# Future prospects

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2010 was a critical year for the European Union (EU) in at least three major respects. Firstly, many EU countries began to show increased fiscal stress. A true debt crisis started to affect the eurozone. Fiscal stimulus to reduce the impact of the financial and economic crisis, as well as bank rescue measures, resulted in increased budgetary tensions that are likely to be long-term in nature (Marzinotto *et al.*, 2010).

Secondly, the European Union made further reforms. The Lisbon Treaty, which came into force on 1 December 2009, started to be implemented. One of the Treaty's fundamental innovations is the so-called 'Horizontal Social Clause' [Article 9 of the Treaty on the Functioning of the European Union (TFEU)] which states that in defining and implementing its policies and activities, the Union shall take into account the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health (Frazer *et al.*, 2010). Another important innovation in the new Treaty is that it guarantees the freedoms and principles set out in the Charter of Fundamental Rights (which the Treaty introduces into EU primary law) and gives its provisions binding legal force; this concerns civil, political and economic as well as social rights.

The third reason for which 2010 was a turning point for the EU is that the Lisbon Strategy, launched by the European Council in March 2000 as a framework for EU socio-economic policy coordination, ended in June 2010 with the adoption by EU leaders of the new Europe 2020 Strategy.

All these elements will have long-lasting effects on the future of social policy, both at national and supra-national level. In these conclusions we refer to the main features of the debt crisis that has affected many EU countries. We then focus on the strategy followed by the EU – in conjunction with the innovations mentioned above – to tackle the effects of the crisis. We finally propose a critical reading of recent events: significant tensions at EU level represent a challenge for the future of EU integration, and a huge risk for the future of social policy.

## A multi-dimensional crisis in need of a multi-dimensional answer

The most striking features of the European economy during this crisis (deep recession, increased unemployment, etc.) correspond almost exactly to the textbook case for budgetary stimulus. The fiscal stimulus measures adopted by EU governments as part of the EU Strategy for coordinated action, have weighed heavily on budgetary situations (Natali, 2010). As a consequence, international organisations project an increase in the average debt-to-GDP ratio in the eurozone of 30%, to reach 90% of GDP by 2014. This average figure conceals substantial variations between Member States (see contribution by George Irvin in this volume). Part of the budgetary deterioration is due to cyclical factors, but part is permanent. In the years following a crisis, growth rates often recover to pre-crisis levels, but the loss in output typically remains a problem, implying a parallel fall in public revenue. However, the fiscal problems in Greece, Ireland, Italy, Portugal and Spain – which are the focus of efforts in national capitals and in Brussels – are only part of the problem (Dadush and Bennett, 2011). First of all, state intervention has been largely focused on the financial and banking crisis and has thus consisted in a shift of indebtness from the private to the public sector.

Secondly, the worsening public budget crises across the eurozone have led to speculative attacks against sovereign debt, with the consequent establishing a European strategy to tackle fiscal tensions (through the European Financial Stability Facility). This whole question is related to the unresolved issue of the regulation of global financial markets (Véron, 2010).

Thirdly, the debt crisis has multiplied and made evident two further tensions in the eurozone, and in Europe in a broader sense. On the one hand, EU countries have seen the effects of a misalignment of their economies: while Germany – and those countries with a current account surplus (e.g. the Netherlands) – have easily recovered from the crisis with an export boom, other more peripheral euro countries with growing current account deficits (such as Spain and Portugal) have been left behind. On the other hand, some economists have shown that the financial crisis has been triggered (among other things) by increased social inequalities (Kumhof and Rancière, 2010). Economic recession is historically related to increased income disparity between poor and middle-class households on the one hand, and rich households on the other.

All these points show that economic and budgetary tensions have multiple causes and require complex strategies if recovery is to be brought about. The same is true when it comes to improving the stability of the EU institutions. As argued by some of the contributors to this volume, while the 'Great Recession' emerged in the US, it is now Europe (and the European Union) which is suffering the most (see contributions by Irvin, and by Angelaki and Natali in this volume).

The European debt crisis has highlighted the clear limitations of EU economic governance. As argued by De Grauwe (2010), two fault lines marred the eurozone from its inception, but were overlooked by most. Firstly, there is no mechanism to ensure convergence of members' competitive positions, and thus to prevent major trade imbalances. This is because economic policies (spending and taxation, social policies, wage policies, etc.) remain firmly in the hands of the member governments, and members do not coordinate such policies. Secondly, there is no mechanism to resolve crises caused by these imbalances and by divergent competitive positions. Consequently, eurozone crisis management largely lacks credibility. The whole question, moreover, is closely connected to the political issue of the legitimacy of supranational economic governance.

The crisis is thus multi-dimensional in nature, and requires a broad strategy to tackle the different sources of instability and potential tensions.

## Has the EU chosen the right strategy to tackle the crisis?

How has the EU dealt with the crisis? Previous chapters have provided a large amount of evidence as to the strategy followed by the EU institutions. Revision of the economic and social governance of the

Union has been a central concern. The three priorities, the five EU headline targets which need to be translated into national targets, the seven flagship initiatives, the ten integrated guidelines for employment and economic policies, and the newly introduced concept of a 'European semester': all these tools should help to mobilise the various existing instruments in support of the new Strategy and to align it with the Stability and Growth Pact (see contribution by Bart Vanhercke in this volume).

As shown by Le Cacheux in his contribution, a key issue in the debate on the Stability and Growth Pact is the need to strengthen its efficacy. The Stability and Growth Pact will be given more teeth, by an insistence on compliance with the debt criterion (60% of GDP) or on rapid downward adjustment towards it (one-twentieth of the gap between the current and target levels per year). The medium-term objective of being 'close to balance or in surplus' is retained, but it is now specified that this must be achieved by focusing on government spending rather than revenue and by tightening the sanctions regime, coupled with a measure (the so-called 'reverse voting mechanism') that will make it harder for Member States to block a Commission recommendation to impose sanctions.

In parallel, we have seen renewed attempts to achieve more stringent macroeconomic and microeconomic governance through the avoidance of 'macroeconomic imbalances, arising notably from developments in current accounts, asset markets and the balance sheets of the household and corporate sectors. Member States with large current account imbalances rooted in a persistent lack of competitiveness or prudential and taxation policies should address the underlying causes' (CEC, 2010: 8). Consideration will also be given to microeconomic structural reforms to improve productivity and competitiveness in the European region. All these procedures will be structured around a revised timing of the 'European semester', which will begin with the publication of a new document, the Annual Growth Survey.

As stressed by Le Cacheux and Vanhercke in their contributions, the consistency and effectiveness of the EU response remains to be seen (see next section). There is a clear need to restore financial viability of public budgets, but the timing of this strategy (to be followed in the short-term) may result in further economic recession (thus increasing public deficits still further). The role of social and employment policy coordination in Europe 2020 is still to be decided, yet the new EU roadmap for smart, sustainable and inclusive growth seems generally consistent with the neoliberal approach to growth, with the attendant risk of a gradual marginalisation of social objectives.

## Key challenges for the future of Social Europe: a 'blind' roadmap for the EU?

In this last section we refer to two main challenges which the EU strategy for recovery will probably face in the future. The first is related to the substantive content of policy and the procedural aspects of the new forms of economic and social EU governance. The second is political in nature, and has to do with negative views of EU legitimacy.

The new systems of EU economic and social governance seem to achieve some progress, while leaving room for huge risks of future tensions. On the improvements side, the Lisbon Treaty clearly provides some leverage for more balanced socio-economic progress. As argued by some commentators, the Treaty, through its Horizontal Social Clause, provides a legal basis for better taking into account the social impact of policies and for using this as a tool to mainstream social objectives across all relevant policy areas (including non social policies and measures) as well as to more rigorously monitor and report on the impact of policies. Secondly, the Treaty and the Europe 2020 Strategy (with its headline EU targets and its EU flagships) have increased the potential visibility and importance of social issues (Ferrera, 2010).

It is not, however, certain that where the Lisbon Strategy failed, Europe 2020 and the new Stability and Growth Pact will succeed. There is a risk that the increased emphasis on poverty and social exclusion in particular, and social protection and social inclusion more generally, may become swamped by economic considerations and in fact lose rather than gain importance and visibility; also that the neoliberal paradigm will face problems similar to the events of the last decade.

This risk is heightened by the current growing emphasis on austerity packages and the stricter implementation of budgetary stability provisions. All this may limit opportunities for defending social entitlements. A number of individual Member States seem to have experienced this in the past year. As stressed by Hemerijck (Hemerijck *et al.*, 2010), a swift return to balanced budgets may require drastic welfare retrenchment or substantial increases in taxation, which are likely to induce new distributional conflicts. Austerity measures, designed to curb eurozone spending, have already met with a wave of strikes, walkouts, and demonstrations in Greece, France, Italy, and Latvia.

The same inconsistency is evident in the area of climate change. As shown by Galgóczi (this volume), although the Europe 2020 Strategy strives for a longer-term vision based on social and environmental sustainability, actual practices are subordinated to the dictates of economic, more precisely fiscal sustainability. Sustainable achievement of the 2020 climate targets and any kind of achievement of the longer-term targets would require tougher measures (including completion of the ETS, introduction of a European carbon tax and devising of a sustainable European transport concept).

What is more, it is not clear how the new governance arrangements under the Europe 2020 Strategy will connect with the broader EU coordination/cooperation and monitoring capacities in the area of social policy, nor what potential there is for effective monitoring and learning from mistakes. In the words of Pochet (2010), the process resembles more of a mutual arrangement between governments (mainly right-wing) wishing to adopt certain reforms, and the Commission (DG Ecfin) which would supply complementary arguments, a sort of 'OECD+'.

As stressed above, the second challenge has to do with the political legitimacy of the integration process. Still in the words of Hemerijck (2010), it comes as little surprise that EU political legitimacy suffered tremendously in the wake of the crisis, and it may even come to be considered a political casualty of the crisis. Feelings of vulnerability have also inspired widespread unease over the process of European integration.

The aim of increasing participation and transparency seems far from being met. EU democratic legitimacy has not significantly improved through the Lisbon Strategy, even if we can see clear improvements in facilitating new forms of meaningful participation of civil society at national level. Individual parts of the process have worked in different ways, with the social policy OMCs being the most successful. If the EU wishes to make further improvements, greater emphasis must be placed on the political legitimacy of the integration process. Political commitment is key. There must be a more active participation of citizens and stakeholders, to improve the visibility of the process and its legitimacy. This seems the most urgent problem to be faced.

Next year will be marked by the revision of the Stability and Growth Pact: a more stringent application and enforcement of EU targets will thus become a battleground between the supporters of a purely neoliberal approach to economic and social reforms, and those who still believe in the need for a social dimension of Europe. The major risk is that the EU ends up with a 'blind' roadmap: a strategy totally focused on fiscal austerity and the sovereign debt crisis but lacking any reference to economic growth through social and environmental improvements. The recent Annual Growth Survey (AGS) has made explicit reference to the need to redress public budgets, but there is no explicit reference to the social guidelines (e.g. on poverty). This document seems to confirm the worrying picture of a purely neoliberal EU economic and social strategy (CEC, 2011).

If the 'blind' roadmap is implemented, the nightmare of a 'double-dip recession' (a new recession after the first timid signs of economic recovery) could become reality.

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