A worrying prospect: towards a more imbalanced European social governance?

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Various theoretical models of economic and monetary unification have been considered throughout the history of the European Community/Union: monetary union as the natural outcome of political union, monetary union as the trigger for political union, and monetary union without political union. The latter two models have been in a state of tension in recent years; the shortcomings of monetary union without political union were revealed during the recent financial and sovereign debt crisis. In order to address the crisis without setting off down the route of political union, European leaders set up a system of procedures known as the 'European Semester' to encourage eurozone Member States in particular to adopt economic and social policies marked by budgetary rigour, fiscal consolidation and structural reforms. In these processes, a key role is played by the 'country-specific recommendations', addressed each year to the Member States.

In the following paragraphs, we will begin by describing the three main policy dynamics underlying the different models of economic and monetary union (EMU). These dynamics influence the architecture of monetary union and, in our view, they also influence the resulting social model. Right from the outset, then, the choice of model is not a neutral one.

Secondly, we shall see how these different dynamics have developed, and which political preferences they reflect. Our hypothesis is that in the wake of the financial crisis of 2008, the ensuing 'euro crisis' reaffirmed the move away from a model of EMU backed up by a form of political union towards another model, without political integration but governed by the market. This shift, or transformation, is the result of a threefold change: in ideas (policies to be implemented), institutions (whose role would change in the new governance system) and in the

interests of the relevant players (a growing divergence between groups of countries – North, South, centre, periphery, Central and Eastern Europe, Western Europe, etc.)

We will then consider the consequences of this transformation on social models at national and European levels. These consequences are not so much linked to the crisis itself, but are, rather, inherent to that one particular vision of how economic and monetary union should operate. In our hypothesis, the crisis merely acted as a window of opportunity for the proponents of a deregulatory form of monetary union.

Finally, we will conclude by drawing attention to the points of coherence, but also to the inconsistencies, contradictions, power struggles and possible changes of paradigm that rule out any suggestion of a foregone conclusion.

1. Theoretical frameworks and institutional dynamics

As shown by Verdun (2013) and Schelke (2013), it is possible to characterise different institutional dynamics linking economic, political and monetary integration from an economic standpoint. We shall attempt to summarise the various theoretical frameworks which have underpinned these dynamics in relation to the development of EMU, as well as their implications for the social model. Basing ourselves freely on the debates among economists, we will elaborate three schematic models of possible modes of interaction, while explicitly incorporating the social dimension into the overall picture (for a more extensive description see Degryse and Pochet 2013). This will allow us to examine the political choices behind these various models.

1.1 Monetary union as the natural outcome of political union

The different sequences in accordance with the first dynamic are as follows. During an initial period, the aim is to achieve real convergence of production structures among those Member States wishing to take part in the monetary union; this entails the need for deeper economic integration. Once adequate convergence of policies, including wage and social policies, has been achieved, it is time to move on to a second

stage, to make a democratic leap, so to speak, and to create a political union as a means of achieving a greater degree of solidarity among states. Finally, this integration of the real economies and this political union enables the last stage of the construction to be completed in the form of a monetary union. In the view of Pierre Werner, former Prime Minister of Luxembourg and the author of the first report on monetary union: 'the realization of economic and monetary union demands the creation or the transformation of a certain number of Community organs to which powers until then exercised by the national authorities will have to be transferred. These transfers of responsibility represent a process of fundamental political significance which implies the progressive development of political cooperation' (Werner 1970). In this federal-type model, therefore, political, economic and social convergence is one of the (many) prerequisites for monetary union.

1.2 Monetary union as the trigger for political union

According to the second dynamic, political, economic and social integration is also linked to monetary union, but it is a gradual consequence of this and not a precondition. In this scenario, the monetary union is constructed on the basis of formal criteria – in particular, the well-known public deficit and public debt criteria – which allow selection of only those countries that are in a position to endure the constraints inherent in the process. Governance by indicators is regarded as a means of 'forcing' real convergence of the economies. This is a form of convergence that also requires solidarity mechanisms (use of structural funds, creation of a convergence fund, increased community budget) and, *in fine*, political integration (adoption of a European constitution). Within this model, social convergence, while representing an essential component of the project, is not assumed *a priori* – for example in relation to centralisation, decentralisation or coordination of collective bargaining (cf. Calmfors *et al.* 1988 and the many ensuing discussions on the relative effectiveness of the structures of industrial relations, cf. for example Traxler and Kittel 2000) – and is hence dependent on democratic debate.

1.3 Monetary union without political union: procedural governance and the 'recalibration' of social models

The third model also takes as its starting point the fact that monetary union needs to force economic union, but it regards as impossible – even undesirable – the creation in the medium term of a true political union. Monetary policy therefore has to be immunised against political decision-making (i.e. the outcome of democratic debate) and entrusted to independent experts. In the absence of adjustment instruments achieved through political integration and solidarity, this approach is focused, therefore, on adjustment through the market, implying flexibilisation of social policies at national level (decentralisation of wage bargaining, flexibilisation of hire-and-fire arrangements in particular, reduction of replacement income), increased mobility of the labour factor at intra-European level, and governance through the observance of procedures and formal rules devised by experts ('European Semester', budgetary discipline, etc.), under threat of automatic sanctions, in other words without, or with only extremely limited, margin for political interpretation. Under this model, the monetary union governed by rules and procedures requires a decentralisation and 'flexibilisation' of the social model, which becomes an adjustment variable in the event of asymmetrical shock.

Although the presentation of these models is highly schematic, they are abstract sequences and not totally linked to specific writings or authors.

2. From one model to another

The first approach – monetary union as the natural outcome of political union – enjoyed its heyday in the 1970s. It can be found in the draft Werner Plan, which stated that 'the complete monetary unification of Europe was to be expected only as the outcome of a more protracted process of political union' (Werner 1968). Analyses published at the time (Marjolin report 1975 and McDougall report 1977) presented the main features of the approach that envisaged monetary union as the final stage of an economic, social and political sequence. With the crisis of the euro, this vision has, to some extent, returned into the public debate, with some economists – mostly, but not exclusively, Americans (Eichengreen 2012) – arguing that there is a basic fault in the construction

of EMU. This approach no longer has political currency because EMU has, in its present form, followed a different path.

The two other approaches have been in a state of mutual tension over the last twenty years. In the first of these two approaches, it is possible to recognise the sequence of reforms followed in the European Treaties. After the architecture of economic and monetary union outlined in the Maastricht Treaty (1992) with its model of strong federal governance for the monetary aspect and of weak and procedural inter-governmental coordination for its economic aspect, the Amsterdam Treaty (1997) sought to add a coordinated 'employment' dimension. This dimension was later extended to other social policy areas by the use of Open Methods of Coordination – OMCs – in the social sphere in the early years of the 21st century. After this, the political dimension was debated between 2000 and 2005 in the context of the draft constitutional treaty. The aim here was real economic, social and political convergence in the long term but also the construction of a European *demos*, in other words a European identity, by way of a constitution.

Our hypothesis is that this approach to economic and social convergence by way of political integration was deliberately undermined as from 2005 in favour of a model based on market-driven convergence within monetary union: convergence, in other words, without political integration but by way of deregulation. The theoretical underpinnings of this model were in place even back in the 1990s, but 2005 represented, as we shall see, a turning point. From 2008, with what would become the euro crisis, strategic actors who supported this approach paradoxically found a way of using this crisis to make their mark, at the same time as the crisis could be seen as revealing the lack of stronger political integration within the eurozone. It is the theoretical underpinnings of these models and their interactions that we set out to describe in the following sections.

2.1 Monetary union and attempted socioeconomic convergence by way of political integration

In the 1990s, and in the context of preparation of monetary union, a series of political, social and trade union actors, aware of the risk of social policies being turned into an adjustment variable in the case of economic shocks in the eurozone, sought to develop a genuine social

dimension of economic and monetary integration (Goetschy 2005). This explains why the first ten years of monetary integration gave rise to certain developments in the social sphere that might appear surprising, above all in the light of the substantial weight and influence wielded by the group of experts who supported social policy deregulation (Serrano Pascual 2009).

The period, between 1995 and 2004, that might be described as the 'social moment' is the result, on the one hand, of a critique of the Maastricht Treaty, which was regarded as unbalanced in the employment and social policy field as compared with the more developed aspects of monetary union, and, on the other hand, of the coming to power in the Member States, as of 1995, of a majority of centre-left parties (Manow et *al.* 2004). The period in question was characterised by structural reforms (see below), but the difference between then and now is that these reforms were subject to negotiation.

At the European level, this 'moment' really began with the Amsterdam Treaty (1997) and the European Employment Strategy initiated by it. The process was taken further with the Lisbon Strategy (2000-2010) and the development of the open methods of coordination in a range of social policy fields (employment, poverty, pensions, etc.) (Pochet 2005).

At the national level, the 1990s also saw the conclusion of numerous national social pacts among political, economic and social actors (Pochet and Fajertag 2000, Pochet *et al.* 2010). In the majority of EMU accession countries a great deal of thought was being given during this period to the new framework of constraints represented by monetary union, particularly in relation to inflation and wage policy – including the national-level structuring of collective bargaining (Pochet 1999). This process of reflection led to attempts at institutionalisation by means of social pacts – in most cases, with the exception of Belgium, for countries outside the DM zone.

In parallel, different forms of wage coordination were emerging at the European level. On the cross industry level, the European Trade Union Confederation (ETUC) set up a working group on wage coordination, based on an explicit mandate received at its Helsinki Congress in 1999. It adopted a first resolution on this subject in 2000 (ETUC 2000). At the sectoral level the European Metalworkers' Federation (EMF) and

the Textile Workers' Federation (ETUF) both adopted, towards the end of the 1990s, guidelines for national negotiators (EMF 1998). At a transnational level, the 'Doorn group', including trade unionists from Germany, Belgium, the Netherlands and Luxembourg, (subsequently joined by the French), held annual meetings to evaluate the results of their collective bargaining in the light of the previously-agreed 'inflation-plus-national-productivity' formula (Pochet 1999; for a general overview Glassner and Pochet 2011). Some authors perceived this development as the emergence of a multi-level industrial relations system (Freyssinet 1996, Marginson and Sisson 2004).

The years between 1995 and 1999 were also the 'golden age' of the European cross-industry social dialogue. These years saw the negotiation of the only three (so far) framework agreements on labour market regulation (parental leave, part-time work, fixed-term contracts) that were turned into directives, and which became, in other words, legally binding.

Finally, the year 1999 saw the creation of the European macroeconomic dialogue, the purpose of which was to organise a dialogue between the social partners, the European Central Bank (ECB) and the European Commission. Several authors in those years gave consideration to the interactions between monetary policy and labour market institutions and actors (signaling process) (Hall and Franzeze 1998, Martin and Ross 2004, Hancké 2013).

The end of the 1990s was also the time of the creation of a set of open methods of coordination (OMCs) in the social policy field (health care, pensions and poverty) with a common methodology based on regular reporting, benchmarking and recommendations. These OMCs were coordinated by the Commission's Employment and Social Affairs DG and brought together a number of different governmental and non-governmental actors in a cluster of specialised committees (EPSCO, EMCO).

As noted by one of the academics best informed about the developments of EMU, Kenneth Dyson, 'The ECB-centric eurozone policy community had to absorb and accommodate the so-called Luxembourg 'process' – with its annual employment guidelines and national action plans and the Cologne 'process' – the Employment Pact and the

macroeconomic dialogue. These developments opened up the dialogue about EMU by transforming the definition of who was in the policy domain' *(*Dyson 2002: 101*)*. This same period witnessed also the attempt to enshrine monetary union within a European constitutional treaty and a European charter of fundamental rights. In this paper we will not go into detail as to the content – which was controversial – of these texts; what interests us here is the general dynamic that underpinned them at the time.

This dynamic of political union and strengthened socio-economic coordination was brought to an end by France's and the Netherlands' rejection – by referendum – of the draft European constitution. Similarly, the social dynamic was halted from 2005, with, notably, the publication of the Kok report, entitled 'Jobs, jobs, jobs' which had been commissioned by the European Commission and which refocused the whole debate on growth, competitiveness and flexibility. Four years later, the euro crisis heralded the possibility of a new narrative – focused on excessive public debt, the burden represented by the social model, wage rigidities, etc. – that was to be exploited by the proponents of a market-led monetary union.

On the political front, the European elections of 2004 saw the moderate right-wing group EPP-ED win a sweeping victory over the socialists, who did much more poorly than in the previous elections[1], while the liberal parties did much better. As of 2005, the Commission was led by the centre-right, with the presidency of José Manuel Barroso. In the autumn of 2005, Angela Merkel won the elections in Germany. Silvio Berlusconi was in power in Italy and Jacques Chirac in France, the latter soon to be replaced by Nicolas Sarkozy. More generally, between 2005 and 2012, the balance of power in the Member States was increasingly in favour of the right and centre-right; to such an extent that by March 2012, only three out of 27 Member States – Denmark, Austria, Cyprus – were governed by left-wingers, while one, Belgium, had a left-right coalition led by a socialist prime minister[2]. At the end of

1. From receiving 34.9% of votes in 1994, their share fell to 27.3% in 2004, and to 25% in 2009. In other words, over a fifteen year period, the European Socialists' share of the votes fell by 10%.
2. Since then, the centre-left has been making slow progress (Italy, Czech Republic).

2004, by contrast, twelve of these governments had been left-wing or centre-left in orientation[3].

2.2 Political integration abandoned: towards market-driven convergence

It was in this political context that the social developments of the 1990s and early 2000s were gradually unravelled. After a pretty sharp turn starting in 2005, the social OMCs were weakened in favour of a vision that gradually brought an economic approach back into the centre of European public policies and discourse.

From 2004 to 2010, the national social pacts were gradually abandoned, as were the national debates on the constraints represented by EMU. This is an undoubtedly important aspect that, to date, has been insufficiently investigated (Pochet *et al.* 2010, Advanic *et al.* 2011). Attention should also be drawn to the case of Greece, where EMU entry took place in the absence of a social pact and without giving rise to the development of a strong institution of coordination in the 2000s (Ioannou 2012). This may be the reflection of the spirit of a period during which EMU appeared to be such a success that it did not require, or no longer required, national and European institutions. Ireland and its dynamic growth, Spain and its millions of newly-created jobs, had become key references in terms of economic and employment success.

Might it be that, as from 2004-2005, this economic 'success story' of the eurozone created the illusion – at least until 2008 and the euro crisis – that market-driven convergence is more efficient than convergence by means of economic and social coordination? It may perhaps be appropriate to describe the proponents of this market-driven convergence as 'hyper-realists', in the sense that they believe that no alternative arrangement will ever work: that the single currency will never lead to an increase in solidarity among Member States and even less to any form of political union, and that markets alone can ensure

3. See http://www.europarl.europa.eu/aboutparliament/fr/004a50d310/Composition-du-Parlement.html and also http://www.theguardian.com/world/interactive/2011/jul/28/europe-politics-interactive-map-left-right.

the requisite convergence towards equilibrium within the monetary area.

The proponents of this option have, since Maastricht, advocated a change in the very function to be performed by social policy within the eurozone (Jepsen and Serrano Pascual 2005). This change would, according to them, come about in a virtually mechanical fashion in an EMU that, politically speaking, was incomplete and that it was no doubt impossible to complete. It is highly instructive, in this respect, to look back at the work of Amy Verdun, who, back in the mid-1990s, conducted interviews with central bankers, the finance ministers, and the head of the main employer organisations in three countries (France, the United Kingdom and Germany). The few quotes reproduced below serve to summarise their standpoints and to indicate the nature of their arguments in favour of a socially deregulatory monetary union: 'Experts argued that they favoured EMU exactly because it would lead to a process of harmonization through market forces. EMU would offer legitimacy for restructuring the expensive welfare states' (Verdun 1996). Jean-Claude Trichet, who subsequently, in 2001, was to become the ECB President, stated: 'EMU certainly stimulates structural reform in the labour market. With increased capital mobility and a better functioning single market, firms will become more and more sensitive to overall labour cost differentials and business regulation in choosing a particular location in the eurozone. They will therefore exert a considerable pressure for appropriate reforms' (Trichet 2001).

Gros and Thygesen, two eminent economists, specialists in monetary issues, summed up the thinking of numerous economists at the time and still today: 'In sum, labour market flexibility is always useful and if EMU forces labour market reforms that are needed anyway, the economy of the EU can only gain' (1998: 288). The greatest pressure of all, however, was to be exerted on wage bargaining. As indicated already by the Padoa-Schioppa report (1987: 43): 'The principle of subsidiarity recommends minimal responsibility on the part of the Community for many aspects of social policy, but the question of convergence of labour costs is vital in the context of increasing monetary integration'.

These few references demonstrate that the austerity policies and structural reforms currently underway are not in any way linked to the euro crisis, contrary to the assertions of the great majority of national

and European political leaders, but are programmed into the genes of a specific vision of monetary union. As mentioned above, reforms were not absent from the first phase of monetary union and its 'social moment', but these reforms were negotiated (Pochet and Fajertag 2000).

From the middle of the first decade of the 21st century, a series of initiatives would be undertaken by the ECB, DG Ecfin and the Economic Policy Committee (EPC) (a forum for national experts) in order to consolidate the theoretical framework linking together labour markets, wages and the euro. These included working groups, networks, publication of working papers and other studies, etc. (Degryse *et al.* 2013). Between 2005 and 2010, this group of actors brought about and developed an extremely sophisticated arsenal of products in order to analyse the likely impact of labour market reforms, wages and monetary union. By contrast, the authors who between 1995 and 2004 had been writing on these subjects from a more 'social' standpoint (Hall, Soskice, Hancké, Rhodes, Pochet, etc.) turned their academic focus elsewhere.

When the financial crisis broke out in 2008, an initial response was to call into question the concept of self-regulating markets. However, very soon the transformation of the crisis of bank debts into a crisis of public debt was a chance for these well-prepared strategic actors to put their ideas into practice and alter the function of social policy so that it became the main adjustment variable in the eurozone. Adjustments, particularly in terms of competitiveness and productivity, were henceforth, according to them, to take place by way of wages, labour law and social security. This is the principle of internal devaluation, the application of which to Greece has achieved the status of an archetype.

At the same time, one actor took on a central role: the ECB and its two most recent presidents (Jean-Claude Trichet and Mario Draghi) made creative use of the instruments at their disposal in response to the risk that the eurozone might break apart. This endowed them with an increased power of influence. The ECB, the most independent central bank in the world, indicated what national structural reforms were required in return for its intervention on the sovereign debt market. This involvement went as far as the central banker sending, in secret, letters to (the Italian and Spanish) governments, detailing the list of reforms to be adopted. To some extent, the ECB took *de facto* control,

then, of the reins of economic and social policy coordination within the eurozone. It took over the post left empty by Maastricht and the national governments, of economic governance of the eurozone.

3. Financial crisis and dismantling of the social model

What are the consequences of these changes? The most important change is that the traditional appeals for 'structural reforms' expressed in texts that tended to be rather ineffectual (BEPG) have, under the new arrangements, taken on much stronger force, and are even binding in those countries receiving European financial assistance. Below we will see that things appear in a very different light depending on whether the state to which injunctions are addressed is a member of the eurozone core and the model of coordinated capitalism, or whether it belongs to the periphery, to the set of countries most hard-hit by the financial crisis (Regan 2013). We will then examine how social and labour market policies are regarded by this strengthened form of economic governance. This we will do by taking a close look at the some of the Country-Specific Recommendations (CSR). Finally, we will ask a number of questions about the new instruments of governance, and the extent to which they are able to contribute to the national reforms.

3.1 Social policy and country-specific recommendations (CSR)

The CSRs are at the heart of the new European economic governance system. These recommendations are the result of a complex process which generally begins in November with the publication by the Commission of a report entitled the 'Annual Growth Survey' (AGS). This document presents the challenges and priorities for the EU for the coming year. It is followed, the next spring, by adoption of the National Reform Programmes (NRPs), and by the Commission's evaluation of the performance of each Member State.

The CSRs focus on the structural reforms likely to strengthen growth and competitiveness, and the Member States are supposed to incorporate the recommendations issued into the National Reform Programme for the following year. They are drawn up by the Commission,

discussed with the Member States and adopted, in principle, each July by the European Council.

Formally, the CSRs are recommendations, but the expectation is nonetheless that they will be followed up. They become more binding for countries of the eurozone insofar as they are linked to the risk of sanctions under the excessive deficits procedure or the excessive macroeconomic imbalances procedure.

In certain circumstances, the CSRs have made policy coordination and the soft approach to social policy more rigid, virtually compulsory, despite minor changes to the treaties in relation to social aspects. This potentially radical change in how social policy is dealt with at European level was introduced by the earlier agreement of Member States to better coordinate their economic policies, including those related to the labour market and social protection (Jepsen and Serrano Pascual 2011).

Clauwaert (2013) has carried out an assessment of the number of social recommendations included in the total CSRs received by each country. The countries subject to a Memorandum of Understanding – Greece, Portugal and Ireland – do not receive CSRs, so they are not listed in the table below.

An immediately striking feature of this table is the high number of social CSRs, amounting to more than 40% of the total. Recommendations linked to increasing labour market participation (especially for women and older workers) and to raising both the actual and the statutory retirement age are given to most Member States. Very few states are recommended to ensure the provision of comprehensive and adequate social protection for their citizens, despite the fact that poverty is increasing and social protection is losing some of its effectiveness as the crisis drags on (European Commission 2013). Hence the CSRs define the nature of the common challenges entailed by the social models and recommend how they should be tackled. This is not in itself new. This approach started at the end of 2000 when emphasis was placed on how to define common problems and how they could be solved (Jepsen 2009). What is new, however, is the instrument and the process by which this approach is currently being furthered.

Table 1 Overview of the total number of CSRs per country compared to the social CSRs for 2011-2012, 2012-2013 and 2013-2014

Country	CSRs 2011-2012		CSRs 2012-2013		CSRs 2013-2014	
	Total	'Social'	Total	'Social'	Total	'Social'
AT	5	2	7	2	7	3
BE	6	3	7	2	7	4
BG	6	3	7	2	7	3
CY	7	3	7	3	-	-
CZ	6	3	6	3	7	3
DE	4	1	4	1	4	1
DK	5	2	5	2	3	1
EE	4	1	5	2	5	2
ES	7	4	8	5	9	4
FI	5	2	5	2	5	2
FR	5	4	5	3	6	4
HU	5	2	7	3	7	3
IT	6	2	6	3	6	2
LT	6	2	6	3	6	3
LUX	4	3	5	2	6	3
LV	-	-	7	3	6	3
MT	5	3	6	3	4	2
NL	4	2	5	2	4	2
PL	7	3	6	2	7	2
RO	-	-	-	-	8	3
SE	3	1	4	1	4	1
SI	6	3	7	4	9	2
SK	6	3	7	5	6	2
UK	5	2	6	2	6	2
	117	54	138	60	139	57

Source: Clauwaert (2013).

The CSRs reflect a particular concept of the European economic model, insofar as they are focused on growth and competitiveness, while neglecting what constitutes the principal role of social policies, namely to provide some protection to citizens against social risks, while maintaining social cohesion and ensuring some degree of redistribution (Jepsen 2009).

Table 2 **European Commission Country-specific recommendations 2012-2013 (social field only)**

		AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	HU	IT	LT	LU	LV	MT	NL	PL	SE	SI	SK	UK
Wages	reviewing wage indexation		•		•											•		•						
	reviewing wage-setting system - align with productivity developments		•				•				•	•		•				•			•	•		
EPL	adjusting Employment Protection Legislation							•				•		•	•				•	•	•	•		
Labour market participation	enhancing participation of women	•				•	•						•	•				•		•			•	•
	enhancing participation older workers, promoting active ageing, LLL	•	•							•		•				•		•	•			•		
	reducing tax disincentives for second earners						•												•					
Youth employment	facilitating transition school to work by incentives for companies to hire young people									•	•													
	facilitating transition school to work through apprenticeships and work-based learning							•	•	•		•		•	•	•	•	•		•		•	•	•
	reducing school/education 'drop outs'	•					•	•		•			•	•			•							•
Pensions	explicit link between pensionable age and life expectancy	•	•		•					•	•				•	•		•	•	•		•	•	
	reducing early retirement	•	•	•		•		•			•					•		•	•	•		•		
Vulnerable	ensuring the adequacy and coverage of social protection systems				•				•															
	access to quality social services			•																				
	better targeting social assistance			•					•						•		•							
Child poverty	making child support more effective									•														
	facilitating access to childcare services			•																				•
Tax	shift away from labour, with focus on low income earners	•	•			•	•			•		•	•				•						•	

Source: Clauwaert (2013), on the basis of European Commission Country-specific recommendations 2012-2013; note that GR, IE, PT and RO did not get specific recommendations but were in general recommended to implement their respective Memorandums of Understanding (incl. any subsequent supplements).

This view takes it as read that growth will lead naturally and in a quasi-automatic fashion to a general reduction in these social risks (unemployment, poverty, etc.). However, the last three decades have shown that this logic does not always prevail, in Europe or the United States, when growth is hijacked by an ever smaller number of actors. Recent research (Alvaredo and Piketty 2009, Reich 2007, etc.) tends to show that the drive to be competitive adds to precarity rather than mitigating it. This raises the question as to whether the current approach taken by the CSRs might not be helping to heighten social risks in Europe, rather than reducing them.

A careful reading of the CSRs on pensions, labour market and labour law leaves no doubt as to the intended direction of the reforms advocated, even though the formulations in 2013 are less rigid than was the case in 2012. The following paragraphs present an analysis of the formulation of certain CSRs, and identify more precisely the overall sense of the reforms proposed.

a) Pensions

Most of the recommendations on pensions establish a link between statutory retirement age and life expectancy, seeking thereby to create automatic rules that would reduce the political risks entailed by pension reforms. The European Union – and, in particular the Ecofin Council – has for almost 20 years been sensitive to the sustainability of public finances and to the risks entailed by spending on pensions; the raising of the statutory pension age is a recommendation that has been repeated time and time again (Natali 2009). This recommendation has given rise to controversy in some countries where alignment of the actual retirement age with the statutory retirement age was the main aim (or in countries where the low employment rate of the over-55s constituted the main problem).

While these concerns are still raised in the CSRs, there is a clear and unified recommendation to increase the statutory retirement age in line with life expectancy, a recommendation that appears at odds with the chronically difficult labour market situation experienced by older workers. The strategy would thus appear to be focused exclusively on cost containment, and therefore on the need for controls on public finance[4].

4. The European Commission classifies the recommendations on pensions and health care as linked to public finances and not to the labour market or to social policy.

b) Labour market

Labour market participation is the second major subject of concern encountered in the CSRs. Most countries have received a recommendation concerning activation, whether in general or in relation to measures geared to specific groups, such as the long-term unemployed.

In general, these recommendations are concentrated on strengthening the capacity of the public employment services to supply adequate levels of service, and also on the links between social benefits and the social assistance system and the activation measures.

The emphasis is also placed on increasing incentives to labour market participation by means of reform of the tax/benefits system, in particular as it applies to low wages. This question of activation and of the disincentives stemming from the tax/benefits system is a topic that has been on the European agenda for a long time. A consensus is emerging from research that, in spite of a rather inconclusive direct impact of OMCs on national reforms (Lelie and Vanhercke 2013), the European level has been invoked for the implementation of activation measures in the various Member States whose governments have used the coordination processes placed at their disposal. With regard to the CSRs and their follow-up, it seems that the 2013 crop of recommendations is more diversified, more sensitive to local contexts and less unidirectional than in the two previous years. What is still lacking, however, is consideration of the 'demand' side. The recommendations are completely focused on supply-side policies, sometimes going so far as to urge a reduction in public sector employment.

In some cases, an increase in the numbers of child-minders is recommended as a means of raising women's labour market participation. This policy approach is not new, but is a follow-up to earlier recommendations along similar lines.

c) Labour law

The last field analysed is that of labour law. Without going into detail, recent research has shown a clear link between the CSRs and reforms in the industrial relations sphere and in labour law generally. (Clauwaert and Schömann 2012, Laulom *et al.* 2012, Hermann 2013, Escande Varniol *et al.* 2012, for Italy see Sacchi 2013). This is particularly the

case for countries experiencing major economic difficulties, or those subject to Memorandums of Understanding.

It is not indeed methodologically possible to establish any unequivocal distinction between the European influence and other forms of influence; what is important is to analyse the general thrust of the reforms recommended and to consider their impact, alongside all the other forms of pressure applied in the same direction (Pochet and Degryse 2012).

3.2 New institutional roles

In light of these new governance mechanisms put in place as a result of the euro crisis, can we say that the EU has entered a new era of social policy coordination? To provide an evidence-based answer to this, we must consider two further questions: a) what real and tangible influence will these mechanisms exert on the design of national social models, and b) how will the European institutions – in particular the Commission and the ECB – but also the financial markets (which have now implicitly become players in their own right in the governance of the euro) carry out their new roles?

a) It is clear that social questions are right at the top of the political agenda and have a central role in the CSRs, and that the latter adopt a consistent approach as to the function of social policies. However, the three consecutive years of the 'European Semester' (2011-2012-2013) have shown, so far, that this is a system in progress. There are ongoing struggles among actors and conceptions, even if there is no doubt as to which are the dominant messages for the moment. There is a stronger normative direction than previously, aimed at increasing the sensitivity of social policies to market forces.

The central question is really that of knowing to what extent these recommendations are binding and impossible for the national governments to elude or disregard. How do these recommendations affect and interact with national reforms, more closely associated with domestic dynamics?

The CSRs undeniably give strong support to the position of the proponents of deregulatory reforms in the Member States; to some

extent they exert pressure from above on national democratic discussions, and very much help to direct these discussions. The recommendations give the impression that there is a European 'right way' to carry out reforms; they thus carry considerable weight.

It is true that not all EU countries are affected to the same extent by these calls for structural reforms. Countries that, at least for the time being, are much less affected by CSRs on collective bargaining are the Benelux countries, Austria, Germany and the Scandinavian countries, i.e. those countries that constituted the heart of the DM zone in the 1980s and 1990s. The reforms in the area of social protection, by contrast, affect all countries, one reason for this being that their introduction is generally associated with national domestic dynamics of population ageing. Moreover, from a purely legal angle, only those recommendations based on Article 121 (2) of the Treaty (BEPG), implementing the corrective aspects (Article 121 (6)) related to the 'Six-pack', may result in sanctions if not followed. The employment-related recommendations, based on Article 148, do not lead to sanctions if disregarded.

In any case, what is quite clear is that the strengthening of the system of economic governance has brought about new forms of interrelationship between the EU and the Member States (de la Porte and Heins forthcoming).

b) As well as these new procedures and new instruments, the role of certain actors is changing. As a result of the crisis, the financial markets have become players in their own right in the new European governance system: by issuing differing credit ratings for individual Member States, by increasing economic instability, but also by immediately punishing any uncertainty by means of the famous 'spreads'.

The ECB is an external agent taking part in discussions, but, above all, creating the conditions for its 'independence' from political powers and for its credibility vis-à-vis the markets (Buiter 2008). One of its strengths is that the conditions for changing its statute (28 unanimous votes) are almost impossible to meet. It did, however, step out of its isolation and became explicitly part of the new structures (Troika). This was the counterpart of the fact that the ECB, in the absence of any

credible coordinated political response, became the only body capable of exerting influence on the financial markets. It agreed to take on this role in exchange for the guarantee that the EU would oversee developments in those countries that had run adrift. The ECB's new position was therefore right at the centre of gravity of the normative apparatus, located mid-way between the markets and the political sphere. As pointed out by Torres: 'For the ECB, this "invasion of other policy domains" – by calling for sound economic policy management, in particular in the fiscal domain, for structural reforms and for reinforced economic governance in general – is motivated by the fact that the euro area is at the epicenter of sovereign debt crisis.' (2013: 293-4)

The financial support mechanisms, macroeconomic imbalance procedures and country-specific recommendations result in greater imposition of prescriptive norms. As we have seen, the ECB and DG Ecfin have increased their knowledge of labour markets (and of the national reforms) and are in a position to exert much stronger and more precisely-targeted pressure than was previously the case, partly because of their greater expertise, but above all because the crisis has placed the ECB at the centre of the stage: mid-way between the markets, which it has managed to reassure, and the political actors, whom it tells what they must do to ensure that the markets remain calm and so that the ECB will take action to stabilise the system in the event of crisis.

There is, however, an imbalance in this prescriptive approach. Just looking at the example of pension systems, the fragile political balances struck between the social and financial aspects of these systems disappear and are replaced by prescriptive indications based solely on their financial sustainability: a lengthening of working life and a later statutory retirement age. Not all Member States are willing to leave the initiative to the EU. The countries receiving financial assistance, however, are subject to much greater constraints, and the reforms required are set out in much more detail.

The following stage, not yet completed, is that of the 'contractual arrangements', by means of which the States formally undertake, vis-à-vis the Commission and in exchange for financial assistance if necessary, to implement the structural reforms on pain of sanction.

This idea is taken from a report by the four presidents (Commission, European Council, ECB and Eurogroup), which signifies, here again, a more direct commitment on the part of the Commission and the ECB to more binding solutions.

Let us emphasise in passing that these recent developments have indeed caused concern in those involved in work-related issues – fears, above all, of the European institutions 'intruding' in the autonomy of the collective bargaining process and in national social dialogue (in some countries, at any rate). The European trade union movement, therefore, is trying to define an alternative to this model of procedural governance based on deregulatory reforms. Currently, the text that best describes this alternative is the 'Plan for investment, sustainable growth and quality jobs'[5], presented by the European Trade Union Confederation (ETUC) on 7 November 2013. This plan, by means of the institutional arrangements and financing it proposes, would reintroduce a certain prospect of political union into economic and monetary union.

Be that as it may, time will tell how Member States react to the new procedural governance system being put in place, how and whether they will act on the specific recommendations addressed to them, and how they will reform their social models in reaction to the European requirements. It is clear, however, that if these reforms are carried out on the basis of the CSRs, the European Union will have entered a new era of social policy coordination.

Conclusions

The imbalances in the institutional structure of economic and monetary union as adopted under the Maastricht Treaty (and as the result of a political choice 'by default') were able to be redressed in the 1990s and early 2000s by the conclusion of social pacts in the Member States, but also by social strategies put in place at the European level that included the development of the European social dialogue, the European employment strategy, the Lisbon strategy, the open methods of

5. http://www.etuc.org/documents/new-path-europe-etuc-plan-investment-sustainable-growth-and-quality-jobs#.U4tlm7uKDxM.

coordination in the fields of pensions, health care, and so forth. The economic and monetary union thus had, to a certain extent, its social dimension, even if this was weak, contradictory and fragile.

From the middle of the decade of the 2000s, this dimension was subjected to a first phase of dismantling with the arrival in power in most of the European capitals of governments of the centre-right and right, as well as the arrival of the new European Commission with Mr. Barroso as President. The open methods of coordination were gradually voided of their substance, the European social dialogue was no longer fed, the social goals of the Lisbon Strategy were neglected, and few new European legislative initiatives were taken in the social policy field.

In the wake of the financial crisis that exploded in 2008, what little remained of the social dimension of the economic and monetary union, and of the European Union as a whole, underwent a second phase of weakening. After first of all tackling the onset of crisis in 2008-2009 with measures to boost economic activity and employment, the Member States subsequently embarked upon major programmes to reduce public expenditure and introduce structural reforms.

The reforms in question related principally to labour law, social protection and collective bargaining. At the level of content, they pretty much resembled the usual precepts advocated by mainstream economists who generally regard the European Social Model as the main reason for the deterioration in the Member States' public finances. If the content of these reforms was therefore not new, the political and socio-economic context opened up, by contrast, a window of opportunity for the proponents of draconian reforms.

While justified in official discourse by 'the crisis', these reforms were in fact quite unrelated to the economic cycle. They were actually aimed at reconfiguring whole areas of the European Social Model – labour law, collective bargaining, social dialogue, wage formation systems, the two sides of industry, the foundations of social protection, and so forth – even though the best components of this model had proved efficacious in the crisis for avoiding a serious deterioration of the situation in the economy and on the labour market. The countries that experienced the lowest unemployment rates were in fact those that had the strongest social institutions and social partners.

These reforms have been undertaken in the framework of strengthened economic governance geared towards 'growth' and 'competitiveness'. As these processes are still in the process of construction and there exists little serious and reliably documented research on the real impacts on the national social models, it is not at this stage possible to draw any definitive conclusions.

What is perfectly clear, however, is that the social policy recommendations addressed to Member States are developing a new message containing specific ideas about how a national economic and social model should operate and that this message is being communicated to all the Member States, albeit with some slight variations. The tenets of this message are as follows: the costs of health care and pension systems should be pegged or even reduced; the wage formation systems should be brought within the realm of competition; the social benefit systems create disincentives to labour market participation; labour costs must be reduced. This message contains nothing or very little about how social models should reduce inequality, supply citizens with greater protection against the (growing) social risks, nor about the ways in which they could contribute to the operation of a regulated market economy.

Growth and competitiveness should, according to this system, reduce, almost automatically, social risks (unemployment, poverty, etc.). Growth and competitiveness would, in a way, become our new social model, although more and more research has shown that in fact, for decades now, these principles have contributed more to increasing precarity than to shared prosperity.

Finally, however, all will depend on the real force of the European recommendations, and on the capacity and determination of the governments to make use of them or to modify their content. It is possible that the new system of European strengthened governance will become an extremely effective instrument for making fundamental changes to the bases of the current European Social Model. For this reason it is important to place social issues back on the political agenda at both the national and the European levels (Vandenbroucke, 2012; Rodrigues, 2013), to complete economic and monetary union and endow it with genuine instruments of adjustment and stabilisation, and to change the direction of economic policies, to place them in the service of a sustainable and shared prosperity.

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