Worrying trends in the new European governance

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Introduction

The financial crisis sparked in 2008 by the subprime market in the United States spread to the majority of European Union (EU) countries during 2008-2009. In the United States, this crisis resulted from growing inequalities and the use of private debt as a means of maintaining a certain level of spending, linked in part to the real estate bubble which (artificially) increased the value of property.

This became, first an economic crisis, then a public debt crisis[1], which shook the whole of the Eurozone in the course of 2011. Having initially adopted programmes to support economic activity, 'green recovery' and the labour market (Benchmarking, 2010), European governments from 2011 onwards have been busy implementing plans for budgetary stringency and austerity at a cracking pace, under pressure from the EU (Irvin, 2011; Le Cacheux, 2011).

This austerity, applied simultaneously and at an extremely sustained pace to almost all the EU Member States, has had and will continue to have the effect of exacerbating the social crisis linked to increasing unemployment, job insecurity, and a freeze or even a reduction in wages, social benefits, etc. Besides having a recessive effect, at least in the short term (IMF, 2012), this over-rapid hardening of budgetary policy is also having the effect of relegating the fight against climate change to the second if not the third rank of priorities.

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1. Especially by transferring the financial industry's private debt to public debt, and through measures to support the 'real' economy in order to avoid a depression.

In barely three years, this chain of events has fundamentally changed the framework of public action at national and European level. From being an attempt to balance sometimes conflicting priorities (competitiveness of the economy, quality and quantity of employment, and combating climate change by 'decarbonising' the model of industrial production) this has shifted to imposing an exclusive paradigm, prioritising the reform of public finances – on pain of sanctions – by means of austerity and growth. This chain of events is what we shall attempt to analyse in the first part of this contribution.

In a second part, we shall concentrate on what appear to us to be the 'blind spots' of the new economic governance and of the Europe 2020 strategy: an error of diagnosis (and hence of remedy), problems for institutions and for democracy, and relegating the climatic and environmental challenge to a secondary position.

1. Establishing the new economic governance

1.1 Lisbon: the death of a compromise

The Lisbon Strategy 2000-2010[2] was meant to be an attempt at political compromise between differing priorities: economic, employment, social and environmental policies. The idea was to take up what had been identified as shared challenges for the EU Member States, along convergent lines: competitiveness of the economy, employment and social cohesion, and green investment to ensure a low-carbon economy.

In 2004, against the background of enlargement of the EU to include central and eastern European countries, and a political split which was increasingly favourable to right-wing and centre-right parties – both in the Member States and in the European institutions – the Lisbon Strategy suffered its first 'wobble'. The report of the High Level Group chaired by the former Dutch Prime Minister, Wim Kok, set up to evaluate the mid-term results of the strategy, judged them to be

2. For the record, this strategy aimed to make the EU 'the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion' (European Council, 2000), combating climate change (and hence a low-carbon economy), was soon added.

'disappointing [...] due to an overloaded agenda, poor coordination and conflicting priorities' (Kok, 2004: 6).

The report recommended that action be concentrated on the objectives of competitiveness, growth, employment and 'sustainability', thus effectively leaving aside the aspect of social cohesion. According to the liberal creed, of course, the fruits of economic growth will distribute themselves spontaneously, to the benefit of all. Such faith is not shared by numerous European social organisations, who emphasise amongst other things that the growth model adopted may either enhance or diminish social cohesion (EAPN, 2004).

Be that as it may, following the Kok report, the new mantra of European political discourse has become 'Growth and Employment'. This was the 'new start' for the Lisbon Strategy presented by the Commission in 2005 (European Commission, 2005). This was still three years before the outbreak of the crisis. Hidden behind the priority for growth was an agenda of deregulation, including financial deregulation – the famous '*better regulation*' (Van den Abeele, 2009), setting economies and legislations in competition with one another in order, according to this approach, to increase the overall efficiency of the economic system.

Competitiveness has become the main interpretative framework from which social and environmental benefits are supposed to flow: 'We need a dynamic economy to fuel our wider social and environmental ambitions' (European Commission, 2005: 4).

The last phase of Lisbon (2006-2008) was linked to relatively satisfactory macroeconomic performance, which improved the results of the indicators, although these still failed to achieve the objectives set (for a general assessment of Lisbon, see Pochet *et al.*, 2009; also Barbier, 2011).

But two other contextual elements emerged, which were to contribute towards a considerable modification of Lisbon's 'end of life' phase. First of all, the issue of climate change became much more urgent following the new report of the Intergovernmental Panel on Climate Change (IPCC) in 2007 (IPCC, 2007), including its effect on the European political agenda. With the European Sustainable Development Strategy (SDS) being implemented in parallel with the Lisbon Strategy, questions began to be raised about shortcomings in European governance in this area (Begg, 2008).

Then from 2007-2008 onwards, the crisis in financial capitalism and its (lack of) political regulation called into question almost all the dogmas of neo-liberal ideology (Defraigne, 2008). As the *Financial Times* columnist Martin Wolf noted in the wake of the Lehman Brothers collapse, 'undue faith in unregulated markets proved a snare' (Wolf, 2008). This crisis, moreover, led to the failure of the Lisbon objectives for 2010.

Between the crisis at the end of the decade and the adoption of the new 'Europe 2020' strategy, European institutions maintained almost total 'radio silence'. The Lisbon Strategy disappeared from public utterances. No real overall assessment was undertaken; only a modest 'evaluation' in the form of a working document was published in February 2010 (European Commission, 2010). And with the euro crisis beginning to emerge, the Commission found itself more and more on the back foot when faced with a European Council dominated from top to bottom by the Franco-German pairing, a Council whose visibility was only increased following the appointment of Herman van Rompuy as its full-time President (under the new provisions of the Lisbon Treaty which came into force in December 2009).

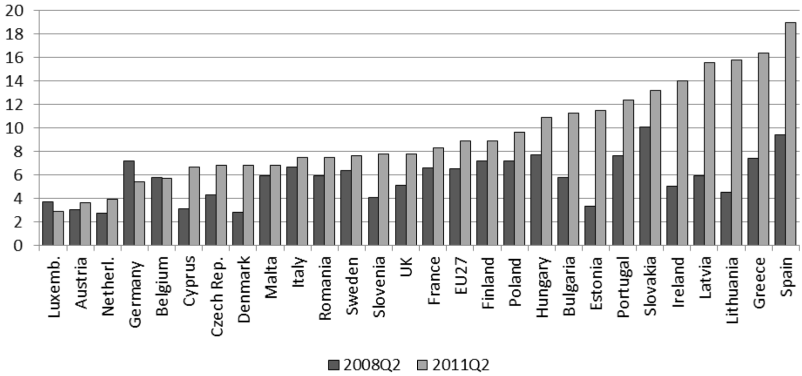
1.2 The (non-)lessons of the crisis

The financial crisis of 2008 and its multiple consequences on European territory were to cause considerable changes to the framework of public action at European and at national level. The immediate reaction of governments to the crisis, at the end of 2008 and in 2009, was to launch plans to rescue the economy and support employment, in order to stave off a major depression (Watt, 2009).

This first phase of the crisis shows the importance of automatic stabilisers (social protection) and labour market institutions which can help reduce the social impact of a recession. As Schwenninger observes, 'The core European economies (...) [rely] on the automatic stabilizers in their social welfare systems to soften the blow to the economy' (Schwenninger, 2010). For their part, Amable and Mayhew emphasise that 'those countries with stricter employment protection legislation experienced smaller increases in unemployment than those with loose employment protection. (...) Similarly, everything else being equal, those countries with higher collective bargaining coverage tend to experience lower unemployment increases' (2011: 218).

In other words, the countries which succeed best in reducing the social impact of the crisis and in stabilising unemployment are those which have strong labour market institutions and well-organised social players. The following table shows unemployment rates before the crisis and in 2011. It shows that the five countries with the lowest harmonised unemployment rate are all countries which have the continental social model: Germany, Austria and the Benelux countries.

Figure 1 **Unemployment rates 2008Q2-2011Q2**



Source: Leschke (2012).

These countries demonstrate that it is not enough to rely on 'a dynamic economy to fuel [...] wider social and environmental ambitions' (European Commission, 2005), but that strong social institutions are necessary to support the economy.

From an analysis of the successes and failures of this first phase of the crisis, we might have expected the outline of a change in European policy and discourse to emerge within the framework of the new Europe 2020 strategy (which has succeeded the Lisbon Strategy for the next ten years).

At the very least we might have expected the Commission's analyses and the Council's political and economic guidelines to recognise the usefulness of policies aimed at protecting jobs and collective bargaining systems. This, moreover, by increasing the resilience of the economy in a crisis context, would enable plans for a green recovery to be sustained and strengthened (Theodoropoulou and Watt, 2011). In short, we might have expected a paradigm shift, taking account of the fact that economic growth – greener growth – is supported by an efficient social system, and not the reverse, as was affirmed by the Lisbon Strategy in its post-Kok version.

Instead, taking advantage of the crisis having 'switched sides' (from being private, it became public in 2010-2011, made worse by the self-fulfilling prophecies of the ratings agencies)[3], we find a new set of arguments becoming increasingly dominant, based on 'the most pressing issues'.

1.3 The armoury of surveillance

Beginning in September 2010, especially with the proposal to strengthen the Stability and Growth Pact (by means of the six legislative initiatives known as the *Six Pack*)[4], discourse began to focus exclusively on accelerated reduction of public deficits, from which it was hoped that renewed economic growth, job creation and competition based on innovation would all flow (see the chapter by Giuliano Amato and Yves Mény in this volume). On 11 March 2011 the Euro Plus Pact was approved, establishing enhanced coordination of economic policies among 23 Member States[5]. Initially called the Competitiveness Pact, this committed these States to taking enhanced measures in respect of competitiveness, employment, the

3. It must be emphasised that the ratings agencies were far from playing the role of a 'prophet' in relation to private debt before the crisis of 2008 (the notorious *subprime* institutions had a triple A rating), but that they rushed to over-play this role once private debt had become public. By way of illustration, the economist Paul De Grauwe gives the following example, dated 25 January 2012: 'Portuguese bonds hit as traders fear default' (*Financial Times*, 25 January 2012). The markets, fearing a Portuguese default, put up their rates, thus increasing the risk of a Portuguese default ...

4. The *Six Pack* is a set of six legislative acts designed to tighten up economic governance in the EU. Four of the texts focus on budgetary issues and the reform of the Stability and Growth Pact; the two others relate to the processes for identifying and correcting macroeconomic imbalances within the EU and the Eurozone.

5. The 27 minus the UK, Sweden, Hungary and the Czech Republic.

viability of public finances and financial stability. On 23 November 2011, the Commission proposed to add two new regulations to the *Six-Pack*, in order to strengthen still further economic and budgetary surveillance within the Eurozone (see below). On 9 December, Member States decided to adopt an Intergovernmental Budgetary Stability Pact. This was approved on 30 January 2012 by 25 countries (the United Kingdom and the Czech Republic are not signatories).

In this race to strengthen the armoury of multilateral surveillance, the question that arises, according to Jean Pisani-Ferry, is the following: 'Are the Europeans right to see the strengthening of the fiscal framework as the main, possibly the only, precondition for restoring trust in the euro?' (Pisani-Ferry, 2012).

While one plan for stringency and austerity follows another in the Member States[6], Europe for its part must transform itself into a growth machine. 'The completing, deepening and making full use of the single market has the potential to produce growth of about 4% of GDP over the next ten years' (Council of the European Union, 2011: 2).

In parallel, the Europe 2020 strategy is pinning all its hopes on achieving this rate of growth. Unlike the Lisbon Strategy in its first version, the objective of growth is not 'one of' the political priorities, to be reconciled with others (quantity and quality of jobs, social cohesion, combating climate change). It has become *the* central requirement, whose pre-eminence is not in dispute. Even in relation to the challenge of climate change, the paradigm of 'growth' is no longer being questioned; the *Beyond the GDP* initiative, launched by the European Commission in 2007, seems to have become bogged down[7]. But various adjectives, intended to apply to other issues, are now being attached to this growth: growth is now 'intelligent', 'sustainable' and 'inclusive'.

Emblematic of this is the way in which the former official concept of 'sustainable development' (as found in the 'European Sustainable

6. See the 'austerity chart' produced by the European Trade Union Confederation. *Austerity Watch* (http://www.etuc.org/r/1611).

7. See website: http://www.beyond-gdp.eu/background/html. A visit in late January 2012 revealed that it had not been updated since 2009. By contrast, the OECD has pursued its thinking on this subject (OECD, 2011c).

Development Strategy (SDS)') has been superseded by the notion of 'sustainable growth'. According to the Commission, promoting sustainable growth means, in particular, 'building a more competitive low-carbon economy that makes efficient, sustainable use of resources' while protecting the environment (Europe 2020 website). It will be recalled that the basic principle of the SDS 2005-2010 was different: the aim was to investigate, in a coordinated way, the economic, social and environmental consequences of all European policies (energy, agriculture, fishing, transport, consumption and production, etc.) and to take account of these when making decisions (Gouzée, 2012, forthcoming).

The same applies with regard to the social issue: this is no longer one of the issues to be balanced against the requirements of competitiveness and the environment. It is now firmly attached to the requirement of growth, under the label of 'inclusive growth'. The idea is to increase the employment rate, invest in training, and reduce the number of persons threatened with or affected by poverty. The causes of social exclusion are not being investigated, and remedies in the form of 'active integration into employment' – employment which in many cases does not exist – approximate only very loosely to a social approach to the question of exclusion (EAPN, 2011).

This first section therefore shows European priorities evolving in three stages: Lisbon 1 attempted to reconcile economic, social and environmental objectives; Lisbon 2 concentrated on the goals of competitiveness and growth through deregulation; while the launch of Europe 2020 prioritises budgetary reform and growth, without drawing any other lessons from the crisis.

2. Three 'blind spots' in the new governance

In this second section, we shall attempt to show that this new 'economic' governance established in 2011 (which in reality has become a very political form of governance) suffers from three critical weaknesses: the first relates to the diagnosis and hence the remedies chosen; the second to the institutional form this governance takes and the question of democracy; and finally the third relates to the major issue of combating climate change and the environmental crisis.

2.1 Diagnosis and remedies

A new form of narrative discourse has come to be accepted as self-evident: having squandered their budgets, Member States now have to tighten their belts. Austerity plans are the price to be paid for years of budgetary neglect. The German Chancellor, Angela Merkel, has expressed concern about 'the extreme level of debt in some countries, often accumulated over many years'[8]. Is this diagnosis accurate? On closer analysis, except in the case of Greece, it appears largely unfounded.

EU Member States reduced their public deficits throughout the years following 2000 (De Grauwe, 2011); broadly speaking, they observed the convergence criteria in the Stability and Growth Pact. In 2007, the average level of budget deficit in the 27 Member States was 0.9% of GDP, well below the threshold of 3%. The crisis then raised this level to an average of more than 6% in 2009 and 2010.

The same applies in the case of public debt: from 1999 to 2007, the average level of public debt in the Member States moved from 65.7% of GDP to 59% in 2007, once again below the threshold of 60%. Between 2008 and 2010, the crisis was to bring this figure up to 80.1%.

From 2005 to 2007, Spain experienced a budgetary surplus. This plummeted in 2008 because of the financial crisis, not because of any lack of virtue. In the same way, before the crisis, Ireland had a budgetary surplus, going back to 1997. The only year of deficit for Ireland during that period was 2002, with a very slight dip to -0.4% of GDP. Suddenly in 2010 it stood at -32.4% of GDP, because of the crisis. Belgium reduced its public debt by 46 points relative to GDP between 1995 (130% of GDP) and 2007 (84%), just before the crisis. Between 2000 and 2007 its budgetary deficits were, on average, -0.37% of GDP.

With the exception of Greece, therefore, there has been no general drift which might have justified tightening the budgetary rules and imposing excessive austerity. What did happen was a rescue mission for the banking and finance industry, and support for the real economy to

8. Interview given jointly to six daily newspapers: *Le Monde*, *Süddeutsche Zeitung*, *The Guardian*, *La Stampa*, *El Pais* and *Gazeta Wyborcza*, 26 January 2012.

avoid a major depression. 'Fiscal indiscipline did not cause this crisis. Financial and broader private sector indiscipline, including by lenders in the core countries, was even more important', as Martin Wolf rightly points out (Wolf, 2011).

These are the points on which a diagnosis should have been based: supervision and regulation of the financial industry and its role in the real economy. Not on an alleged general 'drift' in public finances.

The response from the European Union, as we have seen above, has consisted mainly in setting up an armoury of surveillance measures for public finances, and sanction mechanisms if thresholds are exceeded (see the chapter by Patrick Diamond and Roger Liddle in this volume). It is a bit rich to hear the former President of the European Central Bank (ECB), Jean-Claude Trichet, explaining that these surveillance measures and austerity programmes are in reality designed to re-establish markets' confidence in the budgetary policies of Member States. According to Paul Krugman, winner of the Nobel Prize for economics, this idea is a 'myth' (Krugman, 2010). Be that as it may, the establishment of a punitive Europe is a response mainly to the desire to offer guarantees to the financial markets and the ratings agencies, who in turn can guarantee funding to governments at sustainable rates of interest. The year 2012 will be an opportunity to see if this line of reasoning is valid.

In the meantime, the argument runs as follows: to get Europe out of a crisis caused by the financial industry, it must re-establish confidence, within those same financial markets, by introducing structural reforms in respect of wage formation, collective agreements, pension systems and health care, and other social benefits. According to this line of reasoning, social policy becomes the main adjustment variable for managing the debt crisis (see below).

There is, nevertheless, a growing consensus among economists and in international organisations that implementing austerity plans in a concerted way and at an extremely rapid pace in Europe is likely to produce recessive effects (OECD, 2011a; IMF, 2012). A reduction in public demand coupled with wage moderation will automatically have a negative effect on growth, at least in the short to medium term.

Moreover, one can only express surprise at the fact that, four years after the start of the crisis, regulatory and governance measures for the European financial industry (rigorous monitoring of the financial sector; a tax on financial transactions; measures to combat tax havens, fraud and tax evasion; separating the activities of deposit banks from those of investment banks; partial pooling of debt, etc.) have been so slow, given the rapidity with which stringency plans have been imposed. This, incidentally, shows that dilatory moves by the financial industry are proving much more effective than social resistance to austerity measures.

2.2 Governance: democratic and social issues

The second point of criticism of the new economic governance relates both to its institutional form and to questions of democracy which it raises.

The need to integrate the demand for budgetary reform and the fight against ‘macroeconomic imbalances’ into the core of the Europe 2020 strategy is reflected in the implementation, from 2011 onwards, of what is called the ‘European semester’. Very schematically, this is a procedure which extends from January to July every year, and which aims to supplement the budgetary surveillance carried out by Member States – as already provided for under the Stability and Growth Pact – with monitoring of macroeconomic imbalances, the adoption of national programmes of structural reforms (labour markets, pensions, the public sector, liberalisation, etc.) and finally with the adoption of ‘recommendations’ addressed specifically to Member States (see Giuliano Amato and Yves Mény in this volume).

Whereas previously the Stability and Growth Pact and the Lisbon Strategy were two distinct exercises, under Europe 2020 these have been brought together in a single process. What is more, this process covers a considerably wider field, since now all macroeconomic imbalances may be subject to preventive or even corrective action by the EU: current account balances, external debt, market share of exports, unit labour costs, real exchange rates, unemployment trends, private sector debt, credit flows to the private sector, property prices, public sector debt.

Quite apart from the fact that this integration of different processes leads to a structure of unparalleled complexity – even without including the expected effects of the intergovernmental treaty – it makes the decision-making process completely opaque. And it is to be feared that this opaqueness will lead to the disappearance of public consultation and democratic debate, whereas the processes being implemented have a huge potential impact on national policies, at a budgetary and at a social level (Degryse and Pochet, 2011).

2.2.1 Democratic issues

Under the two proposed regulations adopted by the Commission to supplement the *Six Pack*, the Eurozone countries will in future have to table their draft budgets during the same period each year, allowing the Commission to scrutinise them, and where necessary express an opinion on them. This means that the Commission will be able to ask for them to be revised if it considers that they fall seriously short of the political objectives set by the Stability and Growth Pact. The second regulation will strengthen the surveillance of those Member States which benefit from a programme of financial assistance, or which face a serious threat of financial instability. Under this regulation, the Commission may decide whether a Member State in difficulty should or should not be subject to enhanced monitoring, while the Council may recommend that the Member State concerned should apply for financial assistance.

These measures, especially the first proposed regulation, have been the subject of heated debates in the Member States. For some people, such as the economist Paul De Grauwe, the fact that the Commission may be given the right to interfere in national budgets raises a real problem of democratic legitimacy. 'The problem here is that the European Commission is not bearing the political cost of its decisions', he writes[9]. If such a power were to be granted to it, the Commission would have to be politically answerable to an elected body, in this case the European Parliament.

9. 'Hoe de Europese Commissie ons blindelings naar een recessie leidt', *De Morgen*, 9 January 2012.

More generally, in institutional terms and in terms of implementing 'economic governance', numerous questions have been raised by various observers with regard to democracy and public consultation (Dewitte, 2011; Barbier, 2011; Degryse and Pochet, 2011).

According to Dewitte, following the '*market failures*' in the banking and financial industry, questions may be asked about a potential '*democratic failure*' in implementing the new governance. One might mention all the decisions taken in 2011 to save the euro, without having been subject to public consultation and parliamentary debate: the establishment of a European Stability Mechanism, the Euro Plus Pact, the self-proclaimed 'Eurozone summits', writing the 'golden rule' into national constitutions, Europeanisation of the procedure for adopting national budgets (*ex ante*) in a way that limits the prerogatives of national parliaments, Franco-German leadership of economic governance at Heads of State level (the so-called 'Merkozy', which considerably reduces the influence that can be exerted by other governmental and social players), and so on. To this one might add: the frenetic pace of reform programmes imposed by the EU (Commission and ECB) and the International Monetary Fund (IMF), on Member States existing on a financial drip-feed, or the threat of it; secret injunctions sent by the European Central Bank to one of the founding members of the EEC, dictating what economic and social measures should be taken as a matter of urgency...

As Streeck has shown, the result is that 'citizens increasingly perceive their national governments, not as *their* agents, but as those of other states or of international organizations, such as the IMF or the European Union, that are immeasurably more insulated from electoral pressure than was the traditional nation-state. In countries like Greece and Ireland in particular, anything resembling democracy will be effectively suspended for many years as national governments of whatever political color, forced to behave *responsibly* as defined by international markets and organizations, will have to impose strict austerity on their societies, at the price of becoming increasingly *unresponsive* to their citizens' (2011).

This kind of 'democracy under surveillance' is, in the view of some people, a 'necessary evil' in order to weather the storm of the crisis. The problem is that the measures adopted or in course of being adopted by the EU, far from being temporary emergency measures, are intended to be permanent and, in the hallowed phrase, 'carved in stone'. This means that in future they can be changed only with difficulty if there is a major change in the economic or social context, or in political majorities in the Member States, or in the dominant paradigm. The negotiation of a new treaty involving major constitutional changes (writing the 'golden rule' into national constitutions) without democratic consultation is certainly the most striking example of this. The European Trade Union Confederation (ETUC) was not taken in; for the first time in its history it has called for opposition to a treaty in the course of negotiation (ETUC, 2012).

2.2.2. Social impact

What future is there for the European social model in this race for stringency? In these processes of multilateral surveillance, a whole set of social measures ('structural reforms') are being put in place, designed firstly to speed up the streamlining of public finances, and secondly to strengthen the competitiveness of the economy. The EU, of course, does not have the juridical powers – or if it has, they are very weak – to deal with questions such as national systems of indexing wages, collective bargaining, or pensions.

Specifically on the issue of wages, the EU is asking those countries which have adopted a system of indexation to 'reform' it (remember that the four countries that have such a system have an unemployment rate well below the European average – see Table 1). The EU keeps repeating the need to align wages on individual or regional productivity, and in some cases is calling for collective bargaining systems to be revised. There are, however, no significant data allowing one to argue along these lines; an internal document from the Commission's DG ECFIN concludes that there is no correlation between the level of wage coordination and an effect on unemployment.

On pensions, the EU is calling for careers to be extended, and for pension systems to be adapted to the evolutionary trend in life expectancy (thus following the Swedish model). On jobs, the idea is to 'activate' all those groups which are tending to move away from the labour market: older workers, women, young people, especially those who are a product of immigration, disabled persons, etc. On poverty, the majority of measures proposed also refer to 'activation' through employment and vocational training; not a word is said about redistribution.

We are not seeking to deny that structural reforms may be necessary. But we observe two types of imbalance. On the one hand, measures to re-start the economy relate essentially to supply-side policies designed to provide firms with the best environment possible. Demand-side policies appear to be totally lacking.

On the other hand, 'ready-made' measures addressed to Member States sometimes appear to be inspired more by ideological motivations than by actual findings of any shortcomings or deficiencies. The EU seems to be acting as if the crisis were a window of opportunity to impose its own reforms. This European 'social' policy which is becoming established is being used as an adjustment variable for the debt crisis (see above) and as a productive factor with the principal purpose of strengthening the competitiveness of undertakings and of the economy as a whole.

As Richard Hyman from the London School of Economics has written, such a policy, instead of protecting vulnerable people from the market, is increasingly seen as helping them adjust to markets. 'Hence it is entirely logical that (...) DG ECFIN should increasingly take charge of the formulation of social policy' (Hyman, 2011). As Höpner and Schäfer (2008) have also stressed, the EU is playing an increasing role in the commodification of social relations, not in offering protection against 'the market at all costs', or developing a shared social dimension. This, finally, is what Bruno Palier highlights about those Member States with a Bismarckian tradition: social policy has to change in order to become compatible with the new dominant economic and monetary paradigm (Palier, 2011).

The same applies when Belgium is asked to put back the statutory retirement age – with a view to making the public finances more sustainable – whereas the main problem for Belgium is too high a rate of early retirement. Moreover, this country's social model is subject to widespread criticism (Belgium is the recipient of no fewer than nine recommendations in the social field, making it one of the countries most subject to pressure from Europe, along with the Czech Republic, Malta and Spain), while traditional indicators show that it has stood up to the crisis better than the vast majority of other Member States[10]. Some may therefore be tempted to see this exercise, not as an analysis based on facts, but as reflecting a war of ideological models, taking no account of the specific situations, performances and problems encountered.

On the other hand, where the EU has real power under the Treaties – in this instance for the promotion of social dialogue (Article 154 TFEU) – it finds itself swimming against the tide. As Degryse and Clauwaert emphasise in their article in this volume, national social dialogue institutions are now being called into question in a number of Member States, partly as a result of pressure from Europe (see also Clauwaert and Schömann, 2012), at a time when European social dialogue at a cross-industry and sectoral level is in difficulty (OSE, 2011). Many writers, of course, have highlighted the fact that properly functioning social dialogue institutions are a means of reducing the impact of the crisis (Laulom *et al.*, 2012).

Lastly, we would emphasise that a whole series of fundamental social issues are being ignored by the new governance and the Europe 2020 strategy. For example, the issue of decent jobs and poor workers. The currently much-heralded German model may be seen as exemplary in this regard: according to a study carried out by the University of Duisburg-Essen, 22% of German employees earned less than 8.50 euros an hour in 2009, while 4% (i.e. 1.2 million persons) earned less than five euros. According to the authors of the report, the low-wage sector developed especially towards the end of the 1990s and in the early 2000s, under the 'Hartz' reforms (Kalina and Weinkopf, 2009). This to a great extent explains the *present* competitiveness of the German model, but is this really the right path to follow? If all the Eurozone countries base their competitiveness on lower wages, this will lead to a spiralling race downwards, the very opposite of the objective, proclaimed

10. The Belgian socialist trade union (FGTB) states in its *Baromètre socio-économique*, based on data from the OECD and Eurostat, that in the period 1996-2007, i.e. before the financial crisis, growth in the real added value of the Belgian economy and growth in employment were higher than in Germany; that on the issue of inequality in society, Belgium performed better in 2009 than Germany, according to the Gini index; that the risk of poverty among workers is lower in Belgium than in Germany, France or the Netherlands; that the proportion of least well-paid workers is significantly lower in Belgium than in Germany, etc.

in the Treaties, of 'improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained' (Art. 151 TFEU).

In the same context, what about the increasingly unequal distribution of the fruits of growth? What about fiscal policy as an instrument to ensure greater social justice in the present context? A recent OECD report reveals that, even in traditionally 'egalitarian' countries like Germany, Sweden and Finland, inequalities grew between 1985 and 2008 (OECD, 2011b). There can, of course, be no sustainable exit from the crisis without a reduction in inequalities (Wilkinson and Pickett, 2009; Reich, 2011).

What is more, at the beginning of 2012 we are starting to see the environmental consequences of the economic and social crisis. In Spain, the new conservative government has announced that aid for new renewable energy installations is to be suspended (Spain is the largest producer of wind energy in Europe)[11]. In Belgium, the government has ended the federal premium on vehicles with low CO_2 emissions, and tax reductions for certain insulation projects. On 10 January 2012 the World Wide Fund for Nature (WWF) made an appeal to the Commission, the IMF and the ECB, pointing out that in Greece environmental policies are being put at risk by the rescue plans. 'A real, undeclared environmental crisis' has broken out, because of reductions in staffing levels, the legalisation of unlicensed construction projects, and a relaxation of the environmental rules in order to facilitate investment (WWF, 2012). This clearly reflects the fact that, one way or another, social and environmental issues are inextricably linked (Laurent, 2010).

2.3 The issue of climate change

The fight against global warming and the promotion of sustainable development had helped structure Member States' plans for economic recovery following the crisis of 2008 (Benchmarking, 2010). Between November 2008 and January 2009, all the major EU economies had

11. *Le Monde*, 2 February 2012.

adopted such plans, at a total cost estimated by HSBC at 325.5 billion dollars (HSBC, 2009). These plans provided, among other things, for increased public investment in energy efficiency, research and development, railway infrastructure, etc. (Watt, 2009). These then slotted into a 'European' plan for economic recovery which set itself the task of smoothing the transition to a low-carbon economy (renewable energy, clean transport, etc.) (European Commission, 2008).

2.3.1. From climate Keynesianism …

The crisis was therefore seen as an opportunity for combating climate change and re-directing the European economy along a genuinely sustainable path; it would stimulate 'green growth', clean technologies and renewable energy to produce a carbon-free economy. Thus a Swedish government minister, on taking over the Presidency of the EU Council, declared that the crisis was 'a golden opportunity to re-direct our economy towards eco-efficiency'. The time appeared to have come for a green 'New Deal', or 'climate Keynesianism', to borrow a phrase from Newell and Paterson (2010). But disillusionment was to follow.

As a period of stringency and austerity began, no environmental conclusions were drawn from these recovery plans. In December 2009, the results of the Copenhagen conference on climate change fell well short of expectations for a Europe which had hoped to take the leadership role in these negotiations, but was not followed by the international community.

With its Energy-Climate package, the EU had committed itself, among other things, to reducing its CO_2 emissions by 20% by 2020, as compared to 1990. Provided there was an international agreement, it was prepared to raise this target to 30%, but this was not done (even though the target for 2050 is 80-95%) (European Commission, 2011). The Cancun conference (December 2010) was to produce better results, but European ambitions seemed to have been 'dowsed'. In a fairly Delphic text, the European Commission 'does not suggest to set new 2020 targets, nor does it affect the EU's offer (...) to take on a 30% reduction target for 2020, if the conditions are right' (European Commission, 2011).

Moreover, although the European Sustainable Development Strategy (SDS) continued to exist alongside the Lisbon Strategy until 2010, it was not then extended in the framework of Europe 2020.

It must be emphasised that in 2010, the EU saw an increase of 2.4% in its CO_2 emissions, while at world level, 'annual global carbon dioxide emissions from fuel combustion grew about 38% between 1990 and 2009, with the rate of growth faster after 2000 than in the 1990s. Even with aggressive action to reduce emissions, the world would still face challenges to limit global temperature increase to 2 degrees Celsius since pre-industrial times' (United Nations, 2012).

2.3.2. ... to Utopian capitalism

Admittedly, in the Europe 2020 strategy, the economic growth target is accompanied by the adjective 'sustainable'. According to the Commission, this means a reduction in the intensity with which resources are exploited and consumed ('decoupling'), thus protecting the environment and biodiversity, and technical innovation (ecological production methods). But recent studies have cast doubt on whether this vision of sustainability is sufficient to achieve the targets set without a much more substantial political effort.

Thus Tim Jackson has shown that decoupling production from its intensity in terms of energy and raw materials currently remains a 'myth': over the last 25 years, the trend in consumption of fossil fuels – oil, coal, natural gas – and raw materials has by and large followed the development of worldwide GDP (Jackson, 2009; see also Coutrot and Gadrey, 2012; for a critical discussion of the impossibility of achieving absolute decoupling between economic growth and its environmental impact, see Laurent, 2011). It has, moreover, long been shown that improving energy efficiency usually leads to higher overall energy consumption[12]. The energy question therefore remains an outstanding issue.

In confronting this issue, the EU is moving from 'climate Keynesianism' to a 'capitalist Utopia', once again using the terminology of Newell and Paterson (2010). Clean technologies, energy efficiency, and especially

12. On this subject, cf. the Jevons paradox.

the European Union Emissions Trading System (EU ETS)[13] should make it possible to reduce CO_2 emissions and so achieve the EU targets under the Kyoto Protocol.

Newell and Paterson make the point that 'the plausibility of this scenario rests on the assumption, common to many advocates of the neoliberal approach to climate change, that the key to decarbonisation is to set appropriate carbon prices. This would create such a powerful incentive (...) that financial markets will do the rest, directing investment towards ever greater energy efficiency and towards non-carbon energy sources. (...) There is a very strong faith in the powers of markets underpinning this scenario' (Newell and Paterson, 2010: 173).

Nevertheless there are, in their view, many reasons to be sceptical about the idea that a high price for carbon in itself might be sufficient to affect all aspects of the world economy without any intervention by governments. For Eloi Laurent, the question is therefore clear: 'Is the EU climate strategy a mere replay of the doomed Lisbon Strategy that failed due to the lack of willingness on the part of EU decision-makers to endow the Union with adequate instruments to engage in efficient economic collective action?' (Laurent, 2012). A gap is gradually opening up between objectives and the means of combating climate change. According to Béla Galgóczi, 'on the one hand, we have ambitious targets and promises but it is still uncertain by what means and at what price these objectives could be achieved' (Galgóczi, 2012).

A report from *Carbon Tracker Initiative* also shows convincingly that the agenda of the financial markets is far removed from that of decarbonising the economy, and that it is therefore dangerous to rely on them to make a contribution towards achieving climate targets. Thus, to summarise this report, the Cancun agreement commits the international community to limiting global warming to 2°C. According to the report, this means, for the period 2011-2050, a maximum emission of 565 gigatonnes of CO_2 (Carbon Tracker Initiative, 2011). Beyond this threshold, global warming would exceed 2°C. In other

13. The ETS establishes a market in carbon, allowing each undertaking to buy or sell its 'right to pollute'. Every undertaking is allocated an annual emissions ceiling; firms which exceed this ceiling have to buy quota from firms which have managed to 'save' them.

words, to meet the Cancun target, we are left with a maximum annual carbon 'budget' of 565 $GtCO_2$. But potential CO_2 from the Earth's proven reserves of fossil fuel (coal, oil and gas) is around five times greater, at 2,795 $GtCO_2$. The conclusion is that only 20% of proven reserves of fossil fuel can still be burnt. 80% of them are 'unburnable' (in spite of potential solutions involving carbon capture and storage, as the authors of the study explain). The greatest share of these fossil fuel reserves are held as assets by some 200 companies involved in oil, mining, etc. The financial markets – mainly in the United States, United Kingdom and the BRICS – are therefore sitting on vast reserves of fossil fuel which cannot be burnt[14]. To take the example of the United Kingdom, 'individual companies such as BP, Royal Dutch Shell, Xstrata, BHP Billiton and Anglo American, each have greater CO_2 potential in their reserves than can be emitted under the UK carbon budget to 2050', according to the report.

If the study is to be believed, this 'carbon bubble' could burst at any moment. This shows that the idea of a 'spontaneous' allocation of investments to energy efficiency and non-carbon sources of energy is an exceedingly risky gamble.

Lastly, the issue of ecological limits is not restricted to energy and climate, but also includes questions of biodiversity, soil degradation, pollution of waterways and the water table, and so on. Almost two-thirds of the services supplied to humanity by nature are today in decline (United Nations, 2012).

Will the 'sustainable growth' advocated by Europe 2020 be sufficient to take up these unprecedented challenges? According to Jackson, 'a massive technological shift; a significant policy effort; wholesale changes in patterns of consumer demand; a huge international drive for technology transfer to bring about substantial reductions in resource intensity right across the world: these changes are <u>the least that will be needed</u> to have a chance of remaining within environmental limits and avoiding an inevitable collapse in the resource base at some point in the (not too distant) future (Jackson, 2009: 52, emphasis added).

14. 'Markets face risk of carbon bubble', *Financial Times*, 12 July 2011.

Conclusions

In this article we have given an overall view of the way in which European discourse has adapted to the very fluctuating political, economic and social challenges and contexts between 2000 and 2011. We have gone on to analyse the EU's current response to the euro crisis, in both political and institutional terms, and we have highlighted those elements which, in our view, raise problems.

During its first phase, the 2000 Lisbon Strategy attempted, at least in terms of its principles, to achieve political consensus on the need to reconcile the economic, social (employment and cohesion) and environmental challenges. A mid-term review of the Strategy exhausted this attempt at reconciliation by denouncing in particular 'irreconcilable' priorities. Based on this review, the Lisbon Strategy (II) focussed instead on the objectives of growth and employment, via an agenda of deregulation and competitiveness.

In 2008 the financial crisis occurred, later becoming an economic crisis and a crisis of public debt. This crisis has shown that undue faith in deregulation is a snare. It has also shown that those countries that have the strongest labour market institutions are the ones that are standing up best to the very strong surge in unemployment. 2009 saw the introduction of rescue plans for the economy, which it was thought would also help the transition towards a carbon-free form of industrial production.

The progressives thought they had won the battle of ideas when faced with the collapse of unbridled financial capitalism and a paradigm shift towards a green, carbon-free economy. But they were to be disillusioned: the excesses of financial capitalism remain in place, the risks have been transferred to governments, and populations are left to pick up the tab.

2010 and 2011 have brought a radical change of rhetoric. The watchword is no longer 'climate Keynesianism', but faster reform of public finances. What has suddenly become an absolute priority comes with a toolkit of similarly accelerated institutional and political reforms. These new measures have given the EU greater powers to impose structural reforms in the Member States. The overwhelming majority of these structural reforms are directed at social policies (wages, pensions, health care, collective bargaining), which thus become the principal adjustment variable for managing the debt crisis.

Lesson One from the financial crisis (deregulation is a snare) has only been partly learnt: the EU's attitude of procrastination is holding up reforms to financial regulation so much that doubts are being expressed as to the political will to implement them. Lesson Two (the crisis has its roots in an exacerbation of inequalities, creating a fragile situation for a growing section of the population that survives on credit, and a concentration of the richest people's incomes, favouring financial bubbles) has been totally forgotten in favour of increased social polarisation.

Lesson Three (the 'social' countries have withstood the crisis best, due to a regulated labour market and strong social players) has been ignored: European recommendations in the field of social policy call for 'reform' of those components of national social systems that have proved most valuable during the crisis (collective bargaining, concertation and social dialogue, wage indexation, etc.).

Lesson Four from the crisis (the 'rationality' of markets is not sufficient to direct investments towards sustainable development) has been forgotten: combating climate change will take place essentially through the use of market instruments.

The new European governance which is becoming established also raises real questions in terms of democracy. With democratic states transformed into debt collecting agencies for the financial oligarchy, it is to be feared that the ultimate political mode of expression for those who have no power on the market will be riots or a popular uprising (Streeck, 2011). Or, no more reassuringly, an upsurge in forms of extremism, populism and nationalism, and a rejection of the (historic) European project.

Proving such a scenario wrong involves drawing real lessons from the crisis: committing Europe to the path of stronger political union – subject to effective democratic scrutiny – and economic integration whereby divergences in development can be reduced, and economic and social cohesion strengthened. It also means committing Europe to a budgetary union based on principles of solidarity and responsibility, and giving it a federal framework of banking and financial regulation (Pisani-Ferry, 2011). That is the price to be paid, if the Euro(pe) crisis is to become an opportunity in respect of governance, stability, lasting prosperity and social progress.

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