States implement the 2011 Council Recommendation on policies to reduce early school leaving and their national strategies on early school leaving in general education and VET.

---

#### **Early childhood education and care (ECEC)**

Work together, in line with the 2011 Council conclusions on early childhood education and care, to provide widespread equitable access to ECEC while raising the quality of provision; promoting integrated approaches, the professional development of ECEC staff and parental support; developing adequate curricula, and programmes and funding models.

---

#### **Equity and diversity**

Reinforce mutual learning on effective ways to raise educational achievement in an increasingly diverse society, in particular by implementing inclusive educational approaches which allow learners from a wide range of backgrounds and educational needs, including migrants, Roma and students with special needs, to achieve their full potential; enhance learning opportunities for older adults and intergenerational learning.

---

### **Enhancing creativity and innovation, including entrepreneurship, at all levels of education and training**

#### **Partnerships with business, research, civil society**

Develop effective and innovative forms of networking, cooperation, and partnership between education and training providers and a broad range of stakeholders including, social partners, business organisations, research institutions, and civil society organisations. Support networks for schools, universities, and other education and training providers to promote new methods of organising learning (including Open Educational Resources), building capacity, and developing them as learning organisations.

---

#### **Transversal key competences, entrepreneurship education, e-literacy, media literacy, innovative learning environments**

Work together to promote the acquisition of the key competences identified in the 2006 Recommendation on key competences for lifelong learning, including digital competences, and how ICT and entrepreneurship can enhance innovation in education and training, promoting creative learning environments and heightening cultural awareness, expression and media literacy.

Source: Council and European Commission (2012a).

Two Commission Staff Working Documents focusing on the condition of individual countries and on key thematic areas accompany the Joint Report. These documents are prepared mainly on the basis of the National Reports provided by Member States. They contain a summary of the work accomplished at European and national level, and an in-depth cross-country analysis of the progress achieved in a number of key policy areas (European Commission, 2011a and 2011c).

## 2.2 Education in the European semester

On 10 November 2011, the Commission published the Annual Growth Survey 2012 (European Commission, 2011b). As in the previous AGS 2011 (European Commission, 2010b) and in the following AGS 2013 (European Commission, 2012b), education is defined as strategic for growth and employment, while playing a key role in several other priority areas as well. The AGS for 2012 fixed five priorities: 1) pursuing differentiated growth-friendly fiscal consolidation; 2) restoring normal lending to the economy; 3) promoting growth and competitiveness for today and tomorrow; 4) tackling unemployment and the social consequences of the crisis; 5) modernising public administration.

In the framework of Priority 1, the AGS 2012 reaffirms the need to prioritise ‘growth-friendly’ expenditure. This means that Member States should keep public expenditure growth below the projected medium-term GDP growth rate, while prioritising expenditure in sectors such as education, research, innovation, and energy. Furthermore, in the framework of Priority 1, the AGS 2012 emphasises the need to reinforce or maintain active labour market policies (i.e. training schemes for the unemployed) and employment services.

Education policy also underlies Priority 4, in which the Commission emphasises the need to promote youth employment. In the view of the Commission, particular attention should be given to supporting actions for young people who are not in employment, education, or training; adapting education and training systems in order to reflect labour market conditions and skill demands; ensuring the quality of university programmes and considering measures to support higher education (i.e. introduction of tuition fees for tertiary education, accompanied by

student loan and scholarship schemes, or other sources of funding, such as using public funds in order to leverage private investments).

The draft 'Joint Employment Report' that accompanies the AGS 2012 contains a short evaluation of the reforms and actions undertaken by the Member States on the basis of their NRPs 2011 (European Commission, 2011d). This evaluation considers the areas in which the Member States had to undertake policy reforms (European Council, 2011: 3) under the guidelines for employment policies. These areas include 'investing in education and training', which is linked to Integrated Guidelines 8 and 9 (see table 2). The Joint Employment Reports examined measures adopted at national level to reform education and training. These were targeted mainly at young people, the unemployed, and immigrants. Other reforms aimed to help education systems anticipate needs for skills, or to increase the quality and accessibility of vocational training. Furthermore, the 16 Member States that received specific recommendations regarding investments and reforms in education and training have taken a number of policy initiatives.

In April 2012, the Member States delivered their second NRPs, in which they largely re-confirmed the national targets fixed in 2011. On 30 May 2012, the Commission addressed the specific recommendations (18 Member States had received recommendations on education) and the document 'Action for stability, growth and jobs' (European Commission, 2012c) summarises the general view of the Commission. On the subject of education, this document: 1) reaffirms the need to preserve public investment in research and innovation, education, and energy (in line with Priority 1 of the AGS 2012); 2) confirms the need to do more to link education policy with the needs of the labour market (in line with Priority 3 of the AGS 2012); 3) confirms the need to fight unemployment, reduce early school leaving, improve training and vocational training, and to promote apprenticeship programmes (in line with the Priority 4 of the AGS 2012).

## 2.3 The communication from the Commission

In November 2012 the European Commission prepared the communication 'Rethinking education: investing in skills for better socio-

economic outcomes' (European Commission, 2012d). In this communication, the European Commission reiterated that education and skills represent a 'core strategic asset for growth'. The emphasis of the communication is on 'delivering the right skills for employment, increasing the efficiency and inclusiveness of our education and training institutions, and on working collaboratively with all relevant stakeholders' (2). Therein, the Commission identifies a number of strategic priorities linked to the Country-Specific Recommendations related to the AGS 2012. Among these priorities, particular attention is given to the fight against youth unemployment, covering four areas essential to address the issue, and in which Member States should increase their efforts. These areas are: 1) developing world-class vocational education and training to raise the quality of vocational skills; 2) promoting work-based learning, including quality traineeships, apprenticeships, and dual learning models to help the transition from learning to work; 3) promoting partnerships between public and private institutions (to ensure appropriate curricula and skills provision); 4) promoting mobility through the proposed Erasmus for All programme.

These four issues are closely connected to the 'Youth Employment Package', a bundle of measures to address youth unemployment and facilitate school-to-work transition, aiming to give young people jobs, education and training. The Commission officially launched this package in December 2012.

The communication is complemented by seven accompanying documents. The first accompanying document (Education and Training Monitor 2012) gives an overview of the current supply of skills and progress towards the Europe 2020 targets. This report is based on the analysis of 12 indicators linked to Europe 2020, ET 2020, and skill supply (see table 4). The second document contains an individual country analysis that reflects the structure of the 'Rethinking Education' Communication, and complements the cross-country analysis presented in the Education and Training Monitor. The third document covers 'language competences for employability, mobility, and growth'. As a reply to the Council, in this document the Commission proposes the first ever benchmark on language competence.

**Table 4 Indicators used in the 'Education and Training Monitor 2012'**

1. Early leavers from education and training (age 18-24)	Europe 2020 targets	
2. Tertiary educational attainment (age 30-34)		
3. Participation in early childhood education (4 years old - year before start of compulsory primary)	ET 2020 Benchmarks	
4. Employment rate of graduates (age 20-34) having left education and training no more than 3 years before reference year		
5. Adult participation in lifelong learning (age 25-64)	Other indicators	
6. Basic skills Low achievers (15 year-olds; Level 1 or lower in PISA study)		Reading
		Mathematics
		Science
7. ICT skills		% of pupils in 4 <sup>th</sup> grade using computers at school
		% of individuals aged 16-74 with high computer skills
8. Entrepreneurship		% of 18-64 year-old population who are believed to have the required skills and knowledge to start a business
9. Languages		Average number of foreign languages learned per pupil at ISCED2
		% of students reaching B1 level or higher in their first foreign language at the end of lower secondary school
10a. Tertiary graduates by field. Graduate (ISCED 5-6) in a specific field, as % of all fields		Education and training
	Humanities and art	
	Social science, business, and law of which: business and administration	
	Maths, science, and technology	
	Agriculture and veterinary field	
	Health and welfare	
	Services	
10b. MST graduates	Number of maths, science and technology graduates per 1000 young people (age 20-29)	
11. Skills for future labour markets Projected change in employment 2010-2020 in %	High qualification	
	Medium qualification	
	Low qualification	
12. Investment in education and training (public spending on education, % of GDP)		

Source: our table, based on European Commission (2012a: 6).



This proposed benchmark is based on a dual approach that combines ‘the outcomes of learning in the first foreign language’ and ‘the quantity of pupils learning a second foreign language’<sup>6</sup>. The fourth accompanying document examines lifelong learning. Specifically, it looks at the partnership between several stakeholders and providers of lifelong learning under the premise that cooperation can promote synergies particularly relevant in times of austerity. The fifth document is focused on an assessment of the key competences of initial VET. The sixth and seventh examine respectively the field of VET and the role of the teaching professions in learning outcomes.

### **3. The governance of education: what impact at national level?**

The impact of European soft-governance (and in particular of the OMC) has been widely explored in the relevant literature. The literature on the OMC in particular has highlighted the possibility of assessing these impacts from different points of view. One of these has to do with policy learning (de la Porte and Pochet, 2002 and 2012; Trubek and Trubek, 2005). The OMC is intended to focus peer pressure on poor performers and encourage Member States to change their national policies (Borrás and Jacobsson, 2004; Scott and Trubek, 2002). In such a context, learning may lead to both ‘substantive policy change’ (which concerns changes in the national thinking on policy, changes in the national policy agenda, or changes in specific national policies) and ‘procedural changes’ (such as the reinforcement of horizontal coordination and cross-sectoral integration between interdependent policy fields, or the enhancing of vertical coordination between levels of governance) (Zeitlin, 2009 and 2010).

Though not claiming to be comprehensive, this section assesses the impact of European coordination on national policy choices and on the policy outcomes, based on quantitative data set out in the framework of

---

6. In particular the benchmark requires that ‘by 2020, at least 50% of 15 year-olds should attain the level of independent user of a first foreign language (compared to the present 42 %)’; and ‘by 2020, at least 75% of pupils in lower secondary education should study at least two foreign languages (compared to the present 61%)’.

OMC education. Even if the literature has shown that the evaluation of the soft governance instruments, to be comprehensive, should be based on broad criteria, the ‘rough’ analysis developed herein is useful to catch relevant trends. In particular, we look at two indicators: 1) general government expenditure (GGE) on education (in order to evaluate the Member States’ ability to follow the Commission’s advice on supporting ‘growth-friendly expenditure’) and 2) the benchmarks set in the framework of ET 2010 (to evaluate the ability of the European governance to promote convergence between the performances of education systems).

As to the first point, Member States have not, by and large, increased public investment in education and training. In the following we refer to two indicators: GGE on education as a share of GDP and the GGE on education as a share of total GGE<sup>7</sup>. As far as the first indicator is concerned, between 2004 and 2010 education expenditure increased slightly. At the aggregate level, Member States’ expenditure on education rose from 5.2% in 2004 to 5.5% in 2010. Only seven countries (Bulgaria, Greece, Italy, Hungary, Portugal, Romania, and Sweden) reduced their GGE on education as a proportion of GDP during the period under scrutiny. One country (Poland) in 2010 spent as much as in 2004, while the other countries spent more in 2010 than in 2004, as a percentage of GDP. In each case the changes in spending were not radical. In Bulgaria the reduction was 0.3% of GDP, whereas for Hungary, Portugal, and Romania it was 0.2% of GDP, and 0.1% in Greece, Italy, and Sweden (see table 5).

This apparent increase must be qualified in the light of the impact of the financial and economic crises. GGE on education as a percentage of GDP increased in countries that suffered consecutive years of recession (between 2007 and 2010 there was an increase from 5.1% to 5.5%, while from 2004 to 2007 there was a decrease from 5.2% to 5.1%). In 2009 nearly all Member States were in a recession (i.e. their GDP decreased), which clearly affected education expenditure in absolute terms as well. As we noted (European Commission, 2012a: 11) one third of Member States have been able to maintain the same level of real expenditure

---

7. ‘General government expenditure (GGE) on education – the total public expenditure from all levels of government – can be seen as the commitment that a country makes to the development of skills and competences’ (European Commission, 2012a: 10).

from 2007 onwards. However, several countries have experienced a drop in real public expenditure on education for one or several consecutive years. This occurred over three consecutive years in Italy (2008-2010) and Hungary (2007-2009) and for two consecutive years (2009 and 2010) in Bulgaria, Greece, Latvia, and Romania.

Official documents from the Commission stress that many Member States have either maintained or decreased public investment in education and training by reducing the number of teachers, freezing the salaries of the teachers, merging and reorganising institutions, increasing class sizes, or cutting expenditure on infrastructure (Council of the European Union and European Commission, 2012a and 2012b).

Many Member States have not been able to follow through on European advice (launched in the framework of Lisbon and re-affirmed by Europe 2020) to invest in this area. In this perspective, it is significant to consider GGE on education calculated as a percentage of total GGE in each Member State (see table 6). This measure is a good indication of the extent to which governments prioritise education as compared to other policy measures (in the context of shrinking budgets). This data shows that among EU members, investment in education has fallen by 0.3% of government spending between 2004 (when it was 11.1%) and 2010 (10.8%). Ten countries (Belgium, Czech Republic, Germany, Cyprus, Luxembourg, Malta, Austria, Slovakia, Sweden, and the United Kingdom) have increased their spending on education as a percentage of government expenditure. Denmark remains at the same level as in 2004 (although spending had been significantly reduced between 2007 and 2009). The remaining countries have not been able to protect spending on education, and in some cases the reduction in investment has been substantial. This has been the case in Ireland (-4.9%), Latvia (-3.1%), Portugal and Romania (-2.5%), Lithuania (-2.4%), and Estonia (-1.8%).

Table 5 **General government expenditure on education as % of GDP**

	2004	2005	2006	2007	2008	2009	2010
EU 27 countries	5.2	5.2	5.2	5.1	5.2	5.5	5.5
Belgium	5.8	5.9	5.8	5.8	6.0	6.3	6.3
Bulgaria	4.1	4.3	3.7	3.8	4.1	4.3	3.8
Czech Republic	4.6	4.6	4.7	4.5	4.5	4.8	4.8
Denmark	7.6	7.3	7.0	6.7	6.9	8.0	8.1
Germany	4.1	4.1	4.0	3.9	4.0	4.3	4.3
Estonia	6.3	6.0	6.0	5.9	6.7	7.1	6.8
Ireland	4.6	4.6	4.7	4.9	5.4	6.1	6.0
Greece	3.9	3.9	3.9	3.9	4.1	4.1	3.8
Spain	4.4	4.3	4.3	4.4	4.6	5.1	4.9
France	5.8	5.8	5.7	5.5	5.6	6.0	6.0
Italy	4.6	4.7	4.6	4.6	4.4	4.6	4.5
Cyprus	6.5	6.4	6.4	6.3	6.8	7.2	7.5
Latvia	6.1	5.6	6.0	5.8	6.6	6.8	6.2
Lithuania	5.8	5.4	5.3	5.2	5.8	6.8	6.1
Luxembourg	4.9	4.7	4.4	4.2	4.4	5.0	5.1
Hungary	5.8	5.8	5.8	5.4	5.2	5.3	5.6
Malta	5.8	5.7	5.7	5.4	5.3	5.5	5.8
Netherlands	5.6	5.5	5.3	5.3	5.5	6.0	5.9
Austria	5.3	5.2	5.2	5.2	5.4	5.8	5.7
Poland	5.7	6.1	6.0	5.7	5.7	5.6	5.7
Portugal	6.7	6.8	6.6	6.1	6.2	5.8	6.5
Romania	3.6	3.6	4.1	3.9	4.5	4.1	3.4
Slovenia	6.5	6.6	6.4	5.9	6.1	6.5	6.6
Slovakia	3.9	4.0	3.7	3.9	3.5	4.3	4.5
Finland	6.3	6.2	6.0	5.7	5.9	6.6	6.5
Sweden	7.1	7.0	6.9	6.7	6.8	7.2	7.0
United Kingdom	5.9	6.2	6.1	6.2	6.4	7.0	7.0

Source: European Commission (2012a).

Table 6 General government expenditure on education as % of total GGE

	2004	2005	2006	2007	2008	2009	2010
EU 27 countries	11.1	11.2	11.1	11.1	11.0	10.8	10.8
Belgium	11.7	11.4	12.0	12.0	11.9	11.8	11.8
Bulgaria	10.6	11.5	10.9	9.5	10.8	10.7	10.0
Czech Republic	10.7	10.7	11.3	10.9	10.9	10.8	10.9
Denmark	14.0	13.9	13.7	13.3	13.4	13.7	14.0
Germany	8.7	8.7	8.9	9.0	9.0	9.0	9.0
Estonia	18.6	17.8	17.8	17.3	16.9	15.7	16.8
Ireland	13.9	13.7	13.6	13.3	12.7	12.5	9.0
Greece	8.5	8.8	8.6	8.1	8.0	7.6	7.5
Spain	11.3	11.1	11.2	11.2	11.1	10.9	10.7
France	10.9	10.8	10.8	10.5	10.5	10.6	10.6
Italy	9.6	9.7	9.4	9.6	9.0	8.9	8.9
Cyprus	15.3	14.8	15.0	15.3	16.1	15.7	16.1
Latvia	17.0	15.7	15.7	16.3	16.8	15.3	13.9
Lithuania	17.3	16.2	15.9	14.9	15.5	15.6	14.9
Luxembourg	11.5	11.4	11.4	11.7	11.8	11.7	12.1
Hungary	11.8	11.7	11.1	10.7	10.7	10.4	11.3
Malta	12.8	12.7	12.8	12.7	12.1	12.7	13.5
Netherlands	12.0	12.2	11.7	11.8	11.8	11.6	11.5
Austria	9.8	10.5	10.7	10.6	10.9	10.9	10.8
Poland	13.4	14.0	13.6	13.4	13.3	12.6	12.5
Portugal	15.1	15.0	14.9	13.8	13.9	11.6	12.6
Romania	10.8	10.7	11.6	10.3	11.4	9.9	8.3
Slovenia	14.1	14.7	14.3	14.0	13.8	13.3	13.3
Slovakia	10.5	10.4	10.2	11.3	10.0	10.4	11.2
Finland	12.5	12.2	12.2	12.1	11.9	11.7	11.8
Sweden	13.1	13.0	13.1	13.1	13.2	13.2	13.3
United Kingdom	13.7	14.0	13.9	14.0	13.5	13.5	13.8

Source: European Commission (2012a).

As for the impact of European coordination on Member State performance, we here consider the benchmarks set out in the framework of ET 2010 (see section 1.2), which were largely reaffirmed and even reinforced in ET 2020 and Europe 2020 (see section 1.5). As table 7 shows, four out of five ET 2010 benchmarks were not reached, with the lone exception being an increase in the number of Maths Science and Technology (MST) graduates. In 2009 this stood at more than twice the targeted figure, which called for an increase in the number of MST of at least 15%. EU-wide, the number of MST graduates increased by 37.2%. In some cases, this improvement was massive: 100% in Poland, 141.3% in Czech Republic, 185.8% in Slovakia, 193.2% in Portugal<sup>8</sup>.

With respect to the other four targets, the results were far less encouraging at both the EU and national levels. The aggregate EU figure has not improved very much. The upper secondary attainment benchmark (set at 85% of 22 year-olds completing upper-secondary education) has seen a limited increase: from 76.6% in 2000 to 78.6% in 2009. Furthermore, while the percentage of low-achieving 15 year-olds in reading literacy in the European Union should have decreased to 17%, it decreased only from 21.3% in 2000, to 20.0% in 2010. The third benchmark not achieved relates to the number of people involved in lifelong learning. Indeed, where the benchmark called for this figure to account for at least 12.5% of the adult working age population, between 2000 and 2011, the EU-wide figure only increased from 8.5% to 8.9%.

The fourth benchmark (early leavers from education and training) was fixed at 10%, but it dropped from 17.6% in 2000 to 13.5% in 2011. Many Member States did not reach the targets, and in some cases they are very far from achieving them. The most interesting element that emerged from this data is the significant variation among EU countries. For example, in 2011 the European average for early school leavers was 13.5%, while in some countries this percentage is much higher (Malta 33.5%, Portugal 23.2%, Spain 26.5%) and in others it was extremely low (Slovakia 5%, Czech Republic 4.9%, Slovenia 4.2%). We find similar variations in lifelong learning, where the European average was 8.9% in 2011: while some countries performed much better (Denmark 32.2%,

---

8. However, in 7 countries (Denmark, France, Ireland, Latvia, Luxembourg, Spain, and Sweden) the benchmark was not met.

Finland 23.8%, Sweden 25.0%), others had fared far worse (Latvia 5%, Greece 2.4%, Hungary 2.7%, Poland 4.5%, Romania 1.6% and Slovakia 3.9%). National trends confirmed not only persistent variations, but also divergence: some countries improved their performance, while many others worsened. For example, adult participation in lifelong learning decreased between 2001 and 2011 in France (7.1% to 5.5%), Italy (6.3% to 5.7%), Greece (2.6% to 2.4%), Hungary (4.5% to 2.7%), Latvia (7.8% to 5.0%), Poland (5.0% to 4.5%), and the UK (20.0% to 15.8%). Indeed, this data shows that European coordination has not seen Member States reach their targets, nor have we witnessed a full convergence in the performance of their education systems.

Such negative performances have been accompanied by very unambitious national targets set in the context of Europe 2020. For early school leavers and improvements in the completion of tertiary education, there is a gap between the EU-level target and the targets set by the Member States for 2020. Indeed, the headline targets fixed at national level by the Member States in their NRPs do not match the more ambitious EU benchmark: the average national target is between 10.3 and 10.5% early school leavers while the EU fixed a target of 10%. A similar gap emerges in tertiary education, where national targets call for an attainment level of around 37.6-38% by 2020, below the headline target of 40% (European Commission, 2011a).

Table 7 EU benchmarks ET 2010/ ET 2020 and EU 2020 and national performance\*

EU Benchmarks 2010 (2020)	Graduates in MST 15% of increase		Upper-secondary attainment 85%		Low achievers (reading) 17% (for ET 2020 15%)		Adult participation in LLL 12.5 (for ET 2020) 15%		Early leavers from ET 10%	
	Only ET 2010		ET 2010 and ET 2020		ET 2010 and ET 2020		ET 2010, ET 2020, Europe 2020		ET 2010, ET 2020, Europe 2020	
	2009	2000	2009	2000	2000	2010	2000	2011	2000	2011
EU	37.2	76.6	78.6	21.3	20.0	8.5	8.9	17.6	13.5	
Austria	66.4	85.1	86.0	19.3	21.5	8.6	13.4	10.2	8.3	
Belgium	20.9	81.7	83.3	19.0	17.7	8.6%	7.1	13.8	12.3	
Bulgaria	21.8	75.2	83.7	40.3	41.0	1.3	11.4	20.5	12.8	
Cyprus	58.3	79.0	87.4	-	-	7.9	7.5	18.5	11.2	
Czech Republic	141.3	91.2	91.9	17.5	23.1	5.1	7.5	5.7	4.9	
Denmark	14.3	72.0	70.1	17.9	15.2	24.2	32.3	11.7	9.6	
Estonia	57.1	79.0	82.3	13.6	13.3	6.7	12.0	15.1	10.9	
Finland	59.5	87.7	85.1	7.0	8.1	22.4	23.8	9.0	9.8	
France	5.4	81.6	83.6	15.2	19.8	7.1	5.5	13.3	12.0	
Germany	53.5	74.7	73.7	22.6	18.5	6.0	7.8	14.6	11.5	
Greece	26.5	79.2	82.2	24.4	21.3	2.6	2.4	18.2	13.1	
Hungary	18.9	83.5	84.0	22.7	17.6	4.5	2.7	13.9	11.2	
Ireland	1.0	82.6	87.0	11.0	17.2	5.9	6.8	14.6	10.6	
Italy	62.9	69.4	76.3	18.9	21.0	6.3	5.7	25.1	18.2	
Latvia	11.5	76.5	80.5	30.1	17.6	7.8	5.0	16.9	11.8	
Lithuania	36.4	78.9	86.9	25.7	24.3	5.9	5.9	16.5	7.9	
Luxembourg	11.1	72.7	76.8	35.1	26.0	6.5	13.6	7.1	6.2	
Malta	33.9	40.9	52.1	-	-	4.3	6.6	54.2	33.5	
Netherlands	39.3	71.9	76.6	9.5	14.3	16.4	16.7	15.4	9.1	
Poland	100.0	88.8	91.3	23.2	15.0	5.0	4.5	7.4	5.6	
Portugal	193.2	43.2	55.5	26.3	17.6	4.3	11.6	43.6	23.2	
Romania	89.1	76.1	78.3	41.3	40.4	1.4	1.6	22.9	17.5	
Slovakia	185.8	94.8	93.3	27.8	22.3	3.7	3.9	6.7	5.0	
Slovenia	16.0	88.0	89.4	16.5	16.5	13.3	15.9	6.4	4.2	
Spain	14.8	66.0	59.9	16.3	19.6	10.5	10.8	29.1	26.5	
Sweden	13.3	85.2	86.4	12.6	17.4	17.5	25.0	7.3	6.7p	
UK	17.8	76.7	79.3	19.0	18.4	20.0	15.8	18.2	15.0	

Source: European Commission (2011c, 2011e and 2012a).

\*See the original documents for a more detailed presentation of data.



## Concluding remarks

In this chapter we evaluated, on one hand, the progress of European coordination in the field of education and, on the other, the impact of this coordination both on the Member States' public spending priorities and on the performance of national education and training systems. To develop the first point, we focused on the main soft governance instruments that directly (or indirectly) affect education policies. We have analysed those instruments established before Europe 2020 (the Bologna process, the OMC, the Copenhagen process) and those set up later (mainly the European Semester with the Annual Growth Survey, the headline targets and the Country-Specific Recommendations). We have analysed their progressive overlapping, especially through Europe 2020. Education is now part of a coherent set of measures: integrated guidelines, headline targets, Country-Specific Recommendations and flagship initiatives. A similar process did not exist in the Lisbon Strategy, where only the ET 2010 programme established European coordination of education and training. Further proof of this increased integration is provided by the incorporation of ambitious pre-existing processes such as Bologna and Copenhagen into the new Europe 2020 strategy.

In line with this long-term development, the main events of 2012 (section 2) confirm this EU focus on education and training. In particular, this sector garnered attention as a strategic instrument to improve the economic performance of the Member States (as was the case in the Lisbon Strategy) in the context of the current economic and financial crisis.

Considering the impact of European coordination on the Member States' performance, evidence presented in this chapter shows some inconsistency between the EU steps towards enhanced coordination and its actual impact at the national level. Regarding ET 2010 and the Lisbon Strategy, data on expenditures and progress towards benchmarks shows that the EU has had limited success in improving national performance in education. Indeed, even while the Commission has stressed the importance of investment in education and training, Member States did not follow its advice. In such a context, the current economic and financial crises have affected expenditure on education in a dramatic way. Even if GGE on education as a percentage of GDP did not decrease (from 2004 to 2010), education expenditure in absolute

terms declined in many Member States. Moreover, GGE on education as a percentage of total GGE decreased up to 2010.

All of this suggests that many Member States (in the context of the crises and reduced budgets) did not prioritise education investments. This trend seems to be largely confirmed by the analysis of the benchmarks set by ET 2010 and confirmed or reinforced by ET 2020 and Europe 2020. Both trends between 2000 and 2009 and most recent data on 2010 and 2011 show that the European targets are far from being achieved. The most worrying trend is the persistent divergence in Member States' performance. As we saw in section 3, there are still striking differences between countries when we consider, for example, the national percentage of early school leavers and participation in lifelong learning programmes. Moreover, the targets of the Europe 2020 strategy (a reduction in the number of early school leavers and increased tertiary education attainment) are unlikely to be achieved, as national targets fixed by the Member States through their NRPs are low and unambitious. While the EU has tried to promote the coordination of national education and training policy (of which Europe 2020 represents a clear step forward) more research is needed to assess the capacity to improve national strategy in the area. An assessment of future trends at Member State level will allow us to confirm or revise our view of the limited progress of the past.

## References

- Borrás S. and Jacobsson K. (2004) The Open Method of Co-ordination and New Governance Patterns in the EU, *Journal of European Public Policy* 11, 185-208.
- Capano G. and Piattoni S. (2011) From Bologna to Lisbon: The Political Uses of the Lisbon 'Script' in European Higher Education Policy, *Journal of European Public Policy* 18, 584-606.
- Cedefop (2007) Zooming in on 2010. Reassessing Vocational Education and Training (<http://www.cedefop.europa.eu>).
- Cedefop (2010) A Bridge to the Future. European Policy for Vocational Education and Training 2002-2010 (<http://www.cedefop.europa.eu/EN/>).
- Corbett A. (2005) Universities and the Europe of knowledge: Ideas, Institutions and Policy Entrepreneurship in European Union Higher Education Policy, 1955-2005. Basingstoke, Palgrave Macmillan.
- Corbett A. (2011) Ping pong: Competing Leadership for Reform in EU Higher Education 1998-2006, *European Journal of Education* 46, 36-53.

- Council of the European Union (2002) Detailed work programme on the follow-up of the objectives of Education and training systems in Europe (2002/C 142/01).
- Council of the European Union (2003) Council Conclusions on Reference Levels of European Average Performance in Education and Training (Benchmarks), 8981/03, EDUC 83, 5 and 6 May 2003.
- Council of the European Union (2009) Council Conclusions of 12 May 2009 on a strategic framework for European cooperation in education and training (ET 2020), 2009/C 119/02.
- Council of the European Union (2011) Council Conclusions on a benchmark for learning mobility (2011/C 372/08).
- Council of the European Union (2012) Council Conclusions on the employability of graduates from education and training, 3164<sup>th</sup> Education, Youth, Culture and Sport Council meeting, Brussels, 10 and 11 May 2012.
- Council of the European Union and European Commission (2012a) 2012 Joint Report of the Council and the Commission on the implementation of the Strategic Framework for European cooperation in education and training (ET 2020). Education and training in a smart, sustainable and inclusive Europe (2012/C 70/05).
- Council of the European Union and European Commission (2012b) Accompanying document to the Communication from the Commission. Education and Training for a smart, sustainable and inclusive Europe. Analysis of the implementation of the Strategic Framework for European cooperation in education and training (ET2020) at the European and national levels.
- de la Porte C. and Pochet P. (eds.) (2002) Building Social Europe through the Open Method of Coordination, Brussels, PIE-Peter Lang.
- de la Porte C. and Pochet P. (2012) Why and how (still) study the Open Method of Co-ordination (OMC)?, *Journal of European Social Policy* 22(3), 336–349.
- Ertl H. (2003) The European Union and Education and Training: An Overview of Policies and Initiatives in Philips D. and Ertl H. (eds.) *Implementing European Union Education and Training Policy: A Comparative Study of Issue in Four Member States*, Dordrecht, Kluwer, 13–39.
- Ertl H. (2006) European Union Policies in Education and Training: The Lisbon Agenda as a Turning Point? *Comparative Education* 42, 5–27.
- ETUI (2011) A Backward and Forward Glance at Education and Training in the EU, in ETUI (ed.), *Benchmarking Working Europe 2011*, Brussels, ETUI.
- European Commission (2001) Making a European area of lifelong learning a reality, COM (2001) 678 final, 21 November 2001.
- European Commission (2010a) A new impetus for European cooperation in Vocational Education and Training to support the Europe 2020 strategy, COM (2010) 296 final of 9 June 2010.

- European Commission (2010b) Annual Growth Survey: advancing the EU's comprehensive response to the crisis, COM (2011) 11 final of 12 January 2010.
- European Commission (2011a) Commission Staff Working Documents, Education and Training for a smart, sustainable and inclusive Europe Analysis of the implementation of the Strategic Framework for European cooperation in education and training (ET2020) at the European and national levels, (2011) xxx draft.
- European Commission (2011b) Annual Growth Survey 2012, COM (2011) 815 final, VOL. 1/5 of 23 November 2011.
- European Commission (2011c) Accompanying Staff Working Document: Analysis of the implementation of the strategic framework for European cooperation in education and training (ET2020) - Country analysis, (2011) xxx draft.
- European Commission (2011d) Draft Joint Employment Report, COM (2011) 815 final, VOL. 4/5 – ANNEX III of 23 November 2011.
- European Commission (2011e) Progress towards the common European objective in education and training. Indicators and benchmarks 2010/2011, SEC (2011) 526.
- European Commission (2012a) Education and Training Monitor 2012, Accompanying the document, Communication from the Commission Rethinking education: investing in skills for better socio-economic outcomes, SWD (2012) 373 final of 20 November 2012
- European Commission (2012b) Annual Growth Survey 2013, COM (2012) 750 final of 28 November 2012.
- European Commission (2012c) Action for stability, Growth and Jobs, COM (2012) 299 final of 30 May 2012.
- European Commission (2012d) Rethinking Education: Investing in skill for better socio-economic outcomes, COM (2012) 669 final of 20 November 2012.
- European Council (2002) Presidency Conclusions, Barcelona, 15 and 16 March 2002.
- European Council (2011) Presidency Conclusions, Brussels, 24 and 25 March 2011.
- Frazer H., Marlier E. together with Natali D., Van Dam R. and Vanhercke B. (2010) Europe 2020: Towards a more social EU?, in Marlier E. and Natali D. (eds.) with Van Dam R., Europe 2020: Towards a more social EU?, Brussels, PIE Peter Lang, 11-41.
- Haskel B. (2009) Weak Process, Strong Results: Cooperation in European Higher Education, in Tommel I. and Verdun A. (eds.) Innovative Governance in the European Union: The Politics of Multilevel Policymaking, Boulder, Lynner Rienner, 273-290.
- Hingel A.J. (2001) Education Policies and European Governance. Contribution to the Interservice Group on European Governance (<http://ec.europa.eu>).

- Gornitzka A. (2010) Bologna in Context: A Horizontal Perspective on the Dynamics of Governance Sites for a 'Europe of Knowledge', *European Journal of Education* 44, 535-548.
- Lawn M. and Grek S. (2012) *Europeanizing Education*, Southampton, Symposium Books.
- Pépin L. (2006) *The History of European Cooperation in Education and Training. Europe in the Making – An Example* ([http://ec.europa.eu/dgs/education\\_culture/documents/publications/history\\_en.pdf](http://ec.europa.eu/dgs/education_culture/documents/publications/history_en.pdf)).
- Pépin L. (2007) *The History of EU Cooperation in the Field of Education and Training: How Lifelong Learning became a Strategic Objective*, *European Journal of Education* 42, 121-132.
- Pépin L. (2011) *Education in the Lisbon Strategy: Assessment and Prospects*, *European Journal of Education* 46, 25-35.
- Scott J. and Trubek D. (2002) *Mind the gap: Law and New Approaches to Governance in the European Union*, *European Law Journal* 8, 1-18.
- Trubek D.M. and Trubek L.G. (2005) *Hard and Soft Law in the Construction of Social Europe: The Role of the Open Method of Co-ordination*, *European Law Journal* 3, 343-364.
- Voegtle E.M., Knill C. and Dobbins M. (2011) *To what extent does transnational communication drive cross-national policy convergence? The impact of the Bologna-process on domestic higher education policies*, *Higher Education* 61, 77-94.
- Vanhercke B. (2011) *Is the Social Dimension of Europe 2020 an oxymoron?*, in Degryse C. and Natali D. (eds.), *Social developments in the European Union 2010*, Brussels, ETUI and OSE, 141-174.
- Walkenhorst H. (2008) *Explaining Change in EU Education Policy*, *Journal of European Public Policy* 15, 567-587.
- West J. (2012) *The Evolution of European Union Policies on Vocational and Education Training*, LAKESS research paper, 34.
- Zeitlin J. (2009) *The Open Method of Coordination and reform of national social and employment policy. Influences, mechanisms, effects*, in Heidenreich M. and Zeitlin J. (eds.) *Changing European Employment and Welfare Regimes: The Influence of the Open Method of Coordination on National Labour Market and Social Welfare Reforms*, London, Routledge, 214-245.
- Zeitlin J. (2010) *Towards a stronger OMC in a more social Europe 2020: A new governance architecture for EU policy coordination* in Marlier E. and Natali D. (eds.) with Van Dam R., *Europe 2020: Towards a more social EU?*, Brussels, PIE Peter Lang, 249-269.

# **A new European interventionism? The impact of the new European economic governance on wages and collective bargaining**

**Thorsten Schulten and Torsten Müller<sup>1</sup>**

## **Introduction**

The new European system of economic governance, successively set up by the EU and its Member States in order to ensure the effective implementation of austerity policies and ‘structural reforms’, has fundamentally changed the framework conditions for national collective bargaining. Procedurally, the new system of economic governance, with its newly introduced mechanisms for monitoring, sanctions and intensified coordination, shifted decision-making powers increasingly from the national to the European level – thereby curtailing the national actors’ discretion over policy choices. As regards content, the one-sided focus on fiscal austerity and cost competitiveness considers wages – or more specifically downward flexibility of wages – as the central adjustment mechanism for the current macroeconomic imbalances. Both processes together have enabled European institutions such as the European Commission, the European Central Bank (ECB) and the European Council to directly intervene in national collective bargaining arrangements by pushing for wage cuts and freezes and the decentralisation of wage-setting arrangements. The new system of European economic governance therefore marks a paradigm shift in the EU’s approach to collective bargaining, from the acceptance of free collective bargaining to direct political intervention into national bargaining outcomes and procedures.

---

1. The authors would like to thank Nacho Álvarez, Salvo Leonardi, ‘Paco’ Francisco Trillo, and an anonymous referee for their helpful comments.

The objective of this chapter is to trace this paradigm shift and its implications for national collective bargaining arrangements. Section one provides a brief overview of the development of the new system of economic governance and illustrates how European policy, step-by-step, has tightened its grip on national wage policies and wage-setting arrangements. Based on an analysis of the underlying political and economic rationale of the new interventionist approach, section two describes the various tools of intervention – both in terms of their procedural characteristics and their content. Section three represents the empirical core of this chapter, looking at the key areas of supranational political intervention into national wage policies: public sector and minimum wages, the decentralisation of multi-employer bargaining arrangements, and finally the impact of all these interventions on the overall pattern of wage developments. The concluding section four discusses the future of a European wage policy and the strategic options open to trade unions to counter the current strategy of European interventionism.

## **1. The role of wage policy under the new European economic governance**

The Treaty on the Functioning of the European Union (TFEU, Article 153.5), explicitly stated that the EU has no competences in the area of wage policy. This provision was introduced for the first time in 1991 with the so-called Social Protocol of the Maastricht Treaty. Later on it became part of the Social Chapter of the Amsterdam Treaty of 1997. Paradoxically, the exclusion of wage policy from the realm of EU competences was introduced at the same time as the decision to launch the European Monetary Union (EMU). The latter has led not only to a new stage of European economic integration, but has also created a new macroeconomic regime which sets new terms and challenges for national wage policies (Hein *et al.*, 2005).

The existing legal framework, however, has never prevented EU institutions such as the European Commission, the European Central Bank (ECB) or even the European Council from making general statements and recommendations about wage policy. The Broad Economic Policy Guidelines (BEPG), for example, which have been regularly drafted by the Commission and adopted by the Council since

1993, have always included demands for more moderate and more dispersed wage developments (Hein and Niechoj, 2007). Moreover, the so-called Macroeconomic Dialogue was established in 1999 as a forum for the exchange of views between the Council, the Commission, the ECB, and the European employers' and trade union organisations, aiming at a 'coordination of economic policy and improvement of mutually supportive interaction between *wage developments* and monetary, budget and fiscal policy' (European Council, 1999; authors' emphasis). Finally, it has been the European trade unions, in particular, which since the late 1990s have always emphasised the need for a European coordination of collective bargaining in order to prevent downward wage competition in Europe (Schulten, 2002 and 2003).

While these early European initiatives in the area of wage policy shaped a certain political and economic discourse at EU-level, they never led to legally binding policy initiatives. If at all, they had only very limited impact on the practice of wage policy, which remains almost exclusively the result of national wage-setting institutions. However, the situation started to change fundamentally with the emergence of the so-called 'new European economic governance'. The latter encompasses a set of new policy rules and procedures which have been developed in the wake of the economic crisis since 2008 and which aim to achieve a more binding European coordination of economic policy (Degryse, 2012).

A new system of European economic governance began to emerge in 2010 with the adoption of the Europe 2020 strategy, which included the introduction of the so-called 'European Semester' as a yearly cycle of European economic policy coordination. Every year the EU issues policy recommendations for all EU Member States on the basis of a detailed economic analysis. These recommendations must then be transformed into national 'reform programs' whose effectiveness will again be assessed by the EU.

The annual economic coordination cycle was further developed in 2011 with the adoption of a package of five Regulations and one Directive. The so-called 'Six-pack' contains two new major instruments in order to intensify economic policy coordination: one is the establishment of a new system of enhanced fiscal and macroeconomic surveillance through an alert mechanism for the early detection of macroeconomic imbalances based on a 'scoreboard' of economic indicators. The second is the



introduction of an automatic procedure for imposing financial sanctions on those countries that fail to comply with the policy recommendations issued on the basis of the alert system. As a consequence, the European policy recommendations for Member States lose their purely voluntary character and imply a much higher degree of accountability.

Within the new system of European economic governance, wage policy plays a prominent role. This has been underlined, in particular, by the adoption of the Euro Plus Pact in 2011 which explicitly defines wages as the main economic adjustment variable used to overcome economic imbalances and to foster competitiveness. Consequently, the Euro Plus Pact calls for a close monitoring of wages and wage-setting institutions at European level (European Council, 2011). Moreover, the new scoreboard of economic indicators, which have to be considered by the EU Member States, explicitly includes unit labour costs and defines a certain margin for 'permitted' wage and labour cost developments. Currently, all countries within the eurozone are allowed to have a maximum 9% increase of unit labour costs within a period of three years (12% for EU countries outside the eurozone) (European Commission, 2012a).

As a result of the new European economic governance, the EU's influence on national wage policies has grown substantially, especially since EU policy recommendations become more binding, because Member States which ignore them risk financial sanctions. The possible scope of the new European interventionism in the area of wage policies has become most obvious in those crisis-ridden countries which rely on financial assistance from the EU and/or the International Monetary Fund (IMF). In exchange for new credits, these countries had to introduce far-reaching policy reforms, which were laid down either in so-called 'Memorandums of Understanding' with the Troika of EU, ECB and IMF (in the case of Greece, Ireland and Portugal) or in 'Stand-By Arrangements' with the IMF (in the case of Hungary, Latvia and Romania). The policy measures these countries had to agree on comprised amongst other things far-reaching labour market reforms including changes in wage developments and the systems of collective bargaining<sup>2</sup>.

---

2. For an overview on the broad range of labour market reforms imposed by the Troika or the IMF in the various European countries see: Clauwaert and Schömann (2012) and Hermann and Hinrichs (2012).

Strong European intervention was also felt in Spain, which receives international financial aid for its financial sector. Although this rescue plan is not for the complete economy, it was linked with a Memorandum of Understanding in which the Spanish government had to commit itself ‘to implement the Country-Specific Recommendations in the context of the European Semester’ including more fundamental changes in labour market regulation (European Commission, 2012b). Before that, it was the ECB which practiced a more ‘unofficial’ form of intervention by making the purchase of government bonds conditional on policy reforms. The same holds true for Italy, where in autumn 2011 a confidential letter from the top of the ECB was leaked to the public, in which the Italian government was requested to carry out far-reaching structural reforms, including the radical decentralisation of collective bargaining (Meardi, 2012a and 2012b, for the letter see Draghi and Trichet, 2011). Since autumn 2012, this kind of policy has become more official, after the ECB announced that it would buy unlimited quantities of state bonds if the affected countries agreed on certain political reforms.

Following the proposals made by the European Commission (2012c) for a ‘deep and genuine economic and monetary union’ as well as by the German Chancellor Angela Merkel (2013), the next step in the development of the new European economic governance would be the conclusion of competitiveness pacts between the EU and the Member States, in which the latter commit themselves to implement ‘structural reforms’ which include the areas of wage policy and collective bargaining. Following the logic of the Memorandums of Understanding, such a new system of competitiveness pacts has been rightly labelled as ‘Troika for everyone’ (Oberndorfer, 2013) which would transfer the current practices in bailout countries to the whole EU.

## **2. European interventions in national wage policies**

There are at least three main sets of arguments which serve as a legitimation for European interventions in the area of wage policies. Two are more at a macro level and reflect the dominant perception of the current crisis in the EU as a debt crisis and a crisis of competitiveness. First of all, the EU argues in favour of a strong austerity policy in order to overcome the debt crisis. This view became

even more pronounced with the adoption of the Fiscal Compact in March 2012, which can be interpreted as an attempt to make the austerity approach irreversible (Konecny, 2012: 389). Austerity policy always has an immediate impact on wage policy, as labour costs in the public sector often represent a significant part of public budgets. Thus, all current austerity programmes include demands for cuts and freezes of public sector wages.

Secondly, the growing economic imbalances between the so-called 'surplus' and 'deficit' countries in Europe are understood to be the result of diverging developments in national competitiveness, mainly caused by diverging trends in wages and unit labour costs. Before the creation of EMU, deficit countries would have solved their competitiveness problems by devaluing their national currency. Since within EMU this is per definition no longer possible, the less competitive countries need a policy of 'internal devaluation', increasing their competitiveness through a reduction of labour costs, which is thus understood as a 'functional substitute to currency devaluation' (Armingeon and Baccaro, 2012: 256). For the ECB, one 'main policy conclusion' of its 2012 report on 'Euro area labour markets and the crisis' is, that 'downward wage rigidities are an impediment to restoring competitiveness (and thus employment), particularly in those euro area countries that had accumulated external imbalances before the crisis' (ECB, 2012: 9). While currently the dominant view in the EU is to put the whole burden of rebalancing on the deficit countries, there is also a more Keynesian variant of this argument which states that the surplus countries (in particular Germany) should play a stronger role by promoting stronger wage growth (e.g. De Grauwe, 2012; Malliaropoulos and Zarkos, 2013). Both views, however, focus on wages as the core (or sometimes even only) adjustment variable in the EMU.

There is a third set of more micro-oriented arguments which have regained prominence against the background of the sharp increase of unemployment in many European states. These arguments are based on the traditional neoclassical view that unemployment is mainly the result of institutional rigidities in the labour market. A perfect example for such a view was presented in the DG ECFIN Report on 'Labour Market Developments in Europe 2012', which presented a long list of so-called 'employment-friendly reforms'; apart from various issues of labour market deregulation (e.g. decrease of unemployment assistance, reduction of employment protection, increasing the retirement age

etc.), the list also includes a sub-section on the ‘wage bargaining framework’, which calls on those responsible to:

- ‘decrease statutory and contractual minimum wages’;
- ‘decrease the bargaining coverage’;
- ‘decrease (automatic) extension of collective agreements’;
- ‘reform the bargaining system in a less centralised way, for instance by removing or limiting the “favourability principle”’;
- introduce/extend ‘the possibility to derogate from higher level agreements or to negotiate firm-level agreements’;
- promote measures which ‘result in an overall reduction in the wage-setting power of trade unions’ (European Commission, 2012d: 103-104).

Considering the international research on the macroeconomic performance of different collective bargaining systems<sup>3</sup>, DG ECFIN has rightly acknowledged in another paper that ‘there is no strong evidence in support of a single superior wage-setting model’ (European Commission, 2011: 17). Nevertheless, in its policy recommendations, DG ECFIN always takes a decentralised, company-based bargaining system as the benchmark, since this system seems to allow companies to better adjust to varying economic developments. Regarding this point, the Commission received support through the Euro Plus Pact, which calls somewhat intricately on Member States to ‘review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process’ (European Council, 2011: 16).

Moving from analysing the underlying rationale to assessing the practice of EU interventions in the area of wage policy, it should be noted that in recent years 18 out of 27 EU Member States have been affected by at least some EU initiatives (see table 1). For the EU there are two main channels of intervention which vary in the extent to which they are binding. The first channel relies on the Country-Specific Recommendations issued in the framework of the European Semester. Even though these recommendations are not legally binding, they may become more binding in future in combination with the new alert

---

3. See for example Aidt and Tzannatos (2008) and Traxler and Brandl (2011).

mechanism, which includes the possibility of financial sanctions. The second channel relies on the exchange of reforms for financial support. Since the measures in the area of wage policy are laid down in agreements between the Troika or the IMF and national governments, this second channel of political intervention has a more immediate impact and is therefore more binding in character. However, the demands for certain measures usually come from the Troika, which insists on their implementation as a precondition for financial assistance. Therefore, one can say that in practice many national initiatives in the area of wage policy have often been ‘imposed’ by the Troika.

For most countries, however, the EU attempts to influence national wage policies have up to now been limited to (non-binding) Country-Specific Recommendations in the framework of the European Semester. So far, the EU has used these instruments for twelve Member States. In many cases, the recommendations have still been relatively vague, calling for moderate development of wages in general (Bulgaria, Finland, Italy and Slovenia) or minimum wages in particular (France and Slovenia). While in the case of Sweden the EU de facto demands an extension of the low wage sector, in the case of Germany it called for wage developments to stay in line with productivity growth, which can be understood as a plea for a somewhat higher wage growth.

Much more precise recommendations have been given regarding the reform of wage-setting systems. In the case of Belgium, Italy and Spain, the EU has asked for a decentralisation of collective bargaining by making it easier for companies to derogate from multi-employer agreements. Finally, Belgium, Cyprus, Luxembourg and Malta are strongly criticised as the only countries in the EU which still have a national system of automatic wage indexation (Mongourdin-Denoix and Wolf 2010). Here the EU has demanded – if not the abolition – at least a fundamental reform of these systems in order to make the indexation less strict and binding.

The second more binding channel of political intervention has been applied to six states which have been under international bailout programmes (Greece, Hungary, Ireland, Latvia, Portugal and Romania). In all six cases, EU interventions affected both the current development of wages as well as the structure of collective bargaining. In addition, the Troika has made explicit reference to the Country-Specific

Recommendations developed in the framework of the European Semester with respect to Spain.

In terms of content, the Troika has first of all demanded significant cuts and subsequently freezes of public sector wages in order to reduce public deficits. Furthermore, the Troika has called for cuts (in the case of Greece and Ireland) or freezes (in the case of Latvia, Portugal and Romania) of national minimum wages. Both measures were also intended to have a dampening effect on wage developments in the private sector. However, in the case of Greece, the Troika has even called for a freeze of seniority allowances in private collective agreements. Finally, in Greece, Portugal and Romania, (and Spain), the Troika has pushed for essential changes in the national wage-setting systems aiming at a radical decentralisation of collective bargaining and a sharp restriction of the criteria for the extension of collective agreements.

Table 1 European interventionism in the area of wage policy 2011–2012

Recommendations/agreements	Countries addressed
<b>1. Country-specific Recommendations in the framework of the European Semester</b>	
Decentralisation of collective bargaining	Belgium, Italy, Spain
Reform/abolition of automatic wage indexation	Belgium, Cyprus, Luxembourg, Malta
Moderation of minimum wage developments	France, Slovenia
Moderation of general wage developments	Bulgaria, Finland, Italy, Slovenia
Wage developments in line with productivity growth	Germany
Addressing high wages at the lower end of the wage scale	Sweden
<b>2. Country-specific agreements between EU-ECB-IMF or IMF and national governments within the framework of a 'Memorandum of Understanding'</b>	
Decentralisation of collective bargaining	Greece, Portugal, Romania
More restrictive criteria for extension of collective agreements	Greece, Portugal, Romania
Reduction/Freeze of minimum wages	Greece, Ireland, Latvia, Portugal, Romania
Reduction/Freeze of public sector wages	Greece, Hungary, Ireland, Latvia, Portugal, Romania
Wage freezes in private sector	Greece

No recommendations in the area of wage policy:

Austria, Czech Republic, Denmark, Estonia, Lithuania, Netherlands, Poland, Slovakia, United Kingdom

Source: Authors' composition on the basis of EU 2020 country specific recommendations for 2011 and 2012 (available from the EU web page: [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)) and the 'Memorandum of Understanding' between EU-ECB-IMF or IMF and national governments (available from the IMF web page: <http://www.imf.org>).

### **3. Impact of the new European interventionism on recent developments in national wage policies**

In the wake of the current crisis, the emergence of a new European interventionism has already shaped the development of national wage policies in many European countries, and in particular in those countries which are currently under the economic surveillance of the Troika. Here, international pressure has also fostered the development of a new type of state interventionism at national level, which in every case has included the same measures: pay cuts or freezes in the public sector, a restrictive minimum wage policy, and the fundamental reconstruction of the collective bargaining system leading to a radical decentralisation or even dismantling of multi-employer bargaining. Even though the 'one-size-fits-all' approach prescribed by the Troika led to a convergence of national wage policies in the countries under economic surveillance, the specific measures introduced in the various countries vary in accordance with the existing institutional framework. The objective of this section is to analyse in more detail the concrete implications of the new European interventionism in the three above-mentioned areas. Since the impact on public sector wages and the decentralisation of collective bargaining systems was particularly pronounced in the countries under economic surveillance, the key focus of the respective sub-sections is on these eight countries. The sub-sections on minimum wages and real wage developments open up the perspective to the whole of Europe in order to illustrate the broader impact of European interventionism on wage developments in Europe more generally.

#### **3.1 Cuts and freezes of public sector wages**

Public sector pay cuts and freezes were one main direct intervention tool used by national governments in an effort to reduce public spending, in order to stabilise government finances and to reassure bond markets (ILO, 2013: 20). Public sector wages were an easy target for direct political intervention because in many European countries the salaries of public sector employees are regulated not by collective agreements but by law, thus enabling governments to impose pay cuts and freezes unilaterally. Direct intervention in the area of public sector wages was furthermore given additional legitimacy by the Euro Plus

Pact, which emphasises the wage-leadership function of public sector wages in many countries, and therefore explicitly calls on the EU Member States to 'ensure that wages settlements in the public sector support the competitiveness efforts in the private sector' (European Council, 2011: 16).

Recent analyses of public sector wage developments during the crisis identify the following key tendencies (Glassner and Keune, 2012; Grimshaw *et al.*, 2012; ILO, 2013; LRD, 2012). First, wage cuts and freezes were by no means restricted to those countries particularly hard hit by the crisis. Between 2008 and 2012, public sector pay reforms have been adopted by at least 18 out of the 27 EU Member States. The fact that pay cuts and/or freezes were also imposed in countries which are characterised by a comparatively low level of debt (such as the Czech Republic), or which have remained relatively unaffected by the crisis (such as Poland) suggests that in some countries the crisis was merely used as a pretext to introduce austerity measures (Grimshaw *et al.*, 2012: 11). The second key trend is that in most EU countries, public sector pay cuts and freezes have been introduced unilaterally by the state. Even in those countries with a tradition of free collective bargaining in the public sector, such as Ireland, Portugal, Spain, Italy and the UK, 'public sector employers have bypassed established collective bargaining procedures and imposed pay cuts and pay freezes unilaterally' (Glassner, 2010: 23). Thirdly, in the majority of countries, pay adjustments have been implemented in two or three consecutive rounds. They were thus as a rule not introduced as a one-off emergency measure but as part of a longer and sustained strategy of putting pressure on public sector wages. And last but not least, the most severe measures have been introduced in those countries which received financial assistance from supranational institutions and which were obliged to cut public sector wages as part of the Memorandum of Understanding/stand-by arrangement concluded with the Troika or the IMF.

Table 2, which provides an overview of the measures implemented in those countries which were subject to direct supranational political intervention, shows that the most drastic measures have been introduced in Romania, Latvia and Greece with pay cuts of up to 30% and more.



**Table 2 Public sector pay cuts and freezes in EU countries under EU, ECB and/or IMF surveillance (2008-2012)**

Country	Wage cut / freeze	Unilateral state decision
Greece	<ul style="list-style-type: none"> <li>– Pay freeze for all earnings &gt;€2000 per month (2009)</li> <li>– Cuts of 12-20% in general public sector (2010)</li> <li>– Further cut of up to 17% over three years (2011-2013)</li> </ul>	Yes
Hungary	<ul style="list-style-type: none"> <li>– Pay cut of 7% (2008-2010)</li> <li>– Abolition of 13<sup>th</sup> month salary in general public sector (2009)</li> <li>– Pay freeze (2010-2012 or longer)</li> </ul>	Yes
Ireland	<ul style="list-style-type: none"> <li>– Pay freeze for civil servants (2008-2010)</li> <li>– General pay freeze (2010-2014)</li> <li>– 5-7% cut in net pay as a result of pensions levy inversely related to level of income (2009)</li> <li>– 5-8% cuts progressively related to level of income (2010)</li> </ul>	Yes
Italy	<ul style="list-style-type: none"> <li>– Pay cut of 5-10% for high wage earners (2010)</li> <li>– Pay freeze and reduced productivity bonuses (2010-2014)</li> <li>– Suspension of automatic pay increases for certain groups of employees such as magistrates, police force, state lawyers, military personnel etc. (2010-2013)</li> </ul>	Yes
Latvia	<ul style="list-style-type: none"> <li>– Unspecified pay cuts (2008)</li> <li>– 15-30% pay cuts (2009)</li> <li>– Pay freeze (2010-2012)</li> </ul>	Yes
Portugal	<ul style="list-style-type: none"> <li>– Pay freeze for civil servants and employees in public companies (2010-2013)</li> <li>– 5% pay cut for higher paid civil servants (2010)</li> <li>– 3.5-10% pay cut for salaries &gt;€ 1500 per month (2011)</li> <li>– 13<sup>th</sup> and 14<sup>th</sup> monthly pay abolished or reduced (2012-2013)</li> </ul>	Yes
Romania	<ul style="list-style-type: none"> <li>– 25% pay cut but cut in additional payments can mean cuts up to 50% (2010)</li> <li>– Abolition of a wide range of bonuses and 13<sup>th</sup> monthly pay (2011)</li> </ul>	Yes
Spain	<ul style="list-style-type: none"> <li>– 5% pay cut for civil servants (2010)</li> <li>– Pay freeze for civil servants (2011-2012)</li> <li>– 14<sup>th</sup> monthly pay abolished for all public sector employees (2012)</li> </ul>	Yes

Sources: Glassner and Keune, 2012; Grimshaw *et al.*, 2012; ILO, 2013.

In Romania, the salaries of public sector employees were cut by 25% in 2010. However, since the government furthermore raised VAT from 19 to 24%, and also introduced cuts in bonuses and additional payments (such as food allowances and rent subsidies), the effective wage decrease was close to 50% (Glassner, 2010: 19). In Greece, nominal wages were cut by an average of 14% between 2009 and 2010, which together with the 17% pay cut between 2011 and 2013 amounts to a total pay cut of approximately 30% (Busch *et al.*, 2013: 12). In Latvia, public sector wages were cut by 15% in spring 2009 in return for the €7.5 billion loan provided by the IMF and the EU. Particularly hard hit by the cuts in public expenditure were teachers, whose wages were cut by almost one third from September 2009 onwards (Glassner, 2010: 17). These measures were particularly painful because these dramatic cuts were followed by a pay freeze between 2010 and 2012. The pay cuts in the other countries range between 5 and 15%, with salaries subsequently being frozen at the lower level.

However, when assessing the real extent of the reduction in disposable income for public sector workers, it is important to bear in mind that these figures only reflect cuts in nominal wages. Often these cuts occurred in combination with further measures such as the abolition of 13<sup>th</sup> and or 14<sup>th</sup> monthly wages and other bonuses and cuts in social security entitlements. The latter happened for instance in Greece with a reduction of supplementary pensions by 10 to 20% and in Hungary, where the government reduced housing, student and pharmaceutical subsidies (ILO, 2013: 28).

### 3.2 Cuts and freezes of minimum wages

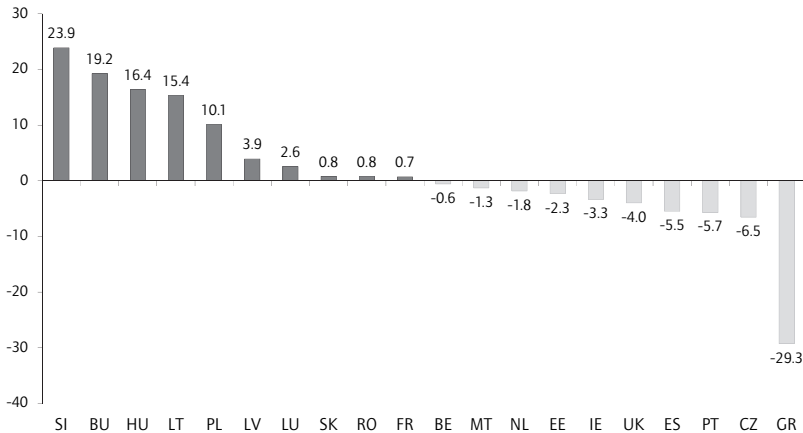
Besides public sector wages, national minimum wages offer a second opportunity for political intervention. This is all the more true for those many European countries in which the development of minimum wages not only determines the wages of those at the bottom of the wage scale, but also influences overall wage developments. This 'spillover effect' of national minimum wage developments is particularly strong in countries with comparatively weak collective bargaining systems and a low bargaining coverage (e.g. in many Eastern European countries), but also in countries like France with relatively high minimum wage levels (Aeberhardt *et al.*, 2012). Moreover, national minimum wages are an

obvious instrument for state intervention, as in most of the 20 out of 27 EU Member States where a national minimum wage exists, it is statutorily determined by the state. The only exceptions are Belgium and Greece where the national minimum wage is set by a national collective agreement for the whole private sector (Schulten, 2012b).

Considering the impact of minimum wages on overall wage development, they also play a prominent role in the new interventionist strategies at European level (for the following: Schulten, 2012a and 2013). The first country affected by this was Ireland, which under pressure from the Troika cut its minimum wage by one euro from 8.65 to 7.65 Euro per hour (corresponding to a decrease of nearly 12%) in February 2011. After a change in the Irish government, however, the minimum wage cut was retracted and the former rate of 8.65 Euro was re-established in July 2011. The Troika had agreed to this because the Irish government decided to reduce social security contributions for employers in return. More recently, however, the IMF (2012a: 27) has again emphasised that a cut in the Irish national minimum wage 'should be considered'.

In other countries like Latvia, Portugal and Romania as well as more informally in Spain, the Troika has pushed for freezes of national minimum wage levels. These countries also had to agree that for the coming years they will only increase the minimum wage in accordance with the Troika. Finally, the most radical intervention so far took place in Greece, where the Troika decreed a radical cut of the minimum wage of 22% (and even 32% for young workers below the age of 25) which came into effect in February 2012. Since the Greek minimum wage is determined by a national collective agreement the Troika intervention is even more problematic, since it openly violates the principle of free collective bargaining; both Greek employers and trade unions have jointly rejected such an intervention. After the Greek government was also criticised by the ILO (2012a) for its various attempts to undermine the autonomy of collective bargaining, the Troika is now demanding that the Greek minimum wage be determined on a statutory basis (IMF, 2012b: 17).

Figure 1 Development of real national minimum wages, 2010-2012 in %\*



\* Increase or decrease from 1 January 2010 to 1 January 2013

Deflator of consumer prices

Source: WSI Minimum Wage Database 2013

Considering the overall development of minimum wages during the past three years (2010-2012), in 10 out of 20 EU Member States the real value of the minimum wage, deflated by consumer price developments, decreased (figure 1). The decrease was particularly strong in countries which were under the surveillance of the Troika (Greece, Portugal, Spain and Ireland) as well as in the UK and the Czech Republic. On the other hand, there were a few Eastern European countries where the real minimum wage value showed remarkably high growth rates. Among them was also Hungary, where the unusually strong increase of the minimum wage mainly served to compensate the effects of a new flat-rate tax reform, which led to a significant tax increase for low wage earners (Szabó, 2013).

### 3.3 Decentralisation and dismantling of multi-employer collective bargaining

Apart from direct interventions in wage developments through cuts and freezes of public sector and minimum wages, in many European countries the more fundamental changes concerned the wage-setting

and collective bargaining institutions. Although the current economic crisis reinforced the decentralisation of collective bargaining throughout Europe (Glassner *et al.*, 2011), this process was most pronounced in those countries which were subject to direct supranational intervention. As the Troika has asked in almost all cases for structural changes in the national collective bargaining systems, the affected countries have been more or less willing to accept these demands in exchange for financial assistance.

Following a ‘one-size-fits-all’ approach, there are at least six main measures promoted by the Troika which have led to a radical decentralisation and in some cases even dismantling of multi-employer bargaining. These measures include:

- the abolition or termination of national collective agreements;
- facilitating the derogation of firm-level agreements from sectoral agreements or legislative provisions, for instance through opening or hardship clauses or by generally giving firm-level agreements priority over (cross-)sectoral agreements;
- suspension of the favourability principle, affecting the relation between sectoral and company agreements;
- the introduction of more restrictive criteria for the extension of collective agreements;
- the reduction of the ‘after-effect’ of expired collective agreements; and finally
- the extension of the possibility for non-union employee representatives to conclude collective agreements at company level.

Depending on the degree of centralisation and the regulatory framework of the national bargaining systems before the reforms, the countries have generated a specific mix of measures in order to promote decentralisation (see table 3)<sup>4</sup>. Three groups of countries can be distinguished. The first group comprises Ireland and Romania, which before the reforms were characterised by a comparatively high level of bargaining centralisation involving national cross-sectoral agreements which defined the terms of reference for lower-level negotiations (Visser, 2011: 41). In these two countries, the austerity-driven changes

---

4. For a detailed list of measures and legal changes in the various countries see Appendix 1.

led to an almost complete breakdown of multi-employer bargaining. In Ireland the change was the result of the government's withdrawal from negotiations over public sector reform in the light of deteriorating public finances in 2009, which after 22 years of cross-sectoral wage determination brought the return of company-level bargaining (O'Kelly 2010; Doherty, 2011). In Romania, cross-sectoral bargaining was essentially abolished by the government's unilateral introduction of the Social Dialogue Act in 2011 (Trif, 2013). Further pressures towards decentralisation resulted from the government tightening the rules on the extension and application of sectoral agreements and increasing the threshold for the representativeness of trade unions as a precondition for negotiating agreements.

The second group of countries consists of Greece, Italy, Portugal and Spain, which represent the 'Mediterranean model' of labour relations marked by a long tradition of well-established sectoral bargaining structures (Meardi, 2012a). All Mediterranean countries have enjoyed comparatively high levels of collective bargaining coverage of 80 to 90%, which was backed by direct – or in the case of Italy indirect – erga omnes regulations and extensions of collective agreements (Schulten, 2012c). Although the multi-employer bargaining structures remained formally intact, their scope and actual operation have been increasingly undermined by the various legal changes that have been introduced in response to the demands placed upon these countries by the Troika. The most radical decentralisation took place in Greece (Voskeritsian and Kornelakis, 2011; Patra, 2012) and Spain (Nieto, 2012). Both countries gave company agreements a general priority over sectoral agreements, and abolished the 'favourability principle' which thus allowed company agreements to undermine sectoral standards. In the case of Italy (Leonardi, 2012) and Portugal (Naumann, 2012), the decentralisation of collective bargaining is still being encouraged in a more organised form, as the possibilities for downward derogation from sectoral standards at company level remain dependent on the commitment of the bargaining parties at sectoral level. However, in Italy the case of Fiat has shown that companies are able to withdraw from the sectoral bargaining system and to set up their own company agreement (Tomassetti, 2013). With the adoption of the Law No.148 of 14 September 2011, the Italian government moved well beyond 'controlled decentralisation' by further extending the possibilities for companies to deviate from sectoral agreements and legal requirements

with almost no restrictions. In Portugal, the bargaining system has been further weakened by the introduction of more restrictive criteria for the extension of collective agreements. Before the reform, all major collective agreements were declared generally binding in a quasi-automatic way. Finally, Greece, Portugal and Spain have facilitated the conditions for non-union employee representatives to conclude collective agreements, in particular in small and non-unionised companies.

**Table 3 Decentralisation of collective bargaining systems in EU countries under EU, ECB and/or IMF surveillance**

Measures	Countries affected
Abolition/termination of national collective agreements	Ireland, Romania
Facilitating derogation of firm-level agreements from sectoral agreements or legislative (minimum) provisions	Greece, Portugal, Hungary, Italy, Spain
General priority of company agreements/abolition of the favourability principle	Greece, Italy, Spain
More restrictive criteria for extension of collective agreements	Greece, Portugal, Romania
Reduction of the 'after-effect' of expired collective agreements	Greece, Spain
Possibilities for non-union groups of employees to conclude company agreements	Greece, Hungary, Portugal, Romania, Spain

Sources: Authors' composition based on Appendix 1

The third group of countries affected by changes in the national collective bargaining systems promoted by the IMF comprises Hungary and Latvia. Both countries have – as is the case in the majority of Central and Eastern European (CEE) countries – a rather fragmented, company-level single-employer bargaining system with a comparatively low level of collective bargaining coverage. Thus, there was not much scope for further decentralisation. While in Latvia the brunt of austerity measures was borne by the public sector in the form of extensive wage cuts (Kallaste and Woolfson, 2013), the legal changes introduced in Hungary primarily aimed at weakening the bargaining power of trade unions, for instance by curtailing the right to strike of the public services, by abolishing the only tripartite national forum for discussing recommendations on wage increases, and by allowing works councils to negotiate company-level agreements if there is no trade union present at the workplace (Szabó, 2013).

Considering the fundamental changes in the wage-setting systems of many European countries, it is in fact precisely in this area that the new European interventionism is most significant. In contrast to European market integration, which did not automatically lead to a convergence of national collective bargaining systems, there seems to be a new form of politically imposed convergence driven by the new interventionist policies of the Troika. As the EU's road map for change is a totally decentralised system of collective bargaining, the impact of the new European interventionism is most radical in the Mediterranean countries which seem to be pushed to converge towards a collective bargaining system as it exists in many Eastern European countries (Meardi, 2012a). However, such a system change implies not only a decentralisation but also a de-collectivisation of labour relations, since collective bargaining coverage is usually much higher in countries with strong multi-employer bargaining than it is in countries with mainly company-level bargaining. Most recent data from Spain, for example, indicates that in 2012 both the number of collective agreements and the number of employees covered by collective agreements has sharply declined (Ministerio de Empleo y Seguridad Social, 2012; Baylos and Trillo, 2013)<sup>5</sup>.

### 3.4 Changing pattern of European wage developments

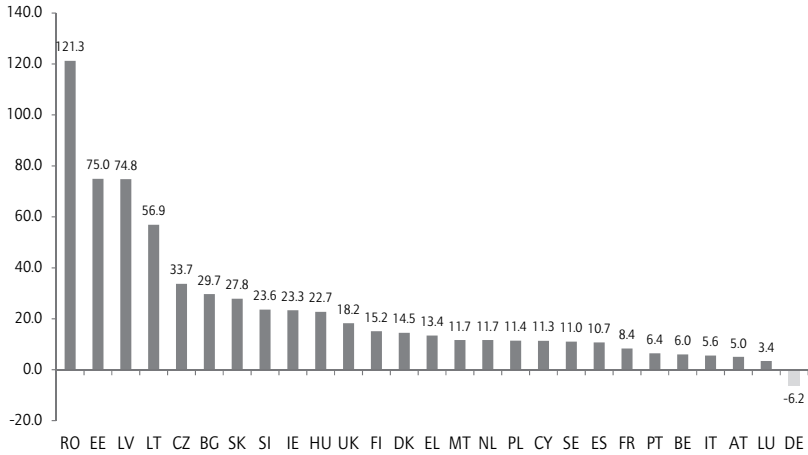
Against the background of a strong state interventionism promoting wage freezes and cuts as well as a comprehensive reconstruction of collective bargaining systems in many European countries, the pattern of wage developments in Europe has changed fundamentally (see Figures 2 and 3). In the past decade up to 2009, almost all EU states registered positive real wage developments. The strongest increases took place in some Eastern European countries, followed by still remarkable wage growth in countries such as Ireland or Greece, and more moderate increases in countries like Italy, Spain or Portugal. The sole exception was Germany as the only country during that period with a strong decrease in real wages.

---

5. An unpublished calculation on the development of collective agreements made by Reinhard Naumann (Lisbon Office of the Friedrich Ebert Foundation) indicates that in 2012 there has also been a sharp decline of the bargaining coverage in Portugal. This is partly the result of the radical decline in the number of collective agreements which have been extended.

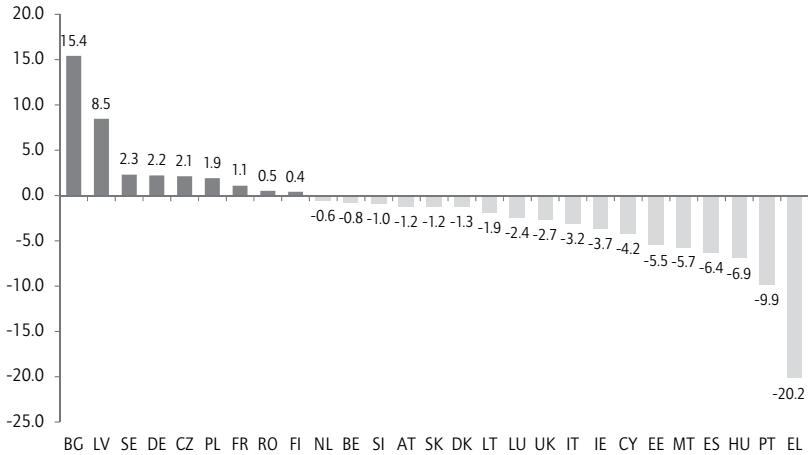


Figure 2 Development of real wages (2001-2009 in %)\*



\* Nominal compensation deflated by the national HCPI.  
 Source: AMECO Database, calculations by the WSI.

Figure 3 Development of real wages (2010-2012 in %)\*



\* Nominal compensation deflated by the national HCPI.  
 Figures for 2012: Forecast of the European Commission (Autumn 2012).  
 Source: AMECO Database, calculations by the WSI.

Since 2010 the picture has virtually reversed. Only a few countries have registered – mainly modest – real wage increases, while in 18 of the 27 EU countries real wages have fallen. By far the biggest cut has been in Greece with a fall of 20%, followed by Portugal with nearly 10%, Hungary with nearly 7%, and Spain with 6.4%. While the Troika welcomes this development as a necessary ‘adjustment process’ (e.g. European Commission, 2012d), from a more critical perspective it looks more like a strong European-wide downward wage spiral which obviously depresses consumer demand, fosters deflationary tendencies and therewith contributes to consolidating economic stagnation in Europe.

#### **4. Outlook: what future for a European wage policy?**

The new system of European economic governance with its newly introduced mechanisms for monitoring, sanctions and intensified coordination has led to a new European interventionism in the area of wage policy; this marks a paradigm shift from the acceptance of free collective bargaining to direct political intervention in national collective bargaining outcomes and processes.

Regarding the bargaining outcomes, the key objective of this new European interventionism is to ‘adjust’ in order to close the (cost-) competitiveness gap between ‘surplus’ and ‘deficit’ countries in Europe. The result of this one-sided focus on freezing and cutting wages has been increased wage competition, which in turn has led to a downward spiral of falling real wages in the majority of EU Member States. However, recent studies illustrate that the interventionist austerity approach, with its narrow focus on wages as the key adjustment mechanism, was not only ineffective in addressing the problem of macroeconomic imbalances, but that it even aggravated the debt and growth problems of deficit countries (Holland, 2012, Horn *et al.*, 2012). Even the IMF has recently considered that the austerity policies might have gone too far, since they are obviously depressing economic growth and are contributing to the sharp increase of unemployment (Blanchard and Leigh, 2013; IMF, 2012c).

The interventionist approach of cutting wages is questionable in at least two respects. Firstly, it views wages primarily as a cost factor and neglects the important role of wages in creating or stabilising domestic

demand. Thus, particularly in countries in which growth relies more heavily on domestic demand than on exports, the potential positive effects of falling wages and unit labour costs on net exports can be more than offset by the negative impact of falling wages on domestic demand. Secondly, the narrow focus on improving the deficit countries' cost competitiveness *vis-à-vis* surplus countries ignores the fact that due to their industrial structure and the difference in the complexity of their export baskets the two groups of countries are not in direct competition. Thus, wage cuts in the Mediterranean countries do little to improve their competitive position in relation to countries such as Germany, which is often used as the central benchmark. Rather than addressing the real problem of non-price competitiveness in the deficit countries, the competitive wage strategy triggers a race to the bottom leading their economies straight into a deflationary trap (Janssen, 2011: 4).

As regards bargaining procedures, the new European interventionism led to a frontal attack on established systems of multi-employer bargaining, in particular in those countries which received financial assistance from supranational institutions. As most of these countries traditionally had a comparatively high level of bargaining centralisation and high bargaining coverage, the austerity-induced interventionism led to a dismantling of existing wage-setting arrangements either by completely abolishing institutions of cross-sectoral wage setting (such as in Ireland and Romania) or by continuously hollowing out existing systems of sectoral collective bargaining, as was the case in Greece, Portugal, and Spain. To a lesser degree, this also applies to Italy, where, however, the trade unions (so far) have been more successful in fending off the most radical procedural reforms of the traditional system of co-ordinated bargaining.

As a result, there has been a process of convergence of collective bargaining structures within the group of 'crisis countries', with the Mediterranean countries moving closer towards the fragmented and decentralised model of collective bargaining that is characteristic of the majority of CEE countries (Meardi, 2012a). At the same time, however, the new European interventionism increased the divergence between the 'crisis countries' and the so-called 'core countries' of the EU (comprising Austria, the Benelux countries, France, Germany and the Nordic states), where collective bargaining institutions remained fairly stable and where the crisis – if at all – reinforced the already existing

trend of controlled decentralisation, without, however, substantially undermining the dominant role of sectoral-level bargaining (Keune, 2011: 143-144). Nevertheless, the fact that so far only the Mediterranean countries are affected by this convergence trend does not mean that the 'core countries' are immune to the political pressure to decentralise their collective bargaining systems. In the most recent Country-Specific Recommendations, Belgium, for instance, was requested to decentralise its bargaining system by 'facilitating the use of opt-out clauses from sectoral collective agreements to better align wage growth and labour productivity developments at local level' (European Council, 2012: 14). Moreover, if the currently proposed system of European competitiveness pacts becomes reality, the experiences made in the 'neoliberal laboratory of Southern Europe' might spread across the whole EU (Oberndorfer, 2013).

The overall objective of the new European interventionism is to force EU Member States to overcome all the 'rigidities' that hamper the downward flexibility of wages, including the trade unions' bargaining power. DG ECFIN could not have been clearer in its report on labour market developments in 2012, in which it classifies 'the overall reduction in the wage-setting power of trade unions' (European Commission, 2012d: 104) as a desirable outcome of labour market reforms. Against this background, it becomes increasingly clear that the new European interventionism must also be seen as a political project to weaken European trade unions.

Against the background of increased mass unemployment in many European countries, it is, of course, rather difficult for trade unions to counter such a strategy. However, there are at least three core elements which mark an alternative approach towards a European wage policy. First of all, European trade unions (but also employers<sup>6</sup>) need to defend the principle of collective bargaining autonomy against the increasing state interventionism at European and national level (Janssen, 2013). One way to do this is to use judicial channels by filing formal legal

---

6. That the defence of free collective bargaining is not only a trade union issue is demonstrated by a statement by the Council of European Employers of the Metal, Engineering and Technology-Based Industries which 'insists though that the EU institutions must respect the autonomy of social partners/employers and workers and not intervene with wage setting at any level' (CEEMET, 2012).

complaints at national, European and international level in order to insist on the adherence to formal commitments which the country in question has made by ratifying fundamental social rights conventions. One such example is the complaint submitted to the ILO by several Greek trade unions, concerning the austerity measures taken in Greece over the last two years in the context of the Memorandum of Understanding agreed with the Troika. In this case, the ILO Committee of Freedom of Association found that the Troika request to suspend and/or derogate from collective agreements and to decentralise collective bargaining violated ILO Conventions 87 and 98 (ILO, 2012a). As a consequence, the Committee highlighted the need to respect the principles of freedom of association and free collective bargaining. Even though the ILO cannot force national governments to change legislation, the Committee's verdict lends important moral and political support to the trade unions' position so that the European policymakers cannot continue to ignore the strong political signals coming from international and European institutions such as the ILO and the Council of Europe (ETUI, 2013).

A further central element of a trade union counter-strategy is to strengthen the unions' own attempts towards a European coordination of collective bargaining. The traditional trade union wage coordination rule, according to which *real* wages should at least increase in line with productivity growth (Schulten, 2002), is still very important as a bottom line to prevent downward wage competition. In addition, a more offensive approach might turn the currently dominating European wage policy on its head by strengthening multi-employer collective bargaining institutions in order to support a more sustainable wage-led growth regime in Europe (Stockhammer and Onaran, 2012). Moreover, another element might be the development of a 'European minimum wage policy' in order to make sure that every worker in Europe receives a wage which ensures a decent standard of living (Schulten, 2012b).

Such an alternative approach towards a European wage policy has recently been supported, for example, by the ILO which in its recent 'Global Wage Report' emphasises that in order to avoid the risks of an austerity-induced recession, it is important to stimulate domestic demand by, amongst other things, strengthening wage-setting institutions (ILO, 2012b: 62-63). There is also some support for this within the

European Commission, as DG Employment at least has taken a much more nuanced approach than have their colleagues from DG ECFIN by explicitly acknowledging the function of wages in generating domestic demand and strengthening social inclusion (European Commission, 2012e and 2012f).

Finally, there is a need to overcome the currently dominant narrative of European policymakers and national governments, according to which wages are seen as the core adjustment variable to correct economic imbalances in Europe. Instead of the narrow focus on wages, there should be a much broader approach for alternative macroeconomic policy coordination in Europe, whereby a European wage coordination would have primarily the function of avoiding downward wage competition and of contributing to a more sustainable, demand-led economic development model (EuroMemoGroup, 2013; Hein *et al.*, 2005 and 2011).

Appendix 1 **Major changes in collective bargaining systems in EU countries under EU, ECB and/or IMF surveillance**

<p><b>Greece</b></p>	<p><b>Law No. 3899/2010 of 17 December 2010:</b> Introduction of new type of 'special company-related collective agreement' in companies which face serious financial difficulties: These new company agreements may provide for wages and other working conditions that are less favourable than those provided for by the respective sectoral collective agreement, but not less favourable than the minimum conditions agreed in the national collective agreement. The new company agreements could be signed either by the unions at company level, or – where they do not exist – by the sectoral union organisations.</p> <p>Introduction of stricter criteria for extension of sectoral agreements: Extension is allowed only when the employers covered by the agreement represent at least 51% of the workforce in the respective sector.</p> <p><b>Law No. 4024/2011 of 27 October 2011:</b> Introduction of a general priority for company agreements over sectoral agreements and a general abolition of the favourability principle. In companies without trade unions or with fewer than 50 employees, company agreements can also be concluded by 'other associations of employees' which represent at least 3/5 of the workforce.</p> <p><b>Law No. 4046/2012 of 14 February 2012:</b> Reduction of the after-effect of expired collective agreements to three months.</p>
<p><b>Hungary</b></p>	<p><b>Revision of Labour Code of 26 October 2011:</b> Introduction of the right to conclude collective agreements for works councils, provided that there is no trade union at company level whose membership covers at least 10% of the employees. The revised Labour Code furthermore allows collective agreements and individual work contracts to regulate working conditions differently to what is stipulated in the law – this includes the possibility of agreements derogating from the law to the benefit of the employer.</p>
<p><b>Ireland</b></p>	<p><b>December 2009:</b> Breakdown of the 22 years-old centralised pay bargaining system after the employers withdrew from the national social partnership agreement.</p> <p><b>2010-2013:</b> Reform of the so-called Registered Employment Agreements (REAs) and Employment Regulation Orders (EROs) which determine minimum wages in a certain limited number of sectors (e.g. sectors such as agriculture, construction and electrical contracting).</p>
<p><b>Italy</b></p>	<p><b>National collective agreement of 22 January 2009:</b> Introduction of a general opening clause for wage regulations deviating from sectoral agreements at company level (the agreement was not signed by the largest Italian trade union federation CGIL).</p> <p><b>National collective agreement of 28 June 2011:</b> All sectoral agreements shall contain opening clauses, according to which at the enterprise level there may be deviation from sectoral standards under certain circumstances (economic difficulties, restructuring, introduction of significant new investment). Such divergences must be agreed in an enterprise collective agreement signed by the majority of the Rappresentanze Sindacali Unitarie (RSU) (unitary workplace union structures). The workforce must confirm the diverging company agreement if one of the signatory trade unions or at least 30% of the employees request it.</p>

	<p><b>Law No. 148 of 14 September 2011:</b> Company collective agreements can deviate downwards from sectoral agreements and certain labour law provisions. Possibilities for deviating from collective agreements at enterprise level concern almost all aspects of labour and employment conditions (including wages and wage structures, working time, atypical employment and employment protection). The company agreement must be signed by a majority of the representative trade unions in the enterprise.</p>
<b>Portugal</b>	<p><b>Law No. 23/2012 of 25 June 2012 (approved Draft Law No. 46/XII of 2 February 2012):</b> In companies with 150 or more employees, collective agreements can be concluded by works councils, if the trade unions have authorised them to do so.</p> <p><b>Council of Ministers' Resolution No. 90/2012 of 10 October 2012:</b> Introduction of stricter criteria for the general extension of collective agreements, according to which the employers covered by these agreements have to represent at least 50% of the employees of a certain sector.</p>
<b>Romania</b>	<p><b>Law No. 62/2011 of 10 May 2011:</b></p> <ul style="list-style-type: none"> <li>– Abolition of the national collective agreement</li> <li>– Abolition of the automatic extension (<i>erga omnes</i>) of sectoral agreements, extension is only possible if more than 50% of all employees in the sector work for companies that are members of the signatory employers' organisations.</li> <li>– A trade union can only negotiate company agreements if it represents more than 50% of the workforce in the company</li> <li>– If there is no union in the company, negotiation-based agreements can be concluded with other employee representatives.</li> </ul>
<b>Spain</b>	<p><b>Royal Decree 10/2010:</b> Improved options for making use of hardship clauses at company level which allow temporary deviation from sectoral agreements. If agreement cannot be reached, an arbitration board can be called in.</p> <p><b>Royal Decree 7/2011 of 10 June 2011:</b> Extension of possibilities of using opening clauses at company level to derogate from sectoral agreements.</p> <p><b>Law 3/2012 of 6 July 2012 (approving Royal Decree 3/2012 of 10 February 2012):</b></p> <ul style="list-style-type: none"> <li>– Introduction of a general priority of company agreements over sectoral agreements.</li> <li>– Possibility of deviating from sectoral collective agreements by means of company agreements. Company-level options for such possible divergences concern almost all aspects of employment and working conditions (including wages and wage structures, working time, social benefits etc).</li> <li>– In companies without union representation, company agreements can be concluded by non-union groups of workers.</li> <li>– Limitation of the after-effect of expired collective agreements to one year (previously unlimited).</li> </ul>

Source: Authors' composition on the basis of Busch *et al.* (2013), Clauwaert and Schömann (2012), European Labour Law Network (<http://www.labourlawnetwork.eu/>).



## References

- Aeberhardt R., Givord P. and Marbot C. (2012) Spillover Effect of the Minimum Wage in France: An Unconditional Quantile Regression Approach, INSEE Direction des Études et Synthèses Économiques G 2012/07 ([http://www.insee.fr/fr/publications-et-services/docs\\_doc\\_travail/G2012-07.pdf](http://www.insee.fr/fr/publications-et-services/docs_doc_travail/G2012-07.pdf)).
- Aidt T.S. and Tzannatos Z. (2008) Trade unions, collective bargaining and macro-economic performance: a review, *Industrial Relations Journal*, 39 (4), 258-295.
- Armingeon K. and Baccaro L. (2012) 'Political economy of the sovereign debt crisis: The limits of internal devaluation', *Industrial Law Journal*, 41 (3), 254-275.
- Baylos A. and Trillo F. (2013) Europe in Crisis - Social dimension of European Union and the situation of the labour law in the Member States: the Spanish case, Paper presented at a Seminar of the Ministry for Federal Affairs, Europe and Media of North Rhine Westphalia in Düsseldorf, 25-26 January 2013.
- Blanchard O. and Leigh D. (2013) Growth Forecast Errors and Fiscal Multipliers, Working Paper WP/13/1, Washington, International Monetary Fund (<http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf>).
- Busch K., Hermann C., Hinrichs K. and Schulten T. (2013) Euro crisis, austerity policy and the European Social Model. How crisis policies in Southern Europe threaten the EU's Social Dimension, Friedrich-Ebert-Stiftung, Berlin.
- CEEMET (2012) New European economic governance is important – however EU must not intervene with national wage setting, Position paper, 19 October 2012.
- Clauwaert S. and Schömann I. (2012) The crisis and national labour law reforms: a mapping exercise, ETUI Working Paper 2012.04, Brussels, plus Annex 'County by county analysis' (<http://www.etui.org/Publications2/Working-Papers/The-crisis-and-national-labour-law-reforms-a-mapping-exercise>).
- De Grauwe P. (2012) In search of symmetry in the eurozone, CEPS Policy Brief 268, Brussels, Centre for European Policy Studies, May 2012.
- Degryse C. (2012) The new European economic governance, Working Paper 2012.14, Brussels, ETUI.
- Doherty M. (2011) It must have been love ... but it's over now: the crisis and collapse of social partnership in Ireland, *Transfer*, 17 (3), 371-385.
- Draghi M. and Trichet J.-C. (2011) Letter to the Italian Prime Minister Silvio Berlusconi of 5 August 2011, *Corriere della Sera*, 29 September 2011.
- ECB (2012) Euro area labour markets and the crisis, Report of the Task Force of the Monetary Policy Committee of the European System of Central Banks, ECB Occasional Paper Series 138, Frankfurt, European Central Bank.
- ETUI (2013) Benchmarking Working Europe 2013, chapter 7, Brussels ETUI.

- EuroMemoGroup (European Economists for an Alternative Economic Policy in Europe) (2013) The deepening crisis in the European Union: The need for a fundamental change – EuroMemorandum 2013 ([http://www2.euromemorandum.eu/uploads/euromemorandum\\_2013.pdf](http://www2.euromemorandum.eu/uploads/euromemorandum_2013.pdf)).
- European Commission (2011) Assessing the links between wage setting, competitiveness and imbalances, Note for the Economic Policy Committee, Document No. Ares (2011)666366, Brussels (<http://gesd.free.fr/epc666.pdf>).
- European Commission (2012a) Scoreboard for the surveillance of macroeconomic imbalances, European Economy, Occasional Papers 92.
- European Commission (2012b) Spain – Memorandum of Understanding on Financial Sector Policy Conditionality, 20 July 2012 ([http://ec.europa.eu/economy\\_finance/eu\\_borrower/mou/2012-07-20-spain-mou\\_en.pdf](http://ec.europa.eu/economy_finance/eu_borrower/mou/2012-07-20-spain-mou_en.pdf)).
- European Commission (2012c) A blueprint for a deep and genuine economic and monetary union Launching a European Debate, COM (2012) 777 final, 28 November 2012.
- European Commission (2012d) Labour Market Developments in Europe 2012, European Economy, 5.
- European Commission (2012e) Discussion note: tripartite exchange of views on wage developments, Employment, Social Affairs and Inclusion DG, Brussels, 20 December 2012 ([http://www.epsu.org/IMG/pdf/EMCO\\_Signed.pdf](http://www.epsu.org/IMG/pdf/EMCO_Signed.pdf)).
- European Commission (2012f) Employment and Social Developments 2012, Luxembourg, Publications Office of the European Union.
- European Council (1999) Presidency Conclusions – Cologne European Council, 3 and 4 June 1999 ([http://ec.europa.eu/economy\\_finance/publications/publication14550\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication14550_en.pdf)).
- European Council (2011) The Euro Plus Pact: stronger economic policy coordination for competitiveness and convergence, Conclusions, EU/CO 10/1/11, 20 April 2011 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/120296.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf)).
- European Council (2012) Council Recommendation on the National Reform Programme 2012 of Belgium and delivering a Council opinion on the Stability Programme of Belgium, 2012-2015, 11244/12, Brussels, 6 July 2012 (<http://register.consilium.europa.eu/pdf/en/12/st11/st111244.en12.pdf>).
- Glassner V. (2010) The public sector in the crisis, Working Paper 2010.07, Brussels, ETUI (<http://www.etui.org/Publications2/Working-Papers/The-public-sector-in-the-crisis>).
- Glassner V. and Keune M. (2012) The crisis and social policy: the role of collective agreements, *International Labour Review*, 151 (4), 351-375.
- Glassner V., Keune M. and Marginson P. (2011) Collective bargaining in a time of crisis: developments in the private sector in Europe, *Transfer*, 17 (3), 303-321.

- Grimshaw D., Rubery J. and Marino S. (2012) Public sector pay and procurement in Europe during the crisis: the challenges facing local government and the prospects for segmentation, inequalities and social dialogue, November 2012 (<https://research.mbs.ac.uk/european-employment/Portals/0/docs/Comparative%20report%20final.pdf>).
- Hein E., Niechoj T., Schulten T. and Truger A. (eds.) (2005) Macroeconomic policy coordination in Europe and the role of the trade unions, Brussels, ETUI.
- Hein E., Truger A. and van Treeck T. (2011) The European Financial and Economic Crisis: Alternative Solutions from a (Post-) Keynesian Perspective, IMK Working Paper 9, Düsseldorf, Macroeconomic Policy Institute ([http://www.boeckler.de/pdf/p\\_imk\\_wp\\_9\\_2011.pdf](http://www.boeckler.de/pdf/p_imk_wp_9_2011.pdf)).
- Hein E. and Niechoj T. (2007) Guidelines for Sustained Growth in the EU? The Concept and Consequences of the Broad Economic Policy Guidelines, in McCombie J. and Rodriguez C. (eds.) The European Union. Current Problems and Prospects, Basingstoke, Palgrave Macmillan, 5-25.
- Hermann C. and Hinrichs K. (2012) Die Finanzkrise und ihre Auswirkungen auf Sozialstaaten und Arbeitsbeziehungen – ein europäischer Rundblick, Study on behalf of the Vienna Workers Chamber ([http://wien.arbeiterkammer.at/bilder/d184/Forba-Studie\\_Finanzkrise\\_2012.pdf](http://wien.arbeiterkammer.at/bilder/d184/Forba-Studie_Finanzkrise_2012.pdf)).
- Holland D. (2012) Less Austerity, More Growth?, NIESR Discussion Paper 400, London, National Institute of Economic and Social Research ([http://www.niesr.ac.uk/pdf/301012\\_110656.pdf](http://www.niesr.ac.uk/pdf/301012_110656.pdf)).
- Horn G., Gechert S., Herzog-Stein A.; Rietzler K., Stephan S., Tober S. and Watt A. (2013) Inmitten der Krise des Euroraums – Herausforderungen für die Wirtschaftspolitik 2013, IMK Report 79, Düsseldorf, Macroeconomic Policy Institute.
- ILO (2012a) Case No.2820 (Greece), in: 365<sup>th</sup> Report of the Committee on Freedom of Association, Governing Body 316<sup>th</sup> Session, Geneva, International Labour Office, 1-16 November.
- ILO (2012b) Global Wage Report 2012/13, Geneva, International Labour Office.
- ILO (2013) Global Employment Trends 2013 – Recovering from a second jobs dip, Geneva, International Labour Office.
- IMF (2012a) 'Ireland', Staff Report for the 2012 Article IV Consultation, Washington, International Monetary Fund, 21 August 2012 (<http://www.imf.org/external/pubs/ft/scr/2012/cr12264.pdf>).
- IMF (2012b) 'Greece'. First and second reviews under the extended arrangement under the extended fund facility, request for waiver of applicability, modification of performance criteria, and reshaping of access, International Monetary Fund, 21 December 2012 (<http://www.imf.org/external/pubs/ft/scr/2013/cr1320.pdf>).

- IMF (2012c) Fiscal Monitor. Balancing Fiscal Policy Risks, Washington, International Monetary Fund, April 2012.
- Janssen R. (2011) Why Europe needs a fairness pact and not a competitiveness pact, Economic Discussion Paper 2011/04, Brussels, ETUC.
- Janssen R. (2013) The Autonomy of Collective Bargaining Matters, Social Europe Column, 25 January 2013 (<http://www.social-europe.eu/2013/01/the-autonomy-of-collective-bargaining-matters/>).
- Kallaste E. and Woolfson C. (2013) Negotiated responses to the crisis in the Baltic countries, Transfer: European Review of Labour and Research, 19 (2), May 2013, 253-266.
- Keune M. (2011) Wage flexibilisation and the minimum wage, in European Commission (ed.) Industrial Relations in Europe 2010, Luxembourg, Publication Office of the European Union, 127-147.
- Konecny M. (2012) Die Herausbildung einer neuen Economic Governance als Strategie zur autoritären Krisenbearbeitung in Europa – gesellschaftliche Akteure und ihre Strategien, Prokla, 42 (168), 377-394.
- Leonardi S. (2012) Labour Law Deregulation and the Erosion of Collective Bargaining in Italy, Presentation for the Annual TURI Conference 2012 on 7 and 8 June in Paris (<http://www.turi-network.eu/About-TURI/News/Annual-TURI-conference-7-8-June-2012-Paris>).
- LRD (2012) The wrong target – how governments are making public sector workers pay for the crisis, Report commissioned by the European Federation of Public Service Unions (EPSU), London, Labour Research Department ([http://www.epsu.org/IMG/pdf/The\\_wrong\\_target-2.pdf](http://www.epsu.org/IMG/pdf/The_wrong_target-2.pdf)).
- Malliaropulos D. and Zarkos V. (2013) Euro area rebalancing: a symmetric response and easier monetary policy could facilitate the process, Eurobank Research Global Economic & Market Outlook, 13 January 2013 (<http://www.eurobank.gr/Uploads/Reports/EA%20rebalancing1712013.pdf>).
- Meardi G. (2012a) Employment relations under external pressure: Italian and Spanish reforms in 2010-12, Paper presented at the International Labour Process Conference, Stockholm, 27-29 March 2012.
- Meardi G. (2012b) Labour market reforms in Italy and Spain: diversity and convergence, International Union Rights, 19 (2), 3-5.
- Merkel A. (2013) Speech at the World Economic Forum 2013 in Davos, 24 January 2013 (<http://www.bundestkanzlerin.de/Content/DE/Rede/2013/01/2013-01-24-merkel-davos.html>).
- Ministerio de Empleo y Seguridad Social (2012) Estadística de convenios colectivos de trabajo – Avance Mensual 2012, Madrid (<http://www.empleo.gob.es/estadisticas/cct/CCT12dicAv/ANE/CCTp.htm>).

- Mongourdin-Denoix S. and Wolf F. (2010) Wage indexation in the European Union, Eurofound Background Paper, Dublin (<http://www.eurofound.europa.eu/pubdocs/2010/22/en/1/EF1022EN.pdf>).
- Naumann R. (2012) Portugal 2011-13: Deregulation of the Labour Market under the Diktat of the Troika, Presentation for the Annual TURI Conference 2012 on 7/8 June in Paris (<http://www.turi-network.eu/About-TURI/News/Annual-TURI-conference-7-8-June-2012-Paris>).
- Nieto F.N. (2012) Collective bargaining in Spain: the reform of the regulatory framework, *E-Journal of International and Comparative Labour Studies*, 1 (3-4), 27-45.
- Oberndorfer L. (2013) Pakt(e) für Wettbewerbsfähigkeit als nächste Etappe in der Entdemokratisierung der Wirtschaftspolitik?, *Arbeiterkammer Wien Infobrief EU & International* 1, 19-26.
- O'Kelly K. (2010) The end of social partnership in Ireland, *Transfer*, 16 (3), 425-429.
- Patra E. (2012) Social Dialogue and Collective Bargaining in Times of Crisis: The Case of Greece, ILO Industrial and Employment Relations Department Working Paper 38, Geneva.
- Schulten T. (2002) A European Solidaristic Wage Policy?, *European Journal of Industrial Relations*, 8 (2), 173-196.
- Schulten T. (2003) Europeanisation of Collective Bargaining: Trade Union Initiatives for the Transnational Coordination of Collective Bargaining, in Platzer H.-W. and Keller B (eds.) *Industrial Relations and European Integration. Trans- and Supranational Developments and Prospects*, Aldershot/Hampshire, 112-136.
- Schulten T. (2012a) Minimum Wages in Europe under Austerity – WSI Minimum Wage Report 2012, Policy Brief 5, Brussels, ETUI (<http://www.etui.org/Publications2/Policy-Briefs/European-Economic-Employment-and-Social-Policy/Minimum-wages-in-Europe-under-austerity>).
- Schulten T. (2012b) European minimum wage policy: A concept for wage-led growth and fair wages in Europe, *International Journal of Labour Research*, 4 (1), 85-104.
- Schulten T. (2012c) Stellenwert der Allgemeinverbindlicherklärung für die Tarifvertragssysteme in Europa, *WSI-Mitteilungen*, 65 (7), 485-495.
- Schulten T. (2013) WSI-Mindestlohnbericht 2013 – Anhaltend schwache Mindestlohnentwicklung in Europa, *WSI-Mitteilungen*, 66 (2), 126-132.
- Stockhammer E. and Onaran Ö. (2012) Rethinking wage policy in the face of the Euro crisis. Implications of the wage-led demand regime, *International Review of Applied Economics*, 26 (2), 191-203.

- Szabó I. (2013) Between polarization and statism – effects of the crisis on collective bargaining processes and outcomes in Hungary', Transfer: European Review of Labour and Research, 19 (2), May 2013, 205-215.
- Tomassetti P. (2013) The Shift towards Single-employer Bargaining in the Italian Car Sector: Determinants and Prospects at FIAT, in E-Journal of International and Comparative Labour Studies, 2 (1), 93-111.
- Traxler F. and Brandl B. (2011) The economic impact of collective bargaining coverage, in Hayter S. (ed.), The role of collective bargaining in the global economy, Cheltenham, Edward Elgar, 205-226.
- Trif A. (2013) Romania: Collective bargaining institutions under attack, Transfer: European Review of Labour and Research, 19 (2), May 2013, 227-237.
- Visser J. (2011) Variations and trends in European industrial relations in the 21<sup>st</sup> century's first decade, in European Commission (ed.), Industrial Relations in Europe 2010, Luxembourg, Publications Office of the European Union, 17-53.
- Voskeritsian H. and Kornelakis A. (2011) Institutional Change in Greek Industrial Relations in an Era of Fiscal Crisis, Hellenic Observatory Papers on Greece and Southeast Europe, GreeSE Paper 52.



# Vicissitudes of the social case law of the Court of Justice in times of recession

Dalila Ghailani

## Introduction

The economic downturn and its attendant restrictions in the field of social rights form the background against which present and past European social policy has to be re-situated, policy now devoid of ambition and inactive on the legislative front. The effects austerity policies are having on employment, poverty, the growth of informal working, inequality and social harmony are however well and truly visible (Robin-Olivier, 2012a). Employment law has not been spared, hit hard by the measures which public authorities and national legislatures have taken since 2008 aimed at increasing flexibility for undertakings. The employment law reforms currently taking place in many Member States are indeed justified using the argument that increasing labour market flexibility is a key measure in finding a way out of recession (Clauwaert and Schömann, 2012).

In response to the economic downturn, the European Commission has proposed an approach focusing on employment and aiming to release Europe from the austerity 'trap'<sup>1</sup>. The 'Employment Package' sets out to identify the most effective tools and methods for a job-rich recovery. It proposes no draft legislation enhancing workers' rights, with developments in employment law coming in the part of the report given over to the reform of the labour markets. Those developments take the

---

1. L. Andor, European Commissioner responsible for employment, social affairs and inclusion, The key challenges of the crisis, National Union of General and Municipal Workers (GMB), Unite and Unison, Conference on the topic: Sorting out the crises: what's the EU got to do with it?, Manchester, 3 May 2012 (<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/321&format=HTML&aged=0&language=EN&guiLanguage=en>).



form of strategies, draft recommendations, action plans, surveys and exchanges of good practice (European Commission, 2012a). Launched in October 2012, the Commission's 2013 work programme proved equally disappointing in terms of actions to take place in the field of social policy. In relation to employment, the Commission will continue to work actively with the Member States and social partners, in particular on the basis of the Youth Guarantee and traineeship initiatives to be set out in the course of the autumn. Public services should be strengthened, as a means of supporting employment, according to the Commission, which also seeks to foster social inclusion by preparing the new generation of programmes under the European Social Fund (European Commission, 2012b). According to the European trade union movement, this programme is a serious threat to social dialogue at both interprofessional and sectoral level. The Commission in fact refused to include in its programme proposals for directives to incorporate three sectoral framework agreements (on health and safety in the hairdressing sector, on working conditions in sea fisheries and on working time in the inland waterways sector). Excluding those proposals endangers the future of interprofessional social dialogue, in particular in the context of revising the working time Directive<sup>2</sup>.

The sombre picture presented by the International Labour Organization (ILO) in its 2012 annual report on work throughout the world likewise reflects the risks which austerity brings, as observed within the EU. The report, optimistically entitled *Better Jobs for a Better Economy*, is extremely pessimistic about the future of jobs and working conditions worldwide. In respect of the EU, the international experts highlight a high level of unemployment, the high proportion of insecure employment and an increase in informal employment (ILO, 2012). These are considerations to be borne in mind as one sets out to examine the directions the Court's reasoning has taken in assessing the economic arguments raised before it to support any given interpretation of the instruments governing European social law.

The social case law of the Court of Justice has developed around a number of predominant themes. The issues raised and the responses to

---

2. ETUI, News Bulletin – worker-participation.eu, Issue 3/2012, November 2012.

them reflect the strengths and weaknesses of the European social model (Robin-Olivier, 2012a). Those issues relate in particular to the increasingly fragmented category of the workers who benefit from the safeguards under European social law, the regulation of working time, equal treatment and non-discrimination. In what follows we will therefore look at a number of judgments delivered in 2012 on the misuse of successive fixed-term contracts, the definition of 'worker', issues surrounding the right to paid annual leave, allowances in lieu of leave not taken, how paid and other kinds of leave interact, age-related discrimination and the thorny question of proof in cases of discrimination at the time of recruitment.

## **1. Abuse of successive fixed-term contracts: the *Kücük and Huet* cases**

Clause 5(1)(a) of the framework agreement on fixed-term work annexed to Council Directive 1999/70/EC on fixed-term work (Council of the European Union, 1999) seeks to prevent abuse through the successive use of more than one fixed-term contract<sup>3</sup>. Member States can choose to adopt one or more of the measures amongst the protections laid down by the framework agreement, intended to regulate the grounds for renewing contracts, to limit the number of renewals or successive contracts, or to limit the total duration of the employment relationship under fixed-term contracts. The *Kücük and Huet* cases gave the Court an opportunity to look at that clause, and we will see that its reasoning gives grounds to be surprised, if not disappointed.

Germany chose to monitor the objective reason justifying successive contracts. The need to replace an absent employee, in the event of maternity or parental leave, for example, is regarded as a legitimate case of a contract being renewed or of successive contracts. Ms *Kücük*<sup>4</sup>,

---

3. '1. To prevent abuse arising from the use of successive fixed-term employment contracts or relationships, Member States, after consultation with social partners in accordance with national law, collective agreements or practice, and/or the social partners, shall, where there are no equivalent legal measures to prevent abuse, introduce in a manner which takes account of the needs of specific sectors and/or categories of workers, one or more of the following measures: (a) objective reasons justifying the renewal of such contracts or relationships'.

4. Case C-586/10, *Kücük*, 26 January 2012, not yet published in the Court Reports.

employed by the Land Nordrhein-Westfalen, worked as a clerk in a Cologne court from 1996 to 2007 under 13 successive fixed-term contracts each based on the need to provide cover for absent employees, in particular due to parental leave. Believing herself to be the victim of abusive use of successive short-term contracts, she brought proceedings seeking to have her last employment relationship recognised as a contract of indefinite duration. Her case having been dismissed by the trial court, she brought an appeal to the Federal Labour Court which referred three questions to the Court of Justice for a preliminary ruling.

Did the temporary need for replacement staff under the German law constitute first of all an objective reason within the meaning of clause 5(1)(a) of the framework agreement? According to the law laid down in *Angelidaki*<sup>5</sup>, the concept of an objective reason referred to 'precise and concrete circumstances characterising a given activity, which are therefore capable, in that particular context, of justifying the use of successive fixed-term employment contracts'. The same applies to the temporary requirement to provide cover for absent employees. The German law allowing successive fixed-term contracts for replacement staff was therefore compatible with that clause. According to the Court, encouraging the replacement of absent employees in that way enables other legitimate EU social policy objectives to be pursued, such as protecting maternity and effective exercise of the right to parental leave, which presuppose that the worker can resume his or her job at the end of the period of absence. The use of fixed-term contracts and of successive fixed-term contracts therefore makes complete sense.

However, does the need to replace staff have the same effect where the replacement staffing requirement is constant and could be satisfied by hiring an employee under a contract of indefinite duration? The Court stated, somewhat equivocally, that '[t]he mere fact that an employer may have to employ temporary replacements on a recurring, or even permanent, basis and that those replacements may also be covered by the hiring of employees under employment contracts of indefinite duration does not mean that there is no objective reason under clause 5(1)(a) of the framework agreement or that there is abuse within the

---

5. Joined Cases C-378/07 to C-380/07 [2009] *Angelidaki*, ECR I-03071.

meaning of that clause' (paragraph 56). The Court slightly qualified that view, continuing: 'in the assessment of the issue whether the renewal of fixed-term employment contracts or relationships is justified by such an objective reason, the authorities of the Member States must, for matters falling within their sphere of competence, take account of all the circumstances of the case, including the number and cumulative duration of the fixed-term employment contracts or relationships concluded in the past with the same employer', thereby answering the third question referred to it.

That outcome raises a number of question marks. The Court had expressed itself more clearly in *Angelidaki*, holding that the famous clause 5 was intended effectively to prevent the misuse of fixed-term employment contracts and that national provisions serving as the basis for those contracts whereas in reality the needs covered are fixed and permanent, are contrary to the objective pursued. The facts in *Küçük* showed clearly that there was a fixed and permanent need: 13 successive contracts, over 11 years, in an authority often employing a high proportion of women, with regular, if not to say permanent, needs to replace staff. The Court seemed however to favour the management-based arguments, such as the need for management freedom to which the Land refers in paragraph 22, over the social arguments such as combating the increasing insecurity of employment which the Court acknowledged in paragraph 25. To justify its approach it resorted to analysing the contracts separately one after the other, which is somewhat perplexing. Provided each contract is motivated by a need to replace staff, as envisaged by the German law, it is legitimate to have successive contracts. The context can only be taken into account at a later date, in the light of the number and cumulative duration of the contracts, and can potentially lead to a finding of abuse. This would be a matter of a deviant practice rather than a shortcoming in the German law, which the judgment does not call into question (Driguez, 2012a).

Ultimately, the judgment preserved the courts' ability to penalise any such abuse, but the Court of Justice quite clearly missed an opportunity to remind Member States of their obligation under clause 5(1)(a) of the framework agreement to prevent the abuse of successive fixed-term contracts. Merely ascertaining whether there are legitimate reasons for those contracts cannot satisfy that requirement.

The *Huet* case<sup>6</sup> related to the position of a Researcher at the University of Western Brittany who had held his post for six years under several successive fixed-term contracts. The Law of 26 July 2005 transposing Community law to the civil service, as did a 1984 law, sets the maximum duration of successive fixed-term contracts at six years and provides that the last contract can only be renewed for an indefinite duration. Relying confidently on that legislation, on expiry of his last fixed-term contract Mr Huet requested a contract of indefinite duration. That contract was signed and provided that the Researcher would occupy the post of Research Officer with lower remuneration than that received as a Researcher under the earlier fixed-term contracts. The administrative proceedings seeking to amend his contract having failed, Mr Huet brought an appeal before the Administrative Court of Rennes.

It fell to the Court of Justice, in a reference for a preliminary ruling, to decide whether clause 5 of the framework agreement must be interpreted as requiring that the contract of indefinite duration into which the fixed-term contract is converted after a certain period, by virtue of the national law, must reproduce in identical terms the principal clauses of the previous fixed-term contract.

Although silent on whether the fixed-term contract should be converted into a contract of indefinite duration, the Court would take a deliberately broad approach to clause 5, riding roughshod over the objections of the European Commission. Whilst that measure to prevent the misuse of successive fixed-term contracts is not expressly established, the list of measures is none the less not exhaustive and Member States can include provisions other than those already established. However, the fact that the framework agreement is silent means also that Member States are not subject a priori to any constraints in relation to the conversion of fixed-term contracts into contracts of indefinite duration. The Court pointed out moreover that the framework agreement merely establishes general principles and minimum requirements intended to protect employees under fixed-term contracts against discrimination and abuse.

---

6. Case C-251/11, *Huet*, 8 March 2012, not yet published in the Court Reports.

The freedom thereby given to the Member States is however not absolute and must not under any circumstances compromise the practical effect of the framework agreement. If Member States adopt measures to prevent abuse, the measures must effectively prevent it. As the French Government pointed out to the Court, 'if a Member State were to permit the conversion of a fixed-term employment contract into an employment contract of indefinite duration to be accompanied by material amendments to the principal clauses of the previous contract in a way that is, overall, unfavourable to the employee under contract, when the subject-matter of that employee's tasks and the nature of his functions remain unchanged, it is not inconceivable that that employee might be deterred from entering into the new contract offered to him, thereby losing the benefit of stable employment, viewed as a major element in the protection of workers' (paragraph 44). The Court accordingly invited the national courts to ascertain whether converting the contract to a contract of indefinite duration involved material amendments to the previous clauses of the employment contract, for the same tasks and functions, which would infringe clause 5 of the framework agreement and Directive 1999/70/EC. Since the remuneration was reduced, there could be no room for doubt.

Here too the decision raises a number of unknowns, in particular as to how the fixed-term contract dovetails with the contract of indefinite duration. The Court spoke of the contract being converted, which corresponds neither to the case before it nor to the legislation since the contract of indefinite duration was requested on expiry of the last fixed-term contract. There was no conversion in the strict sense of the term because the fixed-term contract had come to an end. Nor was the contract recognised as one of indefinite duration<sup>7</sup> by the national court by way of a penalty on the employer and a remedy for the employee. Does the judgment therefore apply indifferently to all situations where fixed-term contracts and contracts of indefinite duration succeed one another? Would it not have been more appropriate to distinguish between succession, conversion and recognition as of indefinite duration? The answer may indeed be different depending on whether a new contract is concluded on expiry of a fixed-term contract, or

---

7. Which in French civil law is a remedy for the abuse of successive contracts or of the duration of contracts.

whether the same contract is converted into a contract of indefinite duration by the employer or recognised as such by a court.

A further difficulty concerns the practical implementation of the answer by the Court of Justice. A material amendment to working conditions, in terms of remuneration, for example, is clearly inconceivable where the job and functions are identical. Yet what about a contractual amendment which redefines the assigned functions and the resulting remuneration? What would have happened if Mr Huet had actually had to work as a research officer as established in his contract, and stop his activities as a researcher, which were clearly incompatible with his new functions?

Lastly, in the view of the Court, any amendments which are made must be assessed overall (paragraph 46). Less favourable terms on certain points could therefore be offset by improvements on others, thereby bringing a certain degree of subjectivity into the analysis (Driguez, 2012b).

There is no doubt that the economic crisis we are experiencing has had an impact in this area. During the downturn and the ensuing recession, many Member States amended their legislation, in particular on fixed-term employment, in order to allow more flexibility in the use of those contracts. Lithuania, the Netherlands and Poland made amendments of that kind on a temporary basis to stimulate or maintain jobs, primarily for the period 2010-2012. Other Member States have not set a time limit. This is the case in Spain, Italy, Portugal, Romania, Sweden, Slovakia and the Czech Republic. The intensive use of fixed-term contracts, made easier in the context of austerity measures, has in any event led to a significant increase in the number of cases brought before the Court of Justice (GHK Consultancy, forthcoming).

## **2. The right to paid annual leave, allowances in lieu and interaction with other types of leave: *Dominguez, Anged and Neidel***

The Court has continued its work to construct a European paid leave system through the *Dominguez*, *Anged* and *Neidel* cases. The many opportunities it has had in recent years to interpret Article 7 of Directive 2003/88/EC concerning certain aspects of the organisation of

working time<sup>8</sup> (European Parliament and Council of the European Union, 2003) have led to the Member States revisiting their legislation to bring it into line with the Directive.

*Dominguez*<sup>9</sup> concerned a French national who suffered an accident on the way to work, and was on sick leave from November 2005 to January 2007. Her employer having refused to grant her paid leave for the annual reference period during which her contract was suspended, Ms Dominguez brought proceedings unsuccessfully before the industrial relations court and then the Court of Appeal. She then brought an appeal to the Court of Cassation which referred three questions to the Luxembourg Court for a preliminary ruling.

Is Article 7 of the Directive compatible with Article L. 3141-3 of the French Employment Code under which in order to become entitled to leave the employee must show that he or she has worked for the same employer for the equivalent of at least 10 days' actual work? A worker whose contract is suspended for virtually the whole of the reference year is therefore deprived of any entitlement to leave. That applies where the employment contract is suspended due to an accident on the way to work, a work-related accident or occupational disease. Since this relates to the acquisition of an entitlement, actual work is understood in the strict sense. The periods when the contract is suspended will only be taken into account for calculating the length of the leave, that is to say, for its implementing arrangements.

The Court pointed out first of all that according to settled case law (*BECTU* and *KHS*<sup>10</sup>; Ghailani, 2012), entitlement to paid annual leave must be regarded 'as a particularly important principle of Community social law from which there can be no derogations and whose implementation by the competent national authorities must be confined

- 
8. '1. Member States shall take the measures necessary to ensure that every worker is entitled to paid annual leave of at least four weeks in accordance with the conditions for entitlement to, and granting of, such leave laid down by national legislation and/or practice.  
2. The minimum period of paid annual leave may not be replaced by an allowance in lieu, except where the employment relationship is terminated'.
  9. Case C-282/10, *Maribel Dominguez v Centre informatique du Centre Ouest atlantique*, 24 January 2012, not yet published in the Court Reports.
  10. Case C-173/99 [2001] *BECTU* ECR I-1152; Case C-214/10, *KHS*, 22 November 2011, not yet published in the Court Reports.



within the limits expressly laid down by Council Directive 93/104/EC' (paragraph 16). Acquisition of entitlement to paid leave cannot be subject to any requirement of a minimum period of actual work (*Shultz-Hoff and Others*<sup>11</sup>; Ghailani, 2010). The French statutory provision is therefore incompatible with Article 7 of the Directive in that regard.

However, can that incompatibility be relied upon in a dispute between private individuals such as that between a worker and his or her employer? The Court of Justice first of all invited the national court to uphold the employee's claim by virtue of its obligation to interpret the law in conformity with EU law, although without thereby going so far as ruling *contra legem*. It nevertheless urged the national court to be bold and exploit the leeway contained in the provision in dispute by treating certain periods when the employment contract is suspended as time actually worked. It showed that if the suspension of the contract as result of an accident on the way to work could be treated as a suspension due to a work-related accident, the problem would be resolved. However, an analysis of that kind would conceal the fact that the period during which the contract was suspended due to a work-related accident is not taken into account for the purposes of becoming entitled to leave, only for calculating the number of days' leave acquired.

Moreover, can Article 7 of the Directive be directly relied upon in the present case? According to the Court, Article 7 does have direct effect because it is sufficiently precise and unconditional. It is, however, for the Court of Cassation to ascertain whether the dispute can be described as vertical in so far as the employer (a social security body), although a legal person existing under private law, had been 'made responsible pursuant to a measure adopted by the State, for providing a public service under the control of the State and has for that purpose special powers beyond those which result from the normal rules applicable in relations between individuals' (paragraph 39). If the national court did not find that to be so, the Court of Justice points out, the person concerned would be entitled to hold the State liable.

---

11. Joined Cases C-350/06 and C-520/06 [2009] *Schultz-Hoff and Others* ECR I-179.

As regards whether the annual duration of paid leave can be changed beyond the minimum of four weeks laid down by Article 7 of the Directive depending on the reason for the worker's absence on sick leave, there are several reasons for replying that it can. The Directive imposes a minimum level of harmonisation and does not preclude such distinctions which fall within the Member States' power to implement the law, provided those States uphold the right of all workers to take a minimum of four weeks' leave. Furthermore, increased leave would be an improvement in the situation of certain workers, which could not be prohibited.

The decision has the virtue of drawing a sharp distinction between the fact of entitlement to paid leave arising and implementation, by definitively separating the fact of becoming entitled from any period of actual work during the reference year. The Court seemed to attach entitlement to a minimum of four weeks' paid leave solely to the fact of being an employed worker, that is to say, to the existence of an employment contract throughout the reference period, whether or not it is suspended. Ms Dominguez argued for that outcome relying on Article 31(2) of the Charter of Fundamental Rights, although it raises question marks as to how it would be implemented. If Member States were authorised to maintain requirements for implementation, in particular for calculating the duration of entitlement to leave, based on the period of actual work, the distinction between the entitlement arising and its implementation would become academic. In the present case, Article L. 3141-3 of the Employment Code provides that an employee is entitled to leave of two and a half working days for each month of work. Since under French law the time when an employment contract is suspended following an accident on the way to work is not treated as time actually worked, in contrast to work-related accidents (L. 3141-5), an employee who is absent for the whole reference period should not be entitled to any days' leave. The result is therefore the same as imposing a requirement of actual work for the entitlement to arise (Driguez, 2012c). That would not be the case if the practical effect of the Community provision and its interpretation by the Court of Justice did not also require either that accidents on the way to work be treated as work-related accidents for the purpose of taking into account the period of actual work (proposed in paragraphs 30 and 31 of the judgment) or a calling into question of the rule that days of paid leave are acquired as a result of actual work. That latter hypothesis would lead to a finding that an employment contract

gives rise as an automatic matter of law to the acquisition of entitlement to paid leave irrespective of the reason for its suspension, including disciplinary dismissal. That would be completely untenable.

Lastly, the judgment was rather disappointing on the issue of whether entitlement to paid leave has direct effect and whether it can be relied on in a dispute between private individuals, since the Court declined to respond to a number of well-nuanced arguments exchanged between the parties, on whether an EU social law principle of particular importance can be likened to a general principle of law and on the scope of the reference to entitlement to paid leave in the Charter of Fundamental Rights (Article 31) in a dispute between private individuals (Driguez, 2012c).

The *Neidel* case<sup>12</sup> will undoubtedly give rise to amendments in the regulations applicable to public servants in the Land of Hesse in Germany. A fireman became unfit for service due to sickness some two years before his retirement, and he was never able to return to work. On his retirement, he applied for an allowance in lieu of paid leave corresponding to the number of days' leave he had not been able to take over those last two years as a result of sickness. His local authority refused, arguing that the law governing the German civil service did not provide for payment for days' leave not taken and that Directive 2003/88 did not apply to public servants. The Frankfurt Administrative Court, hearing the case, referred to the Court of Justice on the interpretation of Article 7 of the Directive according to which the minimum period of four weeks' paid annual leave may not be replaced by an allowance in lieu, except where the employment relationship is terminated.

As regards the directive's scope of application *ratione personae*, the Court had no doubt that it must extend to any worker of any status whatsoever, whether under public law or private law. The Directive applies to public servants, and firefighters are not one of the exceptions it lays down.

The following question referred to the Court of Justice related to the material scope of Article 7(2): does that article confer entitlement to compensation on a public servant who retires without having been able,

---

12. Case C-337/10, *Neidel*, 3 May 2012, not yet published in the Court Reports.

as a result of sickness, to take the days' leave acquired? The answer is to be found in the *Schult-Hoff* judgment which held that national provisions or practices which do not provide for any compensation when the employment relationship is terminated, in lieu of paid annual leave which the worker has not been able to take because he or she was sick during the reference period are incompatible with EU law (Ghailani, 2010). The reasons for the termination are of little importance and the principle also applies in the event of retirement. As the Court has pointed out, entitlement to paid leave must be regarded as a particularly important principle of EU social law, and a worker cannot be denied that entitlement as a result of sickness.

The Court then set out a number of factors for determining the amount of the allowance owing to Mr Neidel. In terms of the extent of the minimum paid leave requirement, the Directive establishes a minimum of four weeks' leave, but Mr Neidel's status gave him more in order to take into account days worked on public holidays. Does the Directive therefore preclude days' leave granted over and above the minimum of four weeks from conferring entitlement to a compensatory allowance in lieu when the employment relationship is terminated in a case where the leave could not be taken due to sickness? As pointed out in *Dominguez*, the Directive only lays down minimum requirements for Member States, which are free to establish the legal provisions applicable to further entitlement granted to workers. The Directive does not in fact regulate leave beyond the minimum four-week entitlement and nothing prevents further days' leave from giving rise to no allowance in lieu. Two sets of legal provisions will therefore apply: the first four weeks of leave will be subject to EU law and interpretations of it by the Court of Justice, and any further leave granted beyond that will be governed only by the national rules.

The last question related to the extent of the right to carry over leave not taken for over two years because the worker was unfit for service due to sickness. German law provided for paid leave to be carried over, by taking that leave, only for nine months following the reference period. On expiry of that period the entitlement lapsed. The Court has already ruled on the right to carry over leave in which a balance must be struck between preserving the right to leave and the fact that beyond a certain point there is no genuine requirement to carry over leave because the leave 'ceases to have its positive effect for the worker as a

rest period' (paragraph 39). In *KHS*<sup>13</sup> the Court held that the need to taken into account the objective pursued meant that the carry-over period must be capable of being substantially longer than the reference period in respect of which it is granted (Ghailani, 2012). In this case, it was found that carrying over leave for nine months did infringe the Directive because it unduly restricted the right to accumulate paid annual leave not taken because the worker was unfit for service.

The judgment in *Anged*<sup>14</sup>, for its part, concerns how paid leave interacts with other kinds of leave caused by a worker being unfit to work, such as maternity or sick leave. The question which the Spanish Supreme Court referred for a preliminary ruling in the context of a collective action brought by several trade unions pinpoints precisely that interaction: does Article 7(1) of the Directive preclude a national provision under which a worker who becomes unfit for work during a period of paid annual leave is not entitled subsequently to the paid annual leave which coincided with the period of unfitness for work?

The Court of Justice made use of a tried and tested line of argument: entitlement to paid annual leave must be regarded as a particularly important principle of social law from which there can be no derogations and which must not be interpreted restrictively. It is enshrined in Article 31(2) of the Charter of Fundamental Rights. The different types of leave have different purposes which must be observed in order to ensure that the various rights are effective: the purpose of entitlement to paid annual leave is to enable the worker to rest and to enjoy a period of leisure, that of sick leave is so that the worker can recover from an illness that has caused him or her to be unfit for work. The same applies to maternity leave, addressed in this case, which is intended to promote the health and safety of pregnant workers or those who have recently given birth or who are breastfeeding at work.

The moment at which the worker becomes unfit for work is irrelevant, in so far as workers are entitled to take paid annual leave which coincides with a period of sick leave at a later point in time, irrespective of the point at which the incapacity for work arose. Any other interpretation

---

13. Case C-214/10, *KHS*, 22 November 2011, not yet published in the Court Reports.

14. Case C-78/11, *Anged*, 21 June 2012, not yet published in the Court Reports.

would disregard the different purposes of the various types of leave. In so far as the operative part of the judgment relates to any incapacity for work, it covers both sick leave and maternity leave or leave for other reasons which make the worker unfit for work. Lastly the Court points out that, according to settled case law (*KHS* amongst other cases), the leave carried over can be taken outside the reference period.

The principle clearly laid down must now be implemented in the Member States, and will inevitably meet with a certain amount of reluctance.

### **3. The definition of 'worker' in Community law: *O'Brien and Sibilio***

The social policy directives do not define 'worker'. The definition is not however left entirely to national law, despite the explicit reference to national legislation in a number of texts. The Court of Justice has defined the term in Community law whilst emphasising that there is no single definition of 'worker' in Community law but that it varies according to the sphere in which it is used. In the light of recent case law, however, it would seem that rather than the definition of 'worker' itself, it is the degree to which it is Europeanised which varies according to the sphere in question. What is in fact happening is that the Court, whilst referring the definition back to national law, has established tools for reviewing the definition of the beneficiaries of European social legislation which give the impression of a partial Europeanisation (Robin-Olivier, 2012b). That is what occurred in *O'Brien*<sup>15</sup>.

The dispute was between a Crown Court recorder and the British Ministry of Justice concerning that authority's refusal to pay him a retirement pension. Mr O'Brien, a barrister by training, had worked for 27 years, up to his retirement, as a part-time Crown Court recorder. Unlike employed judges, part-time recorders are remunerated on a daily fee-paid basis and are not covered by the judicial pension scheme set up by legislation in 1981. The United Kingdom Supreme Court referred to the Court of Justice for a preliminary ruling on whether Directive

---

15. Case C-393/10, *O'Brien*, 1 March 2012, not yet published in the Court Reports.

97/81/EC and the framework agreement on part-time work (Council of the European Union, 1997b), intended to ensure equal treatment of part-time and full-time workers, were applicable to the case before it.

The question was essentially whether or not recorders fell within the scope of application *ratione personae* of the framework agreement which ‘applies to part-time workers who have an employment contract or employment relationship as defined by the law, collective agreement or practice in force in each Member State’ (clause 2(1)). The United Kingdom refused to treat recorders as workers because they had no employment contract whatsoever with the ministry under whose auspices they worked. The Regulation transposing the Directive into UK law even explicitly excluded from its scope of application ‘any individual in his capacity as the holder of a judicial office if he is remunerated on a daily fee-paid basis’.

Are the Member States nonetheless completely at liberty to determine who is a worker under an employment contract or employment relationship? The legislation on part-time work does not define ‘worker’, ‘employment contract’ or ‘employment relationship’, and they must be interpreted according to the purposes of each instrument in which they appear. Recital 16 of Directive 97/81/EC states expressly that it leaves Member States free to define its terms ‘in accordance with the national law and practices’, thereby allowing Member States to adapt the Directive to specific national requirements and to prevent over-rigid wording from constraining its implementation. According to the Court of Justice, the Member States therefore have discretion to define the concepts used in the framework agreement, although that power, it states, ‘is not unlimited’ (paragraph 34). The Court pointed out that the national definitions must safeguard the effectiveness of the Directive and the general principles of law. The scope of application of the Directive, which is widely drawn, covers, in addition to employment contracts, ‘any employment relationship’, and national definitions must therefore have regard for the contents of the framework agreement. The definition of ‘worker’ cannot be left to the whim of the Member States and the national courts must not confine themselves to national categorisations. In the present case, the sole fact that judges are treated as judicial office holders is insufficient in itself to prevent them from enjoying the rights established by that framework agreement.

The Court has suggested a number of principles and criteria to guide the national courts in their examination. The national courts must ascertain whether ‘the nature of the employment relationship concerned is substantially different from the relationship between employers and their employees which fall within the category of “workers” under national law’ (paragraph 42). They must consider the rules for appointing and removing judges, and also the way in which their work is organised. The Court emphasised as indicative of an employment relationship similar to employed work the fact that judges work ‘during defined times and periods’ (paragraph 45). Also militating in favour of treating recorders as employed workers is the fact that they were entitled to various benefits typical of the social security schemes for non-self-employed workers. As a result of those various factors to be assessed by the national courts, unless substantial differences are shown in the nature of the work, the national transposing legislation should be disapplied and recorders should be categorised as part-time ‘workers’ and allowed to benefit from the principle of equal treatment between full and part-time workers in relation to joining a pension scheme.

Two weeks later, the Court of Justice delivered a second, markedly more timid, judgment in the *Sibilio* case<sup>16</sup>, which sought to clarify whether a particular occupational relationship was covered by Directive 99/70/EC on fixed-term work (Council of the European Union, 1999).

Employed as a ‘socially useful worker’ by an Italian local authority, Mr Sibilio was paid less remuneration than his salaried worker colleagues carrying out the same duties and with the same length of service as him, for the three and a half years that the job lasted, on the grounds that he had a special kind of relationship with the local authority. Under the Italian regulations, the use of workers in the context of socially useful activities did not give rise to employment relationships with the user public authorities. Those activities are aimed at workers who have been dismissed, who are on the mobility lists and receive unemployment benefits, and workers who have been made redundant and receive an extraordinary salary top-up benefit. Those workers cannot be used for less than 20 hours a week, but for those first 20 hours their remuneration consists of a fixed monthly allowance paid by the National Social

---

16. Case C-157/11, *Sibilio*, 15 March 2012, not yet published in the Court Reports.



Security Institute financed by the National Employment Fund. The worker is however entitled to various social benefits available to employees (paid leave, sick leave, maternity leave).

After becoming a member of the permanent staff, Mr Sibilio claimed arrears of salary for the previous years, relying on the framework agreement on fixed-term contracts and the principle of equal treatment. The Naples court referred to the Court of Justice for a preliminary ruling on whether or not the relationship concerning ‘socially useful activities’ fell within the framework agreement. The Court of Justice gave a threefold reply.

It pointed out first of all that whilst the framework agreement defines its scope of application by reference ‘to fixed-term workers who have an employment contract or employment relationship as defined by the law, collective agreement or practice in force in each Member State’ (clause 2(1)), those terms do not correspond to a uniform situation on the ground. In so far as the framework agreement is moreover not a harmonising instrument, it is for Member States to determine which situations are or are not fixed-term employment contracts or relationships. At first analysis, since, according to the Italian legislation, socially useful workers do not have an employment relationship, they do not fall within the framework agreement (paragraph 47).

In line with *O'Brien*, the Court conceded that it is not nevertheless necessary to adhere to the formal categorisation used by the national law and that it is for the national court to ascertain whether that categorisation is a sham, masking a genuine employment relationship (paragraph 49). However, the Court of Justice stopped there and declined to advance any criteria for defining a genuine employment relationship. The situation of a socially useful worker as described by the Naples court did however present all the characteristics of a classic employment relationship. The Court of Justice was going to focus, on the contrary, on whether that type of relationship could be removed from the scope of the framework agreement using the derogation permitted by clause 2(2).

The Polish Government and the European Commission pointed out in their observations that even if it had to be found that there was an employment relationship, Italy could use the derogation under clause

2(2) for employment contracts or relationships concluded within the framework of a training, integration and vocational retraining programme targeting a specific sector of the public' in order to exclude socially useful workers from the agreement and from equal treatment (paragraph 53). The Court advanced more arguments in that vein, referring to the margin of discretion left to the Member States and/or social partners and barely pointing out that any such derogation must involve consultation with the social partners. However, Italy had not applied to use that derogation and the observations of the Italian Government did not even seek to benefit from it, which is perfectly reasonable in so far as there is not even supposed to be an employment relationship at all.

The Court refrained from saying that any such derogation would have to be interpreted strictly and that only occupational relationships actually involving a training, integration or retraining initiative in the context of specific programmes would justify waiving the requirement for equal treatment. Flying in the face of the facts but adhering to a literal analysis of the texts, the Court found that socially useful workers do fall within the scope of the derogation and held that clause 2 of the agreement does not preclude the regulations in question if all the conditions are satisfied.

#### **4. Discrimination on grounds of age: *Tyrolean Airways* and *Hörnfeldt***

Failure to take into account professional experience acquired with companies belonging to the same group of companies is not discrimination based on the age of the worker. This is what emerges from the judgment in *Tyrolean Airways*<sup>17</sup>, which applies Council Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation (Council of the European Union, 2000b). The judgment warrants particular attention for the limitations it highlights in the Community rules on equal treatment.

---

17. Case C-132/11, *Tyrolean Airways*, 7 June 2012, not yet published in the Court Reports.

The dispute was between the airline *Tyrolean Airways* (TA) and its works council concerning how to interpret a provision in the company's collective agreement. That provision provides that flight and cabin crews are to be graded in two categories A and B, which determine their remuneration, and advancement from category A to category B occurs on the completion of three years of service after the recruitment of the employee as a member of the cabin crew. The Austrian courts hearing the case wished to know whether the provision covered only recruitment by TA or if it could include earlier recruitment by the two other companies in the group, the parent company Austrian Airlines (which owns 100% of TA) or its subsidiary Lauda Air, which merged with Austrian Airlines in 2003. In other words, did the length of service and experience acquired in the other airlines in the group, the technical and qualitative content of which is broadly similar to the experience which would have been acquired at TA, have to be taken into account in determining the remuneration of workers recruited by TA?

In the view of the Austrian court, a finding that it did not would give rise to a possible discrimination on grounds of age, incompatible with Directive 2000/78/EC. It therefore referred that question to the Court of Justice for a preliminary ruling. The Court of Justice dismissed that analysis. The Directive prohibits direct or indirect discrimination based on the age of a worker, unless there is a particular reason for not doing so. A provision involving different treatment depending on the date on which the worker was recruited is not directly or indirectly related to age or an event associated with age, the Court indicated. It was professional experience rather than age which was at issue here. Directive 2000/78/EC therefore does not preclude the disputed provision of the TA collective agreement.

Although in legal terms that outcome flows from the Directive, it needs pointing out nonetheless that the clause in question does give rise to unequal treatment in relation to remuneration between workers who can prove the same professional experience, depending on whether they spent their whole career at TA or whether they were initially recruited by another company in the group and then changed employer when they joined TA. This is indeed a limitation of the Community mechanism under Directive 2000/78/EC. Despite its title, the Directive addresses not inequality but discrimination, that is to say, inequality based on illegitimate criteria.

In Sweden, since a law passed in 2002, all employed workers have been subject to the 67-year rule. That rule gives any worker an unconditional right to work up to the last day of the month of their 67<sup>th</sup> birthday. It also permits employers to terminate the employment contract without dismissal from that date. In the *Hörnfeldt* case<sup>18</sup> the Södertörn District Court referred to the Court of Justice for a preliminary ruling on whether that rule is compatible with Directive 2000/78/EC. The proceedings arose from the contested termination of the employment contract of a former postal worker who had worked part-time up to the age of 67 and who, finding that he would be entitled to a retirement pension of around EUR 715, wished to continue working. In so far as the right to terminate a contract without dismissal at the age of 67 is without the slightest doubt a difference in treatment based on age, the debate turned on whether that inequality is justified under Article 6 of the Directive. The trial court referred two questions concerning whether the measure is legitimate in the light of the objectives pursued and whether the measure is appropriate and necessary in order to achieve those objectives.

The first question related to the consequences of the fact that the law makes no mention of the objectives of the 67 year rule. As held in *Fuchs and Köhler*<sup>19</sup> (Ghailani, 2012), the fact that the aim is not mentioned does not necessarily mean that the measure cannot be justified. The aims can be made clear by the preparatory documents or as in this case by the observations submitted by the government in question during the proceedings (paragraphs 24 to 26).

The Court was receptive to various arguments coterminous with objectives relating to employment policy and labour-market policy. The measure was introduced in 2002 to postpone the retirement age from 65 to 67, and the principal reasons given seek to explain the benefits of allowing workers to work longer if they wish – better pensions, demographic considerations and shortage of labour. The employer’s right to terminate the contract without dismissal from the age of 67 is justified by the fact that the ‘67-year rule’ is intended to make it easier for young people to enter the labour market and reflects a political and social

---

18. Case C-141/11, *Hörnfeldt*, 5 July 2012, not yet published in the Court Reports.

19. Joined Cases C-159/10 and C-160/10, 21 July 2011, *Fuchs and Köhler*, not yet published in the Court Reports.

consensus on the balance to be struck between the interest of workers in working up to 67 and a smooth transition to retirement. The Court found the rule to be compatible with the Directive (paragraph 26).

Given that the objectives are legitimate, is the 67-year rule nonetheless appropriate and necessary? The Court based its reasoning on the discretion given to the Member States and social partners where they are the source of the legislation and held that the ability to retire workers at 67 is indeed appropriate to achieving the aims described (paragraph 32).

The main legal issue raised by the national court concerned the fact that the 67-year rule makes no reference to retirement pensions whereas according to the judgment in *Palacios de Villa*<sup>20</sup> it is a requirement if a sunset clause is to be valid (paragraph 35). In the view of the Court of Justice, however, it is merely one element amongst others to be taken into consideration. The Court drew up a list of the costs and benefits and minimised the disadvantages of the rule for workers. It pointed out that, unless a collective agreement provides otherwise, this is not a sunset clause, that retirement is not automatic and that nothing prevents someone continuing to work if the employer agrees. Furthermore, in Sweden 67 is an age at which workers can draw their statutory and occupational pensions or, at the very least, receive basic cover (available in common with retirement pensions from the age of 65), and housing and/or old age allowances for those on the lowest incomes. Lastly, as the referring court quite correctly pointed out and was affirmed by the Court of Justice, the level of the retirement pension has not been a decisive factor in whether the measure is acceptable since a sunset clause at 60 was accepted in *Rosenblatt*<sup>21</sup>. That case concerned a worker whose retirement pension was much lower than that of Mr Hörnfeldt (paragraph 45).

The Court accordingly found the Swedish 67-year rule to be compatible with Article 6 of Directive 2000/78/EC.

---

20. Case C-411/05 [2007] *Palacios de Villa* ECR I-8531.

21. Case C-45/09 [2010] *Rosenblatt* ECR I-9391.

## 5. The burden of proof in cases of discrimination at the time of recruitment: *Meister*

Discrimination at the time of recruitment is one of the most difficult claims to prove unless one is dealing with a particularly hapless employer flaunting discriminatory selection criteria. Opaque recruitment procedures therefore undermine the effectiveness of the right to equal treatment. Short of going to the extent of proving discrimination, which the claimant is not required to do by the directives in the framework of a 'shared burden of proof' system, merely making a plausible allegation of facts suggesting that it exists is difficult because a job applicant often has little information enabling comparison with the successful candidate and because any selection process is based on both subjective and objective criteria (Jaqmain, 2012). *Meister*<sup>22</sup> nevertheless provided the Court of Justice with an opportunity to reinforce the requirement for recruiting employers to be transparent.

Ms Meister, a 45 year old Russian national, had applied twice for a position as a software engineer with a German company. Twice her applications were rejected before she was even called for interview, despite the fact that she met the qualification requirements for the position. Taking the view that she was the victim of multiple discrimination based on her sex, age and ethnic origin, she asked the recruiting company for information about the profile of the successful candidate, and was refused. Her action having been unsuccessful at first instance and on appeal, Ms Meister brought an appeal on a point of law before the Federal Labour Court. That court referred to the Court of Justice for a preliminary ruling on whether a right could be inferred from various directives relating to combating unequal treatment which entitled the claimant to disclosure of information by the defendant.

The Court of Justice referred unhesitatingly to its judgment in *Kelly*<sup>23</sup> relating to an unsuccessful applicant for vocational training. Interpreting in that case Article 4(1) of Directive 97/80/EC on the burden of proof in

---

22. Case C-415/10, *Meister*, 19 April 2012, not yet published in the Court Reports.

23. Case C-104/10, *Kelly*, 21 July 2011, not yet published in the Court Reports.

the event of discrimination on grounds of sex<sup>24</sup> (Council of the European Union, 1997a) and Article 4 of Directive 76/207/EEC on the implementation of the principle of equal treatment for men and women in matters of employment and occupation (Council of the European Communities, 1976), the Court had confirmed the ‘shared burden of proof’ system established by that legislation. The burden on the plaintiff to establish facts from which direct or indirect discrimination can be presumed cannot, in the view of the Court, be made lighter by a right on the part of the candidate for a job or vocational training to disclosure by the recruiting employer or training provider of documents held by it alone which relate in particular to the files and profiles of competitors in the recruitment process or application for training. The only proviso to that response was to invite the national court to ensure that such a refusal to provide information does not deprive Directive 97/80/EC of its effectiveness (paragraph 39).

The directives to which that judgment related have been repealed but the new directives put before the Court of Justice for interpretation in this case contain substantively the same rules. Article 19(1) of Directive 2006/54/EC (European Parliament and Council of the European Union, 2006) reproduces word for word Article 4(1) of Directive 97/80/EC<sup>25</sup>. The other provisions which the Federal Labour Court addressed, namely Articles 8(1) of Directive 2000/43/EC<sup>26</sup> (Council of the European

---

24. ‘1. Member States shall take such measures as are necessary, in accordance with their national judicial systems, to ensure that, when persons who consider themselves wronged because the principle of equal treatment has not been applied to them establish, before a court or other competent authority, facts from which it may be presumed that there has been direct or indirect discrimination, it shall be for the respondent to prove that there has been no breach of the principle of equal treatment’.
25. ‘Application of the principle of equal treatment with regard to access to all types and to all levels, of vocational guidance, vocational training, advanced vocational training and retraining, means that Member States shall take all necessary measures to ensure that:
  - (a) any laws, regulations and administrative provisions contrary to the principle of equal treatment shall be abolished;
  - (b) any provisions contrary to the principle of equal treatment which are included in collective agreements, individual contracts of employment, internal rules of undertakings or in rules governing the independent occupations and professions shall be, or may be declared, null and void or may be amended;
  - (c) without prejudice to the freedom granted in certain Member States to certain private training establishments, vocational guidance, vocational training, advanced vocational training and retraining shall be accessible on the basis of the same criteria and at the same levels without any discrimination on grounds of sex’.
26. ‘1. Member States shall take such measures as are necessary, in accordance with their national judicial systems, to ensure that, when persons who consider themselves wronged because the principle of equal treatment has not been applied to them establish, before a

Union, 2000a) and 10(1) of Directive 2000/78/EC<sup>27</sup> (Council of the European Union, 2000b) are more or less identical. The Court of Justice therefore confirmed the interpretation upheld in *Kelly*: those articles must be interpreted as ‘not entitling a worker who claims plausibly that he meets the requirements listed in a job advertisement and whose application was rejected to have access to information indicating whether the employer engaged another applicant at the end of the recruitment process’ (paragraph 46).

The judgment nevertheless contains a more striking change of direction. According to the Court, ‘it cannot be ruled out that a defendant’s refusal to grant any access to information may be one of the factors to take into account in the context of establishing facts from which it may be presumed that there has been direct or indirect discrimination’ (paragraph 47). Those words are directed at the national court responsible for examining the evidence produced by both parties. Whilst not creating a new right to information on the part of the claimant and without adding to the investigative powers of the national court, the Court of Justice took the view that an obstinate and unjustified refusal to disclose objective information on the conduct of the recruitment process can be interpreted against the refusing party. Such a refusal can lend support to the claimant’s allegation of facts from which discrimination can be presumed. Here the Court reiterated the view of Advocate General Mengozzi, who found the company’s attitude suspect, declining as it did to call the applicant for interview, whilst not in any way disputing that she was qualified<sup>28</sup>.

---

court or other competent authority, facts from which it may be presumed that there has been direct or indirect discrimination, it shall be for the respondent to prove that there has been no breach of the principle of equal treatment’.

**27.** ‘1. Member States shall take such measures as are necessary, in accordance with their national judicial systems, to ensure that, when persons who consider themselves wronged because the principle of equal treatment has not been applied to them establish, before a court or other competent authority, facts from which it may be presumed that there has been direct or indirect discrimination, it shall be for the respondent to prove that there has been no breach of the principle of equal treatment’.

**28.** Opinion of Advocate General Mengozzi delivered on 12 January 2012.



## Conclusions

From the decisions described we can discern both advances and retreats. Some have caused relief and others bewilderment.

EU law has not prevented companies from increasing the flexibility of their labour management by using short-term contracts. Counterbalancing that flexibility, measures have been adopted to ensure that workers employed under those contracts have comparable working conditions to those of other employees in accordance with the principle of equal treatment. Until now, the Court had shown a certain amount of resolve in reviewing national legislation authorising widespread use of fixed-term contracts. It is clear from the *Kücük* decision, however, that it no longer has the same will or the same ability to challenge the choices made at national level which give free rein to that form of external flexibility. The Court's solution shows a desire not to challenge national legislation head on, whilst opening up scope for contesting that legislation in specific cases where it is applied abusively. It did not go as far as to require, as a general rule, that renewals, even where justified by objective reasons, should be limited in time (Robin-Olivier, 2012d).

*Dominguez*, for its part, is fairly significant in terms of principles in so far as it draws a sharp distinction between the fact of entitlement to paid leave arising and its implementation, by definitively separating the entitlement from any period of actual work during the reference year. The decision led to an almost immediate amendment of the French legislation. By a law of 22 March 2012<sup>29</sup>, France amended Article L. 3141-3 of the Employment Code. Workers no longer need a minimum period of 10 days' actual work with the same employer to give rise to entitlement to paid leave. The adapted provision is still restrictive and will need implementing provisions in the future in so far as the legislature retained the distinction based on the cause of the sickness and the grounds for suspending the employment contract for the purposes of determining whether or not the worker has acquired entitlement to paid leave during the reference period. The Court nonetheless invited Member States to do the opposite.

---

<sup>29</sup>. Law No.2012-387 of 22 March 2012 simplifying the law and reducing the administrative burden, Official Journal, 23 March 2012.

The difference in approach between the *O'Brien* and *Sibilio* judgments will also have been noted with great perplexity, even dismay as regards the latter. On the one hand we have legal professionals, barristers or solicitors, also working part-time as judges, and on the other the unemployed, present or future victims of redundancy. The unemployed have to be content with the 'integration or vocational retraining contracts' in which the Court tucked them away (paragraph 57 of the judgment) whereas in fact those workers do not necessarily need reintegration, the only thing they have in common is that they have lost their jobs and the trial court itself made clear that they are assigned to jobs designed to meet the institutional needs of the user authorities rather than exceptional purposes, for sometimes longer durations than initially expected and permitted by the regulations (a maximum of eight months). This is not a measure to support reintegration, merely a means for the Italian authorities to access manpower with no requirement to provide training, and at a lower price (Driguez, 2012d).

On a more positive note, *Meister* could signal the end of completely discretionary recruitment arrangements in so far as recruiting employers can no longer shelter behind the confidentiality of their procedure to refuse outright to provide any information without that attitude helping feed suspicions that it may be concealing discriminatory practices. It will be for the national courts to decide how much information should reasonably be disclosed before making a finding on the consequences of refusal. The Court of Justice itself was sensitive to such a refusal. In *Kelly*, the training body had provided the claimant with a certain amount of information in response, whereas in *Meister* the claimant could obtain nothing. That factual difference perhaps also contributed to the advance observed.

## References

- Clauwaert S. and Schömann I. (2012) The crisis and national labour law reforms: a mapping exercise, Working Paper 2012.04, Brussels, ETUI.
- Council of the European Communities (1976) Council Directive 76/207/EEC of 9 February 1976 on the implementation of the principle of equal treatment for men and women as regards access to employment, vocational training and promotion, and working conditions, Official Journal of the European Union, L 39, 14 February 1976.

- Council of the European Union (2000a) Council Directive 2000/43/EC of 29 June 2000 implementing the principle of equal treatment between persons irrespective of racial or ethnic origin, Official Journal of the European Union, L 180, 19 July 2000.
- Council of the European Union (2000b) Council Directive 2000/78/EC of 27 November 2000, establishing a general framework for equal treatment in employment and occupation, Official Journal of the European Union, L 303, 2 December 2000.
- Council of the European Union (1997a) Council Directive 97/80/EC of 15 December 1997 on the burden of proof in cases of discrimination based on sex, Official Journal of the European Union, L 014, 20 January 1998.
- Council of the European Union (1997b) Council Directive 97/81/EC of 15 December 1997, concerning the Framework Agreement on part-time working concluded by UNICE, CEEP and the ETUC, Official Journal of the European Union, L 14, 20 January 1998.
- Council of the European Union (1999) Council Directive 1999/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work concluded by ETUC, UNICE and CEEP, Official Journal of the European Union, L 175, 10 July 1999.
- Driguez L (2012a) Europe, 3, comment 128, Küçük, March 2012.
- Driguez L (2012b) Europe 5, comment 215, Huet, May 2012.
- Driguez L (2012c) Europe 3, comment 127, Dominguez, March 2012.
- Driguez L (2012d) Europe, 5, comment 216, Sibelio, May 2012.
- European Commission (2012a) Towards a Job-rich Recovery, COM (2012) 173 final, 18 April 2012.
- European Commission (2012b) Commission Work Programme 2013, COM (2012) 629 final, 23 October 2012.
- European Parliament and Council of the European Union (2006) Directive 2006/54/EC of 5 July 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (recast), Official Journal of the European Union, L 204, 26 July 2006.
- European Parliament and Council of the European Union (2003) Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organisation of working time, Official Journal of the European Union, L 299, 18 November 2003.
- Ghailani D. (2010) The European Court of Justice and EU social policy: a brief look at recent case law, in Degryse C. (ed.), Social developments in the European Union 2009, Brussels, ETUI and OSE, 201-222.

- Ghailani D. (2012) Römer, Casteels, Prigge: overview of a number of judgments delivered by the Court of Justice of the European Union in 2011, in Natali D. and Vanhercke B. (eds.), *Social developments in the European Union 2011*, Brussels, ETUI and OSE, 213-236.
- GHK Consultancy (forthcoming) *Evaluative Study of Directive 1997/81/EC (supplemented by Directive 98/23/EC) on Part-Time Work and Directive 1999/70/EC on Fixed-Term Employment*, Report commissioned by DG Employment and Social Affairs, European Commission.
- ILO (2012) *Better Jobs for a Better Economy*, World of Work report, Geneva, International Labour Organization.
- Jaqmain J. (2012) Égalité entre travailleurs féminins et masculins – Autres discriminations, *Journal de droit européen*, 194, December 2012, 310- 314.
- Robin-Olivier S. (2012a) La crise économique et l'agenda social, *Revue trimestrielle de droit européen*, 2/2012, 477-479.
- Robin-Olivier S. (2012b) Le droit social est-il capable de réduire la fragmentation de la catégorie des travailleurs?, *Revue trimestrielle de droit européen*, 2/2012, 480-489.



## **Future prospects**

# ***Vademecum* to address EU policy and political challenges**

**David Natali**

The EU is still trying to find a way out of its multidimensional crisis. The year 2012 has seen efforts to develop a coherent exit strategy, but long-term challenges still exist, and more efforts are needed to address them effectively. This concluding chapter provides, on the basis of the main findings of the present edition of *Social developments in the European Union*, some further reflections on the future of the European Union.

As stressed by Natali and Vanhercke in the Foreword to this volume, the crisis is changing again, and nowadays much of the stress is of a political nature. The EU is in need of a new roadmap addressing persistent policy imbalances (with some Member States still trapped in austerity) and resurgent political problems. Section one below, looks at these tensions, drawing a distinction between their policy and political dimensions. The policy aspects have to do with the policy problems now facing the EU, and especially the eurozone (persistent fragility of the policy-mix proposed by the EU and of the economic governance to implement it) as well as the increased geographical divide between different European regions (the 'North-South divide' and beyond). The political tensions boil down to the apparent paradox of the urgent need for more integration and the seeming impossibility of this. The legitimacy and popularity of the EU seem to be at their lowest ebb (with a vicious circle of technocratic solutions and populist movements), while Europeans desperately need more integration. Section two describes the proposals made by EU leaders: we refer in particular to the four presidents' report (Towards a Genuine Economic and Monetary Union), presented in its final version at the EU summit in December 2012. Section three provides an alternative map. Drawing on a summary

of the proposals coming from stakeholders (cf. the Social Compact proposed by the ETUC) and analysts we developed a four step ‘*vademecum*’ for the future of the European Union.

We examined the literature provided by analysts and commentators, and in the following passages we summarise two different sets of contributions. Firstly, we consider the more political contributions, coming from European think tanks (such as the European Council of Foreign Relations, Policy Network, Notre Europe, the European Institute of Washington, etc.) and from political figures (cf. Cohn-Bendit and Verhofstadt, Delors) who have expressed their concerns as to the future of the EU. We also discuss analyses which give a more economics-based reading of the situation (from commentators and think tanks of different politico-ideological colours, such as Bruegel, the Centre for European Policy Studies, Social Europe, Vox.eu, etc.). The *vademecum* introduced in section three is not to be viewed as a comprehensive set of solutions to the problems faced by Europe, but rather as a menu of potential policy and political measures to further develop intellectual and political debate (in which the trade union movement should be one of the key actors). It is a roadmap for policymakers, stakeholders and intellectuals, to contribute to their future dialogue.

## **Policy and political challenges facing Europe**

Analysts agree that the risks facing the EU are huge. Two main sets of issues are now at the top of the European agenda: policy challenges (economic imbalances and the related increased geographical divide between rich and poor countries), and political challenges (the pressing need for more integration while political conditions seem far from allowing such deeper trends).

The policy challenges: the persistent weakness of EU recovery and the geographical divide

Economists tell us that the major deficiencies of EU policymaking (monetary, fiscal and economic policies) remain, despite huge efforts to renew the integration project (cf. De Grauwe, 2011; Ha-Joon, 2012). In

---

the words of Leonard and Zielonka (2012), the EU demands austerity while prohibiting central bank interventions, and does not protect citizens and national policymakers from the financial markets.

We list here the main flaws in EU economic strategy and governance, reflecting a policy plan that has proved insufficient, quoting the ECB and its critical look at the European decisions taken so far (cf. Coeuré, 2012). While we do not share all the diagnoses made, this is a good summary of what is lacking in the EU.

A first challenge is related to the fragmentation of the eurozone banking system. Beyond the immediate short term, there is an obvious need to put in place a solid European banking supervision and resolution framework (Darvas *et al.*, 2011). Ineffective stress tests for the European banks, counterproductive bail-in measures (see the most recent Cypriot crisis) all prove the need for a true EU banking union. As stressed by Aiginger *et al.* (2012), despite the decisions taken in the last months, EMU is still far from being a banking union: there is no European deposit insurance and no bank resolution scheme to enable the taking into account of cross-border risks.

A banking union, including resolution and deposit insurance, needs a fiscal union (Coeuré, 2012). Economic shocks cannot entirely be absorbed by national policies alone, given the constraints imposed by the single monetary policy and since devaluation cannot be used to help remedy the situation. Many have thus stressed the need for a eurozone fiscal capacity, as a form of insurance. The completion of banking and fiscal union would ensure that the Union is able to respond to shocks: cyclical shocks, exogenous asymmetric shocks, and shocks arising from the banking system.

Weak economic coordination is another problem. Insufficient macroeconomic coordination and misaligned wage and productivity developments translate into significant competitiveness divergences with high deficits in current accounts in some countries and high surpluses in others (Aiginger *et al.*, 2012, 4). If left unaddressed, this either results in prolonged economic divergence or in permanent fiscal transfers (Coeuré, 2012). Here again, many innovations have been introduced. Examples are the new Macroeconomic Imbalance Procedure (MIP) – with the objective of preventing and correcting divergences in competitiveness –



and the Euro Plus Pact, more intergovernmental in nature. Many experts, however, have interpreted these as partial measures, which have not properly addressed the risk of imposing an excessive burden on crisis-hit countries while treating surplus countries more lightly (Liddle *et al.*, 2012: 8). This is very much related to what Dervis (2012: 25) stressed in terms of the risk of ongoing austerity: without short-term support for aggregate demand, many countries in crisis could face a downward spiral (cutbacks, reduced output, higher unemployment, and even greater deficits).

As stressed by Natali (2012), a more fundamental criticism can be levelled at the normative place of solidarity in the building of the EU. Each milestone in the integration process has marked a (renewed) 'solidarity deal' between the Member States to redistribute risks and opportunities. The Common Agriculture Policy was the first example in the integration project of a policy with elements of solidarity. It was followed by territorial solidarity (through the use of structural funds aimed at promoting financial transfers between countries and territories) and solidarity through the more recent European Globalisation Adjustment Fund (to compensate workers who are victims of company relocations). The EU now needs new tools for solidarity. In the words of Degryse (2012), if solidarity is not pursued at EU level, the alternative for national governments is to use the social domain as the adjustment variable for managing the crisis (*ibidem*, 72). In such a context, the EU social dimension (especially through soft coordination) seems insufficient, as stressed by Peña-Casas and Vanhercke in their chapters. Yet Thillaye (2012: 10) has advanced a more nuanced assessment as to the potential role of the new EU budget for 2014-20. For this author, substantial efforts have been made to increase its role in favouring growth and 'social investments': funding for agriculture has been cut by 12% while credits for 'growth and jobs' have been increased by 38%, and climate action objectives will represent at least 20% of EU spending in the future years.

## The geographical divide

Some of the most striking evidence of the chapters included in *Social developments in the European Union* (cf. De Grauwe, Agostini and Capano, and Schulten and Müller) is of the growing divide between

European countries. Many studies have talked of the ‘North-South divide’<sup>1</sup> (Martin, 2013). What we see here are the growing gaps between three European regions: Northern and Continental Europe, Central-Eastern Europe, and Southern Europe. A recent extensive report from the World Bank (WB) (Gill and Raiser, 2012) has provided an interesting picture. As the authors explain, the EU economy can be viewed as three lanes of traffic, a slow-speed lane in Western Europe, a high-speed lane in Eastern Europe and a third lane, the South – ‘where cars are going in reverse’<sup>2</sup>.

This rather blunt conclusion needs some qualification but is a useful starting point for our reflection. It is interesting to consider the most recent publication by the Commission on the state of EU economic, social and employment conditions (European Commission, 2012a and 2012b). Looking at GDP growth since 2007, some Member States are richer than before the crisis, many are back to pre-crisis levels and some are much poorer. In the period 2007-2012, many of the newer Member States showed healthy economic trends, with Slovakia and Poland outperforming others (with real GDP increases of over 13 % and 19 %, respectively, over the period). The Baltic countries, very much affected in the early phase of the crisis, have also shown signs of recovery in recent years. Among the old Member States, the clearest divergence is between the North and the South and periphery: Greece, Italy, Portugal (and also Ireland) all experienced output drops in 2008-09 and a negative trend since then.

As stressed by Martin (2013), the interest rate gap between the Northern states, which are enjoying extremely low borrowing costs, and Southern debtor countries provides further evidence of this division<sup>3</sup>. For example, Italy’s 5.972% yield on 10-year bonds towers over Germany’s 1.215% interest rate on 10-year bonds. Moreover, the

- 
1. An interesting publication on the subject is *Benchmarking Europe*, 2013 published by the European Trade Union Institute (ETUI).
  2. For the WB, this pattern is partly explained by the financial flows from the South of Europe, which shares a low productivity profile, especially in Greece and Italy, towards Eastern countries where the privatisation of state-owned industries offered opportunities for investors there (European Affairs, 2012).
  3. Divergent interest rate trends mean very different conditions for business. Due to divergent rates, employers in southern countries have more problems than their competitors in richer countries in accessing loans and financial aid from banks.

Southern European states are also burdened by high public debt: 159.1% of GDP for Greece, 119.6% for Italy and 110.1% for Portugal – more than the EU average (82.2% of GDP). Finally, the Southern European states are also suffering from a loss of competitiveness as a consequence of the increases in labour costs and limited productivity gains in the last decade.

Social and employment figures confirm the picture. As stressed by the Commission (2012a), the average unemployment rate of the group made up of Cyprus, Estonia, Greece, Ireland, Italy, Malta, Portugal, Slovakia, Slovenia and Spain, after converging in the years up to 2004, in favour of southern and peripheral eurozone members, is now higher than the average rate for Austria, Belgium, Finland, France, Germany, Luxembourg and the Netherlands<sup>4</sup>. In 2011, the gap was an unprecedented 7.5 percentage points: the average unemployment rate for the northern countries was 7.0 %, as against 14.5 % in the south and periphery of the eurozone. This gap was ‘only’ 3.5 percentage points in 2000 (*ibidem*). What is more, while youth unemployment in the European Union has risen to an average of 22.6%, Southern Europe has been particularly hard-hit, with Greece and Spain reporting rates of over 50%. The gap may be explained in part by a higher education gap between Southern and Northern European nations, which has resulted in an oversupply of labour for low skill vacancies in Southern Europe, at a time when manufacturing jobs are moving to cheaper markets like China or India (Martin, 2013). There is also growing divergence in terms of living conditions. The decrease in household disposable income has been most significant (above 4 %) in the Southern countries, Ireland, Hungary and the Baltic States. This is in stark contrast to the situation observed in Northern and Continental countries. In the latter, the combined effect of robust automatic stabilisers and more resilient labour markets in general helped mitigate the impact of the recession.

The geographical divide, however, has also re-launched old stereotypes. The idea of hard-working northern countries versus the lazy South appears from time to time in the European Union’s policy debate over economic and budgetary crisis. Yet a closer look at various statistical

---

4. Further evidence, as stressed by Schulten and Müller in this edition and Meardi (2012), comes from an analysis of social dialogue trends in the Member States.

indicators robustly counters many of the politically expedient stereotypes. Greeks work on average 42 hours a week. Spain and Portugal are not far behind, with a working week of around 39 hours, while in the Netherlands workers work 31 hours a week (Dalton, 2012).

To sum up, economic and social trends provide evidence of a significant cleavage between North and South. Bridging that gap in performance and conflicting perceptions is a major challenge for the EU.

### Political challenges: Europe and its democratic deficit (both national and EU)

All the policy (and institutional) tensions mentioned above have clear political implications and are often heightened by additional political risks. Mark Leonard (2011: 1), in a recent essay, summarises the EU political challenge as ‘the necessity and impossibility of integration’. Monetary union was a step towards a more in-depth integration with extraordinary political implications and consequences. The crisis has highlighted the need to be consistent with this first step: more economic and political integration is needed to make the eurozone work (Cohn-Bendit and Verhofstadt, 2012; Diamantopoulou, 2012). In the words of Coeuré (2012: 3), ‘any form of European control over national policies must be based on political legitimacy and strict accountability (...) For there to be a single market, there must be a legislative body that establishes the rules and a judiciary that can enforce them. What is not yet entirely clear is who exactly will execute these powers, and to whom it will be accountable’.

Many analysts point to the need to rethink the integration process originally designed by Jean Monnet. The technocratic path – ‘integration by stealth’ in the words of Majone – now seems not to be the right approach, for many reasons, although in the past it delivered good results. This is output legitimacy – judged in terms of the effectiveness of the EU’s policy outcomes for the people (Schmidt, 2010). In the golden age of European integration, public opinions were sufficiently reassured by its extraordinary results: peace, reduced conflicts, and ongoing economic growth. Such an output legitimacy now seems lacking. As stressed in the Foreword by Natali and Vanhercke to this issue, all Member States now seem disappointed with the EU. The rich countries are unhappy because they are being asked to help poor

partners, and risk paying a cost in terms of additional sacrifices, thus fuelling risks of moral hazard. The poor Member States see their poor economic performances and the persistent attacks by global financial markets to be the result of EMU, which, among other things, eliminated competitive monetary devaluation as a cheap strategy to address economic shocks. As a consequence, output legitimacy no longer works. Secondly, the EU project needs both input legitimacy, in terms of the EU's responsiveness to citizen concerns as a result of participation by and representativeness of the people, and throughput legitimacy, in terms of the accountability, transparency and efficiency of the EU's decision-making processes along with their openness to pluralist consultation with the people (Schmidt, 2010). But in both respects, the recent score has been meager. Key decisions since the crisis have been the result of French-German leadership or, in a better scenario, of initiatives from a small number of Member States. But the return of inter-governmentalism has sidelined both the Commission and the Parliament, with negative effects on both transparency and accountability<sup>5</sup>.

All these shortcomings have led to two opposed tendencies: the apparent reinforcement of technocracy (with a shift from the EU to national policymaking) and populist reactions at national level (Leonard and Zielonka, 2012). As regards the first trend, the technocratic style that has characterised EU policymaking since the origin of the process seems to have contaminated some Member States. This is the case in Greece and Italy, where political governments gave way to technocratic executives once the economic and debt crisis became too risky to be managed by policymakers and political parties. What is important here is that the attempt of technocrats to address policy crisis via the legitimacy derived from the Commission seems to have largely failed. On the other hand, populism is spreading in many countries. As stressed by Trechsel and Wagemann in their chapter, anti-EU movements are on the rise. The Italian elections in early 2013 are a supreme example of this. The 'old' populism of Berlusconi (even if mixed with more traditional right-wing positions) and new anti-European sentiments proposed by Grillo and his 5 stars movement attracted 2/3 of the electorate, showing the increased dissatisfaction of

---

5. Leonard (2011) spoke of the risk of shifting the logic of the EU from a 'rules-based' to a 'power-based' approach.

the southern public opinions with the euro and the EU. Both elements converge into a democratic fatigue with our institutions at all levels (Bertoncini, 2011; Bertoncini and Kreilinger, 2013).

It is thus evident that the recent revision of EU governance has meant a shift of political power from the Member States to the EU (whatever the integration method used for this). But this has a number of political consequences. The euro crisis has in fact resulted in a massive transfer of power. As stressed by Degryse (2012), the 'European Semester' (2010) gives the European Commission the capacity to monitor and potentially veto national budgets before they are approved by national parliaments. The 'Euro Plus Pact' (2011) opened up ample room for EU intervention in key national policies such as labour markets, pensions, and taxation. At the same time the 'Six-pack' (2011) strengthened both the preventive and corrective arm of Commission and Eurogroup powers to monitor fiscal deficits and macroeconomic imbalances in Member States, and the 'Two-pack' (2012) further strengthened the European Commission's capacity to monitor national budgets. Finally, the so-called Fiscal Compact obliged Member States to change their national constitutions to introduce debt-brake provisions.

As stressed in the chapter by Schulten and Müller, the crisis has provided further evidence of the increased tensions between the EU and national institutions, and some Member States have been constrained in their economic and social policies. This is primarily the case of those countries subject to a so-called *Memorandum of Understanding*. Greece is the paramount example of the growing involvement of the Commission and the ECB (together with the International Monetary Fund) in shaping macro-economic policy and structural reforms (from pension cutbacks to increased flexibility of the labour market). But something similar has occurred with Italy and Spain, which have been the target of direct intervention by the Commission and the ECB through letters including detailed reform programmes. All this seems to short-circuit normal political channels: national policymakers who are legitimised through elections are increasingly constrained by supranational 'guidelines', while supranational leaders who clearly take decisions as to the future of European citizens lack any democratic support (or have, at the most, indirect and weak backing). This situation is also related to the fact that the political architecture of the European Union has remained largely unchanged (Dullien and Torreblanca, 2012).

## The Four Presidents' Report to save the EU

What has been the response from EU headquarters to both policy and political challenges? Here we refer to the so-called 'Four Presidents' Report'<sup>6</sup>. The heads of the ECB, the Commission, the European Council and the Eurogroup were tasked by the EU leaders on June 29<sup>th</sup> to prepare a detailed road map for a genuine EMU by the end of the year. Their mission was to work on four sets of measures to promote deeper integration: banking union, fiscal union, economic union and political union (Leonard and Zielonka, 2012).

The final report of the four presidents – published in December 2012 - sees the eurozone turning into a more 'genuine' economic and monetary union (EMU) in three stages, with a common budget, a bank resolution fund, a deposit guarantee scheme, a single system for bank supervision and enhanced accountability. It calls for 'arrangements of a contractual nature' between countries using the euro and EU institutions to carry out structural reforms, a capacity to 'take rapid executive decisions' for the single currency and a 'unified' external representation of the new Union. The document marks an acceleration towards a two-tier Europe, with the eurozone countries at its core (Marini, 2012).

The report provides for many of the attributes that the European Union already has, taking further the idea of a specific 'fiscal capacity' for the EMU: a sort of 'eurozone budget'. It also recommends that countries enter into arrangements of a contractual nature with EU institutions on the reforms they commit to undertake and their implementation. Reforms could be supported by the new financial capacity, in particular in the field of taxation and employment (EurActiv, 2012). These reforms would be mandatory for eurozone members and voluntary for countries outside the group. The new financial facility would be used to facilitate adjustment to economic shocks in some specific countries, through a central set-up. The financial resources for the new fiscal capacity are expected to be taken from national contributions, autonomous resources such as a value added tax (VAT) or financial transaction tax,

---

6. Other reports have been put forward by the so-called Westervelle Group, and remarks made by the Commission and the Bundesbank President Jens Weidmann (cf. Dullien and Torreblanca, 2012 for a review).

or a combination of both. The establishment of a treasury function for the new budget is also foreseen (Van Rompuy *et al.*, 2012).

As stressed above, the report envisages three stages for the further integration of Member States:

- Stage 1 (2012-2013) involves the full implementation of the Six-pack, the Fiscal Compact, and the Two-pack. Implementation should be further reinforced through a framework for ex-ante coordination of economic reforms (as envisaged in the Fiscal Compact). A Single Supervisory Mechanism (SSM) should be established for the banking sector, and agreement should be reached on harmonisation of the frameworks for bank resolution through the permanent rescue fund of the eurozone (European Stability Mechanism, ESM);
- Stage 2 (2013-2014) should cover completion of the integrated financial framework and a mechanism for closer coordination. National responsibilities for financial stability are assumed to be contrary to the very high degree of integration in the eurozone and at the origin of the fragilities of the sovereign state and the vulnerability of the banking sector;
- Stage 3 (beginning in 2014) consists of the culmination of the reform process ‘toward a genuine economic and monetary union’. The main purpose of this stage is to improve EMU sustainability by providing for some degree of shock-absorption at the central level. The fiscal capacity will be a supplement to the contractual-type arrangements for reform from stage 2. According to the four Presidents, an integrated approach will motivate eurozone Member States to pursue sound fiscal and structural policies.

As regards democratic legitimacy and accountability, European Parliament participation will ensure the accountability of decisions taken at European level, while national parliaments will keep their pivotal role. As far as the integrated financial framework is concerned, the ECB is expected to be accountable as a single supervisor at European level, but with the assistance of strong mechanisms to provide information, reporting and transparency to the national parliaments of the participating countries.

Analysts (and national political leaders) have been sceptical as to the capacity of the report to trace the right strategy to ‘save’ the EU. In parallel, reform proposals included in the report are still to be agreed on



at the Council level (the next step is June 2013), and some other measures have already been sidelined from the debate (see Baker, 2012).

## **An alternative path: four lines of action**

After this summary of the flaws of the EU system and the first plan designed by the EU leaders, we now look at the more promising ideas proposed by certain analysts, scholars and policymakers. We focus on four key lines of action (much in line with the policy and political challenges mentioned above): a more balanced road map for growth, a more effective strategy to address the geographical divide, key steps to improve EU democratic legitimacy, and a new vision for Europe.

### A more balanced road map for growth

Two measures are often proposed to make the EU policy-mix more balanced and more favourable to economic growth: providing more financial resources to the EU (and/or eurozone) budget, and extending/ revising the powers of the ECB. Both are expected to improve EU capacity to address asymmetrical shocks.

Mobilising new resources for growth at the EU level means first of all a better and more efficient use of what is already in the EU budget. This is what has been proposed by Marzinotto (2011): to allocate Structural and Cohesion Fund resources that are still outstanding and/or uncommitted. Of the total allocation of the 2007-2013 Multiannual Financial Framework of around 350 billion euros, around 270 billion euros are still outstanding and 134 billion euros uncommitted<sup>7</sup>. To improve absorption rates, one possibility would be the direct involvement of the Commission through direct management of certain types of project. This could be a source of help for those Member States still in recession.

---

7. According to Marzinotto (2011), the outstanding funds for Greece were about 7% of GDP over the programme period, for Portugal 9.3% and for Spain 2.5%.

Another way of increasing the EU resources for growth could be the implementation of a Financial Transactions Tax at EMU level. This would increase resources for growth-enhancing measures in the short-term and reduce taxes on business and labour in the long term (cf. Aiginger *et al.*, 2012). A further possibility would be to stimulate investment through the European Investment Bank and investment projects, but this kind of approach also needs time to be rightly implemented and produce effects on growth.

The ECB should have a broader mandate. This is the second point to be stressed in order to enhance the European growth potential. The Central Bank should be able to protect indebted Member States. Highly indebted countries cannot survive attacks from the financial markets without protection from Europe. Another key aspect is to add growth priorities to stability priorities: for instance, by adding employment as another statutory goal along with price stability. This would bring the ECB in line with the US Federal Reserve. This should be done in a way that does not question the main responsibility of governments and the European Commission in tackling unemployment.

An additional push for economic growth could come from a more 'intelligent' (discretionary) interpretation of the Stability and Growth Pact, which would make it possible to distinguish between investment spending and current expenditure. The former, if well designed, can lay the foundations for longer-term growth (Dervis, 2012).

### A more effective strategy to address the geographical divide

As proposed by De Grauwe in this volume, the problem needs a two-step strategy. Short-term measures are needed to address the issue itself, while longer-lasting measures could be introduced to ensure more stable development between Member States. In the short run, the priority is how to stabilise the economy. That can only be done by increasing the aggregate demand in the system. In the northern and continental part of Europe, Member States should be allowed to spend more, which would quickly have positive effects on the potential growth of the EU. Germans still think that their economy is doing quite well. Unemployment is relatively low and even slightly falling. 'We are running a trade surplus, why should we change the way we run our economy?' But sooner or later

all this negative growth in the eurozone will feed back into Germany, and then the negative growth and financial crisis in Europe will affect public opinion in other parts of the world (Ha-Joon, 2012).

For some analysts, a regime of automatic transfers, as part of EMU, could help to address divergent cyclical positions and make adjustments smoother. One example would be the union-wide unemployment insurance (with some national obligations remaining to prevent moral hazard) proposed by Aidinger *et al.* (2012: 10), and the EU minimum income guarantee proposed by the European Anti Poverty Network (cf. Vandenbroucke *et al.*, 2012). These regimes could be established outside the EU budget in a transfer fund which would be balanced over the business cycle. What we have stressed in these first points is largely consistent with a more 'social dimension' of the EU (in line with the proposed Social Compact (ETUC, 2012) and a more social investment strategy).

### Key steps to improve EU democratic legitimacy

The EU democratic deficit has for a long time been at the core of various analytical reflections. In the context of the EU crisis, this debate has regained momentum (cf. Degryse and Pochet, 2011). Here we consider three different and complementary strategies to address the problem.

The first strategy consists of electing leading EU officials. One possibility would be the direct election of the Commission President (at some point in the future) or election to this post via competitive European elections (the potential Presidents being the candidates heading the list for every European political party) (Vesnic-Alujevic and Castro Nacarino, 2012). This measure would increase the European Commission's democratic legitimacy and enhance the interest in European elections. At the same time it would reinforce the role of the Commission as a 'government' and the strong link that exists between this institution and the European Parliament (Leonard, 2011).

A second measure could be to give the European Parliament the right to initiate legislative proposals. This right has been, until now, a privilege reserved for the Commission. In the view of Vesnic-Alujevic and Castro Nacarino (2012: 7) this is a serious democratic anomaly if we compare

---

the European political system with that of any of its Member States. A clear treaty change would be required. Giving the European Parliament (and the Council, which can be seen as the upper chamber in the EU political system) the right of initiative would not exclude the Commission from continuing to elaborate proposals: this happens in many Member States, where the government shares this task with the parliament. Moreover, the European Parliament should also be able to take part in the decision-making process for economic policies.

A third possible route would be to involve national parliaments more closely through complex multi-level arrangements (Duff, 2010). One proposal has been, for example, that national parliaments should have more control over the European Council. This is what has been proposed by Heffler *et al.* (2013) in a recent study. A number of ways have been suggested to achieve this more advanced interaction: opening up the European Parliament to national MPs and viceversa, 'using' the European political parties as a means to improve dialogue between national MPs and MEPs, and the setting up of an Inter-parliamentary Conference on economic and budgetary issues.

A fourth possible strategy would be to increase European citizens' participation in decision-making processes through consultations (especially via the internet). Many scholars (cf. again Vesnic-Alujevic and Castro Nacarino, 2012) now agree that citizens need to participate in democratic processes in order both to give these legitimacy and, at the same time, to bring democratic processes closer to citizens. The advantage of deliberative democracy is its capacity to strengthen the representative democratic system, especially in a supranational context such as the European Union. The possibilities for deliberation in the European Union can be further fostered through the internet, which brings new possibilities for deliberation.

## A new vision for Europe

What we have seen above is not just a matter of incremental changes. European leaders need to provide a long-term vision of a stable EU guaranteeing high levels of employment and well-being. To achieve this, the shortcomings of the EMU have to be addressed and corrected. As outlined by Diamantoupolou (2012), the prolonged austerity imposed on

the citizens of ailing economies and the burden put upon taxpayers of richer countries to the benefit of weaker ones generate anti-European sentiment. Income-levels and living conditions are still diverging dangerously between Member States. All these factors, if left unchallenged, could lead to the disintegration of the European Union. The major challenge for EU leaders is how to provide a new narrative for Europe. One potential way of doing this is to highlight the basic principles at the core of the European social and economic model: the defence of social (and industrial relations) rights, a unique degree of social protection and high standards of well-being. Strangely, international organisations (from the ILO to the World Bank) and foreign observers seem keener than Europeans to treat these as virtues rather than vices.

The Social Compact proposed by the ETUC (2012) provides examples of the measures that could be implemented to reach the goal of a more inclusive economic growth. Structural reforms should consist of investments in sustainable infrastructure, research and development, and technological innovation (see also Agostini and Capano in this volume and the role education and training may play). These measures could be financed through extra resources, raised from the European structural funds, the European Investment Bank, project bonds, and an adequately engineered financial transaction tax. Young people and women should be the target of initiatives like the ‘Youth Guarantee’ to give youth more opportunities for decent work and life chances. Social dialogue (in line with indications from the ILO) could be an effective tool for designing and implementing such new strategy.

These measures could be at the basis of a large consensus among stakeholders and policymakers in the attempt to improve the EU growth potential by increasing productivity: investing in people rather than weakening social rights.

## References

- Aiginger K., Cramme O., Ederer S., Liddle R. and Thillaye R. (2012) Reconciling the short and the long run: governance reforms to solve the crisis and beyond, European Policy brief WWW.ForEurope project, No.1 ([http://www.foreurope.eu/fileadmin/documents/pdf/Policybriefs/WWWforEurope\\_PB\\_no01\\_D404.1.pdf](http://www.foreurope.eu/fileadmin/documents/pdf/Policybriefs/WWWforEurope_PB_no01_D404.1.pdf)).
- Baker L. (2012) Analysis: EU looks for bold steps, but what about voters? (<http://www.reuters.com/article/2012/06/27/us-eu-summit-voters-idUSBRE85Q0MH20120627>).
- Bertoncini Y. (2011) UE, Une Légitimité encore en devenir, Tribune, Notre Europe, November 2011.
- Bertoncini Y. and Kreiling V. (2013) Réflexions sur l'Union Politique, Synthèse de la réunion du Comité européen d'orientation, Notre Europe – Institut Jacques Delors, January 2013.
- Coeuré B. (2012) Towards a consistent, coherent and complete Economic and Monetary Union, Speech at the conference 'Financial stability and the Single Market – the keys to growth in Europe' on the occasion of the 20<sup>th</sup> anniversary of the Single Market, European Commission, Brussels, 19 November 2012.
- Cohn-Bendit D. and Verhofstadt G. (eds.) (2012) For Europe. Manifesto for a post-national revolution in Europe, Milano, Mondadori.
- Dalton M. (2012) Busting North-South Stereotypes, The Wall Street Journal (<http://blogs.wsj.com/brussels/2011/02/14/busting-north-south-stereotypes/>).
- Darvas Z., Pisani-Ferry J. and Sapir A. (2011) A Comprehensive Approach to the Euro-Area Debt Crisis, Brueghel Policy brief, 1/2011.
- De Grauwe P. (2011) Balanced Budget Fundamentalism, CEPS Commentary, Centre for European Policy Studies, 5 September 2011 (<http://www.ceps.be/book/balanced-budget-fundamentalism>).
- Dervis K. (2012) Can There Be Austere Growth?, Towards a European Growth Strategy, Social Europe Report, February 2013 (<http://www.social-europe.eu/wp-content/uploads/2013/01/eBook.pdf>).
- Diamantopoulou A. (2012) Europe Needs Leadership With Vision, Towards a European Growth Strategy, Social Europe Report, February 2013 (<http://www.social-europe.eu/wp-content/uploads/2013/01/eBook.pdf>).
- Degryse C. (2012) The New European Economic Governance, ETUI working paper series, 14/12, Brussels, ETUI.
- Degryse C. and Pochet P. (2011) Monetary Union, economic coordination and democratic legitimacy, Policy Brief, Issue 5/2011, Brussels, ETUI <http://www.etui.org/Publications2/Policy-Briefs/European-Social-Policy/Monetary-Union-economic-coordination-and-democratic-legitimacy>

- Duff A. (2010) Post-national democracy and the reform of the European Parliament, Policy paper, 42, Notre Europe, Paris (<http://www.notre-europe.eu/media/postnationaldemocracy-democratiepostnationaleduffneoct10.pdf>).
- Dullien S. and Torreblanca J.I. (2012) What is political union?, ECFR Policy brief, 70, European Council on Foreign Relations, London, December 2012.
- ETUC (2012) A Social Compact for Europe, ETUC resolution adopted by the Executive Committee at its meeting on 5-6 June 2012 (<http://www.etuc.org/IMG/pdf/EN-A-social-compact-for-Europe.pdf>).
- EurActiv (2012) Van Rompuy fleshes out plans for two-tier Europe, eurozone budget (<http://www.euractiv.com/priorities/van-rompuy-tables-key-report-ahe-news-516495>).
- European Affairs (2012) Fresh Air from World Bank on Europe's much-maligned Economic Model, April 2012 (<http://www.europeaninstitute.org/EA-April-2012/fresh-air-from-world-bank-on-europes-much-maligned-economic-model.html>).
- European Commission (2012a) Main Employment and Social Challenges 2013, Issue Paper.
- European Commission (2012b) Employment and Social Developments in Europe 2012, Luxembourg, Publications Office of the European Union ([http://ec.europa.eu/employment\\_social/esde/2011](http://ec.europa.eu/employment_social/esde/2011)).
- Gill I. and Raiser M. (2012) Golden Growth. Restoring the lustre of the European economic model, Washington, D.C., the World Bank ([http://siteresources.worldbank.org/INTECA/Resources/gg\\_overview.pdf](http://siteresources.worldbank.org/INTECA/Resources/gg_overview.pdf)).
- Ha-Joon C (2013) Eurozone Politics And Growth, Towards a European Growth Strategy, Social Europe Report, February 2013 (<http://www.social-europe.eu/wp-content/uploads/2013/01/eBook.pdf>).
- Hefftlar C., Kreilinger V., Rozemberg O. and Wessels W. (2013) Parlements nationaux: L'émergence d'un contrôle du conseil européen, Policy paper, 89, Notre Europe, Paris (<http://www.notre-europe.eu/media/controleparlementaire-hefftlarkreilingerrozenbergwessels-ne-ijd-mar13.pdf>).
- Leonard M. (2011) Four Scenarios For the Reinvention of Europe, ECFR essays, 43, European Council on Foreign Relations, London, November 2011 ([http://www.ecfr.eu/page/-/ECFR43\\_REINVENTION\\_OF\\_EUROPE\\_ESSAY\\_AW1.pdf](http://www.ecfr.eu/page/-/ECFR43_REINVENTION_OF_EUROPE_ESSAY_AW1.pdf)).
- Leonard M. and Zielonka J. (2012) A Europe of incentives: how to regain the trust of citizens and markets, ECFR working paper, European Council on Foreign Relations, London ([http://ecfr.eu/page/-/ECFR58\\_EUROPE\\_INCENTIVES\\_REPORT\\_AW.pdf](http://ecfr.eu/page/-/ECFR58_EUROPE_INCENTIVES_REPORT_AW.pdf)).
- Liddle R., Cramme O. and Thillaye R. (2012) Where next for eurozone governance?, Policy Network Policy brief (<http://www.policy-network.net/publications/4222/Where-Next-for-Eurozone-Governance>).

- Marini A. (2012) Will Herman Van Rompuy's Economic and Monetary Union Be Genuine? (<http://www.euinside.eu/en/news/will-herman-van-rompuy-economic-and-monetary-union-be-genuine>).
- Martin G. (2013) Europe's North-South divide – A Stubborn Chasm (<http://www.europeaninstitute.org/EA-August-2012/europes-north-south-dividea-stubborn-chasm.html>).
- Marzinotto B. (2011) A European Fund for Economic Revival in Crisis Countries, Policy contribution, 2011/01, Bruegel, Brussels.
- Meardi G. (2012) Employment relations under external pressure: Italian and Spanish reforms in 2010-12, Paper presented at the International Labour Process Conference, Stockholm, 27-29 March 2012.
- Natali D. (2012) Future Prospects. Has the European Social Model really 'gone?', in Natali D. and Vanhercke B. (2012) Social developments in the European Union 2011, Brussels, ETUI/OSE, 237-250.
- Schmidt V. (2010) Democracy and Legitimacy in the European Union Revisited. Input, Output and Throughput, KFG Working Paper Vol. 21, November 2010 ([http://userpage.fu-berlin.de/kfgeu/kfgwp/wpseries/WorkingPaperKFG\\_21.pdf](http://userpage.fu-berlin.de/kfgeu/kfgwp/wpseries/WorkingPaperKFG_21.pdf)).
- Thillaye R. (2012) Gearing EU Governance towards Future Growth, The side-lining of Europe 2020 and its worrying consequences, Policy Network paper, 14 March 2013.
- Vandenbroucke F., Cantillon B., Van Mechelen N., Goedemé T. and Van Lancker A. (2012) The EU and minimum Income protection: clarifying the policy conundrum, Open Access publications from Katholieke Universiteit Leuven urn:hdl:123456789/349388, Katholieke Universiteit Leuven.
- Van Rompuy H. in collaboration with Barroso J.M., Juncker J.C. and Draghi M. (2012) Towards a genuine economic and monetary union, 5 December 2012 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/134069.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134069.pdf)).
- Vesnic-Alujevic L. and Castro Nacarino R. (2012) The EU and its democratic deficit: problems and (possible) solutions, European View, 11/1, 63-70.





# Chronology 2012

## Key events in European policy

**Cécile Barbier**

January

**1<sup>st</sup> January:** The euro, most discreetly, celebrates its tenth birthday.

**1<sup>st</sup> January:** Denmark holds the Presidency of the Council of the European Union for the seventh time, until 30 June 2012.

**9 January:** The Commission raises 3 billion euros on the financial markets on behalf of the European Financial Stabilisation Mechanism (EFSM), to help Ireland and Portugal, two countries receiving financial assistance from the EU. Council Regulation (EU) No.407/2010 of 11 May 2010, Official Journal of the European Union L 118 of 11 May 2010.

**13 January:** The rating agency Standard and Poor's cuts the credit ratings of nine eurozone countries. Paris loses its triple A rating and is given a negative outlook. Standard and Poor's downgrades five countries by one notch - France, Austria, Malta, Slovakia and Slovenia – and four other countries by two notches: Spain, Italy, Portugal and Cyprus. In the eurozone, only four countries keep the triple A rating: Germany, Finland, Luxembourg and the Netherlands.

**16 January:** Standard & Poor's cuts the credit rating of the European Financial Stability Facility (EFSF) by one notch to 'AA+'.

**18 January:** First meeting between the President of the Italian Council of Ministers, Mario Monti, and the British Prime Minister, David Cameron. They speak out in favour of growth achieved through strengthening the internal market (<http://www.reuters.com/article/2012/01/18/us-britain-italy-monti-idUSTRE80H1V320120118>).

**22 January:** The people of Croatia say ‘yes’ to the accession of their country to the European Union. Although 66% of voters voted in favour, turnout was only 44%. Croatia will be the second ex-Yugoslavian State to join the European Union.

**24 January:** The International Monetary Fund (IMF) updates its economic forecasts. The forecasted figure for world growth is brought down from 4 % (in September) to 3.3 %. Growth in the US should be around 1.8%, in the eurozone it should be a – 0.5 %, with growth in Germany at 0.3% and in France at 0.2%.

**24 January:** Excessive Deficit Procedures. The ECOFIN Council recommends to Hungary that it should take measures to bring its budget deficit down to below the EU reference value, i.e. 3% of GDP.

**24 January:** The International Labour Organization (ILO) acknowledges the important part played by automatic stabilisers in the initial responses of, in particular, the advanced economies. Although, for the eurozone, the German model is referred to as the example to follow, the ILO is of the view that ‘rising competitiveness of German exporters has increasingly been identified as the structural cause underlying the recent difficulties in the euro area’. ‘Global Employment Trends 2012. Preventing a deeper jobs crisis’, ILO, Geneva, ([http://www.ilo.org/wcmsp5/groups/public/--dgreports/--dcomm/--publ/documents/publication/wcms\\_171571.pdf](http://www.ilo.org/wcmsp5/groups/public/--dgreports/--dcomm/--publ/documents/publication/wcms_171571.pdf)).

**25 January:** The European Trade Union Confederation (ETUC) speaks out against the Treaty on Stability, Coordination and Governance in the economic and monetary union (<http://www.etuc.org/a/9591>).

**25 January:** Opening of the 42<sup>nd</sup> World Economic Forum in Davos, attended by around 2,600 economic decision-makers. Angela Merkel is the political star of the show. The general theme chosen for the forum is suitably vague: ‘The Great Transformation’. A report on risk is presented to the forum. It identifies three major risks: the global water crisis, budget deficits and income inequality.

**30 January:** Growth-friendly consolidation. At the informal European Council of January 2012, the members of the European Council adopt, with a Parliamentary reservation from Sweden, a declaration entitled

'Towards growth-friendly consolidation and job-friendly growth'. In it, they undertake to 'create new jobs', particularly in the 'green economy', to complete the single market, address youth unemployment, to get early school-leavers into training and to strengthen support for SMEs. 'Statement of the Members of the European Council', ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/127599.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/127599.pdf)).

**30 January:** The European Council publishes a text addressed to the eurozone States, informing them of the finalising of the 'Treaty on Stability, Coordination and Governance' (TSCG or 'Fiscal Compact') and of the treaty establishing the European Stability Mechanism (ESM). For the Fiscal Compact, the question of the supervisory role of the Court of Justice still needs to be resolved. The main features have now been decided upon and can be communicated to the eurozone Member States ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/fr/ec/127634.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/fr/ec/127634.pdf)).

**30 January:** General strike in Belgium to protest against the government's austerity plan.

**31 January:** Interview in 'Le Monde' with Paul Krugman (Nobel Prize in economics): 'Europe needs a highly aggressive monetary policy'; 'the ECB should buy in more State debt'; 'inflation is not the problem, it's the solution'.

## February

**2 February:** The European Parliament adopts a resolution on the European Council of 30 January 2012 (and on the Fiscal Compact) with 443 votes in favour, 124 against and 75 abstentions. The Parliament comments that 'virtually all the elements contained in the new Treaty can be achieved, and to a large extent have already been achieved, within the existing EU legal framework and through secondary legislation, except for the golden rule, reversed QMV and the involvement of the ECJ'. 'European Parliament Resolution of 2 February 2012 on the European Council of 30 January 2012', (<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0023+0+DOC+XML+Vo//EN>).

**2 February:** Signing of the Treaty Establishing The European Stability Mechanism (ESM), *RAPID Press release*, D/12/3 ([http://europa.eu/rapid/press-release\\_DOC-12-3\\_fr.htm?locale=en](http://europa.eu/rapid/press-release_DOC-12-3_fr.htm?locale=en)).

**6 February:** The Romanian Prime Minister announces the resignation of his government following demonstrations by ‘indignant’ protesters against austerity measures.

**10 February:** The Spanish government adopts, by decree, a far-reaching reform of labour law, which includes, notably, a reduction in compensation for dismissals, an easier procedure for collective dismissals and priority given to collective bargaining at company level.

**14 February:** Excessive macroeconomic imbalances. The European Commission inaugurates the procedure for macroeconomic imbalances, publishing a first report on the European early warning system. This will monitor the performance of 12 Member States: France, the United Kingdom, Italy, Spain, Belgium, Finland, Slovenia, Cyprus, Bulgaria, Denmark, Hungary and Sweden, COM (2012) 68.

**14 February:** The rating agency Moody’s downgrades the rating of six eurozone Member States (Spain, Italy, Malta, Portugal, Slovakia and Slovenia).

**15 February:** European Semester. The European Parliament adopts two resolutions. The first of these denounces the ‘democratic deficit’ of the European Semester and asks the European Council ‘to take into account parliamentary comments when endorsing the policy guidance in order to give it democratic legitimacy’ (P7\_TA-2012-0047) (<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0047+0+DOC+XML+Vo//EN>).

The second welcomes the two proposals reinforcing economic governance (*Two-pack*), stating that ‘such proposals should offer the opportunity to enhance the role of the European Parliament regarding the definition and implementation of economic policy surveillance procedures within the European Semester framework in conformity with the provisions of Articles 121 and 136 of the Treaty’ (P7\_TA-PROV-2012-0048) (<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0048+0+DOC+XML+Vo//EN>).

**16 February:** The European Commission publishes its White Paper on pensions. In terms of content, this paper seeks to promote active ageing as a solution to the trilemma of how to achieve the financial sustainability, adequacy and modernisation of pensions, COM (2012) 55.

**17 February:** The Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) adopts the Joint Employment Report, which indicates an increase in long-term unemployment and unemployment of low-skilled workers, and calls upon Member States to make further efforts to meet the Europe 2020 objectives. 3146<sup>th</sup> Council meeting Employment, Social Policy, Health and Consumer Affairs, Brussels (Doc.6461/12) ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/lssa/128043.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/lssa/128043.pdf)).

**19 February:** More than a million Spaniards take to the streets to denounce the new labour code.

**20 February:** Letter from the 12. The British, Italian and Dutch Prime Ministers – David Cameron, Mario Monti and Mark Rutte – send a letter to the President of the European Council, Herman Van Rompuy, asking him ‘to help restore their confidence in Europe’s ability to deliver strong and sustainable growth’. The letter is co-signed by their counterparts in nine other countries (Estonia, Latvia, Finland, Ireland, the Czech republic, Slovakia, Spain, Sweden and Poland), and contains a plan based on the opening up of the internal market in services, the setting up of a common energy market in 2014 and a digital market in 2015, an opening up to world markets such as India, a relaxation of the rules governing SMEs, the inclusion of women and young people on the labour market, the opening up of closed professions and the creation of a ‘robust and dynamic’ financial sector (<http://www.number10.gov.uk/news/joint-letter-to-president-van-rompuy-and-president-barroso/>).

**21 February:** The eurozone countries finalise the second financial assistance plan for Greece, for an amount of €237 billion, in order to avoid its leaving the euro.

**23 February:** In an interview with the Wall Street Journal, the President of the ECB does not hesitate to state that ‘the European social model has already gone’. He presents the Fiscal Compact as a means allowing European governments to begin to ‘release national sovereignty’,

Q&A: ECB President Mario Draghi (<http://blogs.wsj.com/eurocrisis/2012/02/23/qa-ecb-president-mario-draghi/>).

**28 February:** The Spanish Budget Minister Cristóbal Montoro announces an increase in Spain's public deficit to 8.51% of GDP in 2011, a figure significantly higher than the official target of 6%. The Spanish government had set itself deficit targets of 4.4% of GDP in 2012 and 3% in 2013.

**28 February:** Record-breaking unemployment rate in the eurozone. According to data from Eurostat, the unemployment rate in the euro area (EA17) was 10.8% in February 2012, compared with 10.7% in January. Compared with February 2011, unemployment rose by 1.874 million in the EU27 and by 1.476 million in the euro area, STAT/12/52, 2 April 2012 ([http://europa.eu/rapid/press-release\\_STAT-12-52\\_en.htm](http://europa.eu/rapid/press-release_STAT-12-52_en.htm)).

**29 February:** The ECB launches a second LTRO operation (*Long-term refinancing operation*). €529 billion, in the form of a 3-year loan, will be allocated to 800 banks at a reduced rate of 1%. The first, three-year LTRO was launched on 21 December 2011, and allowed an amount of €1,000 billion to be released into the banking system, i.e. the equivalent of the 'long-term budget framework' or the 'multiannual financial framework' for 2014-2020.

**29 February:** European trade union demonstrations in Brussels following an appeal by the European Trade Union Confederation (ETUC) against the austerity plans in Europe.

## March

**1<sup>st</sup> March:** 'The European social model is not dead', in the words of the President of the European Council, Herman Van Rompuy, bringing to a close the tripartite social summit organised in Brussels, prior to the meeting of the Heads of State and Government.

**2 March:** In the margins of the European Council, the Heads of State and Government of 25 countries (not the United Kingdom or the Czech republic) sign the Treaty on Stability, Coordination and Governance' (TSCG or Fiscal Compact) in the Economic and Monetary Union. The

final details concern the arrangements for monitoring by the Court of Justice of the introduction of a golden rule into national legislations.

**2 March:** The Spanish government announces that its budgetary target for 2012 will be a deficit of 5.8%, instead of an initial figure of 4.4%.

**5 March:** The Commission requires Spain to maintain its original budgetary targets for 2012, and threatens the country with sanctions.

**7 March:** In spite of their differences in approach, the social partners present to the Presidents of the Commission and the Council, and to Danish, Cypriot and Irish ministers (representing the Presidency Trio of the Council), their joint working programme for 2012-2014.

This programme puts great emphasis on youth unemployment. The social partners undertake to launch a reflection process to reach a common understanding of the consequences of the current debate on European economic governance on European and national social dialogue. Topics for discussion will include remuneration, pensions and labour costs (<http://www.etuc.org/a/9772>).

**7 March:** In its opinion on the *Two-pack*, the European Central Bank (ECB) proposes the use of reverse qualified majority voting to establish that the requirements of the Commission's adjustment programme for a country under surveillance have not been respected, Official Journal of the European Union C 141 of 17 May 2012: ([http://www.ecb.int/ecb/legal/pdf/c\\_14120120517f00070024.pdf](http://www.ecb.int/ecb/legal/pdf/c_14120120517f00070024.pdf)).PDF.

**12 March:** The Finance Ministers of the eurozone ask the Spanish government to reduce its deficit to 5.3% of GDP in 2012 (i.e. 0.5% lower than the 5.8% announced by the Spanish government, representing an extra reduction of 35 billion euros). The Ministers of Economic and Financial affairs feel that they have shown flexibility. The European Commission, however, asks the Spanish government to bring down its deficit from 8.5% to 3% of GDP over two years. Terms of Reference on Spain 12.03.2012 ([http://www.consilium.europa.eu/media/1479183/tor\\_on\\_spain\\_12\\_march\\_2012.pdf](http://www.consilium.europa.eu/media/1479183/tor_on_spain_12_march_2012.pdf)).

**12 March:** The International Federation for Human Rights (FIDH) has, for a long time now, been asking for full recognition of economic, social and cultural rights (ESCR) in the international legal order. It



publishes a guide for victims and NGOs on recourse mechanisms available in cases of human rights abuses involving corporations. The EIB is criticised in the report for making extensive use of financial intermediaries, which are often European subsidiaries or multinationals operating abroad, a practice which is of no benefit to 'Southern' SMEs. (<http://www.fidh.org/Entreprises-et-violations-des>).

**14 March:** The Finance Ministers of the eurozone formally adopt the second financial assistance plan for Greece: 130 billion euros.

**21 March:** The European Trade Union Confederation (ETUC) rejects the proposal for a Council regulation on the exercise of the right to take collective action within the context of the freedom of establishment and the freedom to provide services ('Monti II'), adopted on the same day by the European Commission. According to the ETUC, the Commission proposals fall a long way short of correcting the problems brought about by the Viking and Laval cases, COM (2012) 130 and <http://www.etuc.org/a/9823>.

**29 March:** General strike in Spain, called by the two largest trade unions: the Confederation of Workers' Commissions (CCOO) and the General Workers' Confederation (UGT). This is only the sixth general strike since the country's return to democracy. The unions are protesting against the reform of the labour code, referred to as 'the most aggressive reform in the history of Spanish democracy', which makes redundancies easier and the labour market more flexible.

**31 March:** According to Eurostat, the unemployment rate in the eurozone has reached 10.9% in March 2012, its highest ever level since the creation of the EMU. In March 2011, it stood at 9.4%. ([http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-02052012-AP/EN/3-02052012-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-02052012-AP/EN/3-02052012-AP-EN.PDF)).

## April

**3 April:** The European Students' Union (ESU) denounces the situation of thousands of Portuguese students, who have had to abandon their studies for economic reasons, as a result of the swingeing cuts to the higher education budget in Portugal, and the discontinuation of social support to socially or economically disadvantaged students (<http://www>).

esu-online.org/news/article/6001/Cuts-in-social-support-force-Portugese-students-to-leave-education/).

**4 April:** The President of the European Central Bank (ECB) esteems that the Spanish Prime Minister should use the window of opportunity created by the ECB emergency measures to effect the promised structural reforms and fiscal consolidation (<http://www.bloomberg.com/news/2012-04-04/draghi-scotches-ecb-exit-talk-as-spain-keeps-debt-crisis-alive.html>).

**9 April:** The Dutch Council of State issues an opinion on the Fiscal Compact. The opinion expresses the view that reverse qualified majority voting is a decision-making procedure different from that contained in Article 126 of the Treaty on the Functioning of the European Union (excessive debt procedure). The opinion will be published on 25 June, together with the reaction of the government.

**16 April:** Signing of the Procès-verbal de rectification of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, signed in Brussels on 2 March 2012.

**18 April:** The Commission adopts an ‘Employment Package’ containing several initiatives to tackle youth unemployment. One of the rare innovative ideas is support for a minimum wage. According to the Commission: ‘Setting minimum wages at appropriate levels can help prevent growing in-work poverty and is an important factor in ensuring decent job quality’. The Commission does not advocate national statutory minimum wages, as in Belgium, France, Luxembourg and Ireland, but rather sectoral minimum wages, as in Germany, IP/12/380 ([http://europa.eu/rapid/press-release\\_IP-12-380\\_en.htm](http://europa.eu/rapid/press-release_IP-12-380_en.htm)).

**18 April:** Employment Package. The European Trade Union Confederation (ETUC) publishes a press release which, although recognising the emphasis rightly given in the package to the huge challenge of combating high and persistent levels of unemployment in Europe, expresses serious doubts as to its chances of success (<http://www.etuc.org/a/9890>).

**23 April:** According to data published by Eurostat, global debt reached record levels in 2011. In the eurozone, public debt climbed to 87.2% of

GDP, from 85.3% in 2010. The highest ratio was reached by Greece (165.3%), followed by Italy (120.1%). According to Eurostat, the monitoring of national private debt levels reveals a worrying trend in certain countries such as Denmark (236% of GDP), Sweden (237% of GDP) or Portugal (247% of GDP). ([http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/2-23042012-AP/EN/2-23042012-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-23042012-AP/EN/2-23042012-AP-EN.PDF)).

**25 April:** The European Commission adopts the regulation listing the conditions in which aid given to undertakings providing Services of General Economic Interest (SGEI) does not constitute state aid pursuant to Article 107 of the Treaty on the Functioning of the European Union (TFEU). Henceforth, amounts of a maximum of €500,000 granted over a period of three years are not considered as state aid, since they do not affect competition or trade between Member States. These ceilings are higher than the *de minimis* ceilings generally applying to state aid (€200,000 over three years), since it is assumed that the aid measures offset at least partially the extra costs involved in providing a public service. The *de minimis* regulation will remain in force until 31 December 2018. Official Journal of the European Union L 114 of 26 April 2012 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:114:0008:0013:EN:PDF>).

**30 April:** In its World of Work Report 2012, the International Labour Organization (ILO) denounces the effects of austerity policies in Europe. According to the report, budgetary discipline linked to deregulation of the labour market will not improve short-term employment prospects. World of Work Report 2012 'Better Jobs for a Better Economy'.

## May

**6 May:** The Presidential election in France is won by the Socialist party candidate, François Hollande, who declares his intention to promote growth in Europe.

**6 May:** Legislative elections in Greece. Syriza, a party to the left of Pasok, which opposes the signing of the memorandum with the Troika (European Commission, European Central Bank and International Monetary Fund) setting out new austerity measures, and is demanding the cancellation of part of the country's debt, becomes the second most

important party and gains 12.17% of votes (compared to 4.60% in 2009). Pasok only obtains 13.67% in 2012. The New Democracy party (right) achieves 18.87% in 2012. The abstention rate is 34.87%. These results make it impossible for the traditional parties to form a majority.

**12 May:** The Charlemagne Prize 2012 is awarded to Wolfgang Schäuble, German Minister of Finance, for his work to promote European integration. On receiving the prize, he calls upon the European Union to establish the post of an elected President, to give 'a face' to Europe. According to the German Minister of Finance, 'We need strong institutions, with political legitimacy'.

**24 May:** The draft Council regulation on the exercise of the right to take collective action within the context of the freedom of establishment and the freedom to provide services (Monti II), is a controversial topic among Member States. National parliaments used the so-called 'yellow card' mechanism, a facility introduced by the Lisbon Treaty to challenge European legislative proposals. Twelve national parliaments felt that the proposal for a regulation was in breach of the principle of subsidiarity.

IPEX following national debates on Monti II initiative, COM (2012) 130 (<http://www.ipex.eu/IPEXL-WEB/news.do?appLng=FR#082dbcc537165b8801377f1fd6343bd8>).

**31 May:** A positive outcome of the Irish referendum on the Treaty on Stability, Coordination and Governance' (TSCG). 60.3 % of voters were in favour of the text. Only half of the Irish population took part in the vote (participation rate 50.6 %).

**31 May:** Unemployment in the eurozone reaches a new record of 11.1% of the active population, compared to 11% in April, according to Eurostat. According to its estimations, 17,561 million people were unemployed in the eurozone in May, i.e. 88,000 more than the previous month. This is the 13<sup>th</sup> consecutive month in which unemployment in the eurozone reached or went beyond the threshold of 10%, Eurostat, *Press Release*, 101/2012 ([http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-02072012-AP/EN/3-02072012-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-02072012-AP/EN/3-02072012-AP-EN.PDF)).

## June

**6 June:** Moody's downgrades the credit ranking of 8 German banks, including the Commerzbank.

**9 June:** The eurozone countries decide to allocate significant assistance, up to €100 billion, to Spanish banks. The practical details are yet to be decided.

**13 June:** Moody's cuts Spain's government bond rating by three notches, from A3 to Baa3.

**13 June:** The European Parliament adopts two legislative resolutions on the *Two-pack*, the legislative packet completing the revised Stability and Growth Pact. Following this, the Commissioner for Economic and Financial affairs, Olli Rehn, comments that: 'Many of the amendments of the European Parliament refer to the forthcoming road map on EMU reform by the four presidents', P7\_TA-PROV(2012)0243 et P7-TA-2012-242.

**17 June:** New legislative elections in Greece, as it had previously been impossible to form a government. These elections are presented as a referendum as to whether the country should remain in the eurozone, which would in itself require the adoption of new memoranda and further structural reforms.

**21 June:** Moody's downgrades the rating of 15 major international banks (5 American – 3 French – 2 Swiss – 3 British – one Canadian and one German).

**25 June:** The Dutch government responds to the opinion from the Council of State on the Fiscal Compact, which expresses, notably, disagreement as to the interpretation of the scope of reverse qualified majority voting ([http://www.raadvanstate.nl/adviezen/zoeken\\_in\\_adviezen/zoekresultaat/?advicepub\\_id=10300](http://www.raadvanstate.nl/adviezen/zoeken_in_adviezen/zoekresultaat/?advicepub_id=10300)).

**26 June:** The Parliamentary Assembly of the Council of Europe adopts a resolution entitled 'Austerity measures – a danger for democracy and social rights'. In it, it denounces the use of austerity measures 'often linked to bodies whose character raises questions of democratic control and legitimisation, such as the so-called "Troika" of the International Monetary

Fund, the European Commission and the European Central Bank, or the newly composed, technocratic governments that have recently been set up in several Member States', Resolution 1884 (2012), adopted by 92 votes in favour, 32 against and 5 abstentions (<http://www.assembly.coe.int/ASP/XRef/X2H-DW-XSL.asp?fileid=18916&lang=EN>).

**26 June:** Release of the report drawn up by the four Presidents, entitled 'Towards a Genuine Economic and Monetary Union', and presented by the President of the European Council, together with the President of the Commission, the President of the Eurogroup and the President of the European Central Bank (ECB), EUCO 120/12 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131201.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131201.pdf)).

**26 June:** The 'General Affairs' Council decides to open accession negotiations with Montenegro, with a view to joining the Union, on 29 June 2012. This decision will be adopted by the European Council at the end of June 2012, Press: 283 Nr: 11690/12.

**27 June:** According to the European Commission quarterly review 'EU Employment and social situation', the situation on the labour market is still getting worse in Europe. Unemployment has increased in most Member States, and employment levels have stagnated, or diminished slightly. (<http://ec.europa.eu/social/BlobServlet?docId=7830&langId=en>).

**27 June:** The eurozone Finance Ministers welcome the request from the Spanish government for financial assistance to recapitalise its banks, as well as the request from the government of Cyprus.

**28 and 29 June:** The European Council adopts a 'Compact for growth and jobs'. This contains, as is often the case, decisions whose main features were already the subject of broad agreement, including an increase in the capital of the European Investment Bank (EIB). EUCO 76/12 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131388.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf)).

**28 and 29 June:** The Statement of the Heads of State and Government of the eurozone declares that 'it is imperative to break the vicious circle between banks and sovereigns'. It contains a proposal for the setting up of a single banking supervisory mechanism managed by the European Central Bank (ECB), and, as a following step, that the European

Stability Mechanism (ESM) should be given the possibility to inject funds into banks directly. Euro Area Summit Statement, 29 June 2012.

## July

**1<sup>st</sup> July:** Cyprus begins its Presidency of the Council

**5 July:** The President of the European Central Bank (ECB), Mario Draghi, announces the decision of the Governing Council to cut its key interest rate from 1 % to 0.75 % (<http://www.ecb.int/press/pressconf/2012/html/is120705.en.html>).

**5 July:** The Constitutional Court in Portugal rules that the decision to do away with the 13<sup>th</sup> and 14<sup>th</sup> month salary for Portuguese civil servants and pensioners, a central measure of the country's austerity policy, is 'anti-constitutional', since it runs counter to the 'principle of equality'. The government responds that it intends to extend to the whole population the pay-cuts which so far have only been applied to civil servants and retirees. (<http://www.tribunalconstitucional.pt/tc/acordaos/20120353.html>).

**9 July:** The 17 eurozone Finance Ministers meet in order to implement the decisions of the European Council of 28 and 29 June. The draft Memorandum of Understanding with Spain should be signed on 20 July 2012. The ministers confirm the extension of Jean-Claude Juncker's mandate as head of the Eurogroup, but he informs them that he does not plan to complete his two and a half year term of office.

**10 July:** The ECOFIN Council closes the second European Semester, making Country-Specific Recommendations on the economic and budgetary policies of the individual Member States. Launching of a pilot phase of 'project bonds', i.e. shared loans up to the value of 4.5 billion euros, used to finance large-scale infrastructure projects. The ECOFIN Council proposes that Yves Mersch, Governor of the Luxembourg Central Bank, should replace José Manuel González-Páramo, whose term of office ran out on 31 May, at the helm of the European Central Bank (ECB).

3181<sup>st</sup> Council Meeting Economic and Financial Affairs, Brussels, 10 July 2012 (Doc.12204/12) ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/131686.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/131686.pdf)).

**11 July:** A report by the ILO's International Institute for Labour Studies says a concerted policy shift towards job creation is needed in order to reverse the heavy unemployment crisis affecting the single-currency area ([http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_185000/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_185000/lang--en/index.htm)).

**11 July:** Mario Monti, President of the Italian Council, who, until now, has also been Minister of Economy and Finance, proposes to the President of the Republic of Italy the appointment of Vittorio Grilli to that post.

**12 July:** The German Education Minister, Annette Schavan, and her Spanish counterpart, José Ignacio Wert Ortega, decide to set up a programme to exchange experts between the two countries in order to improve vocational training for young people.

**12 July:** The Dutch Parliament passes a law to extend the statutory retirement age by two years. Retirement age in the Netherlands, therefore, which has been 65 since 1957, will go up to 66 in 2019 and 67 in 2023.

**13 July:** The Spanish government announces new measures intended to save 65 billion euros by the end of 2014.

**16 July:** The International Monetary Fund (IMF) congratulates Latvia, whose economy – which has been receiving financial assistance from the EU and the IMF since December 2011 – should grow by 3.5% in 2012. The Fund stresses the need to tackle the high level of unemployment, which affects 15% of the population. The IMF recommends that the government consider the possibility of issuing bonds, to 'help guard against an unexpected worsening of Latvia's external position'. According to the report, Latvia has 'a fair chance' of meeting its objective of adopting the euro in 2014. (<http://www.imf.org/external/np/sec/pn/2012/pn1276.htm>).



**19 July:** The International Monetary Fund (IMF) publishes a report, recommending measures to be taken by the eurozone States in order to exit the crisis. It advocates, in particular, the establishment of a banking union and greater fiscal union in order to safeguard the viability of the monetary union (<http://www.imf.org/external/pubs/ft/survey/so/2012/INTO71812A.htm>).

**20 July:** The Finance Ministers of the eurozone unanimously approve the financial assistance plan for banks prepared by the Spanish government. The agreement is linked to a commitment to carry out reforms, particularly to the banking sector. 100 billion euro will be made available from the European Financial Stability Facility (EFSF) and then the European Stability Mechanism (ESM).

**20 July:** The European Central Bank (ECB) announces that ‘for the time being’ it will no longer accept Greek bonds from banks as collateral, pending the Troika report on the progress of reforms in the country.

**20 July:** The Italian Constitutional Court declares the Berlusconi government's decision to privatise local public services to be unlawful. Article 4 of Decree-Law No. 138 contradicts the results of the referendum organised in June 2011, in which Italians decided by a massive majority to reject water privatisation. The Berlusconi decree, as well as the later amendments introduced by the Monti government, are declared anti-constitutional. Decision No. 199 of 20 July 2012

**23 July:** The rating agency Moody's announces that it will place the German triple A rating under credit watch, suggesting that it may be at risk. It downgrades the public debt outlooks for Germany, the Netherlands and Luxembourg from ‘stable’ to ‘negative’.

**30 July:** With 18 million people now without a job, the unemployment rate in the eurozone in July 2012 has reached a record level of 11.3% of the active population. ([http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-31082012-BP/EN/3-31082012-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-31082012-BP/EN/3-31082012-BP-EN.PDF)).

---

## August

**6 August:** In response to the consultation on industrial policy, launched by the European Commission in May 2012, the European Trade Union Confederation (ETUC) states that: ‘A key element of any industrial policy is having a skilled and well trained workforce to produce quality goods and services. However, EU labour market and employment strategy is focused on labour market reforms leading to greater flexibility and increased precariousness, which directly undermines the focus on up/re-skilling the workforce’ (<http://www.etuc.org/a/10259> and [http://www.etuc.org/IMG/pdf/ETUC\\_IP\\_response\\_2012.pdf](http://www.etuc.org/IMG/pdf/ETUC_IP_response_2012.pdf)).

**9 August:** France’s Constitutional Council finds that the Fiscal Compact is in conformity with the national Constitution. Adoption of the ‘golden rule’ for budgets will not require an amendment to this constitution. This decision paves the way for ratification by the French Parliament. Decision No. 2012-654 DC (<http://www.conseil-constitutionnel.fr/conseil-constitutionnel/francais/les-decisions/acces-par-date/decisions-depuis-1959/2012/2012-654-dc/decision-n-2012-654-dc-du-09-aout-2012.115426.html>).

**14 August:** Eurostat announces that in the second quarter of 2012, the GDP of the eurozone was down by 0.4% and that of the European Union by 0.2% compared to the second quarter of 2011. GDP in Greece fell by more than 6%, whereas that of Italy, Cyprus and Portugal fell by more than 2%. Eurostat, *Press Release*, 119/2012 ([http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/2-14082012-BP/EN/2-14082012-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-14082012-BP/EN/2-14082012-BP-EN.PDF)).

**24-25 August:** The Greek Prime Minister, Antonis Samaras, travels to Berlin and Paris in order to explain to the German Chancellor, Angela Merkel, and the French President, François Hollande, the reasons for his request for more time to put in place austerity measures.

**29 August:** Meeting in Berlin between the German Chancellor, Angela Merkel, and the President of the Italian Council of Ministers, Mario Monti. They are not able to resolve their differences concerning the European Stability Mechanism (ESM). Angela Merkel considers that granting a banking licence would be contrary to the treaty, whereas Mario Monti wishes to strengthen the mechanism.

## September

**6 and 7 September:** The European Commission organises a high-level conference on employment policy. At the conference, Commissioner László Andor (Employment, Social Affairs and Inclusion) states that Europe should ‘work to set up urgently such a European unemployment benefit scheme as we develop the next phase of Economic and Monetary Union’, *Europolitique*, 12 October.

**6 September:** The ECB announces the launching of a new programme, ‘Outright monetary transactions’ (OMT), to buy up the public debt of eurozone Member States (buying in short and medium-term government-issued eurozone bonds, particularly 1-3 year bonds). This programme will be activated subject to the strict condition that the States wishing to benefit must previously have requested assistance from the EFSF and the ESM, its successor, and thus have accepted the conditions attached to these. This announcement may have calmed the ‘markets’, but has done nothing to prevent the further proliferation of austerity plans ([http://www.ecb.int/press/pr/date/2012/html/pr120906\\_1.en.html](http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html)).

**6 September:** The President of the ECB calls for the creation of a ‘European Public Space’, while warning that ‘Citizens need to be in basic agreement that, within a monetary union, certain economic models are no longer possible. They must understand that there are limits to national discretion in economic policies that affect the area as a whole. In other words, there needs to be a new consensus on economic policies that will reinvigorate the European social model and make it fit for the 21<sup>st</sup> century.’ (<http://www.ecb.int/press/key/date/2012/html/sp120906.en.html>).

**7 September:** The Portuguese Prime Minister, Pedro Passos Coelho, announces a tightening of budgetary discipline in 2013. Whilst receiving financial assistance, Portugal is unable to meet its commitments to reduce the public deficit.

**10 September:** According to a report published every 3 years by the European Commission, youth unemployment in the EU among 15-24-year-olds has increased by 50% since the onset of the crisis, from an average of 15% in February 2008 to 22.5% in July this year. More than 30% of young unemployed have been jobless for more than a year. Latest figures released by Eurostat show that highest rates are in Greece

(53.8%) and Spain (52.9%), IP/12/948 ([http://europa.eu/rapid/press-release\\_IP-12-948\\_en.htm](http://europa.eu/rapid/press-release_IP-12-948_en.htm)).

**10 September:** The European Commission rejects a citizens' initiative proposal for a guaranteed basic income, arguing that there is no suitable legal basis for such a measure (<http://revenudebase.info/2012/09/initiative-citoyenne-europeenne-pour-le-revenu-de-base-rejete-par-la-commission/>).

**12 September:** The German Constitutional Court rejects appeals from 37,000 German citizens and several MPs against the Fiscal Compact and the Treaty establishing the European Stability Mechanism (ESM). Germany has agreed to the ESM provided that any involvement of the country above 190 billion euros would be subject to prior approval from the Bundestag, *Press Release*, n° 67/2012 (<http://www.bverfg.de/en/press/bvg12-067en.html>).

**12 September:** Legislative elections in the Netherlands. 22 parties stand for the elections. 12 new groupings try their luck. The Liberals of the People's Party for Freedom and Democracy (VVD) gain the most votes (26.6%), and negotiate with the Socialists of the Labour Party (PvdA, 24.8%) to form a government.

**12 September:** In his speech to the European Parliament on the State of the Union, the President of the European Commission, José Manuel Durão Barroso, calls for the Union to develop into a Federation of Nation-States, which will require a new treaty, SPEECH/12/596 ([http://europa.eu/rapid/press-release\\_SPEECH-12-596\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-12-596_en.htm)).

**21 September:** Europe 2020 and the platform against poverty. The European Commission invites stakeholders to hold discussions. Its agreed objective within the Europe 2020 strategy is to achieve a situation with at least 20 million fewer people in or at risk of poverty and social exclusion by 2020.

**25 September:** Under the watchword 'Ocupa el Congreso', the Spanish 'indignados' surround Parliament, denounce the adoption of new austerity measures, and demand the resignation of the government. 67 people are injured by the riot police.

## October

**3 October:** As the single market celebrates its 20<sup>th</sup> birthday, the European Commission presents its ‘Single Market Act II’, putting forward twelve priority actions for new growth, IP/12/1054 ([http://europa.eu/rapid/press-release\\_IP-12-1054\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1054_en.htm)).

**5 October:** The Spanish Socialist Party (PSOE) and the United Left party (IU) lodge an appeal with the Spanish Constitutional Court, denouncing the reform of the labour code, adopted by decree on 10 February 2012, and claiming that it is in breach of 9 articles of the Spanish Constitution ([http://politica.elpais.com/politica/2012/10/05/actualidad/1349428952\\_767618.html](http://politica.elpais.com/politica/2012/10/05/actualidad/1349428952_767618.html)).

**6 October:** According to a report from the International Monetary Fund (IMF), austerity policies have a negative impact on advanced economies. The current ‘fiscal multiplier’ is not 0.5 for advanced economies, but lies somewhere between 0.9 and 1.7. A drop in public expenditure equivalent to 1 percentage point of GDP will thus lead to a 0.9 to 1.7 drop in GDP itself. World Economic Outlook Reports (<http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf>).

**8 October:** The Finance Ministers of the eurozone officially launch the European Stability Mechanism (ESM).

**9 October:** The ECOFIN Council decides to grant Portugal an extra year, until 2014, to correct its excessive public debt. The financial transaction tax will apply via enhanced cooperation. 3189<sup>th</sup> Council meeting Economic and Financial Affairs, Luxembourg, Press: 411 Nr: 14469/12 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/132771.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/132771.pdf)).

**9 October:** The 2012 ECB structural issues report focuses on ‘Euro area labour markets and the crisis’. The reforms recommended are those introduced through the Hartz laws in Germany (p.10) and those relating to flexibility in wage bargaining and a reduction of excessive employment protection measures introduced in Greece, Portugal and Ireland or in Spain and Italy (<http://www.ecb.europa.eu/pub/pdf/other/euroarealabourmarketsandthecrisis201210en.pdf?6404370b82a1b6c9b18397323311253f>).

**10 October:** As part of the Europe 2020 strategy, the Commission publishes a series of actions designed ‘to reverse the declining role of industry in Europe’. Employment is addressed in terms of ‘human capital and skills’. The emphasis is on ‘equipping the labour force for industrial transformations, notably by better anticipating skills needs and mismatches’. The European Competitiveness Report 2012 (fifteenth edition) analyses the main globalising trends in the last 15 years, the resulting costs and benefits, and the challenges ahead for EU businesses, IP/12/1085 ([http://europa.eu/rapid/press-release\\_IP-12-1085\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1085_en.htm)).

**12 October:** The European Union receives the Nobel Peace Prize.

**15 October:** Invoking an exemption clause for ‘justice and home affairs’ measures, the British Home Secretary, Theresa May, announces to the members of the House of Commons the government’s intention to ‘opt out en masse’ from the 130 European police and judicial cooperation measures. Under the Lisbon Treaty, the United Kingdom has until 31 May 2014 to choose to opt out. (<http://www.homeoffice.gov.uk/media-centre/speeches/home-sec-eu-justice-statement>).

**15 October:** The British Prime Minister, David Cameron, signs an agreement in Edinburgh with the Scottish Nationalist leader Alex Salmond, authorising the organisation of a referendum on independence for Scotland (<http://www.number10.gov.uk/wp-content/uploads/2012/10/Agreement-final-for-signing.pdf>).

**15 October:** The Portuguese government presents a draft 2013 budget to Parliament of unprecedented budgetary rigour (tax increases, cuts in pensions and social benefits).

**17 October:** The Council of Europe's European Committee of Social Rights (ECSR) states that certain provisions of the European Social Charter have been violated by legislative austerity measures adopted by Greece.

**18 and 19 October:** The European Council is an opportunity to highlight the obstacles on the road to banking union, a project which must precede the provision of direct aid to the banking sector, according to the German Chancellor, Angela Merkel. EUCO 156/12.

**22 October:** The Luxembourg Chamber of Employees (CSL), having decided to examine the question, delivers a highly critical opinion on the Fiscal Compact. According to the CSL, this pact gives rise to ‘serious questions as to the erosion of democracy and the sovereign power of national parliaments to vote freely on the budget; as well as giving increased powers to non-elected technocratic bodies’. (<http://www.europaforum.public.lu/fr/actualites/2012/10/csl-traite-gouvernance/index.html>).

**24 October:** The European Commission presents a proposal for a Fund for European Aid to the Most Deprived, which attempts to salvage the food aid programme, initially created to use the then surplus agricultural production. The proposed Fund for European Aid to the Most Deprived is intended as a replacement for the older programme, but with conditions attached, IP/12/1141 ([http://europa.eu/rapid/press-release\\_IP-12-1141\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1141_en.htm)).

**29 and 30 October:** The heads of five international economic organisations (OECD, IMF, WTO, World Bank, and ILO) hold meetings at the OECD with, in turn, the French President, François Hollande, and then the German Chancellor, Angela Merkel.

**30 October:** The Cyprus Presidency submits an alternative draft European budget for 2014-2020, with a view to reducing the amounts requested by the Commission ‘by at least 50 billion euros’. The Commission rejects it straight away. In July, the Commission had put forward a draft for 1,033 billion euros for 2014-2020, i.e. an increase of almost 5% compared to the period 2007-2013. This proposal was rejected by seven countries (the United Kingdom, France, Germany, the Netherlands, Finland, Sweden and Austria).

**30 and 31 October:** The US Secretary of State, Hillary Clinton, and the High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, visit Bosnia-Herzegovina, Serbia and Kosovo. They express their support in principle for accession of these three States to the European Union.

---

## November

**8, 9, 10 and 11 November:** Ten years after the 1<sup>st</sup> European Social Forum, international meetings are organised in Florence, under the heading 'Firenze 10 + 10'. The event sees the launch of a network of progressive economists (E-PEN). It brings together various groups of economists, researchers, institutes and civil society organisations, with a critical view of the economic and social policies which have brought Europe to the current crisis.

**13 November:** Several Member States reject any reference to new budgetary instruments (eurobonds, eurobills, redemption fund) in the *Two-pack*, the legislative package completing the revised Stability and Growth Pact.

**14 November:** General strike in Spain, Greece and Portugal on the European action day supported by the European Trade Union Confederation (ETUC).

**1-16 November:** Following the Council of Europe, the International Labour Organization (ILO) considers that the measures adopted by Greece under pressure from the Troika – European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF) – erode the most fundamental workers' rights, seriously undermine the position of trade unions and could be a threat to social cohesion and peace, while effecting a radical transformation to the labour relations system established in Greece.

**16 November:** Health care expenditure in the European Union fell in 2010, at the time when cash-strapped public authorities cut spending to reduce budgetary deficits, according to a new joint report from the OECD and the European Commission. Health at a glance: Europe 2012.

**19 November:** The rating agency Moody's cuts France's rating from Aaa to Aa1, since, in its view, the long-term prospects for economic growth in the country are affected, in particular, by a gradual and on-going loss of competitiveness, and by long-term rigidities in its labour, goods and services markets.



**20 November:** The IMF publishes the conclusions of Portugal's 6<sup>th</sup> quarterly review, which will allow the disbursement of a new 2.5 billion euro instalment of aid to the country as part of its 78 billion euro international bailout plan.

**21 November:** The Minister of Finance of Cyprus, Vassos Shiarly, announces that Cyprus needs €17 billion in aid for the period 2012-2016.

**22-23 November:** Extraordinary meeting of the European Council. No agreement on the multiannual financial framework (2014-2020).

**27 November:** The Court of Justice confirms the decision to use the simplified revision procedure to revise the Lisbon Treaty, in order to set up a stability mechanism, but esteems that Member States' right to conclude the ESM Treaty is not dependent on the entry into force of the revised Lisbon Treaty. Pringle judgement, case C-370/12.

**28 November:** The European Commission has published the key documents for the forthcoming European Semester. For 2013, the priority for the European Semester will, as in 2011 and 2012, be fiscal consolidation. The four other priorities also remain the same, i.e. restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration, COM (2012) 750 and IP/12/1274 ([http://europa.eu/rapid/press-release\\_IP-12-1274\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1274_en.htm)).

**28 November:** The European Commission today adopted a Blueprint for a deep and genuine Economic and Monetary Union (EMU), which provides a vision for a strong and stable architecture in the financial, fiscal, economic and political domains, IP/12/1272 ([http://europa.eu/rapid/press-release\\_IP-12-1272\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1272_en.htm)).

**30 November:** The rating agency Moody's downgrades the rating of the European Stability Mechanism (ESM) by one notch from Aaa to Aa1, with a negative outlook. This decision follows on the heels of another downgrading of France's sovereign rating.

**November:** Pressures on the ECB. According to the OECD, the euro area is in a recession, which is projected to persist into the early part of 2013. Growth is projected to pick up only slowly during 2013 and into 2014. To support demand, the ECB should reduce interest rates further and issue forward guidance on maintaining the accommodative policy stance for a long period (<http://www.oecd.org/eco/economicoutlookanalysisandforecasts/euroareaeconomicforecastsummary.htm>).

## December

**5 December:** The Commission presents a Youth Employment Package including a proposed Recommendation to Member States on introducing a 'Youth Guarantee' as well as a consultation of European social partners on a Quality Framework for Traineeships so as to enable young people to acquire high-quality work experience under safe conditions, IP/12/1311 ([http://europa.eu/rapid/press-release\\_IP-12-1311\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1311_en.htm)).

**5 December:** The Commission launches a three-month consultation on EU law on social security in situations with an EU cross-border element (<http://ec.europa.eu/social/main.jsp?catId=333&langId=en&consultId=12&visib=0&furtherConsult=yes>).

**6 December:** The rating agency Standard & Poor's announce that they have put the rating of the European Financial Stability Facility (EFSF) on credit watch with negative implications. The EFSF, to which France and Germany are the main contributors, risks seeing its triple A rating downgraded by one or two notches.

**5-7 December:** Second Annual Convention of the Platform against Poverty and Social Exclusion, the objective of which, agreed as part of the Europe 2020 strategy, is to lift at least 20 million people out of poverty and social exclusion by 2020. On the basis of this work, the Commission announces the presentation of a 'Social Investment Package for Growth and Social Cohesion' at the beginning of 2013, as well as greater involvement of stakeholders in the annual growth survey and the European Semester, MEMO/12/968.

**7 December:** The International Labour Organization releases the Global Wage Report 2012-13. Wage growth slows globally: global

monthly wages grew by 1.2 % in 2011, down in 2010 (+2,2%). Also, 'wage growth suffered a double-dip in developed economies where it is forecast at 0% in 2012', 'Global Wage Report 2012-13: Wages and Equitable Growth'.

**14 December:** The number of persons employed decreased by 0.2% in both the euro area<sup>1</sup> (EA17) and the EU27 in the third quarter of 2012 compared with the previous quarter, according to Eurostat, the statistical office of the European Union, STAT/12/182 ([http://europa.eu/rapid/press-release\\_STAT-12-182\\_en.htm](http://europa.eu/rapid/press-release_STAT-12-182_en.htm)).

**13-14 December:** Completion of Economic and Monetary Union. The President of the European Council, working in close cooperation with the President of the European Commission, is invited to submit in June 2013 a new roadmap and possible measures for the coordination of national reforms, the social dimension of EMU (including the social dialogue), contracts for competitiveness and growth, and the deepening of the single market. Agreement on a single system of banking supervision, but only for so-called 'systemic' banks, EUCO 205/12 and 17739/12.

**20 December:** The proportion of low-wage earners among employees amounted to 17.0% in 2010 in the EU27. This proportion varied significantly between Member States, with the highest percentages observed in Latvia (27.8%), Lithuania (27.2%), Romania (25.6%), Poland (24.2%) and Estonia (23.8%), and the lowest in Sweden (2.5%), Finland (5.9%), France (6.1%), Belgium (6.4%) and Denmark (7.7%) STAT/12/189, ([http://europa.eu/rapid/press-release\\_STAT-12-189\\_en.htm](http://europa.eu/rapid/press-release_STAT-12-189_en.htm)).

**21 December:** The Finnish Parliament ratifies the European Fiscal Compact. Ratified by 12 of the 17 eurozone countries, the treaty will enter into force on 1<sup>st</sup> January 2013. It has also been ratified by four countries which are not members of the eurozone (Denmark, Latvia, Lithuania and Romania). Within the eurozone, the three Benelux countries have not yet finished the ratification procedure.

**21 December:** The Luxembourg Council of State publishes a report on the Fiscal Compact. The law adopting the Fiscal Compact implies a devolving of competencies from the legislative, executive and judicial powers to institutions of international law in the meaning of Article 49a) of the Luxembourg Constitution, and must therefore be ratified by

.....  
a ‘constitutional’ majority of two thirds of MPs. (<http://www.chd.lu/wps/portal/public/RoleEtendu?action=doDocpaDetails&backto=/wps/portal/public&id=6449>).

**31 December:** According to Nobel Prize-winning economist Joseph Stiglitz, ‘the real risk for the global economy is in Europe’. (...) ‘The eurozone’s “Fiscal Compact” is no solution, and the European Central Bank’s purchases of sovereign debt are at most a temporary palliative. If the ECB imposes further austerity conditions (as it seems to be demanding of Greece and Spain) in exchange for financing, the cure will only worsen the patient’s condition’ (<http://www.project-syndicate.org/commentary/risky-europe-and-america-in-2013-by-joseph-e--stiglitz>).

*Chronology drawn up by Cécile Barbier.*



## List of abbreviations

ACTA	Anti-Counterfeiting Trade Agreement
AGS	Annual Growth Survey
AMECO	Annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN).
BECTU	Broadcasting, Entertainment, Cinematograph and Theatre Union
BEPGs	Broad Economic Policy Guidelines
BFUG	Bologna Follow-Up Group
BGD	Beyond GDP debate
CCOO	Confederación Sindical de Comisiones Obreras
CEC	Commission of the European Communities
CEDEFOP	European Centre for the Development of Vocational Training
CEEC	Central and Eastern European Countries
CEEMET	Council of European Employers of the Metal, Engineering and Technology-Based Industries
CEEP	European Centre of Employers and Enterprises providing Public Services
CEPS	Centre for European Policy Studies
CGIL	Confederazione Generale Italiana del Lavoro
CSL	Luxembourg Chamber of Employees
CSR	Country-specific Recommendation
DG	Directorate General
DG ECFIN	Directorate General for Economic and Financial Affairs
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
EAP	Economic Adjustment Programme
EAPN	European Anti-Poverty Network
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECEC	Early childhood education and care
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council
ECSR	European Committee of Social Rights
ECTS	European Credit Transfer and Accumulation System
ECVET	European Credit System for VET
EDP	Excessive Deficit Procedure

EES	European Employment Strategy
EESC	European Economic and Social Committee
EFC	Economic and Financial Committee
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EG	Employment Guidelines
EHEA	European Higher Education Area
EIB	European Investment Bank
EIP	Excessive Imbalance Procedure
EMCO	Employment Committee
EMU	Economic and Monetary Union
EP	European Parliament
EPAP	European Platform against Poverty
EPC	European Policy Committee
EPM	Employment Performance Monitor
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council
EPSU	European Federation of Public Service Unions
EQF	European Qualifications Framework
EQAVET	European Quality Assurance Framework for VET
ERA	European Research Area
ERDF	European Regional Development Fund
ERO	Employment Regulation Order
ESCO	European Classification of Skills/Competences, Qualifications and Occupations
ESCR	Economic, social and cultural rights
ESF	European Social Fund
ESM	European Stability Mechanism
ESM	European Social Model
ESU	European Students' Union
ET	Education and training
ETUC	European Trade Union Confederation
ETUI	European Trade Union Institute
EU	European Union
EUA	European University Association
EUDO	European Union Democracy Observatory
EURASHE	European Association of Higher Education Institutions
<b>EuroMemoGroup</b>	European Economists for an Alternative Economic Policy in Europe
FIDH	International Federation for Human Rights
FPÖ	Freiheitliche Partei Österreichs/Freedom Party of Austria

---

GDP	Gross Domestic Product
GES	Growth and Employment Strategy
GGE	General Government Expenditure
GL	Guideline
GMB	National Union of General and Municipal Workers
GNP	Gross National Product
HCPI	Harmonised Consumer Price Index
HDI	Human Development Index
HE	Higher Education
HICP/CPI	Harmonised Index of Consumer Prices/ Consumer Price Index
ICT	Information and communication technology
IGGJ	Integrated Guidelines for Growth and Jobs
ILO	International Labour Organization
IMF	International Monetary Fund
IORP	Institution for Occupational Retirement Provision
IPEX	The Platform for EU Interparliamentary Exchange
ISCED	International Standard Classification of Education
IU	Izquierda Unida (United Left party)
JAF	Joint Assessment Framework
LLL	Lifelong learning
LOLR	Lender of last resort
LRD	Labour Research Department
LTRO	Long-term refinancing operation
M5S	Cinque Stelle Movement
MEP	Member of the European Parliament
MIP	Macroeconomic Imbalance Procedure
MS	Member States
MST	Maths, Science and Technology
NGO	Non-governmental organisation
NQF	National Quality Framework
NRP	National Reform Programme
NSR	National Social Report
OECD	Organisation for Economic Co-operation and Development
OFCE	Observatoire français des conjonctures économiques
OJ	Official Journal
OMC	Open Method of Coordination
OMT	Outright Monetary Transactions
OSE	European Social Observatory
PIIGS	Portugal, Italy, Ireland, Greece and Spain



List of abbreviations

---

<b>PISA</b>	Programme for International Assessment
<b>PSOE</b>	Partido Socialista Obrero Español (Spanish Socialist Workers' Party)
<b>PvdA</b>	Partij van de Arbeid (Labour Party)
<b>QMV</b>	Qualified majority voting
<b>R&amp;D</b>	Research & Development
<b>REA</b>	Registered Employment Agreement
<b>RQMV</b>	Reverse qualified majority voting
<b>RSU</b>	Rappresentanze Sindacali Unitarie
<b>SGEI</b>	Services of General Economic Interest
<b>SGP</b>	Stability and Growth Pact
<b>SILC</b>	Statistics on Income and Living Conditions
<b>SME</b>	Small and medium-sized enterprise
<b>SOPA/PIPA</b>	Stop Online Piracy Act and Protect IP Act
<b>SPC</b>	Social Protection Committee
<b>SPPM</b>	Social Protection Performance Monitor
<b>SSFC</b>	Stiglitz-Sen-Fitoussi Commission
<b>SSM</b>	Single Supervisory Mechanism
<b>SVP</b>	Schweizerische Volkspartei (Swiss People's Party)
<b>SYRIZA</b>	Coalition of the Radical Left - Unitary Social Front
<b>TA</b>	Tyrolean Airways
<b>TFEU</b>	Treaty on the Functioning of the European Union
<b>TSCG</b>	Treaty on Stability, Coordination and Governance
<b>UGT</b>	Unión General de Trabajadores de España
<b>UN</b>	United Nations Organization
<b>UNDP</b>	United Nations Development Programme
<b>UNICE</b>	Union of Industrial and Employers' Confederations of Europe
<b>US</b>	United States of America
<b>VAT</b>	Value added tax
<b>VET</b>	Vocational education and training
<b>VVD</b>	People's Party for Freedom and Democracy
<b>WB</b>	World Bank
<b>WSI</b>	Wirtschafts- und Sozialwissenschaftliches Institut
<b>WTO</b>	World Trade Organization

## List of contributors

**Chiara Agostini**, PhD in Public Policy Analysis, is currently post-doc fellow at the University of Milan. As post-doc she previously worked also at the Universities of Bologna and Rome. Her main fields of research are the comparative analysis of social and education policy and European governance in the same fields.

**Cécile Barbier** is a political scientist, and a research fellow at the European Social Observatory (OSE). Since 1992, she has been following the institutional debates and social consequences of European integration. She also coordinates the *OSE Paper Series* and the OSE 'International digest' contribution to the Belgian Review of Social Security.

**Giliberto Capano** is Professor of Political Science and Public Policy at the University of Bologna (Forlì campus). He has been the Dean of the faculty of Political Sciences Roberto Ruffilli (2003-2009). He is Director of the Italian Public Policies Journal and co-director of Policy & Society. His main research interests are theories of public policy, higher education policy, legislative behaviour, public administration reforms, and the policy-making role of interest groups.

**Paul De Grauwe** is a Professor at the European Institute of the London School of Economics (LSE). Former Professor of International Economics at the University of Leuven (Belgium), he was a visiting professor at various universities and a member of the Group of Economic Policy Analysis, advising Commission President Barroso. His research interests are international monetary relations, monetary integration, theory and empirical analysis of the foreign-exchange markets, and open-economy macroeconomics.

**Georg Feigl** has been working since 2009 as an economist for public budget and European economic policies in the department of Economics and Statistics at the Austrian Federal Chamber of Labour (AK Wien). He also serves as advisor to various interest groups at both national and regional level. His research areas include: the public sector in the European

multi-level system, European economic policy, functional income distribution, and organisational development in the public sector.

**Dalila Ghailani**, a lawyer, has been a researcher at the European Social Observatory (OSE) since 2001. Her main areas of specialisation are employment, social inclusion, equal treatment of men and women, and the case law of the European Court of Justice. She has been part of several European projects, including NEUJOBS, ECAB and RECOWWE.

**Sven Hergovich** is an economist. Since 2012 he has been a policy adviser for environmental economics and sustainability at the Austrian Federal Chamber of Labour (AK Wien). He worked as a campaigner and chairman of the board of directors for Friends of the Earth Austria. His special fields of research interest are Green Jobs and Sustainability in Macroeconomics.

**Torsten Müller** is a senior researcher in the field of collective bargaining at the European Trade Union Institute (ETUI). He holds a PhD in Industrial and Business Studies from the University of Warwick in the UK, where he worked as research fellow at the Industrial Relations Research Unit. He was involved in various research projects covering the activities of European Works Councils, the development of international framework agreements and the activities of European and Global Union Federations.

**David Natali** is Associate Professor at the University of Bologna-Forli and Research Director of the European Social Observatory (OSE). He holds a PhD in political science at the European University Institute of Florence (EUI). He has been involved in several European integrated projects and networks of excellence financed through the EU's Framework Programmes (NEWGOV, INTUNE, RECOWWE, NEUJOBS). His research focuses on the comparative analysis of welfare reforms and EU social policy.

**Ramón Peña-Casas** is a sociologist. He joined the OSE in 2000. His main fields of interest relate to monitoring and analysing economic and social issues discussed in the European policy arena. His expertise concerns, broadly, the complex relationships between work, welfare and social protection and their interpretation in EU policy processes such as the various 'Open Methods of Coordination' in the fields of social inclusion, social protection and employment.

**Miriam Rehm** holds a PhD in Economics from the New School for Social Research, New York. She has worked, among others, with the International Labour Organisation, the United Nations Department of Social Affairs, and the Austrian Institute of Economic Research. She currently works in the department of Economics and Statistics at the Austrian Federal Chamber of Labour (AK Wien). Her main research interests focus on distribution, macroeconomics, and agent-based modelling.

**Thorsten Schulten** studied Political Science, Economics and Sociology at the University of Marburg where he obtained his PhD in 2004. Currently he works as senior researcher at the Wirtschafts- und Sozialwissenschaftliches Institut (WSI) at the Hans Böckler Foundation in Düsseldorf. His main research interests include international comparative wage policy and collective bargaining, industrial relations and the political economy of European integration.

**Alexander H. Trechsel** is Professor of Political Science and holder of the Swiss Chair in Federalism and Democracy at the European University Institute (EUI) in Florence, Italy. Alexander Trechsel set up and coordinates the European Union Democracy Observatory (EUDO) at the Robert Schuman Centre for Advanced Studies of the EUI. His research interests include e-democracy, direct democracy, federalism, European integration and political behaviour.

**Bart Vanhercke**, Master of Science in Sociology, is Managing Director at the European Social Observatory (OSE). His current research focuses on the Europeanisation of domestic social inclusion, health care and pension policies through a range of (increasingly hybrid) EU policy instruments, as well as the role of the social dimensions in the Europe 2020 strategy. He also works as an associate lecturer at the Centre for Sociological Research (CESO), University of Leuven.

**Claudius Wagemann** is Professor of Qualitative Social Science Methods at the Goethe University Frankfurt. He graduated from the European University Institute (EUI) with a thesis on the breakdown and change of private interest governments, and continued to work at the EUI as a research assistant, as well as being a lecturer at the Italian Institute of Human Sciences (SUM) Florence and New York University Florence. He is also an international expert on Qualitative Comparative Analysis (QCA) and fuzzy set methodology.