Europe's employment and social inclusion policies amidst the crisis: an opportunity for the future?

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Antonio Gramsci (1891-1937) defined ‘crisis’ many years ago as a particular, dramatic moment when ‘the old’ is not yet quite dead and ‘the new’ not quite born, but when the origins of the crisis need to be examined in order to bring forth an alternative ‘counter-hegemonic’ vision (Gramsci, 1971).

From an economic and social point of view, 2009 will come to be seen above all as the year that bore the brunt of the harshest economic crisis experienced in Europe since 1929. The recession is a brutal one and is having profound repercussions on Europe’s economy and labour markets and on its citizens’ living conditions. This social downturn could be long-lasting if no adequate response is found, especially as the prospect of an economic revival appears faint. Furthermore, the fact that the crisis increasingly seems to be systemic is shaking the foundations of a neo-liberal model of economic development which for the most part is the model governing European integration today.

This period also coincides with what ought to be a special moment in the building of Europe, a moment when various aspects of a debate fundamental to the EU and its citizens are coming together in the definition of European meta-strategies for the medium term (EU2020) and the long term (a low-carbon economy and the Sustainable Development Strategy – SDS). These strategies are intended to establish a sustainable overall framework for European people’s lives in the years ahead. Now is also the time when Europe is supposed to be carrying out an in-depth democratic assessment of, firstly, the overall impact of the Growth and Employment Strategy (GES) at the end of its ten-year term and, secondly, the specific impact of its various economic, social and employment components as concerns the attainment of their individual objectives. It is also necessary to jointly assess the complex interplay between these aspects and their combined or separate effects within an
area as specific as the EU within a now globalised world. Such an objective and consensual assessment is a key element of the debate. But, as a corollary, questions also arise as to whether the intellectual capacity and the true political resolve to conduct this fundamental assessment really exist. Such an assessment is all the more vital in that the various stakeholders interpret the available results in a wide variety of ways.

It is advisable in this unusual climate to take a fresh look at the development of the EU-level Open Methods of Coordination (OMC) on the issues of employment and social inclusion. The first part of this chapter is devoted to reviewing the genesis of European political cooperation on employment and poverty: we examine the extent to which the successive economic crises of the past twenty years have served as defining moments or acted as tipping-points leading to substantial alterations or major revisions of policy direction. The second part, beginning with a consideration of the dire consequences of the crisis on jobs and poverty, seeks to highlight the main factors to be revisited when it comes to redefining medium- and long-term European strategies, i.e. strategies for redistributing wealth and combating social and economic inequality.

1. Crisis of the early 1990s and inception of the employment and poverty OMCs

The early 1990s were overshadowed by a severe economic and financial crisis caused in particular by the repeated attacks of speculators on certain national currencies and on the European monetary system. In addition, however, a collapse in demand was already making itself felt even then. That economic crisis followed on from a succession of others during the 1970s (the oil shocks of 1971 and 1979) and 1980s (the 1982 debt crisis in poor countries; the stock market crash of 1987), all of which had significant repercussions on European markets. As well as leading to the persistence of, or even a rise in, the relatively high ‘structural’ unemployment figures in some countries, this succession of crises helped to forge a consensus among European countries around the fact that they would be better protected if they were to coordinate their economic policies more closely. It was in this state of crisis that the Member States signed the Treaty of Maastricht in 1992 and paved
the way for the establishment of Economic and Monetary Union (EMU) as a complement to the single market. EMU was rolled out in three phases during the 1990s, culminating in 1997 with the introduction of the Stability and Growth Pact (SGP) and, in 2002, the launch of the single currency.

The economic crisis of the early 1990s thus occasioned not the onset but certainly the consolidation and expansion of the neoliberal policy model that had been present ever since the Union first began to assert itself as a single market. The establishment of EMU, after that of the single market, constituted a key turning-point since it marked the start of an era – still ongoing today – when the preconditions for the functioning of the single economic and monetary market were laid down as the dominant paradigm of European integration. The inception and further development of economic and social policies at both European and national level came to be placed under severe constraints by an economic framework whose imperatives (freedom of movement, free competition, budgetary stability and control, and an exclusively anti-inflationary monetary policy) were transferred to the European level in an overriding framework which then became a priority for European and national policy-makers. The workings of this entire mechanism were interpreted largely according to an axiomatic system based on the paradigms of the neoliberal approach to market functioning, drawn from the writings of Milton Friedman and the Chicago school. This initial framework still plays a major role in shaping not only the Union’s medium-term (EU2020) and long-term (SDS) strategic approaches, but also the development of social and employment policies at European and, increasingly, national level.

The genesis of European employment policy is intimately connected with the implementation of EMU as an economic framework; indeed, it followed the evolution of EMU during the 1990s. The crisis at the start of that decade also helped to weaken the resistance of certain Member States to pursuing closer European policy cooperation in fields traditionally falling exclusively under national competence, all the more so since those countries were now subject to mandatory coordination under EMU. In order to combat the high unemployment then prevailing in some Member States, and spurred on by the fear that it might become a structural feature of European labour markets, the EU-15 agreed on principles for cooperation, first in Essen in 1994 and then in
Luxembourg in 2007, by launching the European Employment Strategy (EES). The Treaty of Amsterdam, concluded in 1997, added the promotion of a high level of employment to the list of EU objectives; it also gave the European Community responsibility for supporting and supplementing the actions of Member States, encouraging cooperation among them and developing a ‘coordinated strategy’ in certain fields, including employment and social affairs.

From a procedural point of view, the EES is generally regarded as the precursor of the Open Method of Coordination (OMC), which later came to be used in other social policy fields as part of the Lisbon Strategy (LS). As one of the new departures facilitated by the Treaty of Amsterdam, the OMC was deployed and presented as an ideal means of achieving coordination and convergence in fields which fell exclusively within the competence of Member States, but a mechanism giving them scope to react in a concerted fashion to what were now – in view of globalisation – common challenges. The OMC has of course made positive contributions on employment and combating poverty which should be neither minimised nor overlooked, even though these policies appear less and less to be Europe’s real priority (de la Porte et al., 2009). But, in that it promotes coordination and gradual convergence of national policies, the OMC is also tool at the service of the EU’s economic goals. In areas such as employment and social affairs, where policy-making remains a national prerogative, flexible coordination makes it possible to optimise national responses by steering them in a given direction, and the convergence grid is calibrated in such a way as to respond above all else to the imperatives of EMU and the single market (Salais, 2004).

Development of the EES, hampered by the economic climate, was to move almost exclusively towards boosting supply in the labour market by means of employability and activation, as well as making labour more flexible both internally and externally. This was the only remaining course of action, now that the other traditional means of influencing labour demand – monetary and budgetary policies – had been ruled out by EMU and the SGP. The main political levers still available for achieving a high level of employment were, on the one hand, activation and the promotion of individual employability through human capital and, on the other, making labour more flexible both internally and externally. In order to avoid inflation and improve
competitiveness, it was also necessary to cut labour costs by halting productivity-related wage growth. As a result, even though unemployment was central to the crisis in Europe and had been a natural target of national employment policies for many years, measures to combat it were now pushed down the agenda within the single-track vision of maximising the employment rate, a vision more in line with the goals of EMU and its ideological construct. Youth unemployment alone remained a clearly stated common concern, especially because it legitimised the EES approach in terms of employability and activation (Raveaud, 2007; Salais, 2004).

The OMC on combating poverty and social exclusion, for its part, was launched immediately after the turn of the millennium as part of the Lisbon meta-strategy. The poverty OMC was originally based on a set of fairly broad objectives: promoting labour force participation and access for all to resources, rights, goods and services; preventing the risks associated with exclusion; taking action in favour of the most vulnerable; and mobilising all stakeholders. The idea was to take into account the multi-dimensional nature of poverty and social exclusion as well as the variety of forms they can take. This multi-dimensionality implied that a wide range of policies needed to be implemented in order to achieve the goals of the strategy, whilst acknowledging the predominance of employment and social protection within these policies. Individual Member States were given leeway to prioritise different aspects depending on their national circumstances, as was also the case with the EES at that time.

The poverty OMC did not however escape the constraints of EMU and the single market. The obsession with budgetary stability meant that the very principle of redistribution, which lies at the heart of social protection, was called into question. Public expenditure, especially on social protection, was perceived as a threat to budgetary stability. It was of course still regarded as vital in terms of social cohesion and as a final safety net in the fight against poverty. But in the context of EMU and the single market, social policies were now expected to be ‘modernised’ and their expenditure – as well as individuals – to be ‘activated’, while at the same time wrestling with the conflicting aim of ensuring their long-term budgetary sustainability and tackling the structural changes confronting them (population ageing and healthcare in particular). Social protection was regarded under the EES as a necessary evil whose
disincentive effects must be rooted out because they interfered with the need to ‘make work pay’; it was to be used above all to raise the employment rate by activating expenditure. Moreover, increasing emphasis came to be placed on the issue of activation in the poverty OMC, culminating today in the all-encompassing concept of ‘active social inclusion’.

The links between the two strategies were relatively vague at that time, and were discussed mainly in the context of the LS. The common goals of the LS and the poverty OMC do of course include the issue of access for all to employment and to the resources needed for a decent life. There is naturally a certain degree of convergence between the fight against poverty and social exclusion, and employment. The underlying vision of employment as the ‘one-size-fits-all’ solution to poverty and exclusion was of course already present from the outset, but not in any formal sense, and it was far less subject to the activation-driven approach then than it is now. The issue of the working poor was common to both strategies from 2002 onwards, but was framed differently. Under the poverty OMC, the working poor were viewed primarily as a counter-argument, putting into perspective the representation of employment as an absolute solution to poverty. But they also served as an argument in the discourse on the need to modernise social security systems so as to enhance their ‘incentive effects’. Under the EES, the working poor were primarily referred to as part of the normative discourse on the need to make work pay, but also to highlight the impact of part-time or fixed-term work. Thus the two strategies converge on these aims of modernising social protection, albeit according to subtly different interpretations. They likewise converge on aspects such as the multi-dimensional context of quality of work, the working poor, cross-cutting elements concerning equal opportunities and non-discrimination, as well as the role of the social economy. But these relative commonalities are more cognitive than political: analytical concepts and elements are shared, whereas policy aspects remain specific to each process.

Quality of work, but also of services (activation, social work, childcare etc.), is an important potential point of convergence between the poverty OMC and the EES. The addition of an across-the-board qualitative policy dimension had quite rightly been regarded as one of the important social policy innovations of the LS. This qualitative
approach was first of all applied to employment, in keeping with the Lisbon slogan of ‘more and better jobs’. It came into its own in 2002, with the introduction of a cross-cutting objective on quality of work and the adoption of a set of common indicators to measure it. But the initial aspiration of Lisbon had been to mainstream this qualitative approach across the entire range of social and employment policies, as evidenced by the title of the 2001 Communication on quality, which refers to employment and social policies as a framework for investing in quality (CEC, 2001). The quality-based approach was unfortunately largely jettisoned thereafter, although quality of work was still mentioned as a pillar of the revised EES, and although the common indicators do still exist, albeit now divided up between the various objectives (Peña-Casas, 2009; Raveaud, 2007). With hindsight, the abandonment of the cross-cutting qualitative dimension was without doubt a major failure of the Lisbon Strategy. The LS was thereby deprived of a means of discussing and better assessing the balance between – and respective importance of – each of the four pillars of well-managed sustainable development, while at the same time counterbalancing the quantitative norms laid down in the economic context of EMU. And a new crisis was now looming which would, in its turn, serve as the backdrop for far-reaching reform of the LS and of the employment and poverty OMCs.

2. Crisis of the early 2000s and a refocusing of the employment and poverty OMCs

Another financial crisis hit the developed countries’ economies at the turn of the millennium, following on from the Asian crisis of the previous years and caused above all by the bursting of the speculative IT bubble. It would appear with hindsight that, in the case of Europe, this was not so much a full-blown crisis as a sharp economic slowdown after the exceptional growth rates achieved from the mid-1990s onwards. The crisis peaked in 2002 with growth of +1.2% for the EU-27. (By way of comparison, 2009 saw a major recession of over 4% for the EU.) Several elements conspired to prompt a large-scale reversal of the thrust and operation of both the employment and poverty processes and the LS itself. Management of the economic and social consequences of the crisis came to be used at both European and national levels as justification of the need for reforms and for ‘rationalisation’.
The political landscape in the EU was undergoing significant change at that time. The economic slowdown was accompanied by political developments which ended the predominance of social-democrat Heads of State/Government in the European Council. This changing of the guard has further gathered pace since then, to the extent that centre-right governments can currently be said to wield almost absolute power within the EU. In the absence of high growth rates, the Member States were less inclined to back ambitious social goals. The supremacy of the intergovernmental method was likewise reinforced by a gradual erosion of the European Commission’s role as initiator of policy and its increasing tendency to act merely as a secretariat for the Council. The prospect of EU enlargement to take in a sizeable group of countries with a lower level of economic development was another factor influencing Council decision-making at the time, as did the budgetary constraints arising out of compliance with the SGP. In addition, there were real or imagined fears for the future financial viability of social security systems: these fears were sparked by the start of a debate about the future of pensions systems (Pochet, 2004; Zeitlin, 2007).

It was in this tense atmosphere that momentum began to build in the direction subsequently taken by the LS and towards its conversion into the Growth and Employment Strategy. Indirectly, too, there was an impact on the relationship between – and respective roles now attributed to – the employment and poverty strategies within the LS. The crisis served once again as a pretext to justify the predominance attached to the economic paradigm within the LS and the employment and poverty OMCs. Certain analogies can in fact be drawn between the process which followed on from this overhaul and the present-day state of affairs.

First of all, that period too was a time of strategic reappraisal at a time of crisis. One of the triggers was the first appraisal of the EES in 2002 after five years of operation. This was an in-depth appraisal but it lacked clarity on the real or imagined effects of the EES (CEC, 2002a and 2002b). What is more, in its Communication on the EES review, the Commission gave a subtle analysis of the effects of the EES, pointing out in particular its positive role in promoting convergence of national employment strategies and the development of a new, more active, labour market policy aimed at implementing preventive measures (CEC, 2002a). Thus the Commission emphasised the
contribution of the EES to the economic pillar. In a sense, the EES was a victim of its own comprehensive approach: its desire to incorporate an all-round, socially oriented approach despite remaining confined to the issue of labour market supply was most welcome. Yet the fact that a multi-dimensional view of Europe's labour markets was coupled with a consideration of across-the-board targets in respect of gender equality and quality of work contributed to making the employment guidelines somewhat complex and difficult to assess in a clear-cut fashion over such a short time-span, ending in two years of recession. The results would therefore appeared to be mixed, even though it is difficult to clearly assess the effect of the reforms, especially their positive and negative interactions (Watt, 2004). This major problem was however rapidly set aside in favour of a drastic ideological refocusing on the economic pillar.

Another analogy with the present day might lie in the hijacking of the debate and the undemocratic, non-participatory turn that it was to take. No real attempts were made at the time to undertake a thorough multi-disciplinary, consensual assessment of the effects of the reforms, even though – depending on one’s perspective – those effects were by no means obvious or positive. The Council and the Commission preferred to call in a group of experts whose provenance was uncertain and whose leader was the controversial Wim Kok. Kok’s group was initially tasked with a policy review of the EES, and he was put in charge of another group thereafter, this time responsible for nothing more and nothing less than assessing the specific direction to be taken by the LS as a whole (Kok et al., 2004a and 2004b). These reports, which were very clear-cut and by no means subtle, refocused the priorities of the EES and the LS exclusively on growth and the Broad Economic Policy Guidelines (BEPG). The EES, they found, must attach priority to boosting employment at all costs by making labour markets more flexible, while the LS should basically be geared to the paradigms of innovation, the internal market and administrative deregulation in order to promote economic growth and employment. The issue of poverty was totally conflated with that of social cohesion, which had to be ensured through inclusive labour markets so as to maximise employment (Begg, 2006). If structural reforms were not working, that was mainly because the Member States were fighting shy of implementing them. A system of sanctions should be established, and implementation of the reforms should be centralised at Council level.
These reports were to be submitted to the first Commission headed up by José Manuel Barroso in November 2004 and would profoundly influence the genesis of what became the Growth and Employment Strategy in 2005. The Commission did however refrain from taking the sensitive step of making these measures mandatory on Member States in the final draft of the new revised Strategy (CEC, 2005a). The economic agenda was emphatically given priority and placed at the heart of the Strategy, while the other aspects were legitimate only to the extent that they contributed quantitatively to the economic pillar. Over and above this new ideological focus, the OMC process also had to be streamlined so as to maximise the convergence of national reforms towards economic objectives. The LS, in its new guise as the GES, was now placed within a multiannual, simplified framework (Zeitlin, 2007).

In 2005, therefore, the employment and poverty OMCs were radically altered in both substance and form. The employment guidelines (EGs) were merged with the BEPGs into a single unit – the integrated guidelines for growth and employment (IGs) – which became the backbone of the GES. Henceforth the EGs constituted only a minor subset (a third of the IGs) of the micro-and macro-economic guidelines. They were established for a three-year period (2005-2008) and have recently been renewed without amendment until 2010. The EES was refocused on three main objectives: achieving full employment; improving the quality of work and labour productivity; and strengthening social and territorial cohesion. Its scope was clearly circumscribed through the setting of overarching priorities: activation; modernisation of social security systems; administrative simplification; adaptability of workers and enterprises; and investment in human capital to improve employability. Although the key issue of quality of work still formally constituted a pillar of the EES, it was replaced by a new and more simplistic paradigm that was more in keeping with the economic guidelines, whereby ‘flexicurity’ became the cornerstone of European labour market reforms. Flexicurity is understood as a balance between the increased need of companies for flexibility in a globalised economy and the need of workers for security in terms of employability and occupational advancement (Raveaud, 2007). It does of course open a new door to supporters of the social dimension by creating scope for action on the security side of the equation, but only within a very narrowly circumscribed framework, given the economic perspective of the IGs.
As for the poverty OMC, renamed in passing the ‘social inclusion’ OMC, it barely escaped total assimilation. It became one of the components of a broader ‘super-OMC’ covering social protection as a whole (along with the pensions and healthcare OMCs). Thus the issue of combating poverty was formally dissociated from the reforms connected with pensions and healthcare, two of the main strands in the process of reforming/modernising social protection in line with the economic agenda, where what matters most is to keep budgetary risk under control and to prioritise the financial viability of social protection. The new procedures created a hierarchy of priorities, organised in accordance with the economic framework which dominated the GES in its entirety. For instance, the ‘overarching’ objectives of the streamlined social protection OMC emphasised the need to improve governance and to integrate/subordinate the OMC to the growth and employment objectives of the GES. The promotion of social cohesion and equal opportunities was devolved to national social security systems which, as well as being ‘adequate’ and ‘accessible’, must also be ‘financially viable’, ‘adaptable’ and ‘efficient’. The specific goals of the social inclusion OMC emphasised above all activation and labour market participation as the principal means of combating poverty (CEC, 2005b). This ‘active social inclusion’ approach currently has the upper hand, although it has been toned down by the attachment of conditions on the adequacy of social protection (decent minimum standards) and access to high-quality social services for people ‘furthest from’ the labour market (CEC, 2007).

The years following on from the economic crisis of the early 2000s therefore constituted another period of intense strategic reappraisal. Policies were not rethought from scratch but were refocused in normative terms on the true priority of both Council and Commission, namely economic growth as the one and only solution for all evils. And this still remains the prevailing mindset today. Of course, the crisis was not the only factor explaining this shift, but it served as a major argument in the discourse used to legitimise the return to neoliberal orthodoxy. Thus the GES totally swept aside the most innovative aspects of the Lisbon Strategy and its initial potential for building an approach truly based on sustainable development, prioritising the effective contribution of social and environmental policies to sustainable growth, along with the importance of a qualitative – and not purely quantitative – appraisal of these policies.
This raises the question as to whether, given the systemic nature and unprecedented scale of today’s severe economic crisis, it too might play a part in creating similar opportunities for challenging the established mindset and embarking on a change of course. After all, the crisis is seriously shaking the ideological foundations of our economic and political leaders’ beliefs with respect to the internal coherence and sustainability of the globalised neoliberal model. This question is all the more pertinent in that the crisis is occurring at a socially and politically appropriate moment, one when Europe is having to redefine its medium- and long-term priorities. A major paradigm shift is absolutely essential (Degryse and Pochet, 2009).

Finally, a far from negligible spin-off of the crisis could also be a rise in social tension within European countries and between social groups. Such tension will only be heightened if budgetary control and austerity, dictated by compliance with the rules of the SGP, are to be the only responses to the crisis. It will in any event be worth keeping a close eye on what happens, and the current and future circumstances of countries such as Greece will be particularly revealing in this respect. The greater the social impact of the crisis on Europe’s population, the more pronounced this social tension will be.

3. The current crisis and its consequences for employment and poverty in Europe

If there is one widely acknowledged fact at the present time, it is that the crisis has struck Europe’s economies with a force unparalleled since the Wall Street Crash of 1929. The economic slowdown was already evident in 2008 but accelerated significantly during the course of 2009. For the EU as a whole, the downturn in 2009 looks likely to have been in the region of -4.1% (as an annual change in GDP) compared with 2008, when growth remained narrowly positive (+0.8%), albeit well down on 2007 (+2.9%). The European economy has suffered a severe and unprecedented shock. Nor are the forecasts for 2010 at all encouraging, with weak positive growth expected for the EU-27 (+0.7%). This situation is all the more worrying in that, as ever, the European average masks a variety of circumstances across the Union. For example, most European countries experienced a sharp downturn in 2009, ranging from -2.2% in France and Malta to -8% in Romania,
where the recession is likely to be followed by (very) weak positive growth in 2010. But in 2009 the crisis is likely to have had the strongest impact of all on the Baltic ‘tigers’ (Lithuania, Latvia and Estonia) and the Celtic ‘tiger’ (Ireland): between -13.3% in Estonia and -18% in the other two Baltic states; -7.5% in Ireland. The downturn had in fact already made itself felt in these countries in 2008 (apart from Lithuania). And the outlook for 2010 is scarcely any brighter, with the recession set to last for quite some considerable time. Other European countries are also likely to see the recession last into 2010, but to a lesser degree (Hungary, Bulgaria, Spain and Greece). It is interesting to note that Poland stands out as an exception in this disaster-stricken European landscape, with its growth rate remaining positive between 2008 and 2010 (CEC, 2009a).

The impact of the crisis on labour markets was particularly severe in 2009. The European employment rate fell sharply by comparison with 2008 (down 1.9%, or approximately 4.5 million jobs); this state of affairs seems set to continue for at least the next two years. At the same time, the demand for labour has shrunk by 30%. This marked contraction in employment is not only a consequence of the crisis but also results from the strategy of making European labour markets more flexible, as advocated by the EES and the GES. Workers in atypical jobs have been among the first to become unemployed: between the second quarter of 2008 and the second quarter of 2009, 1.7 million temporary workers – a million of them in Spain – lost their jobs (CEC, 2009b). Unemployment has surged throughout the EU, up from 6.2% to 9%, which constitutes an increase of almost 50%, and it will probably exceed 10% in 2010 and 2011, representing the loss of more than 7 million jobs over that period. Certain countries have experienced nothing less than an explosion of unemployment, with the rates for 2009 having almost doubled (Spain, Romania, Denmark, Ireland) or even tripled (the Baltic states). For the first time in history, the unemployment rate for men is similar to that for women, but this is not necessarily good news for equal opportunities. The reason is that the crisis has hit hard in typically male sectors of the economy, such as construction, heavy industry and transport (CEC, 2009b). And it has to be acknowledged that the scale of the damage would have been even larger without the set of measures put in place fairly rapidly by the European countries in order to keep workers in their jobs as far as possible: measures such as short-time working and reductions in working time offset by supplementary
temporary unemployment benefit. But some people have only been able to keep their jobs during this period of crisis at the cost of a drop in their monthly income. As pointed out by the International Labour Office, there was a very pronounced slowdown in wage growth in 2008, and wages actually appear to have fallen in 2009 (ILO, 2009).

These effects on jobs and unemployment will be substantial and long-lasting. Analysis of the previous crises reveals that, even when the economy begins to turn round, there is a time-lag of several years between the economic upturn, the reversal of the unemployment rate and the pick-up in the employment rate (Carmen et al., 2009). Unemployment therefore looks set to remain on the national and European policy agenda for some time to come, even though it is not a priority of the EES or the GES. Thus many European countries will be forced to operate a trade-off between their national social and economic situation and European economic constraints. This constitutes a major source of tension for the EU, since it is in the social arena that the effects of the crisis are most keenly felt and, importantly, most likely to persist. The crisis has first and foremost wiped out the (weak) progress made in the space of a decade under the LS and then the GES, but it has in addition propelled into poverty and insecurity many individuals and households who had so far managed to keep afloat. And that situation could be long-lived, given that the recovery policies currently under discussion seem above all to hinge on budget austerity.

Apart from these facts about the labour market situation, however, there are currently no comparable empirical data available to confirm the extent to which the crisis has impacted on the living conditions of European citizens – which is moreover a political problem in itself. It is nonetheless altogether reasonable to posit that a deterioration in social conditions and an increase in poverty in the aftermath of the crisis will need to be taken into account by the EU and the rest of the world in the years to come. Two extremely interesting reports from the European Social Protection Committee (SPC) do however give us an idea of both the potential decline in social conditions within the EU and the contribution that social policies can make to alleviating the effects of the crisis (SPC and CEC, 2009; SPC, 2009). These reports, which are substantive documents drawn up for the political players involved in the OMC and the GES, demonstrate that, although the protagonists in the process (the SPC and also the Commission) take a hard, critical look
at the excesses of the model when they examine it from a social perspective, their points of view are unfortunately hardly reflected at all in the dominant strategic discourse. The analysis of the social impact of the crisis set out in these documents does nevertheless highlight a number of factors which should be given priority consideration by policy-makers in the years ahead. What is more, the International Labour Organization produces very similar findings in a worldwide survey (ILO, 2009).

The SPC begins by noting the grave deterioration in labour markets following the crisis, inasmuch as employment is still regarded as the most effective bulwark against poverty. Unemployment has struck particularly hard at population groups which were already especially vulnerable beforehand: young people, migrants, the low-skilled, the long-term unemployed, single-parent families and workers on atypical (fixed-term, part-time or temporary) contracts. Within these various categories, women are more exposed than before. Alongside the contraction in the demand for labour, there is an acknowledged risk of a rise in the number of working poor and people with no job security. This phenomenon is reflected, in most European countries, in an observed swelling of the ranks of both unemployment benefit claimants and welfare claimants, consisting primarily of workers in insecure occupations.

Opportunities for the most vulnerable workers to join the labour market have shrunk significantly owing to the contraction in the demand for labour, but also as a result of heightened competition with better-qualified jobseekers who have become unemployed in the wake of the crisis. This affects not only welfare claimants but also people who are in poor health or disabled. The SPC also points out that, by observing the effects of previous crises, one can detect an undoubted risk that many people will be propelled into long-term unemployment or even inactivity, given the difficulty of finding work in a crisis-hit labour market, but also owing to the loss of purchasing power which prevents women in particular from using childcare facilities if they are not easily affordable.

The SPC therefore spells out a fundamental message which has been somewhat sidelined during the lifetime of the LS: only through high-quality jobs and social protection can poor people be permanently lifted
out of poverty while preventing those who are not poor from becoming so. Hence it is necessary to be especially vigilant when jointly implementing the three principles of active social inclusion defined in the Commission’s recommendation: namely that social security systems must ensure an adequate income enabling people to lead a decent life, while ensuring that everyone has access to high-quality employment on an inclusive labour market, as well as having access to high-quality social services (CEC, 2008). And the fact that people’s circumstances have stagnated or even worsened over time becomes perfectly plain if one closely monitors developments relating to the quality of work in all of its many dimensions (Peña-Casas and Pochet, 2009).

Other factors detrimental to European people’s incomes have been exacerbated by the crisis and serve to increase job insecurity. Excessive debt levels, which already affected a large number of households, have risen still further since the onset of the crisis, as has the number of households losing their home by defaulting on their payments, be those rental or mortgage payments. The SPC likewise points out that, despite relative price stability since the mid-1990s, certain consumer products have come to account for a growing share of household budgets, especially among the poorest households: energy, education, healthcare, transport and rental costs. Market liberalisation has been of little benefit to Europeans in this respect. The financial crisis has likewise harmed many private pension funds: this could lead in future to an increased risk of poverty among pensioners in countries where 2nd and 3rd pillar pensions represent a substantial proportion of pensioners’ income security. What is more, these same pension funds played a not insignificant role in the onset of the financial crisis, as well as in the deterioration of the real economy, given the pressure placed on financial systems to produce yields which are now, somewhat belatedly, agreed to have been unrealistic (see contribution by David Natali in this volume).

4. Back to basics: combating inequality while ensuring a fair redistribution

These reports quite rightly insist on the vital contribution of social protection to cushioning the effects of the crisis. Because, far from being a handicap, Europe’s high degree of social protection has instead
served to protect its economy. The crisis has however heightened a key source of tension in the economic model of the GES, namely the tension between essential social investment and the European-level constraints imposed on social security systems to make them financially viable and to curb public expenditure.

One of the first lessons learned from the crisis is that the countries with the highest levels of social investment have been those best able to cushion the impact of the crisis, thereby enabling them to recover most rapidly. Let us recall in this regard what we said above about the greatly impaired social and economic circumstances of the ‘economic tigers’, which were the ‘good guys’ according to the GES economic model. Those countries had previously been praised to the skies for their sustained economic growth and high employment rates but were also known for the considerable flexibility and insecurity on their labour markets and in their social investments, as well as for their extremely limited welfare cover. They fell to pieces as soon as the crisis began and will suffer for longer than other countries. Meanwhile, the countries that have withstood the crisis best are not necessarily on the list of GES good guys.

By playing this important role of automatic stabiliser in the face of external shocks, social protection is demonstrating the useful contribution it makes to the economy: a major contribution worthy of serious reconsideration in the balance to be struck between Europe's economic and social development pillars. Expenditure on social protection would therefore appear to be counter-cyclical, both at times of crisis and at other times, depending on the operational rules (eligibility conditions, duration etc.). Such expenditure makes it possible to maintain the productive capability of the economy by granting room for manoeuvre at times of crisis, and this room for manoeuvre is vital to recovering from a crisis. Increased spending on social protection should therefore be regarded as an integral part of recovery measures, rather than as a permanent fixture, in that it can be adjusted once the crisis is over (SPC, 2009).

Over and above its input at times of crisis, however, social protection also plays a fundamental role in that, along with taxation, it is an ideal means of redistributing wealth and reducing inequality. Here, it plays a role in preventing crises which is every bit as important as its curative
role. Redistribution is a way of combating poverty and of preserving workers' incomes in the face of social risk. Fair redistribution, more broadly, mainly plays a key role in social cohesion by minimising economic and social inequality, or at least keeping it within socially accepted limits. In economic terms it upholds the capacity for market demand, in other words the disposable income of individuals and households. Taxation facilitates income redistribution too, of course, and does so even more effectively than social protection according to some authors (Fuest et al., 2009; Immervol and Pearson, 2009). But (para-) taxation, by means of social security contributions, has long been associated with labour rather than wealth. A better redistribution of wealth through taxation therefore means shifting the burden of social security funding from earned income to unearned income, or at least trying to strike a fairer balance between these two sources of wealth. This is an important issue and a major challenge for the long-term viability of social security systems, but it is also relevant to sustaining household demand, which is equally important for the long-term viability of Europe from an economic point of view.

Nonetheless, if there is one policy area where most of the industrialised countries have failed lamentably over the past thirty years, it is that of reducing inequality. This is an unavoidable conclusion to draw at both worldwide and European level. Researchers concur that Europe's economies have been incapable of reducing economic inequality, i.e. the ratio between the highest and the lowest incomes within a given society. Inequality has risen in most European countries since the mid-1980s, the sharpest rise having occurred between the mid-1980s and the mid-1990s. Since then, inequality has more or less stabilised, with the exception of a few countries where it is still growing (the Scandinavian countries, Germany, Austria, Portugal, the United States and Canada) or has declined somewhat (Ireland, the United Kingdom, the Netherlands and Greece) (OECD, 2008). In most countries we are seeing a more rapid net growth in the highest incomes than in average or lower incomes (Alvaredo and Piketty, 2009). Even worse, underlying this growing income disparity is a substantial increase in wage inequality among full-time workers. This trend is reinforced by the proliferation of atypical employment, since part-time workers and temporary contract staff not only work fewer hours but are also less well paid than full-time workers (OECD, 2008).
The above observation is important in that it fundamentally contradicts the dogma of the EES and the GES, which gives pride of place to labour flexibility and the reduction of wage costs. Indeed, many economists believe that this ‘wage deflation’, to use the term coined by Jacques Sapir, is a fundamental cause of the current systemic crisis. This growing inequality has reduced consumption among lower-income groups, which has ultimately depressed global demand (Sapir, 2008; Fitoussi and Stiglitz, 2009). In the United States, the compression of low incomes has led to a decline in household savings and a rise in debt which has enabled demand to hold up over time. Owing to the limited welfare cover available, the US government has had to implement sustained macro-economic policies in order to limit unemployment, which has resulted in a sizeable public debt. Growth in the US has therefore held up at the cost of mounting public and private debt. Europe has charted a different course with EMU. The more rapid redistribution towards higher earnings has boosted national savings at the cost of weaker economic growth. The effect of the budgetary constraints deriving from the Maastricht criteria and the SGP over the past fifteen years has been to combine fairly unresponsive budgetary policies with a restrictive monetary policy geared mainly to combating inflation and wage rises. This, coupled with a less innovative financial sector, has curbed borrowing capacity and hence public and private debt (Fitoussi and Stiglitz, 2009). The growth in inequality and the compression of the lower and middle income brackets have therefore led to a collapse in demand and growing indebtedness.

Thus at European level, too, there would seem to be a negative correlation between economic and political integration, and rising economic and social inequality. By curtailing the ability of national governments to pursue independent budgetary policies and reinforce income redistribution mechanisms, EMU has generated a slight but significant rise in income inequality which has had to be offset by social policy measures that are themselves less generous than in the past (Bertola, 2009). This certainly gives pause for thought about the merits of European integration, at least if one believes that its prime objective should be to improve the well-being of all European citizens.

Economic growth can of course be important in reducing inequality, especially because it allows for the funding of social protection through the taxes generated by employment. Yet the jobs concerned need to be
of good quality and, if the system is to work in the long term (i.e. at the time of employment) but also over the course of time, thanks to effective social protection which provides security in the event of labour market transitions during working life, but also thereafter, once the age of retirement is reached. This is the idealised vision of flexicurity promoted by the GES. The only problem is that, in promoting greater flexibility of labour and more deregulation of labour markets, the qualitative dimension of work has been forgotten along the way; at the same time the security side of the equation has been damaged by the straitjacket increasingly being imposed on public spending. After all, workers’ ‘security’, increasingly offloaded by companies on to the public authorities, is expensive and presupposes above all that those authorities are strong and fully capable of action. The same applies to active labour market policies, which are very onerous, especially when they seek to assist those furthest from the job market to return to work by means of active social inclusion. Here we have another fundamental contradiction with the precepts of the SGP, which advocates at the very least a rethink of the role of public spending within the overall strategy. This contradiction likewise calls for the reintroduction of a cross-cutting qualitative perspective, to contribute to a more objective assessment of the durability of the aims of the EU2020 strategy as compared with the longer-term aims of the SDS.

The above point is all the more relevant in that the ultimate paradigm of market doctrine, whereby growth is the solution to all ills, appears extremely shaky once one takes a closer look from an inequality perspective. According to the liberal model, there is an automatic and inevitably positive causal link between economic growth on the one hand and, on the other, the reduction of inequality and poverty. Yet there is very little empirical evidence that this causal link, so often portrayed as self-evident, really exists. Some economists have demonstrated that too much equality can reduce growth, but that too much inequality is equally detrimental to growth (Cornia and Court, 2001). Most economic and econometric studies have reached inconclusive and contradictory results on this so-called self-evident link which may be due to the strongly reflexive nature of the relationship between growth and inequality: inequality diminishes growth and growth enhances inequality (Pagano, 2004). Others regard this highly uncertain relationship as the combined effect of two distinct types of
income inequality: inequality of opportunity (caused by discrimination) and inequality resulting from individuals’ responsible decisions. The former, they maintain, is negatively correlated with growth, whereas the latter is positively correlated with it (Marrero and Rodriguez, 2010). We would recall in similar vein that a report produced for the Swedish presidency of the EU suggests that plugging the gap in the employment rates for women and men would in itself lead to a rise of between 15 and 45% in European GDP (Löfström, 2008). So it would appear that social inequality has a negative influence on income inequality which, in turn, results in lower economic growth. In other words, if we wish to have ‘smart’ growth, to paraphrase the European discourse, we should perhaps strive harder to reduce economic and social inequality.

The group of experts formed by Jean-Paul Fitoussi and Joseph Stiglitz (Shadow Gn) to provide input into the G20 summit on ways out of the crisis makes a number of recommendations aimed at reducing income inequality and hence boosting demand in the medium and long term. Their proposals for recovering from the crisis and combating inequality are set out below, since they strike us as avenues worth pursuing when drawing up what will be the EU’s medium-term strategy (EU2020). Their recommendations are as follows:

— fight against tax havens and tax evasion;

— introduce cooperation among countries to avoid tax competition, social dumping and a downward wage spiral;

— return to a more important role for automatic stabilizers, and more generally to an enhanced social protection role for the government to help maintain sustained growth and high levels of employment;

— implement a general redesign of the welfare system, aimed at redistribution and human capital formation. This would imply in particular: the generalization of universal health care and education provision; the reversal of the trend from defined benefit to defined contribution pension schemes, that in the past greatly reduced the redistributive role of social security.

Implementing such fundamental changes in the EU as it stands today will naturally be a slow process, but they should nevertheless feature
prominently among the range of measures implemented under the EU2020 strategy if that strategy is to promote a sustainable recovery from the crisis and equally sustainable development thereafter. By the same token, reducing economic and social inequality should be Europe’s top priority. This also means that all players must agree to a complete rethink of the priorities established as part of a developmental model which is now so manifestly malfunctioning.

Conclusions

Each of the economic crises of the past twenty years has served as the backdrop for a strategic review of the European model of integration. Thus the crises of the 1990s saw the EU become increasingly subject to the imposition of an essentially economic model of integration, based on EMU and the single market. The Lisbon Strategy, in its original incarnation, was an exception here in that it took shape during a period of sustained growth. As such, it represented a particular moment in the definition of the European model, which would appear with hindsight to have been untypical. Of course, the LS remained bound by the constraints of the EMU economic framework, which was influential in shaping it from the outset. But the original LS also paved the way for a more ambitious strategic approach: an integrated and more well-balanced strategy based on a ‘virtuous’ equilibrium between economic, social, employment and environmental considerations, thereby acting as a precursor to a sustainable development approach. It likewise proved innovative by attempting to introduce equality and quality into the model as new cross-cutting paradigms. These innovations are worthy of further consideration now that Europe finds itself at another crossroads. Nevertheless, the crisis of the early 2000s rapidly stifled these aspirations and led, after 2005, to a clear refocusing of the European model of integration on its economic goals.

That prompts the question as to whether the severe crisis of today might, in similar vein, contribute to creating another such moment of opportunity to move from ‘the old’ to ‘the new’ – harking back to our opening Gramscian analogy – by pulling together to build an ‘anti-hegemonic’ discourse. The current climate would appear favourable to a redefinition of the European integration strategy. Yet the content of the
debate at present offers little scope for a radical change in the essentially economic thrust of European strategy.

The systemic nature and unprecedented intensity of the current crisis lead us to consider a thorough rethink of the founding paradigms of the economic development model promoted by the GES and EMU, a model which seems highly likely to be renewed as it stands in the EU2020 strategy. Growing economic and social inequality lies at the root of the crisis and, by staking everything on growth and employment at all costs to the detriment of the fight against inequality, Europe's integration policy has merely exacerbated this destructive trend. The straitjacket imposed on public finances by compliance with the SGP has contributed to this growth in inequality by diminishing the redistributive capacity of social security and taxation systems. But one lesson the crisis has taught us is that, far from being just a burden, social expenditure has on the contrary made it possible not merely to cushion the initial impact of the crisis but also partially to prevent it and to contribute effectively to the recovery by preserving jobs and workers' incomes. Social expenditure would appear all the more vital in that the social and economic effects of the crisis are profound and will be long-lasting. The fight against economic and social inequality should be a central paradigm of the European model of development, and in this capacity it should feature prominently among the objectives of the EU2020 strategy – which was not the case at the time of writing these lines.

This unparalleled crisis is furthermore occurring at an appropriate moment, in social and political terms, for there to be renewed discussion of the basic paradigms of European integration. Europe must, over the coming year, prove its ability to carry out an objective, in-depth assessment of its (non-) achievements, so as to learn from them in order to better define new meta-strategies for the medium and long term; it is absolutely crucial from a longer-term perspective for there to be a paradigm shift in the direction of sustainable economic and social development. This assessment must be objective but also legitimate: it must reflect a shared analysis on the part of all stakeholders, in order to reach a broad consensus and ensure real ownership of the goals by the players in the process but also, and above all, by European citizens.
What certainly must not happen is for the crisis to be used as a pretext for ignoring another, much more distressing fact: namely that the GES was a manifest failure even before the crisis struck. Hardly a single one of the quantified targets set was attained in the ten years of Lisbon, and generally speaking there are still wide disparities between European countries. As for the progress made on employment, it has been attributable mainly to a growth in atypical jobs among women and, to a lesser extent, older workers. These groups have been the first to lose their jobs as a result of the crisis. By the same token, the minimalist aim – announced without a specific target – of ‘significantly reducing’ poverty by 2010 still remains a long way off, with poverty having at best stagnated since the turn of the millennium. Although the risk of poverty has lessened for older people, it has grown among the young and the working population. And this serious shortcoming cannot be blamed solely on a lack of coordination or resolve on the part of European countries.

The fact that this failure was downplayed in the draft assessment recently submitted to the European Council by the Commission scarcely testifies to an ability and a determination to properly examine all the (non-) effects of the GES. Equally, the biased interpretation of the initial findings of the consultation on the EU2020 strategy provided by the Commission on that same occasion does little to indicate a desire for transparency and participation in the debate (CEC, 2010a and b). At the time of the no-votes on the Treaty of Lisbon, Europe declared its awareness of the need to communicate better with its citizens so that they would endorse the European project. More than ever before, it would do well to remember that now: this debate is fundamental to the future of the EU and its citizens, and we would be well advised to take the time to reflect in the round on all of its complexities and practical implications. It would undoubtedly be more appropriate to make the most of 2010 to conduct an unbiased and consensual review of the Lisbon Strategy since its inception, and to build on that to establish the best possible synergy between medium-and long-term strategies: it is vital that these strategies mutually reinforce one another. The medium-term strategy must contribute to implementation of the long-term strategy, rather than the two evolving in parallel with different, not to say conflicting, aims and targets. But will the EU be able and sufficiently willing to venture beyond its current paradigm?
References


