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

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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 10th 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'[1]. 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[2].

### 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[3].

[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[4]. 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[5]. 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.

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