Foreword
European paradox: is the EU running to stand still?

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In 2011 the European economic and social context became dramatic. In many respects the crisis (starting with the *Great Recession* in 2008) turned critical: the Greek 'tragedy' deteriorated further - with the dramatic images of street-level demonstrations and the socialist government resignation; the sovereign debt storm spread to Spain and Italy (started to touch France) and put the entire Euro-zone in danger. Even Germany experienced partial failure in its bond auctions.

In a hot summer and autumn, the crisis contributed to rapid political changes both in Madrid (with the Popular Party's victory at the general elections) and Rome (with the resignation of the Berlusconi Government and the technocratic government of Mario Monti that received a full mandate for 'blood and tears' measures). In the meantime, public opinion throughout Europe shared a sense of tension and insecurity.[1] For the first time in decades, Member States (and their public opinion) lost reciprocal trust and started to have arguments about who was guilty for the crisis. After months of tension, resentment erupted when Germans blamed Greeks for financial irresponsibility, and the latter reacted asking the former: Who do you think you are?[2]

In parallel, a new banking crisis emerged. Governments had to intervene to support banks exposed to new tensions (see the case of the Belgian Dexia bank). The euro started to weaken in foreign exchange markets, with a new potential transformation of the crisis: from the eurozone debt

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1. As stressed by Roth *et al.* (2011), the financial crisis has severely affected citizens' trust in the European institutions and especially in the European Central Bank.
2. See the debate in the mass media, *The Economist*, 'Wolfgang's woes' (http://www.economist.com/blogs/charlemagne/2012/02/germany-and-greece?page=4).

crisis to the euro-currency crisis (see Micossi, 2011). In the words of Paul Krugman (2012), Europe became 'the sick man of the world economy'.

In such a gloomy context, the EU seems to be running in order to stand still. On the one hand, many innovations have characterised European governance. EU institutions agreed on new measures to improve the financial stability of the eurozone and of the Member States, and the economic governance was repeatedly changed and amended (through the reinforcement of budgetary surveillance and the implementation of more stringent attempts at macro-economic coordination).

On the other hand, European socio-economic conditions are stagnating, with weak and insufficient signs of recovery. As the Commission has stated in recent documents, the unemployment rate has been just below 10% with about 23 million people looking for a job. While, in the first part of 2011, overall employment grew by more than 1.5 million jobs (much lower than the 6 million jobs lost in the previous two years), youth unemployment grew by up to 20%. Five million young people are looking for work (European Commission, 2012). And beyond the labour market, socio-economic conditions are particularly worrying. As stressed by the Commission, 'the negative social consequences of the great recession are already acutely felt' (European Commission, 2012: 12). The economies of many EU members came to a standstill, contributing to further budgetary tension. Social exclusion and poverty became more evident as a consequence of the Great Recession and of the regressive character of the austerity measures taken by the national governments (Taylor, 2011).

At first glance, this seems to prove that the EU strategy to exit the crisis does not work. Despite all the sacrifices and austerity measures, the European citizens' living conditions did not improve.[3] By contrast, they live in a 'trap' made of increased uncertainty, revenue inequalities and growing dependency on social assistance benefits (see Busch and Hirschel, 2011; and Tabellini, 2011 for a critical interpretation).

3. An analysis of the socio-economic situation in the Member States shows in fact very much differences. The apparent divergence between national responses to the crisis is something else to analyse (see Hemerijck, 2012).

We briefly introduce below the two sides of the puzzle, the many institutional innovations at European level (through Treaty revisions, new governance of economic and social policies and the reinforcement of the Stability and Growth Pact)[4]; and the economic stalemate we experienced last year. We then propose, in line with many other commentators, a critical reading of the EU strategy to exit the crisis and defend the Eurozone. We look at the main tensions still in need of solutions, and the growing political tensions that are the result of the persistent legitimacy gap in the EU, and the growing distance between European policymakers and the labour movement.

The EU is running… through institutional changes and Treaty revisions

As stressed by many contributors in the next chapters, last year saw an impressive acceleration in European integration, especially concerning three areas: attempts to address the sovereign debt crisis; reinforcement of economic governance; and stricter EU control over members’ public finances.

Treaty revision for tackling the ‘sovereign debt’ crisis

A treaty change has been ratified under the ‘simplified revision procedure’ to establish the European Stability Mechanism (ESM) on a permanent basis, replacing the European Financial Stability Facility (EFSF). The ESM Treaty, currently signed by 17 countries, enshrines in international law the principle of a support mechanism available to assist euro area Member States at risk of severe financing problems (De Witte, 2011). After the ‘Euro Summit’ of October 2011, the EFSF’s resources increased dramatically. These are tools for managing government debt crises. Both funds (EFSF for the euro area alone; EFSM for the EU countries) along with IMF activities, were jointly responsible for setting up loans for countries encountering solvency problems (Barbier, 2011).

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4. The next chapters will provide a more precise reconstruction of these changes: see those by Amato and Mény, and the one by Diamond and Liddle.

More advance coordination of economic policies

The above new form of EU solidarity was agreed on through the parallel emergence of a more encompassing economic convergence (sought by the German Government). Germany, in fact, made its agreement for the stability funds dependent on the adoption of 'stronger economic convergence' within the euro area. In March 2011, the 'Pact for the Euro' was agreed on by the euro area Heads of State or Government (Council of the European Union, 2011), and was then extended to countries outside the euro area ('Euro Plus Pact'). The signatories' intention was to adopt, on a voluntary basis, measures to enhance the competitiveness of the euro area and the European Union. In the context of the European Semester, a set of governance tools was integrated (e.g. Stability and Growth Pact; Europe 2020). All this led to a more explicit inclusion of national social and employment policies, with a focus on collective bargaining (the supposed need for decentralisation) and wage indexation.[5]

Further steps towards strict budgetary control

One of the key elements of the new economic governance was the revision of the Stability and Growth Pact. This package of economic governance measures, the so-called Six Pack, was adopted by the Council in November 2011. The Six Pack (then integrated with a Two Pack of further measures) consists of a number of measures to enhance budgetary discipline under the EU's Stability and Growth Pact, in order to ensure a satisfactory decline of public debt in the Member States, as well as a decrease in high deficits. This involves enhancing the surveillance of budgetary policies (introducing provisions on national fiscal frameworks, and applying enforcement for non-compliant euro area Member States more consistently and at an earlier stage) and of the Member States' economic policies, so as to cater adequately for macroeconomic imbalances.

5. The last *Benchmarking Working Europe* (2012), published by the European Trade Union Institute (ETUI), sheds light on the recent decentralisation of collective bargaining in European countries.

Furthermore, the eurozone governance experienced innovation as well. Eurozone leaders agreed that heads of government would formally meet twice a year under their own permanent President and for the duration of the debt crisis at least monthly. This is a hugely important institutional development for the Eurozone, since it allows national political leaders to exert some supremacy over finance ministries and central bank technicians.

The EU stands still... confidence crisis, political indecision and worrying economic trends

Despite all of this, the economic crisis did not stop, and the political legitimacy of the EU waned. As Micossi (2011: 2) puts it, 'Poor leadership (...) transformed a small debt crisis into a confidence crisis that is threatening the very survival of our monetary union. And (...) treaty changes under discussion are mainly motivated by political expediency and cannot tackle the existential problems affecting the eurozone and the Union'.

Political tension and the growing lack of public support did come as a surprise. EU policymakers pursued their strategy for more austerity across Europe. Austerity, austerity and more austerity! This seems to be the EU's mantra in tackling the risks related to the sovereign debt crisis (De Grauwe, 2011a and 2011b). This is a dangerous political exercise. As stressed by Wyplosz (2010), quasi-automatic sanctions for those members not respecting the EU budgetary rules 'sow the seeds of a major conflict between member states and the Commission and between countries, as a sanctioned country will feel abandoned by the others' (Wyplosz, 2010: 4).

What we said in the last edition of 'Social developments in the EU' about 2010 (see Degryse and Natali, 2011) was confirmed in 2011. What marked the year 2011 was the further (if possible) shift of EU focus from the broad socio-economic challenges for smart, sustainable and inclusive growth to the one-dimensional austerity plans for increasing the financial sustainability of public budgets.

The balanced budget fundamentalism (in the words of De Grauwe, 2011a) is not only a politically risky exercise, but it likewise seems inadequate for a number of reasons. The first has to do with the actual reinforcement of a deflationary bias, where the current priority in Europe ought to be growth and jobs. Targeting public sector deficits entails a continuing emphasis on austerity programmes, which poses the risk of prolonged stagnation. By contrast, the crucial challenge for the EU is high unemployment, particularly youth unemployment, and low levels of growth. These should have been a priority for EU policymakers but it was not the case (Padoa-Schioppa, 2010).[6]

The second problem and source of incoherence has to do with the need for adequate and diversified responses to the economic imbalances of single Member States. As stressed by many (see Boeri, 2011; Schmidt, 2010), structural tensions characterised economic and trade interplay between EU members. Countries such as Greece, Italy and Spain rapidly experienced rising unit labour costs. Other Member States such as Germany and the Netherlands gained in competitiveness, accumulating growing surpluses. The problem of 'divergent competitiveness' (in the words of Diamond and Liddle) is still waiting for a solution.

The third limit flows from the incapacity to link the new coordination arrangements with the question of financial regulation. What was at the origin of the financial crisis in 2008, the lack of regulation of the financial markets few years after disappeared from the debate. There are separate European Commission proposals for regulating the financial sector and providing a new stability mechanism for banks. However, these are not integrated into the overall economic governance framework.

The EU is in danger: lack of democratic legitimisation and increased tension with the social partners

One of the major effects of the recent trends in European integration (and of the balanced budget fundamentalism) seems to be the democratic deficit and lack of popular support for the EU. This is not new, but recent steps could worsen this lack of support (see Follesdal and Hix, 2006; and more recently Degryse and Pochet, 2011).

6. Notwithstanding the focus of Europe 2020 on growth, there is little evidence of EU action in this field. As shown by Jouen in this edition, the Structural Funds are not fully activated for that purpose.

The EU is increasingly distant from voters. On the one hand, citizens cannot understand the EU (the integration process is obscure and technocratic), and so will never be able to assess and regard it as a democratic system, nor to identify with it. In addition, the policy process is fundamentally technocratic rather than political. On the other, the EU adopts policies that are not supported by a majority of citizens in many or even most Member States (Follesdal and Hix, 2006: 537; Lanoo, 2011).[7]

Another key aspect in need of more analysis is the growing tension between the EU institutions and the social partners. If we look at the *chronology* (below in the text), it is evident that the last year has seen increased conflict between opposite views on the European Union and its normative basis. While European institutions seem to have embarked on a continuation if not reinforcement of the Frankfurt-Brussels consensus, trade unions and social stakeholders in general have reacted against it.

As concerns the above-mentioned innovations in EU governance, the main documents resulted from the European Semester (e.g. Annual Growth Survey) and the new Euro Plus Pact, and even the recent application of Europe 2020, seem to prove the evident attack on social rights. In particular, beyond the more effective control proposed on social spending, the new economic governance (e.g. the Euro Plus Pact) explicitly addresses the wage-setting process and collective bargaining and thus risks breaking down the power of trade unions to establish a 'wage norm' at national or industry branch level. 'Reviewing indexation mechanisms' means the weakening or total abolition of existing legislation in some EU Member States that, for example, provide for a more or less 'automatic' increase of wages or minimum wages compensating for inflation. Of course the Pact claims that all this shall be done with due respect to 'social dialogue'. But 'social dialogue' would be put on a very different footing if all these measures were implemented (Dräger, 2011: 12).

7. The measures introduced in Europe 2020, for instance the seven flagships to improve consensus for the European strategies seems far from being fully effective (see Peña-Casa in this issue).

As a consequence, trade unions (at both European and national level) reacted. As it was put in a declaration on the state of the European economy (ETUC, 2011b), the EU institutions' action was criticised: 'The rules defined by the European Parliament, Council and Commission in the "Six pack" shift the burden of the crisis to workers and their families' (...) 'If governments during the 2009 recession would have been forced to follow the rules which the economic governance package is now seeking to impose, the economy would have been pushed into a full blown depression'.

Downward competition is clearly indicated by the trade union movement to be the wrong path to exit the crisis. That path is based on wages and insecure work practices, combined with irrational debt and asset price booms. Alleged 'irresponsibly high' wage increases had little or nothing to do with this.

The ETUC General Secretary did recently stress (Segol, 2012) that an alternative strategy should be pursued. EU action 'stifles growth and blocks the way to job creation' (...) 'We can no longer ignore its disastrous social consequences and the rise of nationalism in many European countries bringing into question our essential values based on solidarity'. And with respect to the role of collective bargaining, the tone became even more crude: 'Any attempt by the Directorate General for economic and financial affairs or the Council of Finance Ministers to use the new excessive imbalances procedure to weaken wage formation systems, to put pressure on wage and collective bargaining outcomes or to impose labour market reforms will be combated by the ETUC as being in contradiction with Article 1 of the Regulation and the principles of Article 152 of the Treaty on respecting the autonomy of social partners and the national systems of wage formation' (Segol, 2012).

Following some of the most recent contributions of the political science literature on public policy changes and the role of interest groups (see the seminal work by the two US scholars Hacker and Pierson, 2010), we know that the politics of economic and social reforms derive from struggles between interest groups. Beyond elections, and the direct and very partial control of the electorate on policymaking, institutions respond to lobbies and groups. The changing interplay between these groups (we could also think of broader epistemic communities and advocacy coalitions) and the strengthening and/or weakening of each group's position may alter both the politics and outcomes of reforms. Using the same approach for EU politics, we could interpret last year's innovations as a result of changing '*rapports de force*' between different coalitions operating at the EU level.

What we have summarised above, the growing distance between EU leaders and the position of the trade union movement, could be the result of the progressive shift in the balance of power between economic and political interests. Neo-liberal policymaker seem to be in a stronger position vis-à-vis the labour force. The need for mediation is not perceived to be stringent, while unilateral policy measures are seen as possible and much more effective for resolving the crisis. In the words of Degryse and Pochet (this issue), the recent evolution of Europe 2020 marks the end of a compromise. This is the major risk we see for the present and future of the integration process.

Open questions on the future of Europe

The European puzzle (the EU is running in order to stand still) mentioned above is the main focus of this edition of 'Social Developments in the EU'. Why has Europe failed to exit the crisis? What could prevent the EU from further gaps in legitimacy? What can instil new energy into the integration project?

These broad questions are addressed in the following chapters. The book is based on two different parts. In Part One, the contributors primarily look at the main trends in EU governance in socio-economic matters. Three chapters provide an integrated view, through three complementary but diverse readings.

Giuliano Amato and Yves Mény paint a (bleak) picture of the institutional developments that marked 2011 in the EU. They stress the partly chaotic EU reply to the crisis has been developed through the introduction of solidarity mechanisms to provide financial stability to the EU (and eurozone) area; the implementation of the financial liberal orthodoxy through the reinforcement of the Stability and Growth Pact (via the Six and Two packs), the actual implementation of the new governance based on the European Semester, and the partial revision of the Treaty. The entire EU architecture seems fragile and complex, thus contributing to the lack of clarity vis-à-vis the public opinion: What is the EU's mission after the crisis? What can we expect in order to improve working and living conditions? These and other questions are still open for and in search of answers.

Patrick Diamond and Roger Liddle examine economic governance and the future of the euro zone in the context of the sovereign debt crisis. Here the focus is more on the substance of the EU framework, major advancements and critical points. How can economic policies be better coordinated? Degryse and Pochet in their chapter show that the European economy can be guided along a 'path to sustainable growth' which is less dependent on imported fossil fuels. Climate change most definitely remains the principal challenge to our model of production.

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. Marjorie Jouen – in Chapter four – looks at the details of the ongoing debate about cohesion policy and the revision of the Structural Funds. The activation and implementation of the revised cohesion policy was a test to see how and how much the EU managed to combine strict austerity plans (demanded of the Member States) with territorial solidarity. Unfortunately, the results have been mediocre: the Structural Funds have not been used (if not partially) to cushion the effects of the crisis. Their use has revealed contrasts due to the introduction in the debate of the theme of conditionality, that is subordinating the EU budget to the 'golden rule' of budgetary stability.

Chapter five sheds light on the latest trends in EU social dialogue. Stephan Clauwaert and Christophe Degryse provide a summary of the social partners' role in approaching some of the most relevant issues in the world of labour. Some ongoing tension in the development of the European social dialogue puts it in danger, while the workforce's persistent awareness of its importance is promising for the future.

The future of social protection systems is at the core of Chapter six, where Rita Baeten and Sarah Thomson conduct a critical appraisal of what has happened in the health sector at both EU and national level. In line with what we did last year on pensions, the authors analyse the actual trends in EU policymaking and the eventual influence on the reform process at national level. In this context, the contradictions of the Stability and Growth Pact are bound up with the upsurge of populism in certain Member States. In healthcare we can see a trend towards a renewed interest by the EU to improve the financial sustainability of national systems.

Ramón Peña-Casas engages in a critical reading of the Social Open Method of Coordination (OMC) and the actual implementation of the European Platform against Poverty and Social Exclusion. The author sees a real risk that the liberal paradigm will dominate the social agenda in the years ahead. On the other hand, the weaknesses connected with the 'soft' governance of EU social policies are reappearing, without any effective solution having been found. Is it still possible to envisage real progress in respect of procedures for the management, oversight and direction of macroeconomic, micro-economic and social policies?

Lastly, Dalila Ghailani dissects the case law of the European Court of Justice, examining its judgments 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 has a presence in the daily life of its citizens.

The different chapters prove that the EU is now at a crossroads: EU business 'is not as usual'. It is making rapid changes and evolving in ways that in many respects seem to bring bad news for the labour movement. In the last chapter, David Natali shares some further thoughts on the key danger for the European labour movement and for citizens and workers. The provocative declaration of the European Central Bank governor, Mario Draghi, that 'The European Social Model has already gone!'[8] will be analysed, explained and criticised.

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8. 'Europe's banker talks tough', by Blackstone, B., Karnitschnig, M. and Thomson, R., interview with Mario Draghi, for *The Wall Street Journal*, 24 February 2012 (http://online.wsj.com/article/SB10001424052970203960804577241221244896782.html).

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