The EU, the crisis and welfare state reform

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The special issue

- EU Governance affecting social and labour market policy: SGP, OMCs
- Causal impact of Europe on welfare state reform
- Alongside -- Financial markets, International actors, domestic politics, historical institutionalism, ideas
- Each contribution makes a theoretical and empirical contribution
Contributions

- EU influence social & labour market policy? (with Elke Heins)

- Selection bias: countries most severely hit by the crisis (Greece & Portugal, Spain & Italy, Ireland, Italy, France)

- New ideas around social investment
## Budget Deficits Longitudinally

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>4.8</td>
<td>3.2</td>
<td>-2.7</td>
<td>-2.7</td>
<td>-2.1</td>
<td>-3.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>Finland</td>
<td>5.1</td>
<td>4.2</td>
<td>-2.5</td>
<td>-2.6</td>
<td>-1.0</td>
<td>-2.1</td>
<td>-2.4</td>
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<tr>
<td>Ireland</td>
<td>0.1</td>
<td>-7.4</td>
<td>-13.9</td>
<td>-32.4</td>
<td>-12.6</td>
<td>-8.0</td>
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<tr>
<td>Portugal</td>
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<td>-3.6</td>
<td>-10.2</td>
<td>-11.2</td>
<td>-7.4</td>
<td>-5.5</td>
<td>-4.9</td>
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<tr>
<td>Spain</td>
<td>1.9</td>
<td>-4.5</td>
<td>-11.2</td>
<td>-9.4</td>
<td>-9.4</td>
<td>-10.3</td>
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<tr>
<td>Italy</td>
<td>-1.6</td>
<td>-2.7</td>
<td>-5.4</td>
<td>-4.2</td>
<td>-3.3</td>
<td>-3.0</td>
<td>-2.8</td>
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<tr>
<td>Greece</td>
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<td>-9.8</td>
<td>-15.6</td>
<td>-11.1</td>
<td>-10.1</td>
<td>-8.6</td>
<td>-12.2</td>
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Outline

- EMU governance pre-crisis
- .... EMU governance after the crisis
- Significance for crisis-hit countries
- Likely significance for other countries
- Summing up/conclusions
EMU: a one-size fits all Regime

- Monetarist regime focuses on price stability and ensures a steady money supply to ensure non-inflationary economic growth

- European Central Bank created as an independent institution
Asymmetry pre-crisis

  - ECB interest rates: too high for economies with below average rates of economic growth; too low for countries above average rates of economic growth
  - In EMU - Fiscal policies nationally driven
EMU governance pre-crisis

Stability and Growth Pact
• Budget deficit (3%) central criterion
• Public finances central
• Room for investments, unusual circumstances
• Politicized discussions/exceptions
• Bargaining

Theoretically: some evidence of
• Worlds of compliance
Monetary, economic and social policy: levels of governance and authority

- Changes: Time, New rules, Member State
EU and EMU: developments following financial crisis of 2007

- The financial crisis of 2008 rolled into a sovereign debt crisis (SDC)
- SDC: perseverance of a recession that has made it difficult or impossible to re-finance debt without the assistance of IMF & EU
- Measures were taken for countries severely hit by the crisis and
- Rules and procedures governing EMU were altered in rapid succession
- ‘layering’ onto existing institutional framework
<table>
<thead>
<tr>
<th>Instruments and core objectives</th>
<th>Instruments of fiscal policy coordination</th>
<th>Mutual influence of instruments</th>
<th>Instruments of social and labour market policy coordination</th>
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</thead>
<tbody>
<tr>
<td>Two-Pack 2013</td>
<td>MIP, MTOs</td>
<td>Youth Guarantee 2013</td>
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<tr>
<td>Fiscal Compact 2012</td>
<td>structural deficit rule,</td>
<td>Social Investment Package 2013</td>
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<td>Six-Pack 2011</td>
<td>debt-deficit rule</td>
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<td>Europe 2020 (previously Lisbon Strategy, EES and social OMCs) 2010</td>
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<tr>
<th>Application of EU cycle Immediate objectives</th>
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<tr>
<td>MIP, MTOs</td>
<td>National Reform Programmes, National Youth Employment Plans</td>
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<td>structural deficit rule,</td>
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<td>debt-deficit rule</td>
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<td>Convergence/Stability Programmes, DBPs</td>
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<tr>
<th>EU enforcement and surveillance</th>
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<td>AMR, EDP, opinions on DBPs</td>
<td>CSR, EPP commitments, Youth Employment Initiative, co-funding via ESF</td>
<td></td>
</tr>
</tbody>
</table>
Alterations of EMU governance: how to assess their significance?

**Typology**

- **Objectives**: how precisely and to which magnitude policy change is suggested
- **Surveillance**: with which mechanisms the EU is endowed to monitor MS implementation of agreed policy/benchmarks
- **Enforcement**: type of measures EU actors have at their disposal to ensure implementation and/or corrective action in case of non-compliance
Six-Pack / Fiscal Compact

- Objectives

MTOs

Structural budget deficit max 1%

‘golden rule’ (0.5% GDP structural deficit)

National governments may have less leverage to define (or to differentiate) their national agendas

Limited scope for expansive fiscal spending
Six-Pack / Fiscal Compact

- Surveillance
- MIP (health of economies)
- Warning from Commission in case of deviation from MTOs
- Reporting on national debt issuance
- Existence of EDP quasi-automatic
  (overtuned through RQMV)
Six-Pack / Fiscal Compact

- Enforcement:
  AMRs;
  EDP for debt or deficit
  Quasi automaticity of EDP (RQMV against decision)

  in case of inaction from country under EDP,
  quasi-automaticity of sanctions (RQMV against decision)
Two-Pack

Objectives: common budgetary timeline for all euro members

Surveillance: Budgets (DBPs) to be sent for approval to Commission and eurogroup

Enforcement: in case of ‘particularly serious non-compliance’ the Commission may request revision of budget
Governance of social dimension

- Europe 2020
- Euro-plus pact
- Social investment strategy: life-course approach
- Youth guarantee
### EU integration levels of instruments of fiscal and social governance

<table>
<thead>
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<th>Objectives</th>
<th>Surveillance</th>
<th>Enforcement</th>
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</thead>
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<tr>
<td><strong>Fiscal policy coordination (to optimize the functioning of the Eurozone)</strong></td>
<td></td>
<td></td>
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<tr>
<td>SGP (pre-crisis)</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
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<tr>
<td>Six-Pack</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
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<td>Fiscal Compact</td>
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<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Two-Pack</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>Social and labour market policy coordination (to address issues of economic growth as well as social sustainability)</strong></td>
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<tr>
<td>Lisbon Strategy (pre-crisis)</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
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<tr>
<td>Europe 2020</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
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<tr>
<td>Euro-Plus-Pact</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Social Investment Package and Youth Guarantee</td>
<td>Medium</td>
<td>Low/Medium if co-funding</td>
<td>Low/Medium if co-funding</td>
</tr>
</tbody>
</table>
Alterations to the governance of the EMU after the crisis

- Closer focus on balanced budgets (objectives more clearly (but also narrowly) defined)
- More surveillance and
- More enforcement

- Room for investments?
- What do we already know? Crisis hit countries vs. Other countries
Implications for crisis hit countries

- EU more involved in MS affairs, but not (yet) through new procedures
- Instead through loans and informal conditionality
- Financial markets
- Austerity striking
Implications for other EU countries

- EU more involved in MS affairs
- Finance ministries gate-keepers
- Rules vs. Practice?
- Pragmatism
- Whither social policy?
Concluding remarks

- New architecture associated with EMU should prevent future crises
- Greater role of the EU in case EMU requirements are not met
- Clear evidence of EU involvement in severely crisis-hit countries
- Evidence of speeding up reform in other countries
- Future EU impact will most likely be on decision-making with regard to national budgets
- Finance ministries will be stronger gate-keepers with regard to national budgets
- Generalized increase in surveillance
- Enforcement? Linked with worlds of compliance
Further Reading

- Perspectives on European Politics and Society (3, 2014) special issue The Effects of the Eurozone Sovereign Debt Crisis: Differentiated Integration between the Centre and the New Peripheries of the EU
- West European politics (4, 2014) special issue implementing social Europe in times of crisis
- Comparative european politics (1, 2015) special issue The sovereign debt crisis, the EU and welfare state reform
Thank you for your attention!

All questions and comments welcome, also on email: cporte@ruc.dk