Social Europe and the crisis: Defining a new Agenda

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Introduction

Europe is now in the midst of the worst economic crisis in decades. The effects of this downturn on households and workers are starting to be visible, with the latest released data showing a rapid and significant deterioration of the labour market situation in practically all European countries. Overall unemployment in the EU rose by around half a million in February and most evidence suggests that the situation will deteriorate sharply in the coming months, as employment usually reacts with a lag of about 2 or 3 quarters to economic activity.

So far, responses to the crisis have been concentrated on fixing the financial system and promoting the economic recovery. Yet, history reveals that crises of this scale lead to social unrest and political instability unless immediate action is taken to alleviate the effects of the economic downturn on citizens. As Juan Somavia, director-general of the International Labour Organisation, has recently warned, social unrest will mount if stimulus packages are not seen to benefit ordinary people, increasing the perception that 'it's billions for bankers but pennies for the people'.

In Europe, these warnings seem to fall on deaf ears. Two worrisome beliefs are apparently dominant on the continent. The first is that European governments do not have to worry much about how to support people through the crisis, given that they can count on larger automatic stabilisers than in any other part of the world. The second is that the social consequences of the crisis will remain each country's domestic affair, with little or no repercussions to other countries or to the EU as a whole.

The first belief is clearly dangerous. The dominant thinking seems to be that Europe will weather the storm with a temporary expansion of unemployment benefits, a reinforcement of training and other active labour measures and little more[1]. This short-sighted approach is worrying for various reasons. Europe is, on average, better prepared to cushion the social effects of the crisis. However, welfare systems are not equally generous in all EU countries, and they are indeed particularly weak in those countries most hit by the crisis. Besides, the social consequences of the current economic downturn are not limited to jobs: the crisis is hitting pensioners and families with mortgages, as well as those already excluded from the labour market. In the long-run, a prolonged recession might lead to high and persistent poverty rates, a widening of territorial disparities or increasing income inequalities. These other effects of the crisis should be closely monitored and, if necessary, addressed: a narrow focus on jobs might fall short in preventing a serious social backlash in Europe.

The second belief is also worrying. So far, social distress has been episodic and localised in most EU countries, taking the form of strikes or large-scale

1 This is in fact the key message delivered by the Employment Council in its latest meeting of 9th march. In this meeting, the 27 Ministers of Labour and Social Affairs agreed on the need to put into place "timely, temporary and targeted measures to stimulate employment, limit as far as possible job losses and mitigate their social impact".

protests. Yet, as the crisis worsens, social unrest might mount up to the point of putting at risk the political stability of certain EU countries. The threat of political instability is substantial in Central and Eastern European countries (CEESs). The crisis has already provoked the fall of three CEE governments – in Latvia, Hungary and the Czech Republic – and other countries such as Romania or Lithuania are at high risk of political destabilisation. It is noteworthy that these countries have not only been strongly hit by the crisis, but they do not have budgetary capacity to mitigate the social effects of the downturn. Indeed, some of them have been forced to cut their social budgets by IMF/Commission emergency loan programs, something which exacerbates the risk of political unrest – note that recent violent protests in Latvia and Lithuania were against the governments' austerity measures. If nothing is done to help these countries smooth the impact of the crisis on citizens, there is a serious danger of social upheavals and political extremism in the region (Barysh: 2009), something which would have consequences for other countries as well as for the EU as a whole.

But there is another way through which the social effects of the crisis can affect the political foundations of the EU. A special EU summit on Employment, originally scheduled for 7th may, has finally been cancelled due to the objections of various national governments, apparently worried that "the EU would not be able to deliver on the level of ambition set out by such a summit" (Euractiv, 25/3/2009). At the moment when millions of people are losing jobs and pensions, delivering the message that "Europe can do nothing to help them" is clearly a bad decision. If citizens do not have the conviction that part of the protection they demand now is ensured by the EU, there is a real threat of a reversion towards nationalism and protectionism. Even worse, the EU could become a target of resentment, as it is viewed as an overweening bureaucratic structure that pressures countries to agree to policies which go against national interests. In other words, as the Financial Times summarises, "the EU may increasingly be seen as part of the problem rather than the solution"[2].

All these considerations point to the importance of involving the EU in the definition and provision of social responses to the crisis. Such involvement cannot consist of add-ons to existing programmes, as it has been the case so far. Neither should it be limited to vague political compromises adopted in the Council. The crisis calls for a reform of the EU modes of social governance and a certain shift in EU social policy thinking. The mechanisms of social policy co-ordination have to be strengthened and the social conditionality of EU financial aid reinforced. The emphasis on labour market activation, which has inspired EU employment and social policies during recent years, has to be mitigated in favour of a more balanced approach between social promotion, social prevention and social protection measures.

Beyond this, the crisis invites thought on how to preserve the European Social Model in the long term. Over the past few years, Social Europe has somehow been in a stalemate. The enlargement to 27 together with a shift towards right-wing majorities at the national level have caused major difficulties and a lack of political will to expand and renew the social 'acquis'. The 'soft' methods of governance, which were supposed to take the lead, have not produced the expected results. Indeed, social issues have clearly taken second seat in the EU agenda, as evidenced by the 2005 decision to refocus the Lisbon strategy on growth and jobs. The crisis offers an opportunity to redress this disequilibrium. It also calls for a revision of the overall EU strategy to promote social cohesion and growth. While the general goal of Lisbon remains valid (to convert Europe into a socially-inclusive, sustainable, knowledge-based economy), some of the dogmas and causal assumptions inspiring Lisbon interventions so far have been seriously challenged over the last few months – the exclusive focus on supply-side reforms, the lack of attention paid to income inequalities, the assumption that technological innovation is enough to promote a move towards a low-carbon economy and, last but not least, the belief that growth automatically leads to an improvement of social conditions. As we approach the close of the Lisbon strategy, it is time to put all these aspects at discussion and look for the definition of a new EU long-term strategy, one effectively geared to promote socially-inclusive and environmentally sustainable growth

2 "Agitation as middle-class Europe struggles to cope", Financial Times, 11/03/2009

The aim of this paper is to provide some reflections and policy recommendations on how to address the two challenges – short-term and long-term – Social Europe is currently confronted with. The paper starts by evaluating the potential consequences that the crisis might have on citizens' well-being and European welfare systems (section 2). Section 3 then draws some lessons from social policy responses (or the lack thereof) to previous crises. Section 4 maps out the institutional and conceptual basis of current EU social interventions and explains why the existing framework is inappropriate to respond to the social challenges facing the EU now. The two final sections are devoted to providing some reflections and practical recommendations on how to address the short-term social consequences of the crisis (section 5) and how to sustain the European social model in the long-term horizon (section 6).

I - How the crisis might affect citizens' well-being and European welfare systems

Although incertitude is prevalent now, there are strong reasons to believe that we are at the start of a long-lasting crisis of exceptional magnitude which will have major and enduring consequences for our societies and welfare regimes.

Up until now, the most visible effect has been the impact in the **labour markets**. The first months of 2009 have witnessed an increase of unemployment in almost all member states, accompanied by a sharp fall in the levels of job vacancies. Given that unemployment usually reacts with a lag of 2-3 quarters to economic activity, the situation is expected to worsen further in the coming months. The question is how much will it worsen, and for how long.

The latest Commission' economic forecast predicts that the EU unemployment rate will increase to 8.75% in 2009 (9.25% in the Euro area)[3]. This prediction, however, might be too optimistic as it is based on the assumption that the EU GDP will fall less than 2% in 2009 and will grow again in 2010. The 2008/2009 Joint Report on Employment takes a similar optimistic approach when stating that "higher unemployment is expected to be of a transitory nature and to revert relatively quickly towards the lower levels of the last years when the real economy recovers".

A comparative analysis of previous systemic banking crisis shows that unemployment rises on average for almost five years after one of these crises, and economic activity takes two years to recover (Reinhart and Rogoff 2008). If this scenario becomes reality, the EU emphasis on short-term training and activation will have to be re-visited. As Karpinnen and Storrie (2009) observe, very specific work training programs are not appropriate in long-term recessions. They are seen by participants as meaningless or even punitive, and can be just as demoralising as long-term unemployment. In the prospects of a long-term crisis, it is better to support the enrolment of the unemployed in long-term formal educational programs, even if this goes without promise of subsequent job[4]. Besides, as the same authors point out, "active employment policies do not create jobs". In the coming years, to be effective, supply-side employment policies will have to be complemented with job-intensive stimulus programs and a new "industrial activism" (Liddle: 2009). In the most affected countries and regions, a return to 'old-fashion' active labour market measures – e.g. labour-intensive public work programs, publicly-subsidized job schemes – cannot be dismissed as a way to combat both poverty and mass unemployment.

3 European Commission, Interim Forecast, January 2009 (available at http://ec.europa.eu/economy_finance/thematic_articles/article13727_en.htm#documents)
4 Karpinnen and Storrie (2009) cite the experience of Sweden in the early 1990s (with the creation of the "Adult Education Initiative") to illustrate this point. The Adult Education Initiative consisted into a massive program aimed at providing formal school education for poorly educated unemployed. According to the authors, the program was so massive that, "at a certain point, had as many adult participants as there were schoolchildren in upper secondary education". Evaluations of this program have shown, on balance, rather positive results.

An aspect that cannot be neglected is that many of the workers losing jobs now are not entitled to unemployment benefits. This is clearly the case for informal workers, but also for regular workers holding temporary jobs as, in many countries, receiving unemployment subsidies is conditional to long qualification periods and/or the fact of being dismissed[5]. In the long-run, there is also a risk of poverty for those in long-term unemployment. To prevent all these categories of workers from falling into poverty, it will be necessary to widen the eligibility conditions for unemployment benefits and extend the coverage of social assistance programs – such as minimum income programs or family benefits.

Finally, migrant workers are also likely to be severely hit by the downturn. Many of them work in the informal economy or hold a precarious job, and thus they are among the first in losing jobs. Given the worldwide dimension of the recession, a massive return of immigrants to their home countries is not expected, as immigrants only spontaneously return if they see job options in their home countries. Besides, many host countries are tightening immigration controls as a result of the crisis, thus inducing outsiders to stay for fear of not being able to re-enter to the host country (World Bank 2009b). Put together this indicates that incentive return migration policies are likely to be ineffective[6]. If anything, the crisis will translate into an increase of irregular immigrants, as those remaining at the host countries will try to weather the storm by finding low-paid jobs in the underground economy. On the other side of the spectrum, the countries of origin will have to deal with problems derived from a sharp fall in remittances. According to the World Bank, remittance flows will decline by 5-8 % in 2009 (2009). This will impact the economic security of many households in CEE countries.

5 Thus, for instance, only 9% of unemployed in Slovakia and 12% in Poland were receiving benefits in 2005 (OECD 2008a). Even in countries such as France or the UK, where coverage is greater, there is an important percentage of workers uncovered (45% and 20% respectively according to ILO estimates) (ILO: 2009).

6 As evidenced by the recent Spanish experience, where only 1.400 immigrants have accepted the incentive return offered by the government against more than 100.000 potential applicants ("El plan de retorno atrae a 1.400 immigrants", El País 15/01/2009).

Another effect of the crisis is **the impact of the credit crunch on individuals and families**. In the very short-term, specific measures are needed to prevent over-indebtedness and preserve families' access to financial services. But the crisis also invites a general reflection on the structural causes of financial exclusion and over-indebtedness in Europe. According to a study published by the Commission one year ago, 7% of the inhabitants in the EU-15 and 34% in the EU-10 encounter regular difficulties in accessing financial services on the mainstream market, with negative consequences for their personal finance or ability to find a job (Commission 2008a). As the same study highlights, there are many causes explaining financial exclusion, but one of them is the process of banking liberalisation. During the last years, increased competition has resulted into less attention being to marginal market segments and into the disappearance of types of financial institutions which traditionally served people on low incomes (local saving banks, co-operative banks, postal banks, credit unions)[7] [8]. One way of neutralising the negative effect of banking liberalisation would be to recognise at the EU level the nature of basic financial services as services of general interest. This would oblige national authorities to introduce specific arrangements in order to ensure access at affordable prices for everybody to these services. The latter does not necessarily mean the creation of public banks: it could consist of the introduction of public-service obligations for private financial institutions, coupled with a compensatory financing system to remunerate this service.

A third direct effect of the crisis relates to **housing**. While housing costs are the largest item in the household budget (OECD 2008b), European welfare states have traditionally paid little attention to it. In most EU countries,

7 Thus, for instance, Italy, Ireland and the United Kingdom all had networks of local saving banks in the past, which have been privatised. The Postbank in the Netherlands is now owned by the ING group, the Girobank set up by the United Kingdom Post Office is now owned by Alliance and Leicester plc and the Spanish postal bank has also been privatised (Commission 2008a).

8 The situation is more dramatic in the CEE countries were, as said before, a significant part of the population do not have access to regular financial services. It is in these countries were the process of banking liberalisation has had more radical effects, with former local banks being now controlled by foreign capital

public housing policies are marginal and narrowly focused on the most needed – the assumption being that the majority of the population could satisfy their housing needs through the market. The recent collapse of the housing and mortgage markets – particularly in Ireland, Spain and the UK – testifies to the inadequacy of market-dominated housing systems to satisfy housing needs. In the short-term, it is urgent to put into place measures to prevent evictions, such as the provision of public guarantees for delayed mortgage payments. On a medium-term horizon, the crisis calls for greater public intervention in the housing and mortgage markets. At the EU level, a more effective macro-economic surveillance is needed to prevent the creation of housing bubbles (Ahearne et al 2008).

The crisis is also having an impact on **pension systems**. The sharp fall in the equity markets has severely affected the value of pension fund assets, putting at risk pensioners' income in those countries with large private pension provision. In the EU, there are five countries in which private pension provision provides more than 10% of current pensioners' income (Denmark, Sweden, United Kingdom, Ireland and the Netherlands). In these countries, it is essential to introduce exceptional measures to protect the pension levels of those retiring today. But the crisis also calls for a re-evaluation of the risks and benefits inherent to different pension models. Over the last decades, inspired by the teachings of the World Bank, various EU countries (in particular CEE countries) have moved away from a public pay-as-you go (PAYG) benefit defined system towards a privately-managed pre-funded defined contribution one. As a result of this, individuals have shifted from having a right to a pension (conditioned to previous contributions) to seeing their retirement earnings subjected to financial market volatility. The current financial crisis is bluntly showing the dangers of such a move, as well as the benefits of maintaining sustainable and robust PAYG systems. As noted by Orszag and Stiglitz (1999), at a certain point of time it is of little practical importance to re-examine the initial choices on pension reform taken by a county, as these are difficult

to reverse. What is more relevant now is to make sure that all EU countries, no matter the pension system they have, are able to ensure appropriate pensions to all their citizens in the future. In this respect, some modifications will be needed in those EU countries that have mandatory pre-funded contributory-based systems in order to make sure that pensioners are not exposed to the risk of investment volatility.

A prolonged recession will also exacerbate the problems of **inter-generational social mobility**. As it is well-known, growing up in poor households increases the probability of being poor in the future. If the crisis last for long, today's poor children will have more difficulties than previous generations to get out of poverty. A more immediate effect of the crisis will be an extension of child poverty. This is particularly worrying, as child poverty was already alarmingly high in Europe before the crisis[9]. It is therefore essential that governments pay particular attention to children when providing responses to the crisis. Thus, for instance, it will be highly advisable to use part of the stimulus plans to boost childcare and education facilities for young children or to improve the quality of primary and secondary education. The introduction of more direct measures to combat child poverty – such as the establishment of a child minimum income benefit – should not be discounted.

In some countries, the crisis can also entail an increase in **income inequalities**. The conventional wisdom seems to be that the crisis will reduce the upper part of the income distribution. As Atkinson explains (2009) this is indeed what happened after the 1929 crash. Yet, as he himself alerts, top income shares did not fall universally[10]. Besides, as the Great Depression began, other income groups were seriously affected. Indeed, income inequalities increased in the US from 1929 to 1933, partly as a result of

9 In 2006, 19 million children (19%) lived under the poverty threshold in the EU 27, and in almost half of the EU countries poverty rates for children were 20% of above, reaching as much as 26% in Latvia and Poland (Commission: 2008b).
10 They fell in the US, Australia, France, the Netherlands and the UK.

increasing wage differentials (Mendershausen: 1975). Thus, the impact of the current crisis on income distribution largely depends on what happens with wages. It also depends on the actions taken by governments. In this respect, it is important to pay careful attention to the potential redistributive effects of possible tax reforms introduced afterwards to redress governments' public finances.

Finally, the current recession might also put under strain the **finances of the European welfare systems**. As governments experience the double burden of declining revenues and increasing claims to entitled-based benefits, there will be probably strong pressures to cut the social budget. Since cutting expenditures for entitled-based benefits is very difficult, the pressure will be stronger for cutting expenditure for publicly-provided services – education, health care and others. This is something that must absolutely be avoided. Any reduction in the coverage or quality of public services will simply aggravate the suffering of people during the crisis and endanger the prospects of a socially-inclusive recovery path.

II - What can we learn from the past? Lessons from the previous crises

Many commentators have compared the current crisis with the Great Depression. Several lessons have been drawn from what happened at that time, such as the need for immediate and bold action and the importance of adopting expansionary fiscal policies. Apart from that, the Great Depression shows the dangers of entering into a downward wage/price spiral. This risk is surely lower now than in 1929, as the level of wage protection is higher (at least in the developed countries). However, it should not be under-estimated. The temptation of cutting wages to recover competitiveness might be particularly high within the euro countries, which do not have the possibility of devaluation. A recent article from the Wall Street Journal[11] warns of the risk of EU countries entering a vicious circle of deflationary 'beggar-thy-neighbour' wage strategies, something which would not only endanger Europe's prospects of recovery but lead to a sharp fall in living standards.

11 "The Wages of Recovery", by Simon Tilford, *The Wall Street Journal Europe*, April 15, 2009.

A second lesson we can draw from previous crises is the importance of involving social partners in the formulation and implementation of strategies to respond to the crisis. Examples from past crises illustrate how national tripartite pacts helped overcome severe economic difficulties by securing the commitment of all key economic actors in the implementation of reforms. This was the case in many East Asian countries during the 1997-1999 crises (Campbell D 2001, cited in ILO: 2009, p. 38), but also in many European countries during the early 1990s recession.

A third important lesson is the need to avoid path dependency and short-termism. As noted by Hemericjk and Visser (2003), under conditions of crisis there is no time for international evaluation and comparison. Decision-makers are pressed to make swift decisions by using recipes and routines from the past. Yet, marginal adjustments within the prevailing policy paradigm might not work in front of a systemic crisis. Even worse, they might be catastrophic in the long-term. The clearest illustration of that is the policy response in Continental Europe to the 1970s crises. As explained by Esping Andersen, most Continental European countries decided to combat the high levels of unemployment with a strategy of labour supply reduction; that is, inducing the exit from the labour market of old workers and women. This strategy was intrinsically linked to the conservative-catholic imprint of their welfare systems, and had favourable effects in the short-term. Yet, in the long-term it had very negative effects, as it locked these countries into a self-reinforcing negative spiral of increasing dependency ratios and shrinking active population (Esping Andersen 1990, 1996).

Notwithstanding the importance of these lessons, the circumstances and the repertoire of policy options available varies from one crisis to another. In this respect, there are two elements that distinguish the current crisis from precedent recessions and which are worth mentioning. The first is that this economic crisis coincides with a major environmental crisis, whose solution requires a complete transformation of our modes of production and ways of living (Degryse and Pochet: 2009). The second is that the process of European integration is in a much more advanced stage than in previous crises, and thus some policy recipes used before – currency devaluations, trade protectionism – are no longer available to national policymakers. Precisely because of this – the restricted scope of national options – coordinated action at the EU level is essential to respond to this crisis.

III - Why the post-2005 Lisbon Strategy and the 2008 renewed social agenda are not the right way ahead

We concluded the last section by pointing at the importance of involving the EU in the provision of social responses to the current crisis. Leaving apart the political argument – that is, the need to maintain popular support for the European project – there are two main reasons why EU action is needed: first, to ensure co-ordination between national social responses, so as to avoid negative spillovers from one country to another or to the EU as a whole; second, to help those EU countries which are most hit by the crisis and which might not have the financial resources to mitigate the social impact of it, thus avoiding situations of political instability or major social hardship. Apart from that, the EU can help improving national social responses to the crisis providing harmonised data and information and stimulating the exchange of information and policy learning within national governments.

Now that we know which type of EU action is required, the question is whether this type of action can be developed within the existing institutional and

cognitive framework guiding EU social interventions. Before answering this question, it is necessary to briefly describe the characteristics of this framework.

EU social policy consists of an amalgam of interventions – legislation, social dialogue, financial aid (mainly the EU structural funds) and 'soft' policy co-ordination through the use of the so-called Open Method of Co-ordination. Over the last years, the first two – legislation and social dialogue – have lost much of their importance while the 'soft' methods of governance have become the main type of EU action in the employment and social sphere. Initiated in the early 1990s, since the year 2000 these methods have been conceptually and institutionally coupled to the Lisbon strategy. This has come in parallel with an effort to 'lisbonise' the EU structural funds – to re-direct the structural funds to the attainment of Lisbon strategic goals. Together this has converted the Lisbon strategy into the main conceptual and institutional framework guiding EU social action.

The Lisbon strategy was adopted in 2000 with the aim to convert Europe into a socially-inclusive and competitive knowledge-based economy by 2010. It intended to do so through investments in innovation and knowledge, product market reforms and reforms in employment and welfare systems. To implement these reforms, Lisbon mostly relies on the use of 'soft' co-ordination methods. Hence, national governments are mainly responsible for implementing these reforms, although the EU supports and complements member states' efforts with its own actions.

During the period of the Lisbon strategy, different EU Social Agendas have been approved[12]. The role of these agendas is to organise EU social action,

12 In particular, three Social Agendas have been approved since the launch of the Lisbon Strategy. The first two covered a period of 5 years each (2000-2005 and 2005-2010) and were explicitly intended to support and complement member states' efforts to attain the social and employment Lisbon objectives. The third one (so-called 'renewed social agenda') has a wider scope. Adopted in 2008, it does not confine itself to the traditional Lisbon social domains but covers a wide range of policy areas including labour mobility, immigration and intercultural dialogue. It is also more ambiguous with respect to the calendar. Approved in 2008, it has to be revised "together with the Lisbon strategy, for the post-2010 period" (COM (2008) 412). Yet, it is unclear whether the intention of this revision is to elaborate a new social agenda or to update the existing one.

but also to provide a 'social vision' or policy thinking inspiring welfare reforms at national level. Two ideas are at the core of the Lisbon-related EU social policy thinking. The first is that social policy should be supportive to growth – a 'productive factor' – geared to prevent problems rather than correcting them. This leads to an emphasis in education, lifelong learning and on policies supporting early child development. The second is that market-driven inequalities cannot be reduced by political means. Rather than regulate the market so as to ensure human welfare, the aim is to adapt and 'empower' citizens so that they can be better equipped to satisfy their welfare needs within the market. Thus the focus on labour market activation measures – re-training, workfare programs – even if in principle these have to be complemented with solidarity measures (conventional income replacement programs) for those unable to enter and succeed into the market.

It is noteworthy that, in the original version of Lisbon, economic and social goals were placed on equal footing. Indeed, the originality of Lisbon was the search for a positive synergy between economic and social development. Yet, this idea was abandoned with the 2005 refocusing of Lisbon on growth and jobs. Lisbon is now founded on a refined version of the old 'trickle-down' argument, in which levels of living standards are expected to rise automatically with the move towards a high-skill knowledge-based economy. The reform has had important practical implications for EU social action. In the post-2005 Lisbon architecture, only welfare reforms in pursuit of employment promotion or financial sustainability are subject to close co-ordination and surveillance within the core Lisbon process (Zeitlin 2007). The remaining welfare reforms are coordinated through a much weaker process (the OMC on social protection and social inclusion), which is increasingly justified less in terms of common EU social values and political commitment to maintain the European Social Model and more for the benefits arising from information exchanges and mutual learning

Nine years after its start what is the social record of Lisbon? The main conclusion that comes up when one observes the data is that the 'trickle down' effect has not worked. Over the last four years, there has been a significant increase in employment rates but achieved mainly by the creation of part-time and temporary employment. In spite of economic growth, overall poverty rates have not decreased in Europe and child and old poverty rates have increased in some EU countries (Commission 2008b). Last but not least, income inequalities have widened in the majority of EU countries, with substantial increases taking place in Germany, Poland, Italy, Latvia, Romania and Bulgaria (ETUI 2009).

In addition to this, the EU social policy thinking has been somehow distorted at the moment of its implementation. The original balance between labour activation and solidarity measures has been clearly broken in favour of the first. As reported by a recent Commission Staff Working Document, in most EU countries the strategies to tackle poverty and social exclusion have been reduced to efforts to integrate people into the labour market. Only a few member states construe "active inclusion" as a holistic strategy that combines adequate income support, inclusive labour markets and access to quality services" (Commission 2009b, p. 41)

Finally, despite the emphasis given to the notion of social prevention, the EU has failed to promote a major shift towards more preventive welfare systems in Europe. In most EU countries, there has been a significant lack of progress in the areas of life-long learning, school drop-out and childcare provision, and child poverty rates remain persistently higher than the average poverty rate (Commission 2008b).

Let's now come back to the question posed above: is the existing EU social policy framework the adequate one to build up an EU social response to the crisis? In our opinion, the answer is no.

There are two important problems with the current policy framework. The first concerns its cognitive basis. As said above, Lisbon-related social policies are based on the assumption that markets work well, that is, they are capable to provide social welfare for a majority of people –and thus that labour integration is the best way to get people out of poverty. This assumption is questionable at the best of times. A strict adherence to the idea that “any job is better than no job” undermines the problems of the ‘working poor’ as well as the existence of other social factors that constitute serious impediments to work for those out of the market – such as the lack of adequate care facilities for children or public transportation. But in bad times, the assumption becomes clearly false. In the coming months the markets will surely not work in a socially-desirable way. The current emphasis in labour market activation has to be mitigated and more attention must be paid to social protection measures – income guarantee programs, minimum wages – as well as in ensuring full geographical coverage and universal access to quality social services.

The second problem concerns its weakness. As seen above, today’s EU social action mostly consists of promoting policy co-ordination on a voluntary basis. The dominant use of ‘soft’ coordination is frequently justified on the basis of respect for welfare heterogeneity. Yet the respect for diversity should take second seat now that Europe is facing a systemic crisis and the risk of national protectionism is high.. There is a need to ensure an EU coordinated response to the crisis, and for this the mechanisms of social policy co-ordination have to be strengthened.

IV - EU social policy for the crisis: some recommendations

In the immediate short-term, the EU priority should be to ensure that national governments provide an effective, comprehensive and coordinated response to the social consequences of the crisis. As seen above, this requires reforms in the EU modes of social governance as well as a certain shift in EU social policy thinking. The following are some recommendations of EU social action for the crisis:

A) Monitoring all social effects of the crisis

As noted in the introduction, there is a risk that national social responses to the crisis remain narrowly focused on the impact in terms of job losses and unemployment. The EU can play an important role in highlighting the various social dimensions of the crisis and calling member states to develop a comprehensive response. One way of inducing members to adopt this broader approach could be by disseminating timely and up-todate data on all the social effects of the crisis. This could for instance be done by extending the scope of the "monthly monitoring reports" that the Commission has been compiling since the beginning of the crisis, which are strictly focused on labour market and industrial restructuring trends.

B) Coordinating the social dimension of national recovery plans

Up to now, national and EU discussions on member states' recovery packages have been centred on the overall size of the packages or on the type of measures proposed – i.e. investment vs. consumption. Very little attention has been paid to the social dimension of these packages – i.e. what is the distributional impact of the measures proposed, how much of the current recovery effort is invested in social infrastructures.

The EU should make sure that national governments foster socially-inclusive recovery strategies. Substantial differences in the social weight of national stimulus plans may aggravate the territorial and social imbalances within the Union. One way to prevent this from happening is by pushing EU governments to spend a minimum percentage of the budgetary stimulus plan on social-related investments. One could even imagine the establishment of more concrete obligations – i.e. spending a certain percentage on child-related social infrastructures. Member states should be also encouraged to undertake systematic social impact assessments of all prospective economic recovery measures.

C) Preventing beggar-thy-neighbour policies of wage devaluation

As said above, there is a serious risk of entering into a vicious dynamic of competitive wage devaluation, in particular within the Euro-zone. The EU should prevent this. This can be done by putting a minimum floor on nominal wages (Watt: 2008). Following Watt, the best way to do so would be through the use of 'declaratory politics': national governments, the social partners and the European authorities could publicly emphasise the need for stable nominal wage growth and their rejection of 'beggar-thy-neighbour' wage policies.

D) Promoting concerted policy approaches

The Commission has traditionally played an important role as 'idea entrepreneurs' in the social domain – that is, by disseminating innovative ideas and good practices. Now that the existing EU social policy narrative appears as inappropriate, it is more important than ever that the Commission takes a more active lead in proposing new policy approaches, promoting the exchange of information and best practices among national governments. It is also the time to reinforce EU actions in support of social innovation and experimentation at the local and regional level (Jouen 2008).

E) Reinforcing the social conditionality of EU financial aid

Lastly, there is a need to make a more effective use of EU financial aid to combat the crisis. So far, proposals have gone in the direction of increasing the amount of EU financial support to national governments – by for instance extending the coverage of the European Globalisation adjustment Fund (EGF) or advancing the payments of ESF to member states. This should be accompanied by reforms to ensure a greater EU control on the use of these funds. Thus, for instance, the Commission should be more involved in the programming of actions financed by the EGF. At present, national governments have '*carte blanche*' to decide how to use the funds they receive from the EGF, provided they use them to finance active labour market measures for redundant workers. A greater involvement of the Commission would help ensure that EGF is reinforced and used appropriately to smooth the transition towards a low-carbon economy.

It is also important to revise the conditionality of IMF/Commission emergency loans to CEE countries. Cutting social expenditures at current times will aggravate the already difficult social situation experiencing these countries. The EU should either relax these conditions or increase the financial help to these countries in order to compensate for the loss of domestic capacity to mitigate the social effects of the crisis.

V - Beyond the crisis: re-thinking strategies to promote the European social model

The crisis also offers an opportunity to revise the EU long-term strategy to promote social cohesion and social progress. The following are four important points which we believe will merit serious attention in the years to come.

A) Need to address income inequalities

As noted by Joseph Stiglitz[13], the growing increase of income inequalities was at the root of this recession. The constant compression of wages together with an abundance of liquidity combined to create a debt-driven growth in the US. The process was more evident in the US, but something similar occurred in the EU. The share of wages in national income has also been in constant decline in the EU-27 over the last decade. In the absence of solid purchasing power within the population, private consumption in

13 "The Rocky Road to Recovery", by Joseph Stiglitz, Project Syndicate, 2009 (www.project-syndicate.org)

the EU was either fuelled through by the credit and asset bubbles – as in the UK, Ireland and Spain and some new member states – or remained depressed, as in Germany (ETUI: 2009).

Whereas income inequalities have increased in most EU countries during the last 20 years (OECD 2008b), the EU has neglected this major dimension of social cohesion from its analysis and actions. The crisis has evidenced the importance of introducing some correction to market-driven inequalities. Of course, national actors are mainly responsible for introducing these corrections, but the EU can favour a move towards more egalitarian societies by, for instance, introducing inequality indicators and/or inequality targets in the social OMC process. It is also important to pay more attention to the evolution of wages. Appropriate EU institutions such as the 'macro-economic dialogue' should be strengthened in order to ensure that wage-setting is in line with medium-term productivity trends.

B) Paying serious attention to the social aspects related to the shift towards a low-carbon economy

There seems to be a consensus on that the only sustainable way out of the crisis is to promote a major shift towards a low-carbon economy. Yet many people wrongly believe that technological progress will be enough to promote this shift. As highlighted by Degryse and Pochet (2009), a transition towards a low-carbon economy requires a major change in the modes of production, distribution and consumption, which will not come about through market signals alone. Such a move will require a certain return to long-term planning (Giddens: 2008) on industry and transportation for instance, as well as the introduction of binding regulation and taxation to shift individuals and firms' incentives. All these public measures will have important effects in terms of income inequalities, social cohesion and jobs, and therefore it is essential to start thinking about the social implications of all these changes. Besides, the transition to low-carbon economies will lead to major changes in our economic structure with respect to job types and skill profiles. Thus, appropriate active labour market policies and good social protection measures will be essential to smooth the social impact of such a shift (Degryse and Pochet 2009).

C) Ensuring a socially-friendly single market

Over the last decade or so, we have witnessed a shift away from the 1980s EU social rationale of providing a social dimension to the single market towards a new rationale, that of preserving and modernising national welfare systems through non-binding policy co-ordination. This shift has been accompanied by a certain discredit of the use of EU legislation in the social sphere. As 'soft' social governance has extended to a number of policy fields (social inclusion, health and pensions, education and training), 'hard' law has been increasingly portrayed as something outdated and unnecessary. In a Europe of 27, it has been argued, "one-fits-all" directives are not the way forward to promote social progress.

Yet, during the last few years we have seen the limits of flexible, soft-law approaches. At the same time, while labour mobility has strongly intensified with the arrival of the CEE countries, the social 'acquis' has not been adapted to the new reality. The controversy generated by the recent European Court of Justice (ECJ) rulings on Viking, Laval and Rüffert has put into evidence that the tension between EU economic integration and national welfare systems has not disappeared over the last few years, and that it is more complex than the simple existence or absence of clear-cut "social dumping" practices.

These recent ECJ rulings have had an enormous impact on the Nordic countries' public opinions. They have altered their perceptions of the

EU, thus showing the political fragility of popular support for the single market if citizens are not convinced that it does not harm their national welfare systems. This highlights the need to ensure a socially-friendly single market. Such a market does not necessary mean the establishment of harmonised social law. An interesting alternative is the one proposed by Ferrera (2009). This author calls for the establishment of an explicit and effective 'nesting' of the national welfare state within the overall EU architecture. This 'nesting strategy' would basically require two types of actions. First, changes in the EU constitutional framework in order to explicitly protect 'social protection' as a distinct and relatively autonomous space, and to specify the limits of free movement and competition rules in respect of this space[14]. And second, the development and reinforcement of "cross-regional social protection schemes" for those citizens moving from one country to another.

Tensions between the single market and national welfare systems also arise as a result of the negative impact of the movement of capitals and firms on governments' finances. Over the last few years, the opposition by the Anglo-Saxon countries (UK and Ireland) and the new member states to any form of tax co-ordination has translated into major difficulties for Continental countries to meet social objectives through their budgets. As pointed out by Mario Monti[15], the EU should grab the chance offered by the crisis to place EU tax co-ordination on the table again. In particular, Monti proposes the establishment of a strategic pact between the two groups of countries. This strategic pact would serve to "save" the single market and it would consist of two elements. First, a renewed and binding commitment to the single market, with deadlines to implement the single market rules in areas where there are still lacking. And second, limited measures of tax co-ordination, enabling member states to retain their tax sovereignty by acting together on parts of it.

14 An example of such a change would be the proposal of establishing a 'social clause' in the Treaties, proposal defended among others by the European Trade Union Confederation (ETUC).
15 "How to save the market economy in Europe", by Mario Monti, Financial Times, 5/4/2009

D) Strengthen EU action in support of a shift towards welfare preventive systems

Finally, in the years to come it will be essential to strengthen EU actions to support a shift towards a preventive welfare approach. The EU discourse on preventive and investment-oriented welfare systems dates back to the early 2000s but, so far, as we have seen above, it has had little impact at national level. Of course, national governments are the first to be blamed for this lack of progress. But it is also true that the EU could be more effective in supporting this move by, for instance, establishing binding commitments for the reduction of child poverty, taking a clearer stance in favour of childcare and education facilities for young children, or increasing the amount of financial aid to support child-related investment.

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