

# ETUI Policy Brief

## European Social Policy

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## Social impact of the new form of European governance

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### Policy implications

This policy brief concerns the strong and potentially negative impact of the new forms of monetary and economic governance on employment and on social policies. This impact will be channelled by the new governance nexus of the EU2020/Stability and Growth Pact, but also by the return to a very liberal definition of the drivers of growth, as well as by a new definition of EU social policy. However, this policy brief also shows that much will depend on the strategy adopted by the relevant political and social actors.

### Introduction

Implementation of the EU2020 agenda (which follows on from the Lisbon Strategy) is now under way. In comparison with Lisbon, there are many changes, in terms of both governance and content. The new agenda is based on five targets which are to be implemented in a decentralised manner: the employment rate (75 per cent for persons aged 20–64); research and development (3 per cent of GDP); education (below 10 per cent leaving school without secondary qualifications and at least 40 per cent with a further education qualification); poverty (three different indicators, including 60 per cent of median income); and the environment. Implementation is to take place primarily via the ten guidelines adopted in June 2010 by the European Council (see Box), but also by means of a series of seven EU 'flagship initiatives'<sup>1</sup>. Finally, it will be based on an analysis of bottlenecks that inhibit growth. All this will be combined with preventive and corrective (punitive) actions designed to ensure economic and monetary stability. The gap between the 2020 targets (particularly the macroeconomic ones) and the Stability and Growth Pact will also be narrowed (see Figure 1).

These changes in procedure will be structured around a revised timing of the 'European semester' that will begin with the publication of a new document, the *Annual Growth Survey* (see Annex for the timing).

#### The 10 integrated guidelines

##### Macroeconomic surveillance

(1) Ensuring the quality and sustainability of public finances; (2) remedying macroeconomic imbalances; (3) reducing imbalances in the Eurozone;

##### Thematic coordination

(4) Optimising support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy; (5) promoting resource efficiency and reducing greenhouse gases; (6) improving the business and consumer environment and modernising the industrial base in order to ensure the proper functioning of the internal market; (7) increasing labour market participation and reducing structural unemployment; (8) developing a skilled workforce able to meet labour market needs, promoting job quality and lifelong learning; (9) improving the performance of education and training systems at all levels and increasing participation in further and higher education; (10) promoting social inclusion and combating poverty.

1 (a) Innovation; (b) education; (c) the digital society (see European Council 2010a); (d) climate change and energy; (e) 'Youth on the Move' (see European Council 2010b); (f) jobs and skills; and (g) the fight against poverty.

Figure 1 EU 2020 and the Stability and Growth Pact

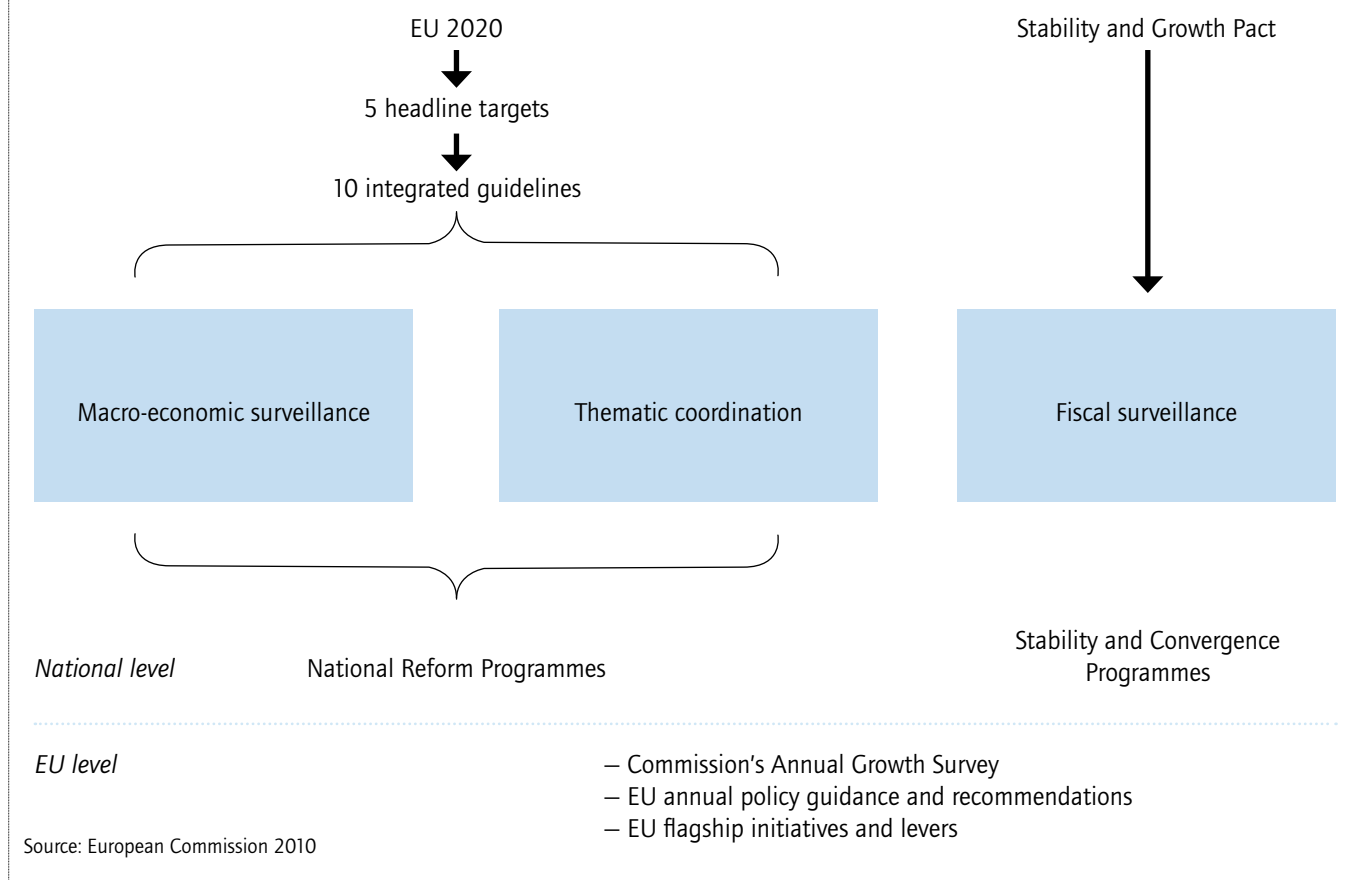


Figure 1 presents a summary of the various elements. It also indicates how the Stability and Growth Pact is connected to the new procedures of the 2020 Strategy.

Key to implementation are the 10 integrated guidelines, which are divided into (i) macroeconomic surveillance linked to the Stability and Growth Pact (SGP) and (ii) thematic considerations.

Final agreement has not yet been reached on the procedures of this new agenda, but it is already possible to draw some conclusions – for the most part, disturbing ones.

This is a dynamic process in which, at times, there are severe tensions between social and economic actors. These tensions are nothing new. They were analysed when the Lisbon Strategy was adopted (Pochet 2005). However, the political context is different today because, unlike during the period 1997–2003, the vast majority of governments are right-wing or centre-right. What is more, the crisis seems to have strengthened their determination to push through at any cost social reforms at the national level (in particular, retirement pensions).

This policy brief is divided into two parts. The first addresses the various channels by which pressure is being exerted on the Social Model (the Stability and Growth Pact, macroeconomic imbalances and structural reforms). The second briefly describes the potential social consequences in terms of pensions, wages and labour market and social security reforms.

## 1. Priority should be given to stabilising the Eurozone and economic governance

A first task is obviously the stability of economic and monetary union (European Council 2010c). To place this item at the centre of European concerns is naturally tantamount, in institutional terms, to placing the EcoFin Council at the heart of the action (with the Economic Policy Committee [EPC] as the strategic actor for the preparation of dossiers). It will be remembered that one purpose of the Lisbon Strategy was to restore the heads of state and government to the centre of the European decision-making process (which had been dominated by EcoFin, see Rodriguez 2002) and to seek to rebalance the influence between EcoFin and the other sectoral Councils (employment, environment, education and so on). This concerns the governance of the process(es), but it will obviously have a major effect on what policies are advocated.

The European Commission's main proposals with regard to the governance of the economic and monetary union were presented at the end of September (see European Council 2010d, e). It is important to note that these are only proposals and that the taskforce coordinated by President of the Council Van Rompuy will also present proposals of its own (see below). The Commission's proposals are threefold: the coordination of fiscal policies, macroeconomic imbalances and structural policies (see Watt 2010, ETUC 2010 and Figure 2).

(a) Fiscal policy surveillance under the Stability and Growth Pact is reinforced, notably by insisting on compliance with the debt criterion (60 per cent of GDP) or on rapid downward adjustment towards it (one-twentieth of the gap between the current and target levels per year). The medium-term objective of being 'close to balance or in surplus' is retained, but it is now specified that this must be achieved by focusing on government spending rather than revenues and by tightening the sanctions regime, coupled with a measure (the so-called reverse voting mechanism) that will make it harder for member states to block a Commission recommendation to impose sanctions.

(b) With regard to macroeconomic imbalances, the surveillance of Member States is also to be broadened, notably by incorporating an assessment of competitiveness and current account positions against a 'scoreboard' based on the relevant indicators. Modelled on the Stability and Growth Pact, an excessive macroeconomic imbalances procedure is to be instituted, which provides for country-specific recommendations by the Commission. If ignored, these recommendations can also lead to the imposition of financial sanctions by the Council.

(c) The third aspect concerns structural policies linked to Agenda 2020 and in particular – but not only – the first three integrated guidelines (see above). In contrast to the other two components, no sanctions are provided for. Influence must be exerted by means of peer pressure.

Figure 2 presents the various elements.

Let us look at the three aspects of integrated economic governance in detail.

## (a) Fiscal coordination: convergence criteria without bringing national real economies closer together

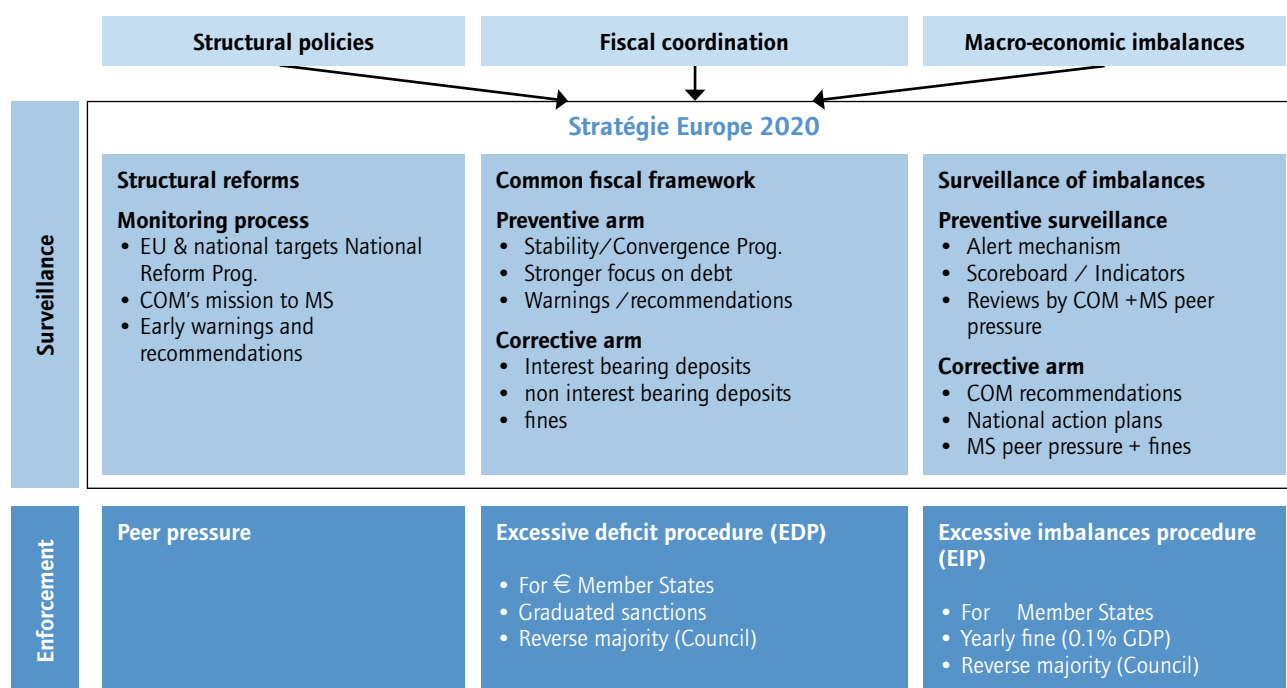
The budgetary discipline demanded of countries wishing to adopt the euro turned out to be a formal convergence based on formal criteria and not convergence based on their real economies' coming closer together (and by genuine coordination of, for example, economic, fiscal and taxation policies). This convergence is thus monitored on the basis of formal criteria and not of diagnoses that would make it possible to implement – and encourage – corrective policies in the medium term.

Let's look at a couple of examples. Greece will be required to comply with a number of conditions but no thought has been given to how Europe could contribute to developing this country's production model, to which some of the imbalances are attributable. Spain, too, needs to change its production model which is based on low skills, temporary contracts and specialisation in the construction industry and low value added services and is characterised by low productivity. This is not reflected in a simple analysis of budget deficits or inflation. The new European proposals linked to reform of the Stability and Growth Pact do not represent an adequate response to this problem.

## (b) Macroeconomic imbalances

The debate on the criteria to be taken into consideration in order to establish the existence of imbalances is thus essential. The more so in that the gap between the countries with a positive trade balance (basically Germany, the Netherlands and Austria) and the others has widened considerably over the past decade.

Figure 2 European semester: Integrated economic surveillance / governance



Source: European Commission 2010

One way of evaluating these imbalances would be to reach agreement on a series of indicators that would serve to reveal these problems. One Commission proposal still under discussion puts forward the following: current account positions, unit labour costs, public debt and private sector credit.

Another essential question concerns who will have the authority to act and impose sanctions. It may be seen, on the one hand, that the Commission is seeking to acquire as much power as possible, but on the other hand, that the member states want to retain control of the process through the Taskforce on economic governance, headed by President of the European Council Mr Van Rompuy. In any case, the composition of the two groups is almost identical, basically finance ministers or their representatives. The real question is, who will have the last word – the heads of state or the finance ministers – rather than that of the balance of power between the Commission and the Council. It should be noted that the social partners (in relation to wages, for example) and other formations of the Council (employment and the environment, for example) are excluded a priori from this debate.

Once diagnosed, how will the repressive and corrective aspects be activated? Should these measures be triggered (more or less) automatically? This would avoid conflict-ridden debates. It would also make it possible to avoid collusion or horse-trading among member states which would prefer to do nothing. But making it automatic would hinder attempts to take account of complex realities.

Finally, there is also the question of what type of sanction to impose: loss of voting rights or the blocking of certain payments (linked to the structural or cohesion funds).

### (c) Structural reforms under 2020

If the Lisbon slogan as from 2005 was 'Jobs, Jobs, Jobs', EU2020 seems to have adopted the slogan 'Growth, Growth, Growth', in the classic sense (in other words, with no emphasis on the need for growth to be 'smart', 'inclusive' or 'sustainable'). As stated by a Commission document, 'the aim should be to raise the average growth rate in the period 2011–2020 by one-third over what could be expected from a "no policy change" scenario, that is, from 1.5 per cent to around 2 per cent in the EU27 as a whole' (European Council 2010f). From this standpoint, one of the central aspects will be to define the bottlenecks (which in the French version is rendered as 'freins à la croissance' or 'brakes on growth') that would limit growth and hence the (structural) measures to be adopted to give it a boost. In EcoFin jargon this is referred to as 'frontloading'.

The definition of bottlenecks with regard to social issues and employment is the object of an open power struggle between EcoFin and the Employment Council (Council 2010; EMCO 2010).

## 2. What reforms?

This brings us to the social consequences and the analysis of the advocated reforms, whether they be preventive or 'curative', as the Commission puts it.

### Pensions

In the first place, comes pension reform. According to the document under discussion in DG Ecfm (2010), this should be part of the 'measures creating expectations of stronger fiscal positions and increased sustainability of public finances. Such measures include, notably, pension reforms that could be brought forward. While their effect on the real economy is only realised in the long term, the expectation of stronger fiscal positions could have important confidence effects and translate reasonably quickly into lower risk premiums on sovereign debt. This, in turn, would help to lower refinancing costs for governments, corporations and households in the short term'. Identifying pensions as one of the causes of the public finance problems and as exerting a negative influence on financial-market assessments inverts the causality.

### Labour market and wage policy

Next in line are the labour market reforms. These relate to wage moderation, decentralisation of collective bargaining and flexibilisation of employment, but also the freezing, if necessary, of wages in the public sector. The latter, indeed, seem to have become the *bête noire* of finance ministers. Pertinent in this regard is this astonishing phrase, found in guideline number 2: 'Where appropriate, adequate wage setting in the public sector should be regarded as an important signal to ensure wage moderation in the private sector in line with the need to improve competitiveness'. This can be understood only as a medium-term strategy because the present situation pretty much amounts to a freeze, or even a reduction of wages in the public sector (Glassner and Watt 2010).

Wages will also be closely monitored if they are incorporated in the macroeconomic imbalances scoreboard. The outcome of this would be preventive wage control via the economic players (EcoFin *et al.*). It would be up to finance ministers to decide on the implementation of corrective measures in the event of wage rises deemed too large. It is important to note here that there is a bias in this approach in terms of which wage rises only appear on its radar when they are regarded as too high, but not when they are too low (see the debate on wage moderation in Germany).

The other important point is the list of elements considered to be negative with regard to wages (bottlenecks). According to the current list, this concerns wage developments that are out of line with productivity, imbalances between wage coordination at the national level and decentralised wage developments, rigid wage formation mechanisms and, finally, inadequate minimum wage levels (EMCO 2010).

In the field of labour market reforms, the absence of the actors concerned (social partners and ministers of employment and of social security) is even more blatant.

### Social protection

*Growth, Growth, Growth:* This priority accorded to growth might have entailed the positive consequence of sparing social

protection (weak growth has adverse effects on the sustainability of pension regimes, as well as on job creation). But this is not the case. The Commission, the European Central Bank (ECB) and most member state governments are trying to introduce radical social reforms. These reforms will have direct effects on the poverty rate among pensioners, and equally on access to health care. Here, accordingly, it is the 'inclusive' aspect of growth that is being ignored. The notion of 'bottlenecks' gives rise to a medium-term approach based on the imperatives of deconstruction, deregulation and deinstitutionalisation rather than on attempting to devise institutions able to respond to the challenges of today (the crisis) and of tomorrow, namely a fair transition to a low-carbon society (see analysis by M. Jepsen 2010).

### Social policies

So far, we have analysed the potential effects of changes being introduced into economic and monetary governance. We shall now discuss the issue of employment and social policies to the extent that they are included in 2020.

With regard to the social aspects of 2020 – employment, social security and education – there are also quite a number of changes. The first concerns the mainstreaming of these areas which were previously dealt with separately. It is important to note that only employment and the now defunct European employment strategy were accorded an important place in the Lisbon Treaty. What is needed here, therefore, is to establish more coherence between the three areas (employment, education and social protection), including at technical level among the three committees that address these matters and which, in the past, mainly tended to ignore one another. The challenge is also to find ways of relating these priorities to those emanating from EcoFin, with which there are numerous points of tension in relation to wages, pensions, health care and labour market 'rigidities' (see above).

Another important contextual element is that, for the first time since the 1970s, the Commission has not presented a Social Agenda, as such. Over the past forty years, the Commission has been in the habit of presenting, in the form of an Agenda, the key social measures to be undertaken at European level. It is true that in the course of time and especially in the past few years the content of these Social Agendas has been increasingly watered down, particularly in terms of legislative initiatives. Even so, this exercise did represent a means of placing on record the social actions conducted (or planned). From now on, the integrated guidelines are to be de facto the only structuring instrument of social policy, and the fight against poverty as the (last) specific formal reference.

It is interesting, in this respect, to consider another aspect of the new construction of the European social dimension. Henceforth this includes education. Education is considered to be part of social protection solely in the Anglo-Saxon countries. In other countries, education is not directly linked to social issues or to employment. In Agenda 2020, lifelong learning and training seem, by contrast, to constitute the new frontiers of social protection.

But even in this sphere, the most social aspects of the Education OMC (Open Method of Coordination) have been dropped, as far as indicators are concerned.<sup>2</sup> The following list shows the whole set of indicators adopted by the education ministers in 2009, only the first two of which have been retained in the 2020 strategy:

- The share of early leavers from education and training should be less than 10 per cent
- The share of 30–34 year olds with tertiary educational attainment should be at least 40 per cent
- The share of 15-years olds performing poorly in reading, mathematics and science should be less than 15 per cent
- At least 95 per cent of children between 4 years old and the age for starting compulsory primary education should participate in early childhood education
- An average of at least 15 per cent of adults (aged between 25 and 64) should participate in lifelong learning and training.

The social dimension is reduced essentially to the fight against poverty and to active inclusion (European Commission 2008). Surprisingly, six months after the presentation of Agenda 2020, no one at this stage is able to define what is covered by the expression 'platform against poverty', which is supposed to be one of the flagship initiatives of Agenda 2020. Is it a revamped OMC? A discussion forum? Or something else entirely?

Pensions and health care, although they are mentioned in guideline no. 10, are clearly dealt with principally in accordance with economic actors which are only interested in the long-term costs for the public finances.

In relation to these issues, certain employment ministers – with the support of the Belgian presidency – are attempting to take charge of defining the employment and social protection policies to be conducted. And they are also – which is more of a novelty – trying to have some say in the definition of economic problems, which is the preserve of the ministers for economic affairs. What are at issue, therefore, are complex processes in which the actors' roles are crucial.

### Concluding remarks

What emerges – which, ultimately, is an extension of the previous situation – may be summarised as follows: the diagnosis has been made, the prescriptions are known, but what is lacking is the political will to carry out the reforms. This being the case, it is a matter neither of deliberative democracy nor of collective learning, but of strengthening the repertoire of arguments used

2 As a matter of interest, education ministers were not even consulted before the inclusion of the targets relating to reducing the number of people leaving secondary school without qualifications and the increase in the number of students in further and higher education. It would seem that the report on tertiary education will be prepared by DG Ecfm with the EPC (on the basis of the experience they gained in their preparation of a report on the costs of ageing which contained a section on education (EC 2009)).

in the dominant thinking on the conditions of reproduction of the unequal societies in which we live. There thus exists an ever growing democratic deficit in which decisions – on education, the poverty platform, bottlenecks and so on – are taken by a narrow group of people.

The process resembles more of a mutual adjustment between governments (mainly right-wing) wishing to adopt certain reforms and the Commission (DG Ecfm) which would supply complementary arguments, a sort of 'OECD+'. The consequence of this would be to unbalance the social affairs and employment ministers at national level because the economics ministers will be able to short-circuit them using the European procedures. As we have shown, the definition of what constitutes a bottleneck (or a 'brake on growth') is central to the debate, particularly since the definition of social policy is increasingly being limited to the fight against poverty and for equality of opportunity by means of improving (quantitatively) the educational level of the workforce.

There is nothing really new here. This was the strategy pursued in the early 1990s (which led to the creation of the European employment strategy and subsequently the OMCs). We are thus witnessing an attempt to return to this orthodoxy. Naturally, it is not a mechanical process and the social affairs ministers are keen not to allow themselves be dispossessed. The same is true of social actors (see, for example, the ETUC proposal to have a systematic social dialogue on 2020; ETUC 2010).

But the context of continuing dominance, despite the crisis, of right-wing governments determined to carry out radical social reforms is extremely worrying.

There is, however, some room for manoeuvre in terms of making use of existing elements.

The first, encouraged by the Belgian presidency, is to give flexicurity a broader and more institutionalised definition. According to this definition, the purpose of flexicurity is to 'make transition pay'. This approach, directly inspired by the work of Gunther Schmid and Bernard Gazier (2002) has the advantages of taking into account several different types of transition and of emphasising the importance of institutions and actors. In other words, it is built on an analysis in which institutions do not a priori constitute a bottleneck.

Similarly, while there remain only two guidelines out of the 10 specifically devoted to employment, with a little creativity it is possible to return to virtually all the topics previously covered. Indeed, the Employment Committee (EMCO) has found around 15 topics related to social policy in the guidelines which could furnish a broader definition of the social dimension in 2020 (EMCO 2010).

The other aspect is poverty, which can become the face-saving alibi of liberals (child poverty naturally falls under this heading). But it can also constitute a strategic approach in relation to the need for complete and well-structured social protection systems. This was, indeed, the idea envisaged by Mr Frank Vandenbroucke

when, in 2001, he advocated putting this topic on the European agenda. However, this strategy, if it is to succeed, requires coordinated actors and much broader coalitions than those which traditionally have supported the fight against poverty.

Finally, there is a strategic choice concerning the strategy to be promoted. In another publication, we stressed the existence of two competing megastrategies, that of Lisbon and that of sustainable development (Degryse and Pochet 2008). EU2020 in no way changes this, except that this new agenda disregards even more radically the challenges linked to climate change. Indeed, the failure of the international conference held in Copenhagen in December 2009, and the difficulties involved in laying down at European level the more ambitious target of a 30 per cent (instead of 20 per cent) reduction of greenhouse gases<sup>3</sup> meant that the visibility of the challenges of climate change and sustainable development were greatly diminished. It is not that no more initiatives are being taken in these two areas, but that in the new dominant discourse of EU2020 they no longer appear as a priority. One begins to wonder whether the strategy of sustainable development should not be the central strategy reinforcing the social aspects linked to a fair transition.

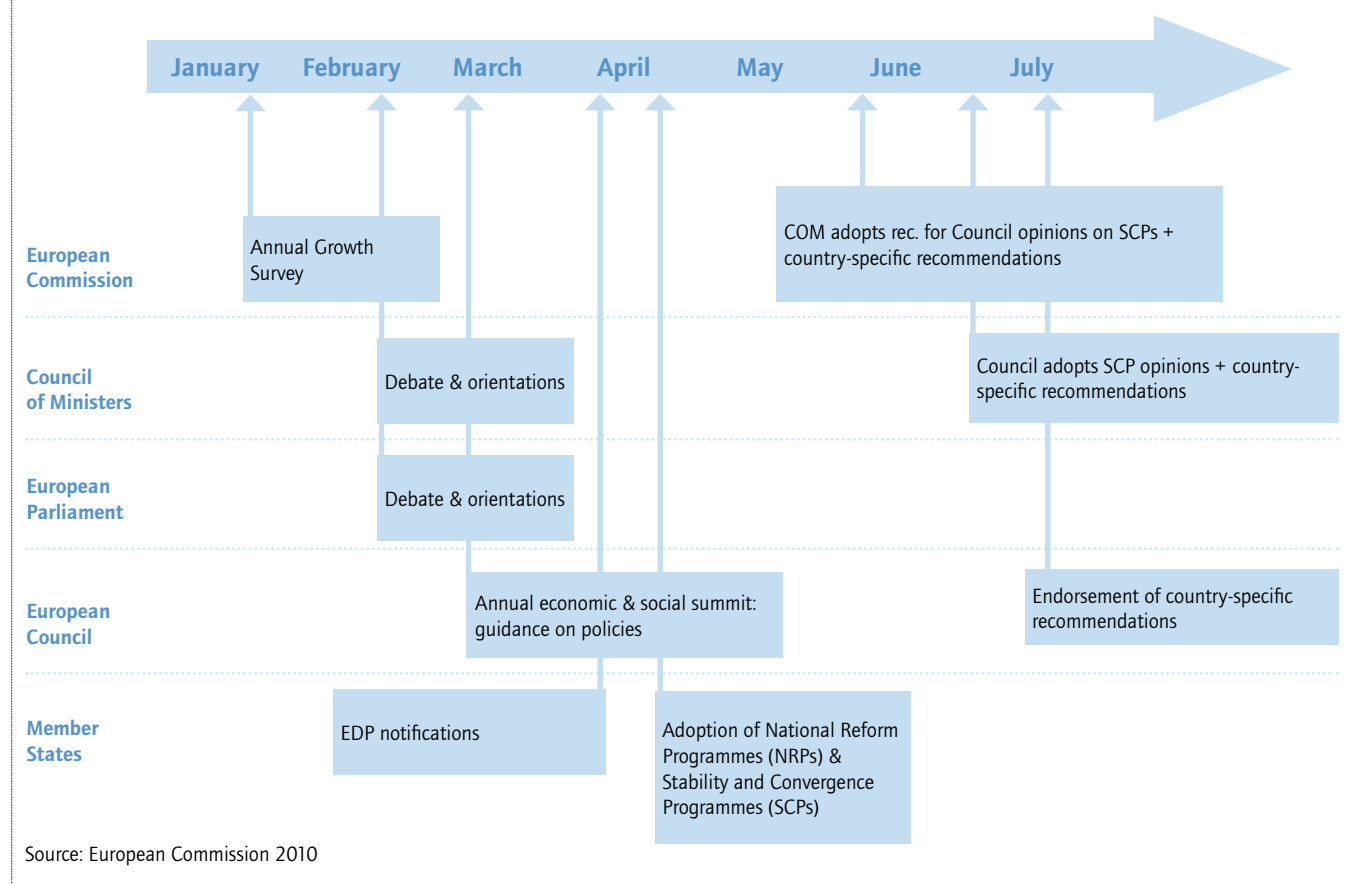
I would like to thank Christophe Degryse, Maria Jepsen, Kurt Vandaele and Andrew Watt for their relevant remarks on earlier drafts.

3 The final decision is to be taken in October 2010.



## Annexe

Figure 3 The European Semester: timing and sequence of integrated surveillance (ECOFIN endorsement on 07/09/2010)



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