

# EU and Social Policy in Times of Crisis

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## Roundtable 1

**Evolving EU Modes of Governance: Transformations of European Social Policy Governance**

# EU AND SOCIAL POLICY IN TIMES OF CRISIS

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## PART I – RESEARCH SUMMARY

RT1's object is the Eurozone crisis and its impact on EU's social policy governance. What is the impact of the Eurozone crisis on the European Social Model and the national welfare state provisions?

Of particular concern is the subordination of social policy objectives to the economic ones. What are the necessary paradigmatic shifts that would balance economic with social policy priorities? How can the desire for competitiveness be combined with the need for social cohesion? How has the continuing austerity affected member states' capacity to complete Europe 2020? How can social policy and investment be financed? What are the possible responses to pressing problems such as youth unemployment?

This section about the EU and social policy is structured around three main issues. The first concerns the changing European social models and the impact of the crisis on these models. The second concerns the impact of the crisis on governance of European economic and social policies (organised around the European semester). The third concerns the development of social investment as an answer for the future, highlighting its strengths but also controversies around it.

First, during the last two decades, European social models have, irrespective of the type of welfare state model, shifted in a similar direction. They have adapted to new social risks, such as aging populations, new family forms and the challenges of combining work and family life. Many of the recent adaptations are often coined under the 'social investment' label, but a more careful consideration shows that European social models are becoming more liberal and multi-tied. The global economic crisis that started in 2007 and the 'Great Recession' that followed has accentuated the trend towards changing welfare models. The patterns of response to the Great Recession follow recent paths of institutional change, although Keynesian crisis responses were adopted to some degree following the outbreak of the crisis. These new paths include the development of employment at the margins, which re-enforces patterns of labour market dualization, toughening access to unemployment and other benefits, as well as curtailing public expenditure in the areas of health care, pensions and education. Furthermore, poverty has increased.

Second, parallel to the policy responses at national level, EU actors have thus sought to increase coherence between economic and fiscal policies in an attempt to restore financial stability in the Eurozone. In 2010, the European Semester was developed in order to coordinate ex ante the budgetary and economic policies of MSs and to increase coherence among different policies. This involves ex-ante and ex-post surveillance of policies with regard to member state budgets and an increased possibility for sanctions in case of deviation from agreed policies or benchmarks. Not only do EU-level discussions take place prior to MSs drawing up their annual draft budgets but they are organized around a broader palette of policy areas (with accompanying indicators), including macroeconomic imbalances, financial sector issues, and structural reforms. The initial emphasis following the crisis was to carry through policies of fiscal consolidation and, at the very end of the list, policies for social sustainability of European welfare states. Contrasting with the pre-crisis period, the European Semester now takes account of the whole economy via the MIP, and not just budget deficits and public debt. This is because it became clear to European actors that taking account of budgetary discipline alone would not suffice for economic growth or crisis prevention. The MIP thus focuses on total (public and private) debt, current account balances, unit labour costs, real effective exchange rates and other indicators that cover overall national economic performance. While this is designed to ensure early intervention in economies which are overheating, most of the indicators of the MIP are not under direct control of governments. Since the MIP is the central instrument on which European actors formulate national recommendations and potentially launch fines in the case of non-compliance, interference in MS policies is potentially high. One research challenge is to analyse the consequences of the MIP for European actors and for member states.

The European Semester is launched annually by the European Commission (DG ECFIN) via an Annual Growth Survey (AGS). The 2011 AGS, for example, focused on fiscal consolidation, labour market reforms, and ‘growth enhancing measures’. Following the AGS, country specific recommendations are made to MSs on the basis of a DG ECFIN proposal that must be approved by Ecofin through QMV and is then to be endorsed by the European Council. The AGS explicitly includes policy advice on ‘social consequences of the crisis’, with a focus on how to deal with the citizens hit by the crisis, in particular young people. In this regard, the AGS promotes active labour market policies as a way back to employment with social protection systems as a last resort. In addition, the AGS promotes business creation and self-employment, although in particular the latter can be very precarious in a crisis context. The policy priorities decided in the AGS should be included in MS Stability or Convergence Programmes (concerning monetary policy) devised within the SGP and in NRPs (concerning economic, employment and social policies) devised within Europe 2020. Since the AGS was developed policy recommendations have included the privatisation of public services, labour market flexibilisation, tax reforms, liberalisation of product and service markets as well as social spending cuts. Parallel to this ‘Europe 2020’ supports an increase in labour market participation to 75 per cent by 2020. The assessment of the cause of the crisis by European economic elites is that some countries have not paid sufficient attention to structural reforms. The main aim stipulated is therefore to undertake structural reforms of pensions, health care, social protection and education systems in order to achieve ‘fiscal consolidation and long-term financial sustainability’. Since 2012, the European social policy actors have been more active and there has been a more explicit emphasis on ‘social investment’, considered to be a way to reform welfare states in a context of permanent austerity, while maintaining a decent level of coverage in case of social contingencies. However, the effect of the new emphasis on social investment (and the role of European social policy actors) is not clear yet and should be analysed in more detail.

Third, the crisis has contributed to erasing the era of the passive welfare state, which has been replaced by a more active notion of the welfare state. This is embodied in the notion of “social investment”, consisting of investing in the capabilities of individuals from the cradle to the grave. A crucial point is that individuals are responsible for ensuring that they are best prepared for labor market integration throughout their working lives, relegating the role of the state to a secondary one. However, while the active turn of welfare states has been necessary not only for economic efficiency but also for seeking to maintain (some degree of) social equity, social investment is inherently ambiguous, partially because it is nested in a neo-liberal paradigm. The challenge for social investment is to develop an alternative paradigm of political economy in which it can be located, otherwise its fate is to predominantly follow a market-based logic. Second, social investment is a more sophisticated paradigm to develop supply-side policies, rather than relating skills development to the needs of the labour market. This involves a double risk: first, the risk of unemployment among educated youth, and second, the risk of undermining the value of educational attainment. The former has to some extent occurred in countries affected severely by the Great Recession and the latter is underway throughout Europe. Third, in a context of reduced resources, the question is the extent to which social investments can be made in countries that have had weak levels of social spending even prior to the crisis (for example Ireland or Greece or the central and eastern European countries). A fourth concern is conceptual and focuses on distinguishing between comprehensive social investment, for example high quality care facilities for children and high quality schools rather than a lighter version of social investment, consisting of minimal quality of care institutions and schools. This issue of measuring and conceptualizing social investment is intimately related to the controversy in the literature between those that believe Scandinavia embodies the ideal social investment state against those that believe the UK is the ideal social investment state.

## PART II – PREVELANT RESEARCH QUESTIONS

- To which extent is the recent turn to social investment at EU level debated at member state level?
- Which types of indicators can be developed to assess the difference between comprehensive and more rudimentary social investment?
- How do different countries (particularly those that do not have a tradition for social investment) fare with regard to social investment?
- Which social investment policies should member states prioritize and how can these be financed?
- How does the new European Semester and the (especially ex-ante) surveillance of member state budgets affect national decision-making in social policy (childcare, health care, pensions) and labour market policy?
- How have the new or altered instruments coordinated within the European Semester affect the actual leverage of EU level actors vis-à-vis member states?
- How does the balance between economic and social actors at EU and national levels play out in developing policies to combat the effects of the Great Recession?

## PART III – PUBLIC POLICY ASSESSMENT

In the context of continuous economic difficulties, EU leaders have developed new instruments that will potentially have a significant impact on national sovereignty in the realm of social and employment policies. In the context of the Great Recession, new instruments have increased the power of the EU to insist on fiscal discipline, a necessary condition for the Eurozone to function and to rescue it from the sovereign debt crisis. Europe 2020, the instrument designed to coordinate employment and social policy, is a comparatively blunt tool relative to the sharpened economic and financial policy instruments. Although there are attempts among the socially-oriented actors in the Commission and the Council to develop solutions to tackle youth unemployment and to develop social investment, as long as EU governments are struggling to cope with recession, public debt and budget deficits and are obliged to commit to strict budgetary aims, they do not have sufficient resources to develop effective social policies. In the current context, it is clear that the only way to maintain European social models is by adopting a social investment approach. However, this must be handled with care as the risk is that anything related to active welfare can be equated with social investment. Real implications of any policy solution should be assessed as far as possible.

## PART IV – CONCLUSIONS & SUGGESTIONS BORN FROM THE RESEARCH

1. Ensure that the MIP and the AGS include a social dimension
2. Develop indicators to assess different variants of social investment (i.e. comprehensive versus more rudimentary).
3. Assess how member states can develop and finance social investment under conditions of permanent austerity/Great REcession while avoiding the risk of labour market dualisations
4. Special emphasis should be placed on tackling youth unemployment, particularly in countries severely hit by the crisis
5. Focus on re-launching growth, but trying to avoid precarity/labour market dualisations

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