Social policy in the European Union: state of play 2015

Edited by
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Sixteenth annual report

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European Trade Union Institute (ETUI)
European Social Observatory (OSE)

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Preface

Social policy in the European Union: state of play 2015 sheds light on the main challenges with which the past year has left us in the area of social policy writ large. It also looks ahead, identifying new opportunities for policymakers and social stakeholders alike. As the European Union (EU) has ceased to be the veritable 'convergence machine' it used to be, social and economic divergence (especially within the Eurozone) increasingly undermines the credibility of the European project. Reasoning in terms of 'us' versus 'them' – 'the South' versus 'the North' – will inevitably gain legitimacy, while the unfolding Greek tragedy is taking the legitimacy crises of the European project as a whole to an unprecedented level.

A set of political and institutional milestones has marked the most recent stage of European integration. As for EU politics, the 2014 European elections promised to be a turning point – for better or for worse – and have indeed the potential to increase the political legitimacy of EU governance. The appointment of the 'last chance' European Commission raises the prospect of a new institutional context that will allow fresh ideas to take hold and grow, including the announced – and much-needed – revamping of European social dialogue. In other words: for some observers, 2014 saw the first signs of a potential turning point in EU politics and the striking of a better balance between economic and social policies.

For others, the year 2014 has been another missed opportunity, confirming that the EU will not be able to overcome the formidable political and institutional hurdles, which continue to impede any kind of quasi-federal solution needed to move beyond the crisis. The ongoing process of simplification and improvement of the '*acquis communautaire*', now known as the 'Regulatory Fitness and Performance (REFIT) initiative, is already slowing down the legislative process, especially in the areas of social and environmental protection.

The main questions addressed by the book are: *What would be the best ways for the EU to move forward from the crisis? To what extent are the post-European Parliamentary election period and the new European Commission game changers that can pave the way for a more social EU agenda? And finally, what are the limits of the increasingly important yet highly contested role of the EU in pushing national reforms in policy areas at the core of the welfare state?*

This volume consists of two parts. The first sheds light on EU politics and governance after the Parliamentary elections. The Eurozone needs to save itself from its own rules and strict economic policies. Exactly what it needs to do and how it should do it is discussed by Vivien Schmidt in Chapter 1. Chapter 2, by Jonathan Zeitlin and Bart Vanhercke, examines the slow but steady 'socialisation' of the European Semester, which is an illustration of how the EU may be changing course already. Chapter 3, by Richard Hyman, asks what people, and their representative organisations, can do to promote policy change within the EU, especially within the Eurozone. The analysis of old and 'new' forms of protest and resistance to austerity is of particular importance in the context of the 2015 European Trade Union Confederation (ETUC) Congress.

In the second part, Martin Myant provides a critical analysis of the current regime's plans for social investment to spur economic recovery and offers some suggestions on how to better invest socially (Chapter 4). The next two chapters narrow the scope of the conversation, each taking a specific field of social policy. Thus Chiara Agostini and David Natali describe EU coordination of education and training policies and point to the EU's contradictory take on education investment. Furio Stamati and Rita Baeten demonstrate the EU's contested influence on national healthcare reforms, providing a comparative assessment. The question of whether the Transatlantic Trade and Investment Partnership (TTIP) is in fact a neoliberal Trojan horse is critically addressed by Dalila Ghailani and Aída Ponce.

The volume provides a forward-looking reflection on the EU political context, laying out both risks *and* opportunities for a new path for Europe. This is why we decided to slightly amend the title of the annual publication, which does more than merely describe 'Social developments' but rather provides a fully-fledged state of play of social policy in the European Union.

The European Social Observatory has worked together with the European Trade Union Institute and renowned external scholars to draw up this year's edition of the book. Through this collaborative publication, we aim to contribute to the debate between policymakers, social stakeholders and the research community, while providing accessible information and analysis for practitioners and students of European integration.

We look forward to engaging in a dialogue with you about the crucial issues addressed in this volume, and wish you happy reading.

Maria Jepsen, David Natali, Philippe Pochet and Bart Vanhercke

July 2015

Introduction
The EU and the social legacy of the crisis: piecemeal adjustment or room for a paradigm shift?

David Natali, Bart Vanhercke and Riley Johnson

Let's not fool ourselves: while prudent recovery in the European economy seems to be underway in 2014/15, the robustness of this recovery is far from guaranteed. Much work still needs to be done at the EU level in areas such as macro-economic policy, financial market regulation, banking supervision, and, especially, taxation and social policymaking. Some may fear that because economic recovery has begun (at least in some Member States), the sense of urgency that motivated European leaders during the crisis will evaporate. Policymakers might indeed come to think, once again, that incremental changes in this or that area will do the trick, thereby neglecting the social legacy left behind by the economic crisis.

The social legacy of the financial crisis is deeply worrying. Total unemployment rates stood at 10.3% in 2014 (11.6% in the Eurozone) and projections for the next years are far from encouraging: unemployment in the Eurozone is expected to average 10.6 per cent in 2016 and 9.3 per cent in the EU as a whole: this is considerably above the pre-crisis levels of 7.5 per cent and 7.2 per cent (Diamond *et al.* 2015).[1] In particular, young people have been hit hard by the recession. All in all, young people are on average 2.6 times more likely to be unemployed than adults. The wide difference in the performance of EU members continues, but last year a number of high-income countries performed badly while some lower-income countries experienced some improvement (ETUI 2015: 33).

1. Unemployment rates ranged from 26.8% in Greece and 24.8% in Spain to just 5.1 and 5.3% in Germany and Austria respectively (ETUI, 2015).

Things are no better when looking at other factors. For example, an overall reduction of public investment in the EU is further compounding the problem. In 2014, the level of total investment (both public and private) was 15% below the peak of 2007. Total fixed investment fell from 22.0% of GDP in the 2004-8 period to 19.4% in 2014. In some countries, little net change occurred over this period, while in others, investment fell: Cyprus, Ireland, Greece, Latvia and Spain all saw falls in investment of 10% of their GDPs. Most of the decline occurred in the area of private investment, but public fixed investment also fell by more than 50% in Southern Europe (ETUI 2015: 13). Unsurprisingly then, increasing numbers of people face a lack of access to basic goods and services in the EU. The number of people lacking essential items like housing, food and clothes rose to nearly 16% of the total population in 2012. Furthermore, just over 24% of the European population is at risk of poverty and social inclusion[2]. There has been a significant fall in real household income per head from 2008-2014 (in line with the fall in GDP per head and the fall in employment rates). In other words, an increasing share of Europe's middle class is now at risk of becoming poor at some point in their lives.

These trends should worry policymakers: doing nothing or enacting only incremental changes should not be an option. Yet despite the worrying statistics, EU political institutions have not effectively addressed these problems. While EU policymakers have taken some steps in the right direction, much remains to be done. The following chapters show that 2014 and early 2015 were not a watershed for the EU. While both the policy strategy and institutional contexts have seen some changes when compared to earlier years, these changes may be 'too late and too little': a piecemeal adjustment that does not address the fundamental problems of the EU.

2. If we consider the at-risk-of-poverty indicator calculated on the basis of the median average household income in 2008, before the crisis started, the share of the population at risk of poverty in the EU27 had risen in 2012 by an average of 10.8% (1.8 p.p.), and in the Eurozone (EA17) it had risen by 18% (2.9 p.p.) (ETUI 2015).

The present introduction is organised as follows: section one presents the key facets of the EU's current situation. We refer to the events that have marked the EU in the last months: the European Parliament with a strong euro-sceptic component; the new strategy pursued by the Juncker Commission to regain a central role; the more growth-friendly programme based on the European Investment Fund and aimed at boosting economic growth, and the initiatives of the European Central Bank (ECB) to reduce interest rates and increase liquidity. These initiatives were then finalised through the introduction of a quantitative easing programme in 2015.

Sections two and three provide a critical review of the state of the EU and its social dimension, which give two opposite but still complementary visions of the EU. Section two, in line with a more pessimistic reading, shows evidence of a very disappointing state of the Union. There is a risk that both the EU (potential exit of the UK) and EMU (with the never-ending Greek crisis) may collapse, and, in parallel, there is an utter lack of improvement in terms of EU fiscal capacity. While in 2013 the Social Investment Package was presented as an opportunity to fix and implement a new growth-oriented paradigm, it has proved to have limited effects. Tensions concerning migration and the weak EU position in the Ukraine crisis are also a worrying threat to the feeble sense of solidarity between EU members.

Section three takes a more optimistic stance vis-à-vis the EU and the progress of its social dimension. The new Commission has placed some emphasis on the need for a stronger social dimension in Europe (including social dialogue). In this context, the ECB has attempted to encourage more growth, while a prudent 'socialisation' of the European Semester has taken place. The Juncker Commission has emphasised the need to reinforce the social dimension of the EU. At the same time, the revised governance of the structural funds is an opportunity for a more balanced and effective approach to growth. Section four outlines the main themes in the book and stresses that, beyond optimism and pessimism, the incremental changes introduced to EU governance are not enough to address major socio-economic and political problems. Essential challenges are putting the EU at risk while there is a danger of further damage to its social dimension.

1. Some new features in the EU institutional landscape since the European elections

In political terms, the European Parliament elections were a key moment in 2014. This political event has had further institutional and political consequences that marked the last months of the year and early 2015.

1.1 European Parliament Elections: not an earthquake, but growing tension

Between 22 and 25 May 2014, elections to the European Parliament (EP) were held in the European Union: 500 million voters living in the 28 different sovereign states elected 751 parliamentarians for a five-year mandate.

While the European People's Party lost ground to the Progressive Alliance of Socialists and Democrats, it remained the largest faction in the new parliament. But the big novelty was the increased consensus in favour of anti-establishment parties: their representation more than doubled to about 24% of seats in the Parliament. These forces are not exclusively on the political right of the spectrum. They include a huge range of parties and groups from the Right (e.g. the French Front national) and the Left (e.g. the Greek Syriza) (Emmanouilidis and Stratulat 2014; Reguly 2014).

While the centre-right and centre-left will still hold the majority of seats – they currently have more than half of the 751 seats in the EU legislature – they will face a key challenge from the anti-EU opposition (Taylor and Emmott 2014). Anti-EU movements suffered from their own heterogeneity and fragmentation in the first months of the legislature. But in late 2014 and early 2015 they started to regroup. This is shown by the formation of two parliamentary groups: the EFDD (Europe of Freedom and Direct Democracy) with Britain's UK Independence Party (UKIP) and the Five-star Movement from Italy; and the Europe of Nations and Freedom (ENF) led by Marine Le Pen's Front National and the Dutch PVV and which will also include representatives of Austria's FPO party, Belgium's Vlaams Belang, and Italy's Lega Nord. The priority of these two groups is to dissolve the

Eurozone. These parties could be able to influence discussions in Parliament on very divisive issues such as immigration. The success of these parties is a massive threat for the EU (see the concluding chapter).

1.2 Top candidates for the Presidency of the Commission

One of the key novelties of the Lisbon Treaty was implemented for the first time in 2014: the identification of top candidates for the post of President of the Commission. According to Art. 17.7 of the Consolidated Version of the Treaty on European Union (TEU), 'taking into account the elections to the EP and after having held the appropriate consultations, the European Council, acting by a qualified majority, shall propose to the EP a candidate for the President of the Commission'. This candidate shall be elected by the majority of the EP (Korfer 2014).

The so-called 'leading candidates' (*Spitzenkandidaten*) for the Presidency of the European Commission were in fact nominated to represent their respective European Parliament political Groups in the European elections in May 2014. This meant that a parliamentary electoral campaign took place in which political parties and their candidates competed on the basis of alternative programmes[3] (ibid.).

This competition introduced a new element of political opposition at European level and is expected to alter the institutional balance of the EU. Two issues must be emphasised concerning this development. Firstly, implementation of this provision in the Treaty was not supported by all. Many national leaders were not convinced by the idea of organising the electoral campaign on the basis of leading candidates. More importantly, Angela Merkel, the German chancellor, was strongly against it. Secondly, the EU's Lisbon Treaty has in fact shifted the balance of power towards the European Parliament, effectively declaring

3. Six candidates were supported by the major political forces: Jean-Claude Juncker for the European Popular Party, Martin Schulz for Socialists and Democrats, Guy Verhofstadt for the Liberal group, Ska Keller and José Bové for the Greens, and Alexis Tsipras for the Party of the European left.

that national leaders should consult the Parliament concerning nomination of the Commission, that the choice has to reflect the outcome of parliament elections and that the chamber has to endorse the appointment by simple majority (see Schmidt in this volume).

1.3 From Barroso to Juncker: what is new?

After being put forward as a candidate for Commission President by the European Council, Jean-Claude Juncker was elected President of the European Commission in July 2014, in the European Parliament plenary session, by a strong majority of 422 votes.

In the first months of the new Commission, the new President has tried to address the main difficulties of the Barroso Commission: the declining political weight of the Commission in EU institutional dynamics (as a consequence of the inter-governmental turn of the EU); the increased mistrust of European public opinion vis-à-vis the Commission; and the very broad but ineffective agenda of initiatives (Gostyńska-Jakubowska 2015).

To restore the political role of the Commission, Juncker first reorganised its structure. The new structure centralises power with the President and his seven Vice-Presidents. Now the power of legislative initiative, which is the prerogative of the Commission according to the treaties, could effectively be taken from the 'junior' Commissioners and placed in the hands of the eight 'senior' ones. Any legislative bills initiating from the regular Commissioners will need the approval of their Vice-Presidents before they can be taken forward. There are several reasons for this new organisational set-up: on the one hand, it reinforces the Commission and makes it a true government, and on the other, it avoids excessive legislating (Emmanouilidis 2014). Yet, as stressed by many observers, the process in question has become more complicated; initiatives must now be validated by the Commissioner and the Vice-President concerned before being presented to the College of Commissioners (Robert 2014a).

The above-mentioned application of the Treaty for the designation of the *Spitzenkandidaten* and the new rules for the selection of the members of the Commission are designed to make it less of a technocratic and more of a political body, and to help improve the Commission's image (Gostyńska-Jakubowska 2015).

The new Commission then tried to be more focused. The action plan proposed at the end of 2014 consisted of about 20 legislative proposals (instead of the average of 130 proposals per annum submitted by the Barroso Commission).

1.4 New steps in the EU policy package

As well as these political-institutional changes, new measures were also taken to address the crisis. The key step of 2014 towards a growth-enhancing strategy was the proposal launched by the new President of the Commission, Juncker, for a European Fund for Strategic Investments (EFSI) (see Myant in this volume). The fund, proposed in November 2014, consisted of about €315 billion: with €5 billion coming from the European Investment Bank and an €8 billion guarantee from existing EU funds, designed to secure a contribution of €16 billion in total from the institutions. The resulting EFSI fund totalling €21 billion is expected to generate €240 billion for long-term investments and €75 billion for small and medium-sized enterprises (SMEs) and mid-cap firms over the period 2015-2017 (Euractiv 2014a).

Meanwhile, the ECB acted to relaunch the economy while addressing the risk of deflation (Claeys 2014; Claeys *et al.* 2015). Between June and August 2014, the ECB launched measures to fight low inflation and boost the Eurozone economy through the lowering of deposit rates intended to boost liquidity for banks and then to firms and families. It lowered the deposit rate to -0.1%, meaning that it will effectively charge banks for holding their money overnight. It cut its main refinancing rate to 0.15%, and the marginal lending rate to 0.40% (Euractiv 2014b). Other steps included extending the duration of unlimited cheap liquidity for Eurozone banks, injecting about €170 billion by stopping tenders that withdrew funds spent on past government bond purchases, and preparing for possible future purchases of asset-backed securities to support small businesses. Banks were expected to use the money to lend to households and businesses, thereby directly helping to revive the economy, or take the money and buy assets themselves, or use the funds to substitute for issuing their

own debt. These measures were aimed at making money cheaper and easier to access (Euractiv 2014c). In January 2015, the ECB announced the launch of a 1.1 trillion euro quantitative easing programme to stimulate growth and fight against deflation across the single currency area. In March 2015, the ECB and the national central banks of the Eurozone started a programme to buy about €60 billion of public and private bonds each month until September 2016.

While these events partly altered the austerity paradigm, analysts have been seen to be divided in their assessment of the effectiveness of these measures. The next two sections summarise the sharply contrasting points of view. We first refer to the pessimistic interpretation and then move to a more optimistic evaluation of the state of the EU.

2. Four reasons to be pessimistic: the existential crises of the EU are still to be addressed

First, despite all the reforms mentioned above, there is a risk of radical destabilisation of the EU. As shown by recent events, the Greek crisis has destabilised EMU, and the Eurozone is still at risk. Anke Hassel, Professor of Public Policy at the Hertie School of Governance, compared the relationship between Greece and Germany to a teenage 'game of chicken'. The game involves two combatants – in this metaphorical case, Greece and Germany – who are both in cars on a collision course with each other. The object of the game is to force the other car to swerve first, with the loser being referred to as a coward or 'chicken'. Of course, if nobody swerves, both die (or at least are badly injured) in a horrific car-crash. The parallels with the EU economic climate, at least in the first semester of 2015, were strong: both Greece and Germany were trying to get the other to give in to their respective demands, the fiscal equivalent of swerving. If neither changes course, the Eurozone could face fatal consequences. The problem with this game is that the Syriza government in Greece has picked, in Germany, the wrong opponent (Hassel 2015). Indeed, in a classic game of chicken, both combatants are equal. One car does not weigh significantly more than the other, and the consequences for each are therefore equal. This is not the case here in the eyes of Germany. German Finance Minister Wolfgang Schäuble pictures himself in the proverbial Mercedes-Benz truck heading towards a confrontation with his Greek counterpart Yanis

Varoufakis, who is riding on nothing but a scooter. If the two collide, at worst Germany will leave with a dent in its bumper. Greece, on the other hand, will be dead. So, while the EU's blind focus on austerity has certainly not helped Greece, it is also fair to say that the new Greek government has mismanaged the crisis and has lost most of its allies.

This proverbial game of chicken will ultimately end with a Greek concession, but only after several rounds of high-profile and highly mediatized battles with Germany and the rest of the Eurozone. Greece might win some mostly symbolic concessions, so that Greece will be able say that not a single other Government could have got a better deal. For example, there might be some relaxing of pressure on reform and austerity, which will allow for some social investment (most likely in education) and for some reinforcement of the 'weak state' that Greece currently is. American economist Paul Krugman writes that 'the shape of a deal is therefore clear: basically, a standstill on further austerity, with Greece agreeing to make significant but not ever-growing payments to creditors' (Krugman 2015). The still present risk of Grexit, however, signals larger problems within the Eurozone. The latter has proved unable to resolve internal tensions derived from the sovereign debt crisis and the limits of an austerity-based plan to exit the recession. The social dimension of Europe is missing from the debate as well as the minimum degree of solidarity required in a union.

A second threat to the Eurozone is Brexit. The United Kingdom is talking about a potential exit from the EU, for reasons entirely independent of Greece's. Britain has already opted out of the EMU and the Schengen Area. These two decisions indicated the different strategies pursued by London and Brussels in the field of monetary and migration policies. UK Prime Minister Cameron intends to hold a referendum on the matter of EU membership by 2017 and has opened a debate with the EU on several issues[4]. In 2014-2015, both Grexit and Brexit represent a risk that the EU could lose both ground and members.

4. Among these issues, the UK seems to want to impose a four-year waiting period before EU migrants can claim in-work benefits and to remove jobseekers after six months if they have not found work (Wilkinson and Prince 2015).

Second, the EU still lacks a genuine fiscal capacity and an effective banking union. The former would help to address asymmetric shocks and provide an alternative to internal (social) devaluation as the sole strategy for reacting to economic crisis. The latter would reduce the fragmentation of rules relating to the banking sector and allow for a more efficient cross-border crisis management. Belgian economist Paul De Grauwe compares the Eurozone 'to a beautiful villa in which Europeans were ready to enter. Yet it was a villa that did not have a roof' (De Grauwe 2011). To finish the building, the Eurozone must develop some kind of fiscal capacity to act as a stabilizer during financially troubled times. Furthermore, this fiscal capacity – in particular, an EU unemployment benefit scheme - would also double as a renewed 'social contract' with EU citizens (Zuleeg 2014). The EU should then facilitate the formation of an EU-wide banking union. The EU needs to forge an agreement on harmonisation of corporate taxation. Eventually, as the EU moves forward, it needs to do so by spending its funds on smart investments (such as education and healthcare). What is more, if we broaden our view to global decisions – see the chapter on the Transatlantic Trade and Investment Partnership (TTIP) by Ghailani and Ponce in this volume – the neoliberal agenda is still very much at the heart of the global political economy.

Third, the EU has missed the opportunity of the Social Investment Package and for a true investment strategy. There is widespread agreement among the scholarly community that investment in human capital is fundamental if we want to find a way out of the crisis, to and tackle the unsustainable social imbalances that are undermining the EU project as a whole. But what exactly is the EU's 'Social Investment Strategy'? We know it is not a (constraining) 'Pact', as the EP had requested. Is it not high time for the Commission to turn the Social Investment Strategy into a concrete programme for action, or risk a huge implementation gap?

Social investment can be interpreted as encompassing the set of policy measures and instruments that promote investments in human capital and enhancement of people's capacity to participate in both social and economic life as well as in the labour market. The reconciliation of such a growth-oriented strategy with austerity and fiscal consolidation has proved particularly difficult. Bouget *et al.* (2015) recently identified four main ways in which a focus on fiscal consolidation and a failure to apply social impact assessments of policy changes have often led to negative effects for the development of social investment policies:

— Firstly, fiscal consolidation has led to cuts in public and social expenditure, including some existing investments in building human and social capital, resulting in reductions in the availability and/or quality of programmes;
— Secondly, fiscal consolidation has led to a move away from successful universal social investment policies to more specific and conditional policies that target those most in need. These targeted policies are often less effective in addressing social challenges and lead to increased stigmatisation and inequality;
— Thirdly, fiscal consolidation has led to the postponement or cancellation of new policies that invest in human and social capital;
— Fourthly, fiscal consolidation has resulted in the prioritising of passive short-term measures aimed at protecting people over the introduction of more enabling and active longer-term measures.

The key areas where recent negative outcomes of social investment are frequently highlighted by experts of the newly established European Social Policy Network (ESPN) are: social insurance and income support; active labour market policies; child and family policies; education; elderly and long-term care; and access to health care. The deterioration of unemployment and minimum income protection (in terms of both length and adequacy) is particularly worrisome, insofar as adequate income protection should be the basis on which more 'social investment-related' policies should be built. As stressed in the chapter by Agostini and Natali in this volume, the pressure to cut often appears to be stronger than that to invest (see also Bouget *et al.* 2015).

Fourth, moving beyond the economic and social domains, there are two major crises affecting the EU to which no effective solution is being found. The increasingly-serious issue of migration is jeopardising intra-European solidarity. 'Social tourism' is a difficult and sensitive issue when discussing the problems of the Eurozone. Interestingly, recent studies emphasise the broadly positive long-term influence of migration on host labour markets and welfare states in the EU. Robert A. Mundell, for example, cited labour mobility as one of the key criteria for the success of a single currency (Mundell 1961). This 'positive long-term influence' includes fiscal gains for the whole economy of host countries.

Unfortunately, this fact has not yet quite permeated national discourses; many European countries are not doing a very good job at integrating foreign workers into their labour markets. Even when migrants are integrated, they are often integrated into very vulnerable positions[5]. What is more, throughout the year, migration from Africa and the many world regions with political and military tensions (like the Middle East) has become pressing and dramatic. The EU has not been sensitive to the phenomenon and the demand for a common strategy has left room for the reaffirmation of the national nature of the problem (Pascouaou 2014). This indicates a lack of solidarity inside and between the EU members.

On top of that comes the external challenge of Ukraine and the complex relationship with Russia. The Ukraine crisis has shown the limits of EU soft power in the region. The promotion of 'European values' through technocratic negotiations and ad hoc sectoral agreements has been seen to be ineffective. The European Neighborhood Policy has been shaped by normative values, to be promoted by focusing solely on cooperation in relatively non-political areas and by avoiding security issues. But the case of Ukraine shows the need for the EU to take a more strategic approach (Nitoiu 2015).

What is more, national governments have steered the diplomatic strategy more than the EU. As reminded by the analysts (see Robert 2014b), the intense diplomatic activity of France and Germany has eclipsed the efforts of the European Institutions. Neither the EU High Representative for foreign affairs and security policy nor the European Council President took part in the cease-fire negotiations between Ukraine and Russia.

The four points mentioned above provide evidence of the troubled state of the EU and the worrying future prospects for the Union if no effective decision is taken.

5. This whole debate, when analysed, strengthens the case for a pan-European framework of minimum wages.

3. Four reasons to be (prudently) optimistic after all: the EU as work-in-progress

Whether or not European Parliamentary elections and the arrival of a new European Commission are a real opportunity to enhance the EUs social ambitions remains to be seen. But there seem to be at least four reasons for a (prudently) optimistic reading of the state of the EU and its social dimension.

First, recent institutional changes have strengthened the Commission. In line with the *new structure of the European Commission*, six Vice-Presidents will coordinate integrated 'project teams', which may help to achieve a more integrated approach (social mainstreaming). Furthermore, some of the recent reshuffling within the Commission signals a reinforcement of the Directorate-General (DG) for Employment, Social Affairs and Inclusion (EMPL): the important Labour Market Reforms Unit moves from the Directorate-General (DG) for Economic and Financial Affairs (ECFIN) to DG EMPL. As importantly, parts of units dealing with Skills and Qualifications, Vocational Training and Adult Education policy move from the DG responsible for Education and Culture (EAC) to DG EMPL[6]. Nearly one year into office, it would thus seem that the new Director General Michel Servoz – who has 15 years of experience within the Commission's Secretary General – is proving to be a key asset to DG EMPL[7].

Second, Marianne Thyssen, the new Belgian Commissioner for Employment, Social Affairs, Skills and Labour Mobility, has apparently genuinely *undertaken to put Social and Employment issues on 'an equal footing' with the economic dimension of the European Semester* (Thyssen 2014). The mandate given to the new Social Affairs Commissioner by President Juncker provides some additional leverage, including a strong role in the European Semester and 'developing social

6. In addition, Unit JUST D3 (Rights of Persons with Disabilities) and part of Unit JUST D1 dealing with the Directive establishing a general Framework for Equal Treatment in Employment and Occupation, move from DG Justice (JUST) to DG EMPL.
7. Servoz brings in 15 years of experience within the Commission's Secretary General (in which he served as Deputy SG), including as coordinator of the EU Semester, the multi-annual financial framework and assessment of new policy proposals.

impact assessments for any future conditional stability support programmes for Euro-area countries' (Juncker 2014: 4).

The new Social Affairs Commissioner Marianne Thyssen has declared on several occasions, including in her opening address at the 4th Meeting of the Annual Convention of the European Platform Against Poverty, that she will do all she can to place social and employment issues on an 'equal footing' with macroeconomic issues within the Semester. But what does that mean in practice? Will the social and employment targets also be made binding? Or will the macroeconomic targets become less constraining? In the end, the rebalancing of the Europe 2020 Strategy will determine its long-term survival (if it gets beyond the planned midterm review). Along the same lines, the Commission has emphasised the role of the European social dialogue in reinforcing its social dimension and addressing major economic and employment problems (see the concluding chapter in this volume).

Third, optimism is also warranted when one considers that over the past three years there has been a slow but certain 'socialisation' of the European Semester (Zeitlin and Vanhercke 2014; and this volume). This evolutionary shift can be seen at the level of substantive policy orientations, where it is shown by a growing emphasis on social objectives in the EU's priorities (as defined by the Commission's AGS and other official documents) and especially in the CSRs. The progressive socialisation of the European Semester can also be seen in changes to governance procedures, demonstrated by the enhanced role for social and employment policy actors – the Employment Committee, the Social Protection Committee and, to a lesser extent, DG EMPL and the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) Council – in monitoring, reviewing, and amending the CSRs (ibid.).

Fourth, the social dimension of the Europe 2020 Strategy may well be enhanced through significant innovations in the new programming period (2014-2020) of the European Structural and Investment (ESI) Funds. Thus, the new regulation provides 'ex-ante conditionalities' that give the Commission the right to require that Member States – by way of example – develop effective active labour market policies, enact arrangements to ensure sufficient administrative capacity, and adopt coordinated measures to improve access to health services. Another ex-ante condition is that Member States are required to have a national strategic policy framework for poverty reduction that involves relevant stakeholders in combating poverty[8] (EP and Council of the EU 2013).

4. The book, section by section

Whatever the interpretation of the recent events mentioned above, the EU has not been able to address its main problems. The chapters in this volume provide evidence that EU strategy is still limited in its ability to solve both the social consequences of the crisis and the more fundamental political threats to European integration. The present edition consists of two parts. In the first part, contributors to the book provide a critical review of the political prospects of the EU and of the institutional dynamics after the EP elections of 2014.

Chapter 1 of this book explores the state of the Eurozone and examines its current political, economic and social trajectory. Vivien Schmidt then proceeds to offer several suggestions for how the EU, and specifically the Eurozone, can foster further economic integration and progress. If the EU and the Eurozone do not learn how to work together, there will continue to be increasingly negative consequences for all countries concerned.

Chapter 2 is a more focused look at the European Semester, which is a policy coordination tool used by the EU to encourage change and reform in Member States. According to Zeitlin and Vanhercke, there has been a partial but progressive 'socialisation' of the content of the European Semester, which is, in part, a response by the EU to the rising discontent with austerity in the European populace. However, this does not tell the whole story: the EU has evolved, and the socialisation of the European Semester is an example of reflexive learning, which in and of itself is another form of socialisation.

8. The Commission can ask Member States to revise their Operational Programme to that effect, and non-respect of the conditionalities can even lead to the suspension of payments. *ANNEX XI.* Ex ante conditionalities. PART I: Thematic ex ante conditionalities and PART II: General ex ante conditionalities, L 347/438, EP and Council of the EU (2013).

Chapter 3 asks an important question emerging from a bitter reality: since the social rights and protections won by labour movements have been being eroded over the last few years, do any effective forms of resistance against this erosion remain? According to Richard Hyman, the traditional forms of protest are, unfortunately, by themselves ineffective. However, a combination of traditional and new, cross-national forms of protest could produce desirable effects to combat neoliberal hegemony.

The second part of the book focuses on individual issues of interest in the broad EU puzzle. This group of chapters looks at instruments and policy fields that have been at the core of EU debate in the last few months. Chapter 4, by Martin Myant, addresses the issue of socialisation in a different way: with a critical assessment of Commission President Jean-Claude Juncker's investment plan. According to the author, the plan, despite good intentions, is a woefully inadequate measure in the fight to restore social rights and protections in Member States affected by the financial crisis. In order to have real success, any investment plan requires first the relaxation of current austerity rules and quotas.

Chapter 5 analyses the EU's approach to education. Agostini and Natali look at both the manner in which the Commission speaks about education policy and the way it deals with this policy. Eventually, the authors conclude that while education has come to the forefront of the EU's policy agenda, the EU has not reformed its own fiscal consolidation stance enough to give Member States sufficient resources for revitalizing education. Essentially, the EU has made grand speeches about education, but done little to actually show that its intentions are genuine.

Chapter 6 contributes to the dialogue from the same angle as the previous chapter, but with reference to healthcare reform instead of education policy. However, instead of assessing the current position of the EU as in the previous chapter, authors Stamati and Baeten demonstrate how exactly the EU is capable of formulating (or discouraging) healthcare reform in Member States. The authors arrive at a conclusion similar to the authors of the previous chapter: although the EU expresses concern for the state of healthcare in the Eurozone and elsewhere, its current fiscal policies impede Member States from achieving substantive reforms.

Chapter 7, by Dalila Ghailani and Aída Ponce, ends the book by critically assessing the Transatlantic Trade and Investment Partnership (TTIP). Their conclusion is straightforward: no-one but the people around the negotiating table grasps, even vaguely, what TTIP will contain by the end of the negotiations. The negotiators make strong claims about the benefits of the future partnership on the basis of contested studies, and this is resulting in increasing suspicion and outright worries among trade unions and civil society groups as to the real implications of the proposed agreement for workers. As for the investor-to-state dispute settlement (ISDS) mechanism, the way in which the European Commission has handled the public consultation has not, to say the least, helped to smooth the waters.

The concluding chapter by Natali sheds light on the true political risks for the EU, which include the progressive destabilisation of the political scene through the rise of anti-EU forces. This trend is at the heart of the EU political dilemma; the EU needs to be repoliticised, but there is a risk that this sort of move could further weaken EU integration. Such a political risk would also be a challenge for the trade union movement. The chronology by Cécile Barbier summarises the key events of the year in the area of social and economic affairs.

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Changing the policies, politics, and processes of the Eurozone in crisis: will this time be different?

Vivien A. Schmidt

Introduction

The Eurozone crisis continues to pose major challenges for the EU and its Member States. The problems stem from the Eurozone's flawed policies, toxic politics, and rules-based processes. By framing the crisis as one of public debt (rather than private excess), then diagnosing the causes of the crisis as behavioural (Member States not following the rules) rather than structural (linked to the euro's design), EU leaders produced policies that have failed to provide lasting solutions to the crisis. Underpinning the mistaken analysis is EU leaders' long-standing policy narrative about the euro, promising that it would produce convergence toward export-oriented growth and 'competitiveness' so long as Member States followed the stability-based rules. When the sovereign debt crisis struck, rather than seeking to fix the euro by adding the missing elements to monetary union, or seeking to moderate its effects through counter-cyclical policies, EU leaders doubled down on the rules, insisting that growth would follow from fiscal consolidation (rapid deficit and debt reduction) for all, combined with structural reforms (focused on increasing labour market flexibility and reducing social welfare costs) for those countries falling foul of the rules.

The policies have left Europe at risk of deflation, with slow growth, high unemployment, rising inequality, and a humanitarian crisis threatening the poorest Europeans, in particular in Southern and Eastern Europe. The politics in response have become increasingly Eurosceptic and volatile, as citizens' loss of trust and confidence in national governments and the EU have resulted in the cycling of incumbent governments and the rise of extremist parties and populist movements. The processes have only exacerbated these politics and the economics.

EU governance processes have imposed major constraints on Member States' economic policy-making, thereby limiting their potential responsiveness to citizens' concerns at the same time that they have upended the EU's long-standing institutional balance. Eurozone decision-making has combined excessive intergovernmentalism (as the overly dominant European Council turned the Commission into a secretariat while sidelining the European Parliament) with growing supranationalism (as the European Central Bank (ECB) 'saved the euro' in exchange for Member State austerity and structural reform while the Commission took on an expanding role in fiscal surveillance). The resulting EU policy-making processes have involved 'governing by the rules' and 'ruling by the numbers,' through macroeconomic stability-based rules setting specific numerical targets for deficits and debt, with austerity and structural reform mandated for those who fall foul of the rules and numbers.

For all this, 2014 may very well come to be seen as a watershed year for the EU. The European Parliamentary elections, in which for the first time the leader of the winning majority was appointed President of the EU Commission, may serve to reinforce the influence of the European Parliament (EP) while increasing the political legitimacy of the Commission and, thereby, its autonomy vis-à-vis the Council. Moreover, politics have come back in not only through the EP election campaigns across the EU but also via the Council, as some Member States contested the rules and pushed for greater flexibility in the processes. As for the Commission, it has become more and more flexible over time in its interpretations of the rules, even as the ECB has successively reinterpreted its mandate — both for better results. The problem is that all EU actors have essentially reinterpreted the rules 'by stealth': by not admitting it in their discourse. Although such incremental changes to the rules do help, they cannot solve the crisis, especially because the silence about the need for change cuts off debate about what could and should be done.

So the question is whether significant changes in the policies, politics, and processes will take place in 2015. The EU has a new EP, a new Commission with a new Commission President, a Council with some new faces, and the recognition by all and sundry that the EU economy remains in trouble. But will this time really be different, with EU actors taking the bold steps necessary to solve the crisis once and for all? The

response to the Greek crisis in July 2015 suggests not. And little is likely to change in any case with regard to the overall policy programme until EU leaders change their policy narrative about the euro and about the sources of growth, which demands significant investment as well as a loosening on the demand side rather than continued austerity or even just stability. Tinkering around the edges of the policies and the narrative is not likely to be enough.

In an effort to suggest ways in which this time could be different, this chapter offers proposals for further European economic integration, discussing the challenges and opportunities, possible economic initiatives, and suggestions for revamping fiscal surveillance as well as decentralising the European Semester. The chapter ends with thoughts about how to rethink the future governance of the Eurozone as well as European Union governance. It begins with an analysis of the problems of Eurozone policies, politics, and processes.

1. Challenges posed by the Eurozone crisis: policies, politics, processes

1.1 The problems of the Eurozone

The problems for the Eurozone go back to its beginnings in the Maastricht Treaty in the early 1990s. Member States at that time gave up monetary sovereignty without setting up a common pool of centralised resources. Instead, fiscal responsibility remained within the Member States along with the long-established principle of Member State responsibility for covering the social costs of adjustment. Whatever the reasons — such as a desire to maintain control over national budgets and resources or a fear of having to pay for the mistakes of others — this meant that the Eurozone was unprepared to respond to a major crisis. But having no mechanism in place once a crisis of this magnitude struck was a major challenge. It required vision and courage, both of which turned out to be in short supply.

With the economic crisis beginning in 2008, instead of imitating the US and the UK, with an aggressive monetary policy, major fiscal stimulus, and an immediate cleanup of the banking sector, the Eurozone had a passive monetary policy, introduced a stimulus that was stopped too soon, and paid little attention to the banking sector. Furthermore, when the sovereign debt crisis hit in 2010, the monetary authorities (ECB) continued to deploy a restrained response, the political authorities (Council) pushed fiscal tightening, and EU institutional actors generally, fearing the financial markets' response, did not make private creditors bear the losses, which were transferred instead to in-country public authorities (and taxpayers) (see, e.g., Mody 2015). Moreover, in exchange for the creation of loan-bailout mechanisms to provide 'economic solidarity' for countries at risk — the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) — EU Member States signed up to ever-more rigid legislative pacts and treaties.

Fiscal austerity and belt-tightening followed across Europe. Moreover, for countries in trouble, loan bailouts were provided at punishing interest rates without any initial debt restructuring and with programmes mandating rapid deficit reduction and structural reforms. For countries at risk of needing a programme, policies of rapid deficit reduction were also implemented. In both instances, the demand for rapid deficit reduction guaranteed that governments would engage in across-the-board cuts that reduced growth prospects not only in the short-term — through significant economic contraction that massively increased unemployment and debt-to-Gross Domestic Product (GDP) ratios — but also in the medium-term by cutting education (see Agostini and Natali this volume), training, and Research & Development (R&D) support. Additionally, government reductions in public sector wages, pensions, social assistance, healthcare (see Stamati and Baeten this volume) and other public services also brought social injustice to the level of a 'humanitarian crisis.' The poorest citizens of these countries found themselves without access to adequate nutrition, affordable healthcare, or shelter while increasingly high unemployment produced waves of emigration of the more highly skilled, especially youth (see reports by Council of Europe 2013, Caritas Europe 2015, and the EP 2015).

As a result, after over five years of austerity and structural reforms, the EU is still in the midst of economic crisis. Although the worst moments of the crisis — between 2010 and 2012 — may be behind us, the crisis continues to burn, if more slowly, in the face of deflationary pressures, continued high unemployment, with poverty (Frazer *et al.* 2014) and human rights violations (Council of Europe 2013; European Parliament 2015) making for a tangible increase in 'human misery' across Europe.

1.2 The Eurozone's flawed policies

The Eurozone's problems can be blamed largely on the flawed policies that have contributed to the EU's poor economic performance. These policies involve failures with regard to crisis framing, diagnosis, choice of remedies, and a lack of deep solutions.

The first of the failures stems from the (mis)framing of the crisis as one of public profligacy, which was inappropriately generalized from the case of Greece. For all other countries, the problem was rather one of private debt resulting from the massive overstretch of the banks, the increasing indebtedness of households, and the mispricing of sovereign risk by the markets (De Grauwe and Ji 2012; De Grauwe 2013; Blyth 2013). But framing the crisis as one of public debt in the periphery fueled resistance to any form of deeper economic integration on the fears that it would create a 'transfer union' in which Northern Europeans would pay for debts accrued in the South.

The second failure is the (mis)diagnosis of the problem as behavioural, seen as emerging from the Member States' failure to follow the rules of the Stability and Growth Pact (SGP) (Jabko 2015). Throughout the 2000s, Member States in the periphery like Spain and Ireland were models of rule following, in contrast to countries like Germany and France, which broke the rules in the mid-2000s (albeit for good reasons, i.e., not to cut spending in a recession). The real problem was structural, in which the ECB's *'one size fits none'* inflation-targeting monetary policy produced increasing divergence rather than convergence between surplus and deficit countries (Enderlein *et al.* 2012; De Grauwe 2013; De Grauwe and Ji 2013). Insisting that all countries tighten their belts at the same time to become more 'competitive' ignores the interdependence of surplus and deficit countries and the moving average problem at the heart of such efforts (e.g., Skidelsky 2013; Matthijs and Blyth 2011; Wolf 2013). Moreover, the policies themselves are fundamentally asymmetric in effect, since even if they might work for the export-led model of Northern Europeans, they leave Southern Europe with no alternative other than to enter into a never-ending downward spiral of wage repression (Scharpf 2013, 2014a).

The third failure comes from the chosen remedies, centered on pro-cyclical policies of 'sound' money, budgetary austerity, and 'structural reform,' instead of counter-cyclical policies that could have generated growth through macroeconomic stimulus, industrial investment, and socioeconomic support (Scharpf 2012, 2013, 2014a; De Grauwe 2013). The continued problems for Member States under surveillance or in programmes had much less to do with their indebtedness or 'competitiveness' than with the 'sudden stop' of market finance, itself due to the uncertainly generated by EU leaders' pronouncements or (in)action with regard to deeper European economic integration (Jones 2010, 2015a).

The ultimate failure results from the lack of adequate solutions that leave an incomplete risk pool and insurance mechanism put in place more by default than design (Schelkle 2015; Jones 2015b). While critiques of the Eurozone as unworkable because it is not an Optimum Currency Area (OCA) are legion (e.g., Eichengreen 1991, 2012; Feldstein 1997), they all tend to assume by definition that the EU cannot share risk the way equally heterogeneous entities like the United States do through fiscal federalism (Henning and Kessler 2012). But although the EU will certainly never become a federal state like the US, there are many ways to deepen economic integration so as to make it more robust in terms of weathering asymmetric shocks and the pressures of the global financial markets. Alternative solutions would have been to complete the monetary union with a financial union (Jones 2015b) or even a fiscal union through some form of debt mutualisation (e.g., Eurobonds) plus macroeconomic stabilisers (e.g., an unemployment fund — Dullien 2012 — or a 'cyclical adjustment fund' — Enderlein *et al.* 2013).

The results of these policies speak for themselves in terms of their effects on citizens' welfare, health, and job prospects. Youth unemployment was at 20.9% in the euro area as a whole in March 2015, with over 40%

in Italy (at 43.1%) and over 50% in Spain (50.1%) and Greece (50.1% in January) (Eurostat 2015). A Council of Europe report (2013) concluded that austerity programmes in response to the crisis had undermined human rights in key areas, largely as a result of public social spending cuts, and especially in countries under international bailout programmes — e.g., the Troika demand that public spending on health in Greece not exceed 6 per cent of GDP. For 2014, moreover, a Caritas Europe report (2015) detailed the extent of the problem, finding that more than 1/3 of the population in five EU Member States were at risk of poverty or social exclusion and one in three children live in poverty in 14 of the 28 EU countries. Additionally, a European Parliament (2015) report on seven countries detailed the slashes in spending on education, the transfer of health costs from state to citizen and the reversal in gains in citizen health along with a massive rise in unemployment. Most damning was the finding that spending cuts tended to 'impose horizontal and indiscriminate cuts across the policy areas they targeted, to meet financial savings that were determined in advance' (ibid.), rather than specifically target the wasteful uses of public resources. State administrative capacity in such countries has naturally been negatively affected by the cuts as well as by freezes in public sector wages. More generally, public investment in infrastructure has stalled across the Eurozone area, thanks to the 'golden rule' or 'debt brake' that Member States adopted as part of the rules — which also acts as an impediment to growth and competitiveness.

1.3 The EU's increasingly volatile politics

As the Eurozone's economic performance has worsened, citizens' attitudes towards both their national governments and EU governance have declined dramatically. Citizen dissatisfaction has been fueled not only by the economics, however, but also by the politics in which seemingly apolitical decision-making processes at the EU level leave them little political recourse at the national level to change the policies (see Schmidt 2006). The result has been the increasing turnover of incumbent governments, the rise of new parties on the extremes, and a growing loss of trust in the EU and in national governments.

Increasing political volatility comes from citizens' perceptions that their preferences — whether expressed through the ballot box, social partnerships, social movements, or in the street — don't count (Mair 2013). The citizens' response to such perceived disenfranchisement has been to punish national politicians with growing frequency and intensity, leading to the increased cycling of incumbent governments (Bosco and Verney 2012). Disenchantment with national leaders has become the rule even in core countries, with France being a case in point: President Hollande has the lowest popularity rating of any president of the Fifth Republic (at 12% in November 2014). Governments are generally more fragile, with governing majorities often on a knife's edge, while winning mainstream parties have been having more difficulty forming governments. Even more problematic for the EU has been the emergence of anti-democratic governments, as in Hungary, and the continuing rise of far right extremist parties, such as the neo-Nazi Golden Dawn in Greece, the True Finns and the Sweden Democrats.

Increasing Euroscepticism and anti-European feeling is part and parcel of the political volatility. This is evidenced not only by the rise of the hard right extremes but also of the less extreme populists on the right, the left, and in the centre. Notably, such parties can be found not only in the countries hardest hit by the crisis, in Southern and Eastern Europe. They include those largely unaffected by the crisis economically, mainly in Northern Europe and Scandinavia (Taggart and Szczerbiak 2013; Usherwood and Startin 2013) as well as in Germany with the meteoric rise of the AfD (Alternative for Germany) in 2014. Importantly, public disenchantment with the EU can also be found in the polarisation of views across national European public spheres, in particular between Northern and Southern Europe (Kriesi and Grande 2015).

The only sign of light with regard to populist parties have been Greece's Syriza and Spain's Podemos (see Hyman this volume). What has made these new parties credible to large portions of the electorate has not only been that they engage openly with difficult questions about the distribution costs of fiscal consolidation, but also the fact that their initial exclusion from power puts them in a good position to bring real renewal to their countries' politics and generate citizen-friendly 'structural reforms' focused on reducing corruption, improving tax

collection, and promoting social justice. They oppose the continuation of austerity and structural reform programmes in their current form. With the electoral victories of Syriza to national office and Podemos to local office (most notably to the office of mayor of Madrid), their ability to deliver on their promises will be put to the test. For the moment, however, it is too early to say what effect they will have, although the protracted negotiations of Syriza with the EU on a new debt package suggest that they have not been able to change the Eurozone policy narrative or the agenda, much as they have tried. The main question for Syriza, then, will be whether it manages to bring much needed reforms to the country in the domain of anti-corruption efforts, strengthening state administrative capacity, and collecting taxes despite the continued austerity demanded by the Eurozone leaders.

At the EU level, the results of the European Parliament elections were also a sign of the rise of euroscepticism. Notably, Marine LePen's Front National (FN) received the largest share of votes in France and Nigel Farage's Independence Party (UKIP) in the UK — although Prime Minister Renzi's massive 40% victory for the social democrats (the PD, Partito Democratico) in the Italian contest (a first in the postwar history of Italy) suggests that all is not so dark. In the end, extremist parties now make up around 20% of Members of the European Parliament (MEPs).

Although the EP elections in 2014 did not do much to reverse the eurosceptic trend, they did stop the erosion in participation: the rate was only a half point lower than in 2009, at 42.54% in 2014. Despite the fact that national political concerns continued to dominate the vote, the debate was more centred on European issues. And the campaign itself was more politicised, thereby generating more citizen interest. EP parties ran their separate candidates for Commission President in EU-wide campaigns and held televised debates, even though the results were mixed in terms of citizen interest or awareness. While a majority of voters were aware of the 'Spitzenkandidat' in core European countries like Germany and France, most in the UK were not.

The problem of political legitimacy remains for the EP, however. The question is: how legitimate is a parliament for which 56.9% of the electorate have not voted? And how legitimate is that parliament when, among those voting, close to a third went for extremist parties that have little chance in national elections? The elections have left the EP with a thinning center hemmed in by extremists of the right and left. As a result, the majority will necessarily be made up of a 'grand coalition' of centre right, centre left, and liberals, under the leadership of a former Luxembourg Prime Minister who was also one of the longest standing members of the European Council. Under these circumstances, the politicisation of the EP, in which debates and votes would be more clearly identifiable along traditional right/left lines in order to give citizens a clear choice among parties on the left and right, has yet to occur.

In the interim, the 2014 EP elections have also been important for EU decision-making processes. The appointment by the Council of the leader of the winning party as Commission President has conferred a new political legitimacy on the Commission and its President, as he now is the directly elected representative of the people. This may help rebalance the institutional equilibrium of Eurozone governance.

1.4 The EU's rule-based governance processes

As a result of the crisis, the EU's long-standing 'democratic settlement,' in which all EU institutional actors were involved in decision-making in their different ways, has become unbalanced. Intergovernmentalism became the primary mode of governance, eclipsing the Community Method. The European Council became the predominant institutional player in Eurozone governance, with the European Parliament mostly absent and the Commission largely subordinate to the Council (Fabbrini 2013; Schmidt 2015). This shift has led Habermas (2011) to warn against the dangers of 'executive federalism,' in which the tremendous shift of economic and budgetary power to the EU level has occurred without any concomitant increase in citizens' political involvement.

Supranationalism has also increased significantly. Even as the Commission was weakened in its traditional role of initiator, it gained greater supranational powers of oversight in the context of the European Semester. Additionally, the ECB became arguably the most important actor when it came to responding to existential crisis moments, with its technical solutions accompanied by a political quid pro quo demanding

the Member States to engage in fiscal consolidation and structural reform. Moreover, the ECB's new responsibilities with regard to the Banking Union and the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) all increase its supranational powers, adding yet another set of supranational regulatory and bailout bodies to those already established, such as the ESM and the soon out-of-business EFSF.

The growing predominance of these two modes of governance is the outcome of the reinforcement of rules-based governance during the Eurozone crisis. At the inception of the euro's sovereign debt crisis, European leaders became obsessed with rules, numbers, and pacts, including the 'Six-Pack,' the 'Two-Pack,' and the 'Fiscal Compact,' each more stringent on the nature of the rules, more restrictive with regard to the numbers, and more punitive for Member States that failed to meet the requirements. In the absence of any deeper political or economic integration, the EU ended up 'governing by the rules' and 'ruling by the numbers' in the Eurozone (Schmidt 2015). Austerity policies focused on rapid deficit reduction along with pressures for structural reform — often shorthand for reducing labour rights and protections — wreaked havoc on 'social Europe,' in particular in countries in the periphery under conditionality.

Slowly but surely, however, under pressure from deteriorating economies and increasing political volatility, EU institutional actors have been reinterpreting the rules by which they have been governing the economy. They have done this in a variety of ways, such as by expanding their mandate, shifting emphases, approving derogations, or increasing flexibility. But they have not done this formally. Instead, EU actors have been informally and incrementally reinterpreting the rules without admitting it in their discourse to the public. This has helped to slow the economic crisis but not to end it. The reinterpretation of the rules 'by stealth' has done little to reduce public disaffection. Nor has it done anything for social Europe, as poverty, misery, and inequalities rise, as unemployment stays unsustainably high, and as both skills and hopes are lost for an entire generation of unemployed youth. In the previous Commission (2009-2014), only the 'youth guarantee' represented a pro-active attempt to deal with the social policy problems generated by the economic policy for the Eurozone. In the new Commission, in contrast, the new 'investment plan,' which promises to raise €315 billion for investment in the real economies of Member States, at least begins to address the problems of growth.

That said, reinterpreting the rules by stealth has enabled EU actors to bring about incremental changes that have kept the European economy alive, though not well. Austerity has slowly been abandoned in favor of moderation, with structural reform now the principal rallying cry.

The European Central Bank (ECB) has moved from 'one size fits none' rules for monetary policy — which exacerbated (rather than reduced) Member States' economic divergences — to 'whatever it takes' (in the famous phrase of ECB president Mario Draghi in July 2012). The pledge in 2012 to buy Member State debt if necessary and the promise in 2014 to engage in quantitative easing (begun in early 2015) has brought the ECB close to a lender of last resort in all but discourse (Buiter and Rahbari 2012) — although its Charter precludes full Lender Of Last Resort (LOLR) status. But although the seeming 'hero' of the crisis, the ECB's push for strict conditionality through austerity and structural reform as a quid pro quo for its intervention to stop market attacks has contributed to the Eurozone's economic slowdown and human misery. Moreover, the ECB also risks problems of political legitimacy when it sends secret letters to Prime Ministers threatening withdrawal of Central Bank support if they do not follow ECB demands. After the uproar in Spain in 2013 in response to revelations that Trichet had written to Zapatero, the issue again hit the headlines in November 2014 when it came to light that Trichet had written Irish PM Brian Lenihan a letter that essentially pushed the country into a harsh bailout package while protecting senior bondholders from losses in order to preserve confidence in the European banking system.

In the meantime, the Council has largely continued to govern by the 'one size fits one' rules of intergovernmental negotiation that have given the most powerful Member State (i.e., Germany) outsized influence to impose its preferences for ever-stricter rules (Jacoby 2015). This has unbalanced the traditional Franco-German 'couple' (Fabbrini 2013), with the Council now dominated by Germany in coalitional alliances with other Northern and Central Eastern European leaders. But even though Germany has kept up a discourse focused on austerity and structural reform, it has intermittently agreed to instruments of deeper integration and added growth to its stability discourse as well as, in

2014, flexibility. Notably, though, Chancellor Merkel claimed in a June speech to the Bundestag that flexibility was already embedded in the rules, so there was no need to change them. During 2014, France and Italy in particular pushed the Council for even more flexibility, politicising the budgetary oversight process of the 'European Semester' without, however, actually contesting the stability rules and numerical targets. Such politicisation was part of a game to legitimise themselves to national constituencies by ensuring ever more flexible rules-reinterpretation while using the EU's outside pressure to keep up the internal push for reform. But although this strategy may have helped them legitimise their reform packages at home, it at the same time turns the EU into the scapegoat, and adds further grist for the populists' mill.

In all of this, the EU Commission has taken on the role of enforcer. In the absence of real remedies to the crisis, such as a fiscal union or Eurobonds, the Commission was stuck with searching for solutions 'like the drunk who looks for his lost keys under the lamp post' because 'that's where the light is' (Mabbett and Schelkle 2014). Recognizing this reality, as economic output performance deteriorated, the Commission increasingly made exceptions and flexible adjustments for non-programme countries, as in 2014 when it gave France and Italy further extensions on meeting the deficit criteria. But the Commission consistently denied its flexibility publicly — emphasizing its strict and uniform enforcement of the 'one size fits all' rules of budgetary oversight — so as to circumvent the political pressures and objections from pro-austerity Council members.[1]

The story has been different for programme countries. In the International Monetary Fund's (IMF) (2013: 13) critique of the Greek bailout, it condemned the Commission for 'the focus of its reforms more on compliance with EU norms than on growth impact.' A similar critique was echoed in a June 2014 report by the French Commissariat on Strategy with regard to the European Semester, suggesting that the efficacy of the approach 'merits discussion' (Nicolaïi and Valla 2014: 16). In fact, although the European Semester process became more open over time with regard to including social issues in considerations

1. See Olli Rehn's blog at http://ec.europa.eu/archives/commission_2010-2014/blogs/rehn/.

and recommendations (Zeitlin and Vanhercke 2014), these were not necessarily translated into action by Member State governments. The heavy emphasis on rapid deficit reduction was most apparent in the Commission's Annual Growth Surveys, beginning with the 2011 report which put fiscal consolidation first, addressing unemployment through labour market reforms second, and leaving other more growth-friendly and socially concerned actions to third place. This ensured that Member State governments would address the deficit above all other things, largely without concern for growth or social justice. Notably, only in the 2015 Annual Growth Survey, written in November 2014 in view of the arrival of a new Commission, was the order reversed, with investment coming first (European Commission 2014).

Finally, even though the European Parliament (EP) continues to have almost 'no size at all' in terms of setting policy, its critiques of Council and Commission action along with its successful push to have the appointment of Commission President linked to the winning party in the EP elections has ensured it an increasing presence, if not yet influence over policy.

So where does the EU go from here? Incremental changes to rules are not the bold kinds of actions required to move Europe beyond the crisis once and for all. But they are for the moment all that is possible. In what follows, therefore, I make a few recommendations for further reinterpreting the rules along with EU actors' roles.

2. Further European economic integration, but how?

The new realities of 2015 present a number of challenges and opportunities. The opportunities come from the potential rebalancing among EU institutions that follows the EP elections. The challenges follow from the continuing problems related both to the Eurozone's economics and politics.

2.1 Today's challenges and opportunities

The question for today is whether and how the Eurozone, with a new Commission and new institutional leaders, can provide some fresh

solutions by changing the policies, politics, and processes. Avenues already exist. Debates among political leaders in the Council have produced agreement that growth is to be the focus of economic policy, albeit not to the detriment of stability, and that flexibility is acceptable, so long as it remains within the established rules. The new Commission President has proposed an Investment Fund (see the chapter by Myant, this volume) and a range of other initiatives. Unfortunately, little in terms of lasting solutions providing deeper integration has been introduced into official discussions. However, there are a lot of ideas already out there, as EU institutional actors, think-tanks, academics, and some Member State leaders have already suggested a number of different ways forward.

The new realities of 2015 may also offer new opportunities to break the institutional impasse. The inauguration of new institutional leaders, with a new Commission headed by the leader of the newly elected majority in the EP, is promising with regard to restoring the institutional balance in the EU as a whole. Eurozone governance needs to become like most other areas of EU legislation, which means it should mainly use the Community Method for legislation. This would mean giving the EP more 'size' by bringing it into all Eurozone decision-making, while reducing the intergovernmental dominance of the Council in Eurozone governance. The EP's new direct connection to the Commission not only may give the directly elected representatives of EU citizens more voice in Eurozone governance affairs, and thereby give the citizens a sense that their voice counts after all. It may also increase the Commission's autonomy from the Council.

The Council itself should become a more open and transparent arena for political debate about the rules. Moreover, the ECB should limit its focus to euro-related issues of monetary governance, leaving economic policy orientation to the other institutional actors, while doing all the necessary work as quasi lender of last resort and bank supervisor.

Finally, the new Commission has greater potential independence with regard to taking bolder initiatives and proposing new ideas. This is as a result of its new double accountability — to the EP and the Council — as a result of the appointment by the Council of a Commission President who represents the majority in the European Parliament. Serving two masters may actually give the Commission greater authority to exercise leadership independently of both.

This could re-empower the European Commission, enabling it to go back to doing what it does best, which is acting as a *vivier d'idées*, or a breeding ground of innovative ideas in which possible solutions on the right, left, and centre get debated and new syntheses proposed. Such re-empowerment could be crucial to finding new ways out of the Eurozone crisis, given the importance of technical actors in slow-burning crises in generating innovative ideas that political actors could take up in the fast-burning moments. It might also enable the Commission to tell the truth, that it is indeed exercising flexibility in its interpretations of the rules and calculation of the numbers, and enable it to provide legitimising arguments for why and how it is doing so.

The Greek crisis could have constituted a new opportunity to solve the EU's Eurozone Crisis. New negotiations on Greek debt, and the danger of Grexit brought a renewed fast-burning crisis that helped concentrate minds. The question was how to resolve this particular crisis in a win-win manner. It may help to recognize that large numbers of European citizens, not just Greeks, are fed up with austerity — witness the rise of Podemos in Spain, the protests against water fees in Ireland, the growing strength of Sinn Fein, and the rumblings in Portugal, not to mention the problems Hollande has had holding on to his left. The only good way out would have been to propose a solution that reset the whole EU approach. Instead, Syriza was pushed to accept continued austerity and structural reform in exchange for another bailout. Most concessions alienated not just the Northern European leaders, who felt that Greece had not followed 'the rules,' or the Central and Eastern Europeans, who were hostile because they went through harsh austerity too, and are poorer than the Greeks, but even other Southern Europeans, committed to continuing their own efforts to impose structural reforms.

The EU needs a reset in terms of policies, with a new vision and a new narrative about where it is going and why. Although this could have been a byproduct of the Greek crisis, it could not have been focused on Greece alone. The only way out is to take the high road, and to offer an overall way out of crisis for all Member States. But to do this is to move

toward deeper economic integration and some more quasi-'federal' solutions.

Any such solutions will not be easy. The problems stem from several sources: continued diverging preferences with regard to policy remedies, as discussed above; institutional obstacles such as the unanimity rule, in which any one Member State can veto any Treaty-based initiative; and legal obstacles, given the Treaty-basis of many of the rules. Equally problematic are differences in economic philosophies, in particular between the ordo-liberalism of Germany and EU institutions intent on getting Member States to solve their own problems by themselves and the more pragmatic approaches to economic governance supportive of more collective solutions. This especially affects potential EU-wide social policy solutions, such as proposals for a 'social investment state'.[2]

2.2 Policy proposals for further economic integration

There are many arguments for further integration of the Eurozone, in particular in view of making it more effective and legitimate. The policy proposals listed below are not mutually exclusive, although some may serve similar purposes and are mutually substitutable. Many of these policies would make EU Member States more fiscally intertwined, and would therefore necessitate more EU policy coordination. The European Semester therefore would take on added importance (see next section).

— *Mutualisation of debt:* This could involve issuing Eurobonds (up to, say, 60%) to stop once and for all the market attack on sovereigns. Alternatively, repackaging old debt overhangs (especially Italy) and restructuring the debt or lowering interest rates to near zero while pushing the dates for repayment out to thirty years, fifty years or more. Neither of these alternatives requires much centralised coordination or deficit/debt rules. The

2. Vandenbroucke with Vanhercke discuss '10 tough nuts to crack' in this context (http://europesworld.org/wp-content/uploads/sites/3/2014/03/03_03_14_Report_SocialUnion_FINAL_V-1.pdf).

mutualisation of debt via Eurobonds, once established, would enable the ECB to engage more readily in Outright Monetary Transactions (if ever required) and in quantitative easing (Claessens *et al.* 2012). This would mean that, much like US states, Member States could go bankrupt (and go to the ESM for a loan-bailout) without jeopardizing the whole system (Henning and Kessler 2012).

— *Emergency ECB Financing:* An alternative, however, in particular for countries under pressure from the markets, would be for the ECB — instead of flooding the capital markets with its 1.2 trillion quantitative easing programme (risking asset price inflation) — to be freed from the prohibition of monetary state financing and to provide emergency finance to Member States with above-average rates of unemployment (provided they accept and enforce no-exceptions wage stop for three years — the kind of Keynesian enforced short-term wage controls employed in the 1950s and 1960s to great effect)[3].

— *Solidarity-Related Policy Instruments*: These could include a cyclical adjustment fund to stop countries from over-heating or over-cooling and/or an unemployment insurance fund. As funds, these instruments too would not require much in the way of policy coordination, just continued monitoring, as Member States put money in or take money out depending upon whether they are over-heating or deflating, or they are suffering from high unemployment (Enderlein *et al.* 2013).

— *EU Revenue-Producing Instruments:* Regardless of whether debt-related or solidarity-related instruments are generated for the EU, it also needs to have its own sources of revenue. This entails further integration and EU level coordination. The EU has little revenue generated for itself and instead depends on the Member States for resources for its operating budget. This has been highly problematic because the EU is consistently underfunded in terms of its operations, especially because much of its budget goes to the Common Agricultural Policy (CAP). As Maduro (2012) has argued:

3. Thanks to Fritz W. Scharpf for this suggestion. See also Scharpf 1991: chapter 5.

'financial solidarity in the EU must be detached from transfers between states and related, instead, to the wealth generated by the process of European economic integration.' Examples abound:

– a *financial transactions tax (FTT)*, modeled on the Tobin tax initiative, and expanding the FTT already in process through enhanced cooperation for a limited number of Member States (but which seems to be slated to go into national coffers);
– a *European corporate tax* that could also involve harmonization of national corporate tax so as to ensure that European corporations pay a reasonable tax in their home countries, and that multinationals are no longer able to game the system, and instead pay appropriate taxes;
– a *Value Added Tax (VAT) on EU generated wealth* related to cross-border transactions and/or online sales (as part of the new EU Digital services market) that could pay for the spillover effects of the Single Market, geared to environmental, urban, and social problems (Maduro 2012);
– a *solidarity tax* (or fund) levied on all citizens and residents of the EU, targeted for poverty alleviation. Initially, it could be voluntary, possibly collected via national taxes through a box checked on national tax forms that would then be transferred to the EU to administer (Schmidt 2012).

2.3 The future of fiscal surveillance

There are a number of ways in which the new Commission has already been reinterpreting the rules and legitimating it. Most significantly, the new Commission has been presenting structural reform as a *quid quo pro* for greater flexibility through slower deficit reduction (e.g., in the cases of France and Italy — much to the annoyance of the Germans and the Finns). It had been even more explicit in the 2015 Annual Growth Survey that countries differ greatly in problems and potential solutions, so that there is no 'one size fits all' with regard to recommendations or decisions (European Commission 2014). The Commission has also stated that money pledged to the Juncker Investment Fund will not count against the deficit.

Further possibilities include:

- *Deductibility of Economic Investment:* For example, why not leave off the balance sheets growth-enhancing investments in infrastructure projects, education, training, research and development? This seems to be the idea behind the deductibility of Member State investment in conjunction with the Juncker Investment Plan, but why not make it the case for all such investment (Schmidt 2012)?
- *Deductibility of Social Investment:* Why not make any efforts toward improving skills and human capital deductible as part of the 'social investment' initiative of the EU that seeks to promote growth in knowledge-based economies and human capital (De Vincenti and D'Alema 2011).
- *Carrots and not just Sticks:* Beyond this, why not use carrots as well as sticks to encourage structural reforms, by providing project financing and poverty relief in exchange, or even just mandating that budget cutting for programme countries not interfere with the EU's own goals for 'Social Europe.' Actually, why not make taking steps to accomplish Europe 2020 goals focused on investment in education, training, and R&D as well as on reducing youth unemployment and poverty count for delaying deficit reduction?
- *Try to find a way to make the statistics more transparent* and less punitive for countries in trouble. Eurostat calculations of country deficit and debt based on norms of comprehensiveness and 'mark to market' tend to disadvantage countries that the markets consider less viable. As an economy falters, and markets lose faith, statisticians are likely to re-categorize public enterprises as loss-making and therefore part of their deficit. This makes it much harder for already weak countries to recover, and makes it more likely that they will fall foul of the rules (Mabbett and Schelkle 2014: 15-17).

2.4 Decentralising the European Semester

The European Semester is highly centralised, largely to ensure sufficient consistency and adequate oversight in the Member State application of the stability rules. In this process, the Commission has been the 'enforcer' in a centralised exercise imposing hard and fast sanction-triggering numbers (however flexibly interpreted). Moreover,

as the Commission's own Annual Growth Strategy report (2015) admits, its democratic legitimacy 'has sometimes been called into question.' Its effectiveness is also in question, in particular since a low percentage of recommendations in country reports have been taken up. Moreover, the imperative of rapid deficit reduction meant that countries in programmes or at risk of programmes tended to implement across-the-board cuts that did nothing with regard to growth producing structural reform and were often socially unjust.

By empowering local actors through the decentralisation of the process, the European Semester could help generate more workable kinds of 'structural' reforms, fine-tuned for each Member State's political economy. Were the rules themselves to become more positively flexible within such a decentralised process, say, by encouraging Member State take-up of the Europe 2020 goals, the European Semester itself could become a boon for social Europe.

More generally, the Commission should be given a different role within a more decentralised system of supervision and support by opening up the process to national actors — experts, members of parliament, NGOs, labour representatives, and other stakeholders (see Zeitlin and Vanhercke, this volume). While the Commission should continue to coordinate policy, the European Semester needs to be as decentralised as possible so that the Member States take ownership of it. Some of this is already stated in the 2015 Annual Growth Survey, but I reiterate it:

- *From Community Enforcer to Enabler:* The Commission should become the Community 'Organizer' or 'Enabler' by overseeing a highly decentralised process in which national parliaments, NGOs, and social partners are a regular part of the 'National Semester.' One might pattern this on the 'Open Method of Coordination,' but most importantly it is the Member State that should 'transpose' the process into something that fits with national patterns of consultation.
- *The national level processes* should establish the major priorities for structural reforms, with the Commission providing advice and official statistical data, etc., to all parties involved.
- *Deliberations at the EU level* should ensure that the Commission itself is more 'democratic' internally, with greater involvement of

other Directorates General (DGs) and openness to their contributions.
- *EU level processes* related to the European Semester should bring the European Parliament into the decision-making.
- *Programme countries* should also be entitled to the flexibility that normal Member States benefit from within the European Semester — and be quit of the Troika.

3. Governing the Eurozone

3.1 Proposals for democratising the Eurozone

Decentralising in order to democratise the European Semester is not sufficient to ensure the effectiveness and legitimacy of Eurozone governance. Most importantly, EU Member States need to bring in the European Parliament into regular decision-making on Eurozone policy. For this, it would have to move back from intergovernmentalism to the Community Method. This change would ensure more political debate, and balance the outsized influence of individual Member States in the Council to some extent.

For the EP to be fully part of the process and the Community Method the main *modus operandi*, however, Treaty-based rules would need to become ordinary legislation, meaning that they would be open to amendment through political debates and compromise. Opt-outs for individual Member States would also be allowed, subject to denial by qualified majorities (Scharpf 2014b). The benefits would be many, but in particular we would see an end to the unanimity rule that imposes a lock-in via treaties, which once agreed cannot be undone because of the decision-trap of the unanimity rules. The UK sagely has the rule that one Parliament cannot bind the hands of the next. All democracies allow amendments to Constitutions by a supermajority (generally 2/3). Only the EU enables treaties to be unchangeable because of the unanimity rule. The Council has informally been attempting to get around this anyway, e.g., with the EFSF set up through multiple bilaterals and the Fiscal Compact agreed outside the treaties (to get around the UK veto).

The recent proposal for a special Eurozone Parliament, in contrast, is a bad idea, in particular because all Member States except two (UK and DK with opt-outs) are slated to become members at some point in the not too distant future. And how would such a Eurozone Parliament be chosen? From the existing EP? Or newly elected, to concentrate only on this? And at what level of abstention in voting could this body still be politically legitimate? Instead of setting up a Eurozone Parliament, special sessions of the EP could be set up for Eurozone questions, in which everyone has voice and can be heard, but votes are the purview of Eurozone members, assuming that the policies will affect them alone. That said, where policies affect others, and/or other Member States want to be a part of them, they too should be able to vote. It would be better to spend one's time figuring out how to revitalize the existing EP and make it better linked to the national parliaments, rather than to create another special body.

3.2 Rethinking European Union governance if Eurozone governance deepens

With proposals for greater deepening of economic integration, some have argued for a 'core Europe' in which a compact group of Member States agreeing to fiscal union would be surrounded by a larger circle constituted by a looser group united by the Single Market[4]. But this ignores the reality of what the EU is[5]. With the exception of the all-encompassing single market, the EU is essentially made up of clusters of Member States in overlapping policy communities with variable boundaries in terms of membership — not just the members of the Eurozone but Schengen (with the UK and Ireland out but Switzerland, Norway and Iceland in), Common Security and Defense Policy (Danish opt-out and all others opting in), and the Charter of Fundamental Rights (UK and Polish opt-out). Moreover, the number and variability of the EU's policy communities are likely only to increase over time as a result of enhanced cooperation in a range of areas, with 'regional

4. These include the Glienicker group (2013), the Eiffel group (2014), the Future of Europe initiative (2012), and President Hollande (2013).
5. I like to call the EU a 'region-state,' as a regional union of Member State nations in which the creative tension between the supranational Union and its Member States ensures both ever-increasing regional integration and ever-continuing national differentiation (Schmidt 2006).

clusters' of Member States in areas such as security, energy, and immigration (Tocci 2014).

Creating a hard core around the Eurozone may make other potential community clusters more difficult to pull together, with the other clusters likely to be characterized by an increasingly high degree of differentiation without integration — already the case for transport, communications, and infrastructure — or even fragmentation and the risk of disintegration — in areas such as energy, the environment, migration, mobility, and asylum (ibid.). Moreover, given the differences among Member States on these issues, there is no guarantee that even a hard core around the Eurozone will expand to incorporate these other policy areas.

Imagining the Eurozone as the core disregards the effects of the Eurozone crisis, which has created an increasing division in economic identity constructions, in particular between Northern and Southern Europe but also more generally between inside and outside the Eurozone. It is unclear that a smaller hard core would be able to come to agreement more readily than the larger EU membership can. Moreover, creating such a hard core would be most likely to permanently alienate Member States who resist euro-membership, such as the UK, Denmark, and Sweden. And this would be likely to further the cause of 'Brexit' (British exit from the EU), if the UK were to feel itself fully marginalized from a significant role in EU governance.

In addition to these problems are further practical questions such as which Member States are to be included and which excluded, in particular if Member States to be left out might have capacities necessary for the core to succeed in another given area (e.g., Britain in defense and security policy; Sweden on the environment). Moreover, if all Member States are notionally to become members of the core at some later date (in particular if the Euro forms the 'core'), does it make sense to exclude them now? As it is, most Member States belong to some aspect of Eurozone governance. All Member States signed up to the SGP, the European Semester, and the 'Six-Pack' legislation (requiring all members above 60% debt to move toward compliance and be subject to the Macroeconomic Imbalance Procedure); all but the UK adhered to the Treaty on Stability, Coordination, and Governance (the so-called 'Fiscal Compact,' which reinforces the legislation above by making it a treaty as well); 23 Member States joined the 'Euro Plus Pact' (17 Eurozone members plus Bulgaria, Denmark, Latvia, Lithuania, Poland, and Romania, focused on improving competitiveness, employment and fiscal consolidation); and 17 (Eurozone) Member States signed up for the 'Two Pack' (strengthening provisions of the European Semester and financing mechanisms such as the ESM and the EFSM) (Tocci 2014).

The EU, in short, cannot be made up of one 'hard core.' It does better to be understood as having many overlapping policy clusters, which through their overlap creates a *soft core* encompassing a large majority of Member States (Schmidt 2009). That soft core also includes the Eurozone.

But how, then, can we conceive of a reset of European economic governance within and beyond the Eurozone? How does the EU get beyond 'governing by the rules' and 'ruling by the numbers?' The reinterpretations of the rules that have already led to a more politicised Council, a potentially more autonomous and doubly accountable Commission, a more empowered EP, and an ECB acting akin to an LOLR suggest the beginning of the way beyond rules-based governance. The recommendations for more policies promoting economic and social solidarity would add to this. But more coordinated EU economic governance is also necessary. With a more decentralised European Semester, the existing EU-wide system of Member State budget development and oversight adds bottom-up processes to top-down ones. But the top-down processes could and should also be reformed. They need not remain stuck with the numbers-targeting rules.

Instead of speaking and/or acting as if the rules and numbers are set in stone, they should be understood as general guidelines — which is what they actually have become in practice. The specific targets could therefore be revised upward or downward in yearly budgetary discussions of what the EU economy as a whole requires for growth and prosperity. Such revisions have actually already started informally, with the shift away from the insistence on austerity to an insistence on growth and investment. But it could be formalized as a yearly exercise in which the Commission could make recommendations based on ECB forecasts of the needed inflation rate in consultation with the decentralised National Semester Councils of the Member States, to be then deliberated in the Council — among Eurozone and non-Eurozone Member States alike — with the recommendations then considered in the EP in consultation with national parliaments. Such an EU-wide system of budgetary coordination would thus come closer to an EU-level economic governance in tune with the real needs of national and EU economies, responsive to changing realities and more open to the needs of European Member States' heterogeneous economies.

Conclusion: will this time really be different?

The danger for the EU, given the Eurozone crisis that has been a catalyst for increasing polarisation in terms of politics and identity, is *differentiated disintegration*. The best remedy against this is for EU leaders to develop new visions of what the EU is and where it should go along with new political processes that bring citizens and parliaments back into policymaking at national and EU levels. This is particularly important for Eurozone governance, which has strayed from the EU's long-standing democratic settlement through an excess of intergovernmentalism and supranationalism. As for the European Semester, if it continues, it needs to be increasingly decentralised to ensure that greater flexibility comes with legitimating discourse. Beyond this, the EU needs to get Eurozone policy right in order to ensure better economic performance. And this means deepening economic integration in ways that substitute initiatives that provide real economic and social solidarity for the punitive rules and numbers. Unless EU and Eurozone Member States hang together, they will hang separately — with increasingly negative consequences for all, not just for Southern Europe.

So the question is, again: Will this time really be different? Can the EU change its policies, politics, and processes in such a way as to resolve the Eurozone crisis once and for all?

Much suggests that this is unlikely. Politically, public trust in national and EU institutions has fallen dramatically together with support for European economic integration while citizen dissatisfaction with national governments and disaffection from the EU has been on the rise. This trend has translated into increasingly volatile national politics. Populism has been growing, incumbent governments have increasingly been voted out of office, and extremist parties with anti-

euro and anti-EU messages have gained attention, votes, and even seats in both national parliaments and the EP.

The toxic politics have been fueled by the poor economic performance of the EU, and in particular of Eurozone members, along with increasing divergence between the export-rich surplus economies of Northern Europe and the rest. Eurozone policies focused on 'governing by the rules and ruling by the numbers' have not remedied the situation. Austerity budgets requiring rapid deficit and debt reduction accompanied by admonishments for 'structural reform' have not worked. Debt to GDP has risen in countries most at risk while growth remains elusive and poverty and inequality rise along with unemployment, jeopardizing political stability. And yet the EU has appeared unable to change course.

EU leaders seem locked into such policies by institutional logics that make formally changing the rules almost impossible so long as there is significant disagreement among the Member States about what to do and how to do it (in particular given the unanimity rule for revising treaties). The political logics have only reinforced such institutional gridlock, in particular when EU leaders are worried about electoral losses to the extremes on the right or the left. Moreover, having committed themselves to a course of action that has led to increasingly restrictive reinforcement of the rules, EU leaders have found it difficult to legitimate changing course, even when they are so inclined. The new bailout agreement in response to the current Greek crisis, moreover, with its harsh austerity terms imposed on and accepted by the radical left government, has seemed only to reinforced the coalition supporting governance by rules and numbers.

Finally, against this background, it is not surprising that there has been little political will or sufficient trust among the Member States to take steps to resolve the crisis once and for all. Suggestions for deeper economic integration focused on more positive remedies do come up for discussion periodically, such as the ones mentioned in this chapter, including some form of mutualisation of debt, different forms of social solidarity, proposals for investment strategies, or even harmonization of tax policies. But with the exception of a banking union (a big exception), they haven't got very far.

For all of this, 2014 has been different: change is in the air. The public mood has been shifting. Even as the extremes have garnered more votes, public trust in EU institutions and national governments now shows an uptick, after precipitous declines since the beginning of the crisis[6]. This may be due at least in part to a sense that policies, politics, and processes may be changing for the better.

First of all, politics came back in. The EP campaign in particular drew attention to the political differences among party candidates through high profile debates and national campaigns. Some EU Member State leaders in the Council were also contesting the rules more openly and debating the merits of stability versus flexibility, while all were now calling attention to the need for growth. As for the policies, the Commission was being increasingly flexible in its interpretations of the rules, with more derogations on the numbers, while the ECB was taking further steps to solve the crisis, now through quantitative easing. And the newly elected Commission President pledged to establish an Investment Fund (European Council 2014) and to combat youth unemployment and poverty through targeted programmes.

Only time will tell whether the change in mood in 2014 will be followed by a change in the EU's economic prospects, with less volatile politics, more effective policies, and better governance processes. The Commission's ability to lead remains an open question, as does the willingness of the Council to allow it. Moreover, even though the EP elections have given EU citizens a more direct voice in EU governance in principle, the legitimacy derived from that voice is not assured in practice given the high rate of abstentionism in EP elections that also brought in a large extreme right contingent. Additionally, national politics have become increasingly unstable, as new challengers on the extremes have been gaining voice and votes. If the European economy were to remain in the doldrums, or to get worse, while the politics continues to be volatile and the policies seem ineffective, 2014 would still constitute a watershed year. This time would indeed be different, but as a turn to the worse rather than the better.

6. Trust in EU institutions went from a high of 57% in spring 2007 down to a low of 31% in spring 2012, in 2013 and spring 2014, then jumped up to 37% in autumn 2014; trust in national governments went from a high of 43% in spring 2007 to 24% in autumn 2011 and a low of 23% in autumn 2013 then back up to 29% in autumn 2014. Eurobarometer EB 82 (2015).

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Economic governance in Europe 2020: socialising the European Semester against the odds?[1]

Jonathan Zeitlin and Bart Vanhercke

Introduction: what is at stake?

Since the onset of the Euro crisis, the EU has introduced a series of far-reaching changes in its institutional architecture for economic and social governance. At the heart of this new architecture is the 'European Semester' of policy coordination. Through the European Semester, the Commission, the Council, and the European Council set priorities for the Union in the Annual Growth Survey (AGS), review National Reform Programmes (NRPs) and issue Country-Specific Recommendations (CSRs) to Member States, backed up in some cases by the possibility of financial sanctions. The process is graphically represented in Figure 1. The European Semester brings together within a single annual policy coordination cycle a wide range of EU governance instruments with different legal bases and sanctioning authority, from the Stability and Growth Pact (SGP), to the Macroeconomic Imbalances Procedure (MIP), and finally to the Fiscal Treaty to the Europe 2020 Strategy and the Integrated Economic and Employment Policy Guidelines. This process, in turn, has given EU institutions a more visible and intrusive role in scrutinizing and guiding national economic, fiscal, and social policies, especially but by no means exclusively within the Eurozone

1. An earlier and expanded version of this chapter was published as a Report prepared for the Swedish Institute of European Studies (SIEPS), which provides fuller references for each section (Zeitlin and Vanhercke 2014).

Figure 1 **The European Semester Policy coordination cycle**

Source: European Commission.

The rapid evolution of the European Semester has raised a series of hotly contested theoretical, empirical and normative questions about the nature and dynamics of the EU's emerging socio-economic governance architecture. These questions, in turn, reflect deep and longstanding divisions not only among analysts of EU governance, but also among European policy actors themselves.

The first set of questions addressed concern the coordination of social and economic policy within the EU and its Member States. Has the integration of EU social policy coordination, as developed through the Open Method of Coordination on Social Protection and Social Inclusion (Social OMC), into the Europe 2020 Strategy and the European Semester resulted in its subordination to economic objectives of fiscal discipline, budgetary austerity, and welfare retrenchment imposed by the Directorate-General for Economic and Financial Affairs (DG ECFIN) and the Economic and Financial Affairs (ECOFIN) Council? Or does such integration offer new opportunities for social and employment policy actors to mainstream objectives such as the fight against poverty

and social exclusion across the new governance architecture of the European Semester?

A second, crosscutting set of questions addressed concern the impact of the new governance architecture on the relationship between EU institutions and the Member States. Has the European Semester reinforced intergovernmental decision-making within EU socio-economic governance, as many influential commentators claim? Or have the new procedures of the 'Six-Pack', 'Two-Pack', and 'Fiscal Compact', even if approved and initiated by the European Council, materially elevated the Commission's supranational powers and prerogatives over national policy-making?

A third, less evident but no less important set of questions addressed concern the nature of the European Semester as an evolving governance process. Should the European Semester be understood as a more effective framework for enforcing national compliance with EU rules and policy recommendations, as many economists and policy-makers claim? Or does the EU's new socio-economic governance architecture offer opportunities for joint exploration and mutual learning among Member States about how to pursue multi-dimensional objectives and provisional solutions to uncertain problems in diverse national contexts, as theorists of experimentalist governance advocate? (e.g. Sabel and Zeitlin 2012).

Based on extensive analysis of EU documents as well as a series of interviews with high-level policymakers, we argue that since 2011, there has been a partial but progressive 'socialisation' of the content and procedures of the European Semester. We define this progressive socialisation in terms of an increasing emphasis on social objectives in the EU's priorities and Country-Specific Recommendations; an intensification of social monitoring, multilateral surveillance, and peer review; and an enhanced role for social and employment policy actors, especially the EU Employment and Social Protection Committees. We interpret these developments as not only a response by the Commission and other EU institutions to rising social and political discontent with the consequences of post-crisis austerity policies among European citizens but also as a product of reflexive learning and creative adaptation on the part of social and employment actors to the new institutional conditions of the European Semester. We consider such reflexive learning as another form of 'socialisation'.

The chapter draws on four rounds of expert interviews with current and former members of the European Commission (13 from the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL), 3 from the Secretariat General (SECGEN), and 1 each from DGs ECFIN, Health and Food Safety (SANTE), and Regional and Urban Policy (REGIO). Other respondents are from EU Committees, including Secretaries and former Secretaries employed by the Commission (5 each from Employment Committee EMCO, SPC, and European Policy Committee EPC), the European Council Secretariat, the European Parliament, and European NGO networks. A total of 38 separate people were interviewed, 8 of them more than once. This chapter is also based on near-complete access to the papers of EMCO and the Social Protection Committee (SPC) during this period. Wherever possible, we have tried to refer to the publicly available version of these documents if they exist. Taken together these qualitative sources allowed us to carefully check the results through triangulation: any claims made by respondents have been confronted, first, with the views of other interviewees and, second, with as many available written sources as possible.

1. Policy orientations

The first European Semester in 2011 was clearly dominated by the pursuit of fiscal consolidation and macroeconomic austerity, with limited concern for social cohesion and inclusion goals (Vanhercke 2013; Pochet and Degryse 2012). But as the sovereign debt crisis within the Eurozone morphed into a broader economic and employment crisis, leading to a rapid erosion of public support for the EU, a significant rebalancing between social, economic, and employment objectives became visible in the policy orientation of successive European Semesters.

1.1 The Annual Growth Surveys

The 2011 AGS had set three overarching priorities for the EU: ‘rigorous fiscal consolidation for enhancing macroeconomic stability’, ‘labour market reforms for higher employment’, and ‘growth enhancing measures’. The 2012 AGS replaced these with a broader and more socially balanced set

of priorities, including ‘tackling unemployment and the social consequences of the crisis’ alongside ‘pursuing differentiated growth-friendly fiscal consolidation’, ‘restoring normal lending to the economy’, ‘promoting growth and competitiveness for today and tomorrow’, and ‘modernising public administration’. Both the 2013 and 2014 AGSs reaffirmed these more balanced priorities.

1.2 Pacts and packages

As EU institutions came under increasing pressure to tackle the deepening economic and employment crisis, the Commission and particularly DG EMPL responded by launching a succession of socially oriented ‘pacts’ and ‘packages’. Foremost among these were the Employment Package (April 2012), the ‘Compact for Growth and Jobs’ (June 2012), the Youth Employment Package (December 2012), and the Social Investment Package (February 2013). In addition to specific policy measures (such as the Youth Guarantee) and EU recommendations (on child poverty and active inclusion), a notable feature of these pacts and packages was that Member States’ implementation of the proposed measures should be reported on, monitored, and reviewed within the European Semester (European Commission 2013d).

1.3 Country-Specific Recommendations

As the policy priorities of the European Semester, expressed through the AGS and other Commission initiatives, reoriented themselves towards a more socially balanced stance beginning in late 2011, so too did the CSRs.

In 2012, seven Member States received CSRs addressing poverty reduction and three addressed Roma inclusion. Five Member States received recommendations regarding the effectiveness of their social protection systems. 17 States received recommendations on pension reform, and five on health and long-term care. Most Member States also received recommendations on education, training, and active labour market policies (ALMPs), many of which requested the states to improve the quality, coverage, and effectiveness of individually targeted employment services.

These trends were extended in 2013 when 11 Member States received CSRs on social inclusion and poverty reduction, linked in three cases to the Macroeconomic Imbalances Procedure. 15 CSRs addressed pensions and 16 health and long-term care, with some explicit emphasis on ensuring their adequacy and accessibility, especially in the explanatory text (based on the longer Commission Staff Working Documents). Nine Member States also received CSRs on improving the effectiveness and efficiency of their social protection systems, while most again received recommendations on education, training, and ALMPs.

In 2014, the social scope of the CSRs continued to expand. Thus 12 Member States received recommendations on poverty and social inclusion, while 19 received recommendations on reform of their health-care and/or pension systems. In the latter case, the accompanying communication from the Commission emphasized that the purpose of such reforms is to ensure that these systems 'continue to be socially adequate' and 'to provide universal access to high-quality care', as well as to be cost-effective and financially sustainable (European Commission 2014: 8-10). As in previous years, of course, not all CSRs that dealt with social and employment issues can be considered 'socially orientated', and a number of countries continued to receive recommendations to reform their wage determination systems to better reflect productivity developments at firm and sectoral level (6 Member State, MS), reform their employment protection systems (2 MS) or strengthen job search requirements for unemployment benefits (1 MS).

But such recommendations were overshadowed by the much larger number of CSRs urging Member States to improve their education, training, and activation systems (most MS), reduce early school leaving (8 MS), improve skills (12 MS), implement the youth guarantee (8 MS), enhance educational outcomes and access to the labour market for disadvantaged groups, including those with a Roma or migrant background (7 MS), increase the availability, accessibility, and quality of childcare facilities (9 MS) and promote the employability of older workers, for example through expansion of lifelong learning (11 MS). Eleven Member States received recommendations to ensure the adequacy and coverage of their social assistance and unemployment benefits, while six were exhorted to improve the accessibility and quality of their public social services, especially those targeted at low-income people.

2. Governance procedures

The substantive reorientation of the European Semester towards a more socially balanced policy stance from 2011 to 2014 was accompanied by a set of organizational and procedural developments which have reinforced the role of social and employment policy actors in its governance.

2.1 Drafting the CSRs: a more collaborative process

The progressive opening up of the CSRs to social issues, as our 2014 interviewees explained, reflects the fact that the process of drafting them has become increasingly collaborative within the Commission itself. The groundwork for the CSRs is prepared by Country Teams led by SECGEN, with bottom-up input from desk officers and support from horizontal policy units across a wide range of DGs, including, when relevant, the DG Health and Food Safety (SANTE), the Education and Culture DG, DG Enterprise and Industry, and DG Justice and Consumers, as well as the other three 'core' DGs: ECFIN, EMPL, and Taxation and Customs Union (TAXUD). Although DG ECFIN 'holds the pen' in drafting the Commission Staff Working Documents, which provide the rationale for the CSRs, this is a 'collegial exercise', which means it is based on written contributions from all the relevant DGs, and reviewed in the Country Teams. Only the In-Depth Reviews under the MIP are written independently by ECFIN and then circulated for comment to the other DGs. The CSRs themselves are drafted by the Country Team leaders, drawing on intelligence, ideas, and some wording supplied by the various DGs. These are then discussed by the Directors of the four core DGs (SECGEN, ECFIN, EMPL, TAXUD), before being submitted for approval to the full College of Commissioners, which often makes final changes.

Our interviewees also concurred that the process of drafting the CSRs has become increasingly deliberative and 'evidence-based'. As one Country Team leader put it, 'if you want a CSR, then you need to provide evidence, and this evidence needs to be in the Staff Working Document, and it needs to be well argued... if you don't have hard numbers and figures on a specific CSR, then forget it'. A DG EMPL official involved in the process underlined how this emphasis on evidence and argument could overturn any implicit hierarchy among the participating units.

A clear case in point cited by this interviewee was that of the 2014 CSRs that included the implementation of the youth guarantee scheme. The inclusion of the scheme was initially opposed by both DG ECFIN and SECGEN, but DG EMPL eventually succeeded in getting it through by using evidence from the SWDs and the Country Teams.

The centrality of evidence and argument within the CSR drafting process has pushed the participating Commission services to upgrade their intelligence-gathering and analytical capacities. Thus, sectoral fact-finding missions by the various DGs are increasingly coordinated through the Country Teams by SECGEN. The latter DG has also intensified the exchange of information and perspectives with Member States by increasing the number of bilateral meetings to four or-five per year. DG EMPL in particular has substantially enhanced its analytical capacities in recent years. For example, it has stepped up work on social and employment indicators, made thematic fiches more operational, and introduced radar charts for work on the efficiency and effectiveness of social protection systems, all in order to participate in the process 'on an equal footing with DG ECFIN'. This quest on all sides for better knowledge about the actual situation in Member States has also led to a 'cross-fertilization' between the Commission's analytical work in preparing the CSRs and the multilateral surveillance reviews of CSR implementation conducted by EMCO and the SPC (discussed in section 3.4), which are increasingly attended not only by officials from DG EMPL, but also from SECGEN, and in some cases ECFIN, SANTE, and other concerned DGs.

2.2 Reviving the Social OMC

The other major developments which have reinforced the role of social and employment policy actors in the European Semester were driven less by the Commission than by the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) and its preparatory committees. The first of these was the 2011 initiative by Member State representatives in the SPC, subsequently endorsed by EPSCO, to 'reinvigorate' the Social OMC in the context of Europe 2020. Member

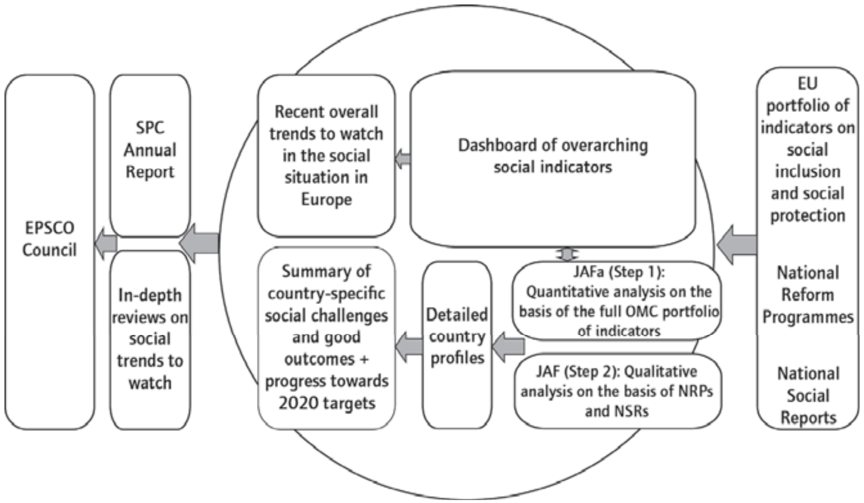
States were invited to prepare regular National Social Reports, which were to be developed in 'close partnership' with civil society stakeholders as well as subnational authorities, and submitted alongside the NRPs. In 2014, 19 Member States submitted NSRs, which were generally longer, more standardised, and more substantial than they were the first time around. The SPC also took over responsibility for the production of an annual *Social Europe Report*, a punchier and more reader-friendly replacement for the previous *Joint Social Report*, but which included the same core features: key policy messages, country profiles, and an in-depth analysis of social trends in the EU (SPC 2014a).

2.3 Extending social and employment policy monitoring

In addition to taking primary responsibility for the continuation of the Social OMC, the SPC has established itself as a significant player in monitoring, reviewing, and assessing national reforms within the European Semester, alongside EMCO, EPC, and EFC (Economic and Financial Committee).

At the EPSCO Council's request, EMCO and the SPC have developed a Europe 2020 Joint Assessment Framework (JAF) for monitoring the Employment Guidelines (cf. Vanhercke 2013: 109). The results produced by the JAF feed in turn into the Employment and Social Protection Performance Monitors developed by the two committees at the request of EPSCO and the European Council. The Social Protection Performance Monitor (SPPM) also highlights common social 'trends to watch', where indicators in a significant number of countries are moving in the wrong direction relative to the Europe 2020 targets and guidelines (SPC Indicators Sub-Group 2012). For a graphical representation of the SPPM, see Figure 2 below. In 2013, the SPC Indicators Sub-Group developed, in cooperation with the Council Working Party on Public Health at Senior Level (WPPHSL), a Joint Assessment Framework in the field of health in order to complement the existing framework focused on employment, social inclusion, and pensions.

Figure 2 **The social protection performance monitor**



Source: Social Protection Committee.

Both EMCO and the SPC are committed to using the JAF, Employment Performance Monitor (EPM), and SPPM as analytical tools that can underpin multilateral surveillance and support Member States in establishing their reform priorities, identifying good practices, and stimulating mutual learning. They also feed these tools into the broader EU policy debate. Furthermore, they serve as an important point of reference for discussions within the committees about amendments to the Commission's proposed CSRs.

Finally, in response to the debate on the 'Social Dimension of the Economic and Monetary Union (EMU)' initiated by the President of the European Council in 2013 (President of the European Council 2013; Irish Presidency 2013), the SPC and EMCO developed, at the request of the Commission and the EPSCO Council, a new 'Scoreboard of Key Social and Employment Indicators' (also known as the 'Social Scoreboard'). This was designed to 'serve as an analytical tool allowing better and earlier identification of major employment and social

problems, especially any that risk generating effects beyond national borders'. This Social Scoreboard, which is intended to complement the JAF, EPM and SPPM, currently comprises 5 indicators[2], and was included both in the 2014 Joint Employment Report and the Commission communication on the CSRs (European Commission 2013b: 6; SPC 2014d).

Alongside this new Social Scoreboard, the Commission decided on its own initiative to add a set of auxiliary social and employment indicators to the portfolio used in the Alert Mechanism Report and In-Depth Reviews of the MIP, in order 'to better reflect the social implications of macroeconomic imbalances' and 'help to improve the design of the policies recommended to countries undergoing macroeconomic adjustment' (European Commission 2013b: 4-5). The 2014 Alert Mechanism Report (AMR) included nine new auxiliary indicators, most covering both absolute levels and change over the preceding three years: the year-on-year percentage change in employment; the activity rate (15-64 years); the long-term unemployment rate; the youth unemployment rate; the youth Not in Education, Employment or Training (NEET) rate; the proportion of people at risk of poverty or social exclusion; the at-risk-of poverty rate; the severe material deprivation rate; and the proportion of persons living in households with very low work intensity (European Commission 2013c, table A.3).

2.4 Intensifying multilateral surveillance and peer review

This extended social and employment policy monitoring has gone hand-in-hand with a significant intensification of multilateral surveillance and peer review within both EMCO and the SPC, in response to successive requests from the EPSCO Council. Since 2011, EMCO has systematically sought to deepen and reinforce multilateral surveillance of the implementation of Member States' employment policy reform commitments. EMCO begins in the autumn with a review of the

2. These indicators are the unemployment level and changes; the NEET [not in employment, education, or training] and youth unemployment rate; real disposable income of households [Gross Household Disposable Income, GHDI]; the at-risk-of-poverty rate for the working age population; and inequality (S80/20 ratio).

previous year's CSRs, grouped by theme to facilitate horizontal discussion and comparison across Member States. The reviews are framed by a series of thematic and country-specific background documents prepared by the Commission, the EMCO Indicators Group, the Member State under review, and a discussant country. The resulting conclusions are formally adopted as a multilateral position by the full committee and integrated with indicators from the JAF to produce the country-specific element of the Employment Performance Monitor. They are also reported to the Council (EMCO 2014a) and serve as the 'primary evidence base' for discussing the new set of proposed CSRs (EMCO 2013a).

Whereas until 2012 SPC peer reviews occurred once a year and focused (rather superficially) on the NSRs, now multilateral surveillance activities are conducted throughout the year, with in-depth thematic reviews in the autumn and country reviews in the spring focused on Member States' implementation response to the previous year's CSRs. SPC Members were asked in 2012 if they were ready to give country surveillance a new orientation that would be 'less descriptive, more critical' and more analytical (SPC 2012a), which our 2014 interviewees confirm has, in fact, occurred. On overlapping issues such as employment and healthcare, SPC country reviews of CSR implementation are conducted jointly with EMCO and (since 2013) with the WPPHSL, but not with the EPC and EFC (on which more below). As in EMCO, the conclusions of the country reviews are summarised in a written report, which is submitted to the Council, and feeds into discussions on the new set of proposed CSRs (SPC 2014b).

The SPC's thematic reviews in particular are aimed at fostering mutual learning and stimulating multilateral discussion on promising approaches to specific policy challenges identified as common 'trends to watch' by the SPPM. They invite countries performing weakly in a particular area to examine those achieving better outcomes. The whole process is facilitated by background papers prepared by the Commission which provide an analysis of the identified trends based on the SPPM, the JAF, and other indicators. Thematic reviews also include final evaluations of the work done over the year in the context of multilateral surveillance, which feed into the SPC's annual *Social Europe Report*, as well as into more specialized reports on issues such as child poverty, pension adequacy, and long-term care (SPC 2013a, 2014b; 2014 interviews).

Clearly, both EMCO and the SPC are looking for ways to combine 'tougher' multilateral surveillance in employment and social policies with increased opportunities for deliberation and mutual learning (cf. Vanhercke 2013: 111). Commission officials as well as committee members see this mutual surveillance process as a 'game changer', making exchanges within the committees less 'cozy' and more incisive than in the past, while also transforming 'the bilateral discussion on the CSRs between Member States and the Commission into a multilateral decision making process' (interviews 2014; EMCO 2013a).

Perhaps the most innovative developments in terms of mutual learning are the pilot *ex ante* reviews of prospective social reforms conducted by the SPC. These grew out of a proposal from the Commission for *ex ante* coordination of plans for major economic policy reforms. The EPC took up this proposal and conducted two pilot exercises in 2013-14, covering reforms in seven Member States and across a series of policy fields.

In response to these initiatives from the Commission and the EPC, the SPC decided in the autumn of 2013 to launch a 'feasibility test' of its own for *ex ante* coordination of major social policy reforms within the framework of the OMC. Five Member States (CY, EE, IT, SI, RO) volunteered to present their planned reforms in the fields of minimum income, incapacity-for-work benefits, active inclusion, long-term care, and pensions respectively. Presenting countries appear to have particularly appreciated the exercise, as they benefitted from 'experience-based feedback of other Members who had implemented similar reforms in the past', including what not to do, and 'received concrete advice on how to improve the policy design of the envisaged reforms and work toward acceptance of difficult policy choices'. Since potential spillovers proved difficult to identify, these *ex ante* pilots 'proved to be less a coordination exercise and more a learning exercise', said one participating Commission official. Inspired by the SPC's experience, EMCO conducted its own first *ex ante* pilot review in October 2014 (2014 interviews; SPC 2014c, SPC 2013b).

At the same time, EMCO and the SPC have also continued to organize an extensive programme of voluntary peer reviews of good national practices through the European Employment Strategy (EES) Mutual Learning Programme and PROGRESS (Programme for Employment and Social Solidarity). Many of these peer reviews have focused on core themes related to Europe 2020, such as youth unemployment, flexicurity, extending working lives, and others (Jessoula *et al.* 2013). DG Employment has now agreed with the SPC and EMCO to connect the next generation of peer reviews under the new Employment and Social Innovation (EaSI) programme much more closely to the CSRs and to the *ex-ante* reform discussions. Peer reviews may be organized to support Member States seeking more detailed input from other countries on the design of their proposed reforms (interviews 2014).

2.5 Enhancing the influence of social and employment policy actors

Such intensified monitoring, multilateral surveillance, and peer review has in turn formed the basis for enhanced input by EMCO and the SPC into the adoption of the CSRs, which are the culmination of the European Semester. In the first European Semester of 2011, the SPC (and Ministers of Social Affairs more generally) were largely excluded from the review and adoption of the CSRs.

Beginning in 2012, however, the social players began to acquire a more influential place in the CSR process, drawing on the expertise gained through the extended monitoring, mutual surveillance, and peer review activities described above, as well as through political challenges to the jurisdiction of economic policy actors over social policy issues within the Council (cf. Vanhercke 2013).

The mounting pressure for reorientation of the European Semester and revision of its governance procedures gained additional momentum and political salience during 2013 through the EU-wide debate on the social dimension of the EMU. Thus, in response to an initiative by Herman Van Rompuy, the EU Ministers of Employment and Social Affairs issued a ringing declaration on the social dimension of 'a genuine EMU' in May 2013 (European Commission 2013a). EPSCO ministers called for a strengthening of the governance role of the EES and the Social OMC, building on the employment guidelines, monitoring instruments, peer reviews, and multilateral surveillance procedures. Furthermore, the SPC Ministers demanded the development of mechanisms to facilitate 'more effective interaction' between the Council formations involved, 'especially as regards the adoption and review of the

implementation of Country-Specific Recommendations' (EU Ministers of Employment and Social Affairs 2013). At the same time, several authors (see for example Stamati and Baeten, this volume) argue that health authorities are only marginally involved in the European Semester process and remain extremely reluctant to engage in the EU level debates. As a result, 'economic' actors remain for now largely dominant in the area of healthcare, in spite of prudent attempts of the 'health' actors to enhance their influence (Baeten and Vanhercke 2015).

2.6 Towards a revised procedural framework for the European Semester

The highly charged conflicts over the organization of the second European Semester gave rise in turn to a substantially revised procedural framework for the 2013 cycle. The Irish Presidency went to considerable lengths to ensure that arrangements for reviewing and amending the CSRs would be based on a clearer allocation of responsibilities and cooperation in areas of overlapping competences between the various committees and Council formations involved (Irish Presidency of the EU 2012).

Thus, the SPC presented the results of their review of the implementation of the 2012 CSRs on pensions to a meeting of the EFC alternates, and participated in a joint meeting with the EPC and EMCO to finalize amendments to the 2013 CSRs on issues of cross-cutting responsibility (such as pensions and health care). Unlike in 2012, the views of the SPC and EMCO on the CSRs appear to have received a full hearing, and cooperation with the EPC and EFC is generally agreed to have proceeded much more smoothly than the preceding year (SPC 2013c; EMCO 2013b; interviews 2013).

Underlying this revised procedural framework for the European Semester were new decision-making processes and working methods within and between the committees involved. In each case, amendments to the CSRs were required to be supported by qualified majority voting (QMV) to test the support among Member States for changes to the Commission's proposals and then the amendments had to be justified by reference to the results of the multilateral surveillance reviews conducted within the committees.

Since EMCO and the SPC had always worked through consensus decisions or occasionally a simple majority vote, the adoption of QMV for amendments to the CSRs (in 2012 and 2013 respectively) represented a quantum shift in procedure for both committees. The move to QMV by the two committees means that 'any changes agreed…could be strongly defended by the Presidency in Council' (EMCO 2013a). QMV likewise strengthens the two committees' position in negotiations with the EPC (which also uses this procedure in relation to the CSRs) and the Commission, which has resisted on principle any substantive modification of its policy recommendations. Voting in the committees on proposed amendments can thus be seen as an institutional mechanism for forcing the Commission to deliberate multilaterally with Member State representatives on the CSRs by demonstrating their capacity to reach a qualified majority.

Multilateral surveillance within the committees is likewise crucial to the review and amendment of the CSRs. Only issues that have been extensively discussed by Member States during the multilateral surveillance process stand a chance of securing the needed qualified majority vote within the committees. Both EMCO and SPC draw extensively on evidence from their multilateral surveillance reviews in negotiating with the EPC and EFC and Commission over the adoption of amendments to CSRs. The more accurate and detailed the evidence about national challenges and CSR implementation the committees are able to provide, the more likely their proposed amendments are to be accepted. Under the 'comply or explain' rules of the European Semester, the Council is expected to provide a written explanation of its reasons for modifying the Commission's recommendations. Both committees refer explicitly to these mutual surveillance reviews in the formal reports justifying their amendments (Council of the EU 2012, 2013, 2014b).

In 2014, the Greek Presidency strictly followed the same arrangements for the organization of the European Semester developed by the Irish Presidency. For the most part, these arrangements again appear to have worked relatively smoothly, with one conspicuous exception, attributable in part to the very tight time pressures under which the final review of the Commission's draft CSRs was conducted. Prior to a joint meeting with EMCO and the EPC in June, the SPC reviewed and voted by QMV on proposed amendments to the CSR in the social field. When it came to the joint meeting, however, the vote on five CSRs went

counter to what had been previously agreed on in the SPC (either because some national delegations were overruled by their finance ministries, or because some delegates were absent when the votes were taken). Since the EFC and EPC do not formally recognize the SPC's legal right to participate in the amendment of the CSRs, the SPC chose to submit its own separate opinion to the Council on 'recommendations falling within the competence of Ministers responsible for social protection issues irrespective of the proposed legal basis', rather than endorsing the outcome of the joint meeting.

This incident resulted in a public exchange of letters to the Council from the SPC and EMCO Chairs, in which the former defended his committee's proposed amendments on substantive grounds, while the latter insisted that such joint meetings are 'the only feasible and effective way of ensuring commonly reached compromise decisions from both the ECOFIN and EPSCO committees, thereby allowing for a meaningful discussion in both Council formations', and should not be questioned afterwards by either side. The Greek Presidency upheld EMCO's position, and the opinion of the joint meeting was adopted by both the EPSCO and ECOFIN Councils. Poland and the Czech Republic took their pensions issues all the way to the European Council, where their amendments failed. The clear lesson from this principled but quixotic defeat is that at least for now, the SPC can only hope to obtain amendments to the CSRs on social issues when the committee works closely together with EMCO in joint meetings with the EPC and the EFC, rather than trying to go it alone (Council of the EU 2014a; 2014 interviews).

2.7 Amending the CSRs

In 2012, a well-informed EMCO source estimated that proposed social and employment policy amendments had no more than a 10 per cent chance of success. In 2013, interviewees from both EMCO and SPC estimated that one-third of all such proposed amendments to the CSRs were adopted without objection by the Commission, while the success rate for contested amendments had reached 50%. While these are only rough estimates by our interviewees, they nevertheless seem to point to the fact that in 2013, there were 14 non-consensual amendments to the CSRs, of which 10 concerned social and employment issues, compared to 11 in 2012, of which eight concerned social and employment issues (own calculations from Council of the EU 2012, 2013).

Most of these amendments concerned details, focusing on better contextualization of individual CSRs in relation to Member State challenges and reform measures. It was also sometimes possible to obtain 'horizontal' amendments to CSRs addressed to multiple Member States. The key case in point in 2013 concerned pension reform, the flashpoint of conflict the previous year between the SPC, the Commission, and the economic policy actors. Thus for eight Member States (AT, BE, CZ, ES, FI, FR, LU, MT), an across-the-board injunction to 'link the statutory retirement age to life expectancy' was replaced by a recommendation to 'increase the effective retirement age'. The comply-or-explain text underlined the importance of allowing Member States to choose among alternative paths to reaching the objective: 'It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined' (Council of the EU 2013).

As a result of these experiences, the European Semester synthesis report by the Lithuanian Presidency of the Council of the EU (2013) recommended specifically that:

— '[T]he Commission continues to enhance its dialogue with Member States when preparing CSR proposals, sharing the underlying analysis and making further efforts towards evidence-based recommendations'

— 'The Commission should ensure that its CSR proposals are sufficiently precise as regards policy outcomes but not overly prescriptive as regards policy measures so as to leave sufficient space for social dialogue and, more generally for national ownership[3]; more detailed recommendations could refer to examples of the best practice. Their formulation should also recognize efforts already undertaken by the Member State and reflect the time-horizon for CSR implementation'.

3. See also SPC (2012b): 'A genuine multilateral discussion necessitates full participation of the Commission in the policy dialogue... For recommendations to be successfully implemented and to become an effective instrument for change, it is crucial that an enhanced policy dialogue between Member States and the Commission generates common understanding and ownership at national level.'

Despite the SPC's failure to win its separate amendments to the 2014 CSRs, non-consensual revisions on social and employment issues continued at a similar rate to the previous year, accounting for 10 of 11 successful amendments adopted over the Commission's opposition. Six of these amendments concerned pension CSRs, where the Commission returned to its previous year's recommendation that Member States align the statutory retirement age with increased longevity. The Council endorsed the SPC's view that there were alternative pathways to tackling pension challenges, notably by raising the effective age of retirement. Amendments of employment CSRs focused mainly on better contextualization to take into account the specific situation in Member States and the ongoing reform measures, based on evidence from EMCO's multilateral surveillance (Council of the EU 2014b; 2014 interviews).

3. Summary, discussion and conclusions

By way of conclusion, we return to the three sets of key questions about the nature and dynamics of the EU's emerging socio-economic governance architecture with which we began.

3.1 Economic vs. social Europe?

Regarding the first set of questions about the coordination of social and economic policy, the core claim of this chapter is that since 2011 there has been a progressive 'socialisation' of the European Semester. This evolutionary shift is visible at the level of substantive policy orientations, in terms of a growing emphasis on social objectives in the EU's priorities. CSRs have expanded considerably from year to year in social scope (the range of 'social' topics covered) and ambition (asking for recalibration, not retrenchment, of social policies), even if the expanding volume and coverage of these social CSRs is still counterbalanced by other imperative recommendations on fiscal consolidation under the SGP.

The progressive socialisation of the European Semester is equally visible at the level of governance procedures, in terms of an enhanced role for social and employment policy actors – EMCO the SPC, DG EMPL and the EPSCO Council – in monitoring, reviewing, and amending the CSRs. Jurisdictional struggles continue with the economic policy actors about overlapping issues, especially those linked to the SGP and the MIP. But the revised procedural framework for the European Semester introduced in 2013, coupled with the detailed knowledge of the situation in the Member States, has made it possible for EMCO and the SPC to obtain amendments of the Commission's draft CSRs on both larger and smaller issues – provided that they work together and argue their case effectively in joint meetings with their counterparts on the ECOFIN side.

In addition to carving out a place within the European Semester process, the SPC has made effective use of the knowledge base, governance instruments, and working methods developed through the Social OMC to play a proactive role in monitoring and assessing national performance against the EU's common social objectives and indicators. Thus Member State representatives in the committee have exploited the flexibility of the Social OMC to develop their own social reporting initiatives at both the national and EU levels across all three of its policy strands. And they have also taken the lead in the development of *ex ante* review of planned social reforms, which DG EMPL now sees as the next step in deepening policy debate, peer review, and mutual learning within the European Semester itself (2014 interviews).

Our interviewees were more ambivalent about the new social monitoring instruments introduced as a result of the 2013 EU-wide debate on strengthening the social dimension of the EMU. The December 2013 European Council approved the integration of a scoreboard of key employment and social indicators into the 2014 European Semester. But contrary to the original hopes of EPSCO and the Commission that this scoreboard would be used as an early warning system for signaling 'serious employment and social imbalances…that could threaten the

stability of the EMU', the European Council concluded instead that 'the use of this wider range of indicators will have the sole purpose of allowing a broader understanding of social developments (European Council 2013: pars. 38-9; EU Ministers of Employment and Social Affairs 2013; European Commission 2013b). Highly placed interviewees wondered how much had really been accomplished considering the intensity of the political struggle needed to get this scoreboard adopted and the fact that its initial use in the Commission's 2014 communication on the CSRs was rather critically received by social Non-Governmental Organisations (NGOs), trade unions and MEPs (Euractiv 2014). The latter should not come as a surprise in view of ongoing debate around the European social model (Pochet 2006).

In regard to the auxiliary social indicators incorporated into the MIP, our interviewees were similarly divided. Like other auxiliary indicators which form part of the MIP, there are no thresholds attached to these social indicators. They are therefore primarily used to interpret the situations in Member States which have already been selected for In-Depth Review, and to assess the social consequences of proposed corrective measures.

A continuing weakness of the EU's evolving socio-economic governance architecture is the limited involvement of non-governmental stakeholders at both the EU and national levels. Neither social partners nor civil society organizations currently play any significant role in the European Semester, despite calls for strengthening social dialogue, while EMCO meets periodically with the EU social partner organizations and is planning to involve their secretariats in its thematic reviews (EMCO 2014c). At Member State level, the continuation of voluntary NSRs has not compensated for the very restricted participation of both civil society and subnational actors in the preparation of the NRPs (Committee of the Regions 2014). Here, too, however, there are some signs of movement, as the new Structural Funds Regulation enacted in 2013 earmarks 20 per cent of all European Social Fund (ESF) monies for 'promoting social inclusion and combating poverty', and makes access to this funding conditional on the adoption of 'a national strategic framework for poverty reduction aiming at the active inclusion of people excluded from the labour market', involving 'relevant stakeholders' and providing 'a sufficient evidence base to…monitor developments' (European Parliament and Council of the EU 2013: Annex XI, Thematic objective 9).

3.2 Intergovernmentalism vs. supranationalism?

In regard to the second set of questions raised at the outset about the relationship between EU institutions and the Member States, the evolution of the European Semester illustrates the limited ability of received categories like 'intergovernmentalism' and 'supranationalism' to capture the dynamics of post-crisis socio-economic governance. The European Council, to be sure, remains the political master of the Semester process, formally responsible for approving all documents and decisions, including the CSRs, and is the final arbiter of any disputes (at least until the Court of Justice becomes involved). But the European Council cannot and does not run the machinery of the Semester itself. In procedural terms, the role of the Commission has been greatly reinforced by the Six-Pack, the Two-Pack, and other post-crisis measures, since it is now formally responsible for setting the Union's socio-economic priorities through the AGS, selecting Member States for In-Depth Review, issuing draft CSRs, and proposing eventual sanctions under the Excessive Deficit Procedure (EDP) and Excessive Imbalance Procedure (EIP). The Commission's abilities to oversee Member States' economic, social, and employment policies have also increased significantly since the crisis, through the build-up of analytical capacities within DG ECFIN and DG EMPL, the appointment of dedicated 'European Semester officers' in national capitals, and the establishment of cross-DG Country Teams led by SECGEN.

But the Commission's grasp of national situations remains relatively broad-gauge and it cannot really compete with the fine-grained knowledge of policy challenges and developments possessed by specialized committees of Member State officials like EMCO and the SPC. These committees are therefore able to add very substantial value to the European Semester process through their monitoring, multilateral surveillance, and peer review activities, which they have continuously extended and intensified since the crisis. The committees have also been able to push back against what Member State representatives perceive as 'over-prescriptive', 'one-size-fits-all' recommendations from the Commission, which seek to define both the objectives and paths to reach said objectives without taking proper account of national contexts and competences.

In so doing, however, these committees have not generally sought to 'water down' the Commission's recommendations, but rather, to build national support for social and employment policy reforms by adapting them better to domestic institutional and political realities, based on an emerging 'European view' of how such reforms should be carried out in different policy fields. By demonstrating their ability to amend the Commission's draft CSRs through QMV, these committees have also been able to force the latter to engage more deliberatively with Member States about their content in multilateral and bilateral fora. Although significant differences in perspective persist between the Commission and some of the committees – for example, on the relative priority of increasing the statutory vs. the effective age of retirement – there is growing cross-fertilization and complementarity between their analytical and evidence-gathering work. The same could be said of the relationship between the Commission, the Council, and Member State administrations within the European Semester.

3.3 Compliance vs. learning?

What of the third set of key questions raised at the outset about the relationship between compliance and learning within the European Semester? Many prominent actors within both the Commission and the Council certainly understand the Semester as a framework for enforcing national compliance with EU rules and policy recommendations and overcoming past implementation deficits. And the Semester has undoubtedly been used by the EU institutions to put pressure on Member States to address the specific policy challenges flagged by the CSRs. But there is wide disagreement among analysts and policy makers about the extent to which the CSRs have, in fact, been implemented. The Commission claims that 80% of the CSRs have been implemented, while others (especially German officials) have complained that it is more like 10-20%, and a detailed analysis carried out on behalf of the European Parliament shows a more mixed picture (Commission interviews 2014; European Parliament 2013). Both EMCO and the SPC have produced lengthy reports on social and employment policy reforms introduced by Member States since the crisis (e.g. EMCO

2014b; SPC 2013d), but these do not show to what extent these reforms correspond to the CSRs, and there has been considerable pushback against over-prescriptiveness in terms of detailed approach and timetables for specific measures.

No sanctions have yet been imposed on any Member State under the European Semester, including those states under the MIP, and this seems only likely to occur under very exceptional circumstances. There can be no question of formal sanctions for failure to implement recommendations issued under the Employment Guidelines, though there can be consequences in relation to the structural funds. Under the new Structural Funds Regulation covering the 2014-2020 programming period, there are three levers the Commission can use to bring pressure on Member States to implement the CSRs. The first is *ex ante* conditionality: Member States are expected in their Operational Programmes (OPs) to target expenditure on priorities related to the CSRs, and the Commission can refuse to approve their OPs if they fail to do so. The second lever is reprogramming: where new priorities emerge through the CSRs, the Commission can request that Member States redirect a proportion of their structural funding to meet these priorities, to which the Member State in question is obliged to respond. The final lever is suspension: if a Member State fails to comply with recommendations under the corrective arm of the EDP or the MIP, the Commission is obliged to bring forward a proposal for the progressive suspension of its structural funding. Significantly, from the perspective of this chapter, 'programmes or priorities which are of critical importance to addressing adverse economic or social conditions' are exempted from both suspension and reprogramming, including investments related to the youth guarantee scheme or 'supporting poverty reduction'. The maximum rate of suspension of funding is reduced for Member States experiencing above average rates of unemployment or poverty. So far, no such proposals for suspension have been tabled by the Commission, though according to our interviewees some reprogramming has occurred (Regulation No. 1303/2013: Art. 23 and Annex III; 2014 interviews DG EMPL and DG REGIO).

Our 2014 interviewees suggested that there are wide differences between Member States in how seriously they take the CSRs, depending on a variety of domestic considerations, including public attitudes towards European integration, the political sensitivity of the issues at

stake, and the national fiscal situation, among others. 'The more you need from Brussels, the more weight the CSRs carry', one Member State official observed. Political attitudes towards the EU and issue salience are likewise crucial. In some countries, such as Belgium and the Netherlands, the CSRs make the evening news and are widely discussed, especially where they touch on hot-button issues such as reform of wage indexation, pensions, or social housing. In countries at the other extreme like the UK, where all messages coming from Brussels are politically suspect, the CSRs are largely ignored.

The national influence of the CSRs also depends on how they are used by domestic actors. 'Certain Member States are happy to receive a certain CSR', remarked one high Commission official, 'because it gives legitimacy, and the Commission gives it a push'. Governments sometimes go as far as to request a CSR on a particular issue, but our interviewees were unanimous in reporting that the Commission is increasingly unwilling to play this game. Conversely, CSRs are often picked up by opposition parties and other domestic actors to put pressure on the national government on controversial issues. As another Commission official put it, the 'opposition can use it to say, listen, government, you have not sufficiently addressed this and that, and this confirms our assessment....' The same Member State official quoted earlier concurred: 'if you have a healthy democracy, somebody will be able to use the CSRs. It's going to be very strange if there is a country where the whole Parliament, from left to right, says no, this CSR we've received now, this is really not something we should do'. The broader question of the national influence and domestic usages of the European Semester and the CSRs is one that would fruitfully repay further empirical research.

If there is little consensus on the effectiveness of the European Semester as a top-down compliance mechanism, our 2014 interviewees were surprisingly positive by contrast about the extent of joint exploration and mutual learning, both actual and potential, developing under the European Semester. Such learning was generally considered to be most limited in the country reviews of CSR implementation, partly because of the routinized process and the intense time constraints involved. But even there, some prominent committee members argue that participants learn about what other Member States are doing and draw inspiration and lessons for their own policies, especially when they need to introduce something new (such as the minimum wage in Germany). Mutual learning and genuine policy exchange were considered to be more intense within the thematic reviews of CSRs, which take place in the fall during the 'low period' of the European Semester cycle when 'there is a bit more time to dedicate to substance'. Within the SPC, as we have seen, the thematic reviews cast weakly performing countries as examiners of their better performing peers, while encouraging them to focus on the identification of policy approaches which could and could not be transferred to meet their own domestic challenges. The thematic reviews are also the moment within both committees when the greatest efforts are made to mobilize specialized expertise across national ministries and the Commission services in order to pose probing questions and stimulate an open policy debate.

Participants in the review process likewise emphasize that its iterative character has produced a strong learning and consensus-building effect within the committees. Another prominent SPC member went further, arguing that in policy fields like pensions and long-term care, Member State representatives in the committee were moving, as a result of the Semester process, towards 'a common European view on social issues', based on a shared knowledge base and understanding of national differences, and a broad 'agreement that when you reform your…system, there are certain things you should and not do.'

There is wide agreement, finally, among both committee members and Commission officials, that the *ex ante* reviews of major policy reforms piloted by the SPC offer a particularly promising setting for mutual learning and genuine deliberation among Member States. 'This has the potential of being the next big thing' in the European Semester, commented one committee official.

A final crucial question raised by the multiplication of CSRs on social issues and the widening of their policy scope is how far such mutual learning activities can contribute practically to helping Member States tackle complex, multi-dimensional problems to which no one has prefabricated solutions. It is to be hoped that ongoing reforms of the multilateral surveillance, performance monitoring, peer review, and mutual learning programmes will enable EMCO, the SPC, and the Commission to tackle such problems more operationally, including by

working more closely with front-line officials in Member States. They have already begun do this, for example, through collaboration with the recently established Network of EU Public Employment Services, which should help to ensure that such European mutual learning activities involve the 'right people' – those directly involved in the formulation and implementation of national policies – unlike what has sometimes occurred in the past (cf. Greer and Vanhercke 2010).

3.4 Socialising the European Semester: actors and processes

The progressive 'socialisation' of the European Semester analysed in this chapter can be interpreted as a response by the Commission and other EU institutions to external developments. Most notable among these is the rising social and political discontent with the consequences of post-crisis austerity policies among European citizens demonstrated, for example, by falling levels of public support for the EU in the Eurobarometer surveys and successive electoral defeats for incumbent governments in many Member States. But the socialisation should also be understood as the product of reflexive learning and creative adaptation on the part of EU social and employment actors to the new institutional conditions of the European Semester. This process began with the employment policy actors within EMCO and DG EMPL who were already familiar with the challenges of debating their positions with the economic policy actors, and who took the first steps to strengthen their intelligence-gathering and analytical capacities through the development of new monitoring instruments, the intensification of multilateral surveillance, and the introduction of QMV on amendments to the Commission's draft CSRs.

But their example was quickly emulated by the social policy actors within the SPC and the Social Policies Directorate of DG EMPL. These actors not only followed suit in developing new instruments to monitor and analyse the social dimension of the European Semester, deepening multilateral surveillance of CSR implementation, and adopting QMV for amending the CSRs, but also proactively used the institutional *acquis* and flexibility of the Social OMC to introduce new social reporting initiatives at both the national and EU levels and to launch an innovative programme of *ex ante* peer review of major social reforms. Other EU policy communities, including the social NGOs and trade unions assembled in the EU Semester Alliance (2014), have likewise begun to mobilize organizationally and politically to make their voices heard within the European Semester and influence its outcomes. The mid-term review of the Europe 2020 Strategy, coupled with the appointment of a new Commission in October 2014, represents a golden opportunity to build systematically on these emergent developments within the European Semester in order to ensure that the EU's post-crisis socio-governance architecture continues to become more socially balanced, contextually sensitive, and learning-orientated. This golden opportunity, of course, may or may not be taken.

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Austeritarianism in Europe: what options for resistance?

Richard Hyman

Introduction

In much of Europe, the social rights and social protections won by labour movements have recently been seriously eroded, and are further threatened by neoliberal austerity. Efforts to resist have been largely unsuccessful; but is an effective fight-back possible? In the next section I briefly outline how the ‘new economic governance’ of the European Union (EU) has reinforced this erosion, particularly with the economic crisis and the ensuing pursuit of austerity. I then survey a range of forms of protest and opposition, notably through trade union action (section 2), before turning to a discussion of ‘new’ social movements (section 3). In conclusion I suggest that a nuanced evaluation of success and failure is necessary, and I propose that the articulation of different forms of resistance – cross-nationally and between different actors – is essential in order to stem the neoliberal hegemony.

1. Brussels versus workers' rights?

The sovereign debt crisis was facilitated, and at the same time reinforced by, the embrace of neoclassical fiscal orthodoxy within the institutions of the EU. Deflationary macroeconomic priorities date back to the establishment of EMU. The economic logic of ‘correction’ was simple: deflation in order to achieve ‘internal devaluation’ as a substitute for the unavailable option of currency devaluation. A priority was to attack public sector employment, pay and pensions, and to reduce and privatise public services. The recipe was both socially regressive and – in a context of stagnation or recession – negatively pro-cyclical: austerity fuels recession (ETUI 2013: 8; 2014: 17).

Though some see a softening of this process (Zeitlin and Vanhercke 2014), most writers consider that the ‘new EU economic governance’, launched as part of the *Europe 2020* agenda in 2010, marginalised ‘social Europe’ even further (Bieler and Erne 2014; Degryse 2012; Jolivet *et al.* 2013; Pochet 2010). It institutionalised the ‘European Semester’, a process whereby Member States are required to submit draft budgetary plans which are assessed for compliance with the requirements of the Stability and Growth Pact (SGP), leading to Country-Specific Recommendations (CSRs) for both economic and structural ‘reforms’.

The effect was ‘a continuing shift of power away from national [level] as well as the European Parliament to the European Council [and] expert groups, which have no political legitimation’ (Pühringer 2014: 9). In particular, the Compact and Treaty on Stability, Coordination and Governance (TSCG) include the principle of ‘reverse qualified majority voting’: sanctions against a Member State deemed in breach of the requirements can be prevented only by roughly three-quarters of the weighted votes in the Council.

Typically, fiscal ‘sustainability’ translates into pressures for pension cuts, wage restraint and cutbacks in social protection and public services (Stamati and Baeten 2015). This includes pressures to marketise health services. As Greer (2014: 13) concludes, ‘health care and policies in the EU are now incorporated into a new system of fiscal governance that is deliberately stacked in favor of fiscal objectives and finance ministries’. In addition, ‘modernisation’ of collective bargaining has become ‘a widely used euphemism that, in practical terms, points to a higher political pressure [for] wage restraint and...more decentralized wage-setting mechanisms’ (Rocha 2014: 15). The result, as Oberndorfer (2013) deemed it, has been ‘a Troika for everyone’.

More generally, the growing dominance of DG ECFIN over Commission policy in the social field, and its negative view of both public provision and employment protection, have made the crisis the occasion for attacks on established workers’ rights. Many governments, not only in the programme countries, have weakened statutory protections for standard employment contracts and encouraged the spread of precarious contracts (Heyes and Lewis 2014). Closely linked to that has been the erosion of mechanisms of social concertation between governments, unions and employers which were previously widely acclaimed as a source of consensual adaptation to economic challenges.

Furthermore, 'the core actors of the Eurozone are encouraging Member States to establish governments capable of acting *without* trade union support' (Culpepper and Regan 2014: 724). In Cyprus, for example, 'the onset of the economic crisis and the austerity policies that began in 2011 and intensified in 2012–2013 effectively undermined... the previously celebrated institution of the "social dialogue"' (Ioannou and Sonan 2014: 15). The rejection of social dialogue in part reflects the increased weakness of trade unions, and also a belief that governments which impose radical change in the face of trade union resistance are more likely to win the 'confidence' of speculators, bond markets and ratings agencies.

The outcome is by now well documented. In many countries there has been a substantial decline in collective bargaining coverage: most dramatically in the case of Portugal, where the number of workers covered by collective agreements fell from 1.9 million in 2008 to 0.3 million in 2012 and 0.2 million in 2013 (Rocha and Stoleroff 2014: 168). The impact of 'structural reforms' has been in many countries a rapid growth of a low-wage sector with weak unionisation and little or no collective bargaining. Not surprisingly, inequality increased between 2008 and 2012 in the majority of EU Member States (ETUI 2014: 46), intensifying the risks of continuing recession and increasing the proportion of the population at risk of poverty or social exclusion – whether through unemployment, in-work poverty caused by 'atypical' employment contracts, or loss of social benefits and services for those outside the labour market. In the Eurozone, those at persistent risk of poverty increased from 8.8% in 2008 to 10.1% in 2012, and those suffering severe material deprivation from 5.9% to 7.7% of the population (European Commission 2015: 300). In particular, loss of affordable healthcare services has been a major source of poverty for those in employment and outside employment alike (ETUI 2014: 51).

In such a context, the question then is: 'Is resistance futile?' (Bailey 2014). Bailey's answer is, in effect, not necessarily. However, it is inadequate to rely on traditional repertoires of action. To fight back against the odds requires strategic imagination, new alliances and transnational learning and solidarity. In this respect, the resources of

modern information technology have created new opportunities. But the crisis, and the neoliberalism which provoked it, also creates a dilemma. As the former Greek finance minister has put it (Varoufakis 2015), 'Europe's crisis is far less likely to give birth to a better alternative to capitalism than it is to unleash dangerously regressive forces that have the capacity to cause a humanitarian bloodbath, while extinguishing the hope for any progressive moves for generations to come'.

2. Trade unions: between opposition and damage limitation

2.1 Contradictions of union activism

With often depleted resources as a result of a long-term loss of membership, unions at the national level have not been well placed to respond to the crisis: 'generally they have been in disarray when confronted by a historical process in which they no longer feel involved' (Dufresne and Pernot 2013: 14). There is evidence both of radical or conflictual initiatives, and of a reinforcement of cooperation and partnership; often the two types of response have been paradoxically interconnected. Radical actions, whether company-level conflicts or national strikes, have often been defensive in their objectives.

As suggested above, governments seeking to impress international creditors may welcome confrontation with trade unions as a demonstration of fiscal rectitude. Conversely, efforts to seek consensual solutions through social dialogue have confronted an intensified opposition of class interests (who will pay for the crisis?) and diminished space for positive-sum outcomes.

'There can be no return to business as usual' was an almost unanimous trade union reaction when the crisis first hit. Yet historically, trade unions have consolidated their institutional status as pragmatic negotiators, and their predominant aim has seemed to be to negotiate with those wielding political and economic power for a tighter regulatory architecture for financialised capitalism rather than leading an oppositional movement for an alternative socio-economic order. Two familiar and intersecting contradictions of union action have been evident. One – articulated by Varoufakis – is the dilemma of short-term imperatives versus long-term objectives. A Belgian union leader commented: 'it is easy to say: we need to change the balance of forces. But that does not tell us how to proceed…. Our members expect us to look after their immediate interests' (Gumbrell-McCormick and Hyman 2013: 124-125).

The second contradiction is between the global economic crisis and trade union action that is essentially national or indeed sub-national in character. The supranational trade union organisations – the International Trade Union Confederation (ITUC) at global level, and the European Trade Union Confederation (ETUC) – were largely consigned by the unexpected crisis to primarily the role of spectators, with little impact on the evolving policy responses at national and supranational levels. Both confederations produced sound analyses of the economic roots of the crisis and proposals for expansionary policy responses. In the case of the ETUC, this involved a frontal critique of the 'new economic governance' introduced by the EU. In a statement entitled *Solidarity in the Crisis* (2011), it denounced EU policies as 'totally unacceptable to the trade unions of Europe' and called for a radical reversal. This denunciation was followed by an analytically impressive call for a 'social compact for Europe', adopted in 2012. However, the crisis and its aftermath have brought a radical shift in the balance of forces, gravely weakening trade unions. Indeed the dominant response at national level has been to defend and enhance competitiveness, meaning a struggle of country against country, workplace against workplace, intensifying the downwards pressure on wages and conditions.

The onset of the crisis provoked a variety of conflictual responses at the workplace level, including a spate of sit-ins against job cuts and plant closures reminiscent of the struggles of the 1970s. France in 2009 saw a number of episodes of 'boss-napping', a situation where senior managers were held hostage by workers. In three cases, workers threatened to blow up their factories with gas cylinders. This radicalism, however, was consistent with 'the presence of a strong, generalised cultural acceptance of direct action in labour issues' (Hayes 2012: 190), which can be traced back to the French revolutionary tradition. Such actions were typically spontaneous initiatives from below, not coordinated and often not supported by the official national

unions. Nor did radical forms of action imply similar radicalism of objectives. In most cases, such workplace struggles seemed gestures of defiance and despair, with little belief that they would prevent announced closures or job losses (Gumbrell-McCormick and Hyman 2013).

Another outcome of the crisis has been a widespread reinforcement of wage moderation, with employers, in some cases pressing for downwards renegotiation of existing pay agreements. Negotiations over restructuring and job reductions, with the aim of agreeing on some form of 'social plan', were common across most countries. Even in conjunction with symbolic protest action, unions have often endeavoured to manage the crisis through peak-level social dialogue. This dialogue is what Urban (2012) has called 'crisis corporatism'. Most unions have accepted, tacitly or explicitly, the dictates of national 'competitiveness' (Marginson and Welz 2014), becoming 'responsible co-designers of austerity' (Bohle 2011: 100). As noted above, this has intensified downwards pressures on wages and conditions.

Crisis corporatism is inevitably antipathetic to cross-national solidarity. It may also erode *within-country* solidarity: the most forceful resistance has typically involved public sector unions, whose members have borne the brunt of austerity but have often been deprived of private sector support. In Ireland, for example, there was barely concealed antagonism between public and private sector unions. In Italy and Portugal, there were major divisions between the main confederations. To a lesser extent, the same has been true in Belgium. Italy has seen a number of coordinated national strikes and protest actions, but in most cases these protests have not involved cooperation between all three main confederations.

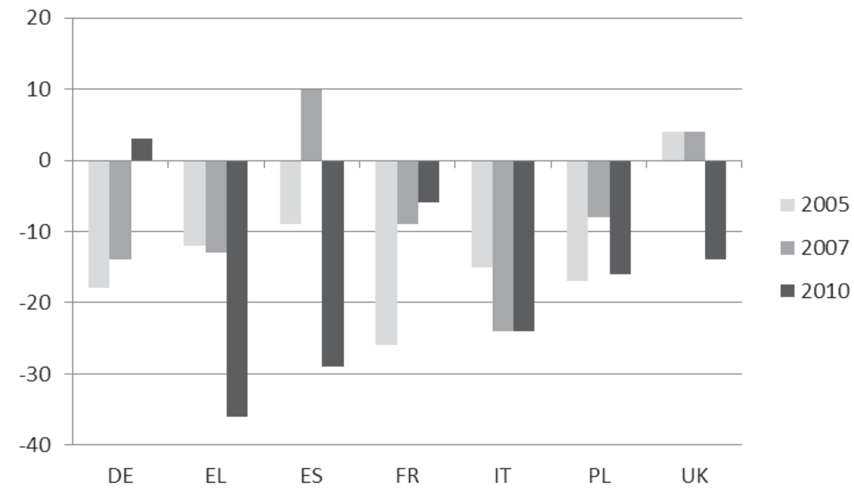
2.2 The contradictions of crisis corporatism

The contradiction between national conceptions of economic self-interest and a politically informed rhetoric of cross-border solidarity has been very apparent in the aftermath of the crisis. Despite official awareness at national levels that (at least in the medium term) 'European policy is national policy' (Foglar 2011: 8), short-term preoccupation with challenges at the national level has assumed priority. Beyond largely ineffectual protests, there has been little coordinated cross-national response. 'Since 2008-2009, increasingly massive mobilisations have essentially been organised at national level without taking account of the timetable proposed by the ETUC... and most often lack a transnational dimension' (Dufresne and Pernot 2013: 21). Hence resistance to austerity has tended to involve a 'patchwork of often uncoordinated action' with 'no thought-through strategic plan for getting mass support to bring down the plans of the Commission' (Scherrer 2011: 36).There has been an evident contradiction between the global nature of the economic crisis on the one hand, and trade union action that is essentially national or indeed sub-national in character.

Lemb and Urban (2014: 50-1) conclude that while unions attempt 'in especially crisis-torn countries to brace themselves against the economically, politically, and socially disastrous crisis policy...there is little sign of a broad Europe-wide trade union resistance'. In Germany, 'the European crisis and the far-reaching economic, social, and political dislocations that neoliberal austerity policy has unleashed appears from those employed here as problems occurring far away [and] a solidary management of the crisis in Europe is less important or unimportant'. This is despite the efforts of most northern trade union movements, including those in Germany, to express their support for their counterparts in the south, and particularly in Greece. In a Europe dominated by the hegemony of neoliberalism, however, unions have been largely unable to win over public opinion by highlighting the common 'risk community' and pointing to progressive, solidaristic solutions.

This reflects a more general failure of trade unions to win the battle of ideas. In general, Eurobarometer surveys show a rather low level of trust in trade unions, and overall that level has deteriorated since the crisis. Figure 1 shows the net trust expressed in the six largest EU countries, together with Greece, from 2005-2010. Most countries had negative net trust before the crisis and it only became more and more accentuated in most countries; only in Germany does trust remain positive. The countries worst affected by the crisis have tended to show the greatest decline.

Figure 1 **Net trust in trade unions (tend to trust - tend not to trust)**

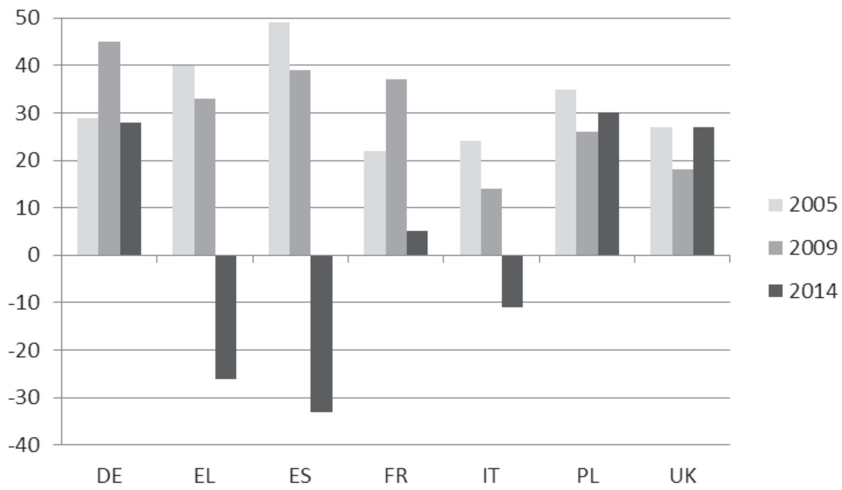


Source: Eurobarometer 64, 68 and 74.

Three caveats are, however, in order. First, there is a general increasing distrust in most national institutions. For example, in the autumn 2010 Eurobarometer, net trust in unions across the EU 27 was -11. Net trust in political parties was -65, and in national government it was -39. The national parliament had a net trust rating of -31, big business one of -29 and religious institutions were at -10. Second, the meaning of the Eurobarometer survey results may be questioned. As Figure 2 indicates, a different pattern emerges when respondents are asked whether the concept of a trade union brings to mind something positive or negative: in most countries the responses are positive, though indeed the crisis countries stand out as more negative. Third, it is unclear why respondents distrust trade unions: is it because their militancy is blamed for the crisis, or because they are regarded as not militant enough in defending the victims of the crisis? In some of the worst affected countries, the latter may be a plausible explanation.

Those worst affected by the crisis – in particular young people, those with precarious contracts, women, immigrants – are least likely to be unionised. However, in many countries trade unions have made serious

Figure 2 **Net positive connotation of 'trade union' (positive - negative)**



Source: Eurobarometer 67, 72 and 82.

efforts in recent years to recruit such groups and to represent their interests (Gumbrell-McCormick and Hyman 2013; Pedersini 2010). To give just one example: at the 2011 congress of the German metalworkers' union *IG Metall,* its president, Berthold Huber, made youth policies the first item in his address, declaring that '*IG Metall* with over 200,000 young members is the biggest youth organization in Germany'. Temporary agency work, which has grown very rapidly among new workers in German metal-working, has been a major union theme since 2008, with a campaign for equal pay and for transition to permanent employment. Another initiative launched in 2009 in response to the declining opportunities for apprentices to secure permanent jobs at the end of their training, was *Operation Übernahme*. Young members themselves devised the campaign themes, materials and actions for *Operation Übernahme*. The demand for them to be 'taken on' into permanent employment was a key issue in the 2012 bargaining round, and it achieved at least partial success. As a result of these initiatives, young workers' membership in Germany seems to have stabilized or even increased (Dobbert 2010).

Despite a widespread assumption that young people see trade unions as conservative, boring and old-fashioned, and prefer the greater

spontaneity and openness of other forms of social action, hard evidence for this assumption is limited. Recent Eurobarometer data displayed suggest that while young people (age 15-24) are considerably more likely than others to consider demonstrations an effective means of making their views felt, they are also more likely to consider strikes effective; they are less likely to think that voting makes a difference, but no less likely to think it useful to join a political party; they are somewhat more likely to consider joining a non-governmental organisation (NGO) an effective step, while roughly average in thinking the same of joining a union. Of course, there is a gap between attitudes and actions. But this Eurobarometer result points to an openness in perspectives and also implies that there is no clear dichotomy between being pro-union and pro-NGO. Indeed a key question is how far trade unionism and new social movements may interact.

3. New social movements, new social protests?

3.1 Trade unions versus social movements?

It is common to contrast trade unions with their elaborate formal decision-making structures, and more spontaneous, often activist-led social movements and NGOs. As I discussed in the previous section, such a dichotomy is questionable. Almost universally, unions emerged as social movements that challenged key principles of the prevailing social and economic order. With time, however, unions became increasingly dependent for their survival on institutionalised internal routines and formalised external relationships with employers and governments. As Gramsci noted (1977), negotiation with external interlocutors could yield an 'industrial legality' which could bring organisational (and material) advantages, yet could also weaken the organic, ideational resonance with those whose aspirations unions sought to voice. Trade unions are themselves – or at least should be – 'non-governmental' organisations; there is a considerable literature which insists, as did Herberg (1943: 406) long ago, that any trade union is *at one and the same time* 'a business-like service organization, operating a variety of agencies under a complicated system of industrial relations' and 'an expression and vehicle of the historical movement of the submerged laboring masses for social recognition and democratic self-determination... The union, as an institution, is thus in the grip of a very real contradiction'. The task of sustaining collective commitment and organisational effectiveness – within the limits imposed by a hostile environment – required a delicate alternation between encouraging militancy and containing it. Much recent debate on the prospects and character of 'social movement unionism' is precisely an effort to identify a progressive reconciliation of this contradiction.

One should also note that an analogous tension applies to all NGOs. McIlroy (2000: 3) highlights a distinction in the literature 'between insider and outsider groups. Insider groups are accepted as legitimate by government and regularly consulted over policy... Insiders feel pressure to distance themselves from direct action and may become prisoner groups, dependent upon government. Outsider groups, in contrast, have no wish to become involved in routine relations or are unable to achieve recognition by government. They may lack the skills and resources to take the inside track or eschew it because of radical ideology and objectives. Outsider groups rely on mass protest and strikes or civil disobedience'. Trade unions in many countries shifted from primarily outsider status to an insider role in the twentieth century (though this became jeopardised under neoliberalism), but many other NGOs (for example, in the field of social policy, women's rights or the environment) have followed a similar trajectory. At the European level, a domestication of contention was extended beyond trade unions to other representatives of 'civil society' through the 'civil dialogue' launched in 1994: a project to gain the EU some of the legitimacy of popular social movements drawn into 'partnership', while also diminishing the latter's spontaneity and accentuating their bureaucratic aspects. Just as in trade unions, insider status has provoked internal conflict, with battles (as among the German Greens in the 1980s) between 'fundamentalists' and 'realists'.

A notable feature of the crisis has been the emergence of a range of new 'outsider' movements, particularly in the worst affected countries, generating a form of 'subterranean politics' (Pianta and Gerbaudo 2014). The actions have tended to display a high participation of young people, often with a focus on the predicament of the 'precarious generation' most affected by the crisis.

3.2 Spain

Certainly the best known example is constituted by the Spanish *Indignados* or *Movimiento 15-M*, which developed from demonstrations on 15 May 2011, organised largely through social media. The *Indignados* have been described as 'a movement with two souls' (Taibo 2013): one soul comprising activists with a background in the alter-globalisation campaigns (as in many other European countries, supporters of *ATTAC* were prominent in the protests) or in demonstrations against the Iraq war (of which the right-wing Spanish government was a strong supporter); the other soul comprising young people, mainly highly educated and with little or no background in political activism, whose hopes of a comfortable career have been dashed.

A particularly important issue in Spain (though also evident elsewhere) has been the impact of the crisis on families previously encouraged to take out mortgages to buy their homes but no longer able to sustain repayments on properties the value of which had collapsed. The *Plataforma de Afectados por la Hipoteca* (Platform of Mortgage Victims, PAH), created in 2009 in Barcelona, soon became a nation-wide movement, in particular organising occupations of vacant properties for those made homeless by the banks (García Lamarca 2014). Another development which overlapped with the *M-15* movement was the formation of different coloured 'tides' of public employees and users of their services, such as the *Marea Blanca* in the health sector and the *Marea Verde* in education: the colours worn in mass on demonstrations against cuts and privatisation.

Spanish trade unionism is numerically weak by west European standards (density around 15%) but the two main confederations, *Comisiones Obreras* (CC.OO) and *Unión General de Trabajadores* (UGT), became entrenched in public policy-making after the fall of the dictatorship in the 1970s. For many *Indignados*, they were as much part of the problem as were the mainstream political parties, at best negotiating the terms of austerity rather than leading forceful opposition. 'The politicians rob us, the unions sell us, the employers enslave us, the banks swindle us and the press lies to us' ran one slogan. Yet 'the divide between the world of trade union activists and that of the *Indignados* was less clear-cut than claimed by some' (Béroud 2014: 29), and by 2012 there were signs of a growing rapprochement. Key sections of *M-15* decided to support the general strikes called by the main confederations in that year, while the confederations for their part began to play an important role in the *Mareas.* The *Indignados,* in turn, helped enlarge the repertoire of trade union action, calling for 'inclusive' strikes in which the unemployed, students, precarious workers and other citizens could participate (Cerrillo Vidal 2013: 43).

3.3 Portugal

In Portugal, as in Spain, 'trade unions have been involved in organizing mass protest action, although their capacity for mobilization was surpassed on various occasions by more spontaneous demonstrations of protest' (Rocha and Stoleroff 2014: 152). In particular, the two main confederations CGTP (*Confederação Geral dos Trabalhadores Portugueses*) and UGT (*União Geral de Trabalhadores*), unlike their Spanish counterparts, have been fundamentally divided. While the former has maintained 'all-out opposition' to the Memorandum of understanding (MoU), the latter 'has been more cautious' and was willing to negotiate the terms of austerity (Rocha and Stoleroff 2014: 172).

Union division increased the space for other vectors of resistance. Though unemployment has been less severe than in Spain, over half of young Portuguese workers had temporary contracts even before the crisis. In 2007 the movement *Precários Inflexíveis* (PI, Precarious but Inflexible) emerged as a virtual association of unemployed and precarious workers. Several hundred protestors took over the streets of Lisbon and other cities on 12 March 2011. This was one of the biggest demonstrations since the Portuguese revolution of 1974 (Estanque *et al.* 2013). The initiative helped inspire the May protests in Spain, which were in turn followed by the occupation of the *Praça do Rossio* in Lisbon in May, in part in solidarity with the Spanish *Indignados* (Baumgarten 2013). Created in June 2012 (with a strong involvement of activists from the CGTP and the *Partido Comunista Português*), the movement *Que se lixe a troika! Queremos as nossas vidas!* (Fuck the Troika, We Want Our Lives Back) has since played a major role in challenging externally imposed austerity, often coordinating protest demonstrations with the CGTP (Campos Lima and Martin Artiles 2014).

Although most initial protests occurred independently of the trade unions, as in Spain, there has been some subsequent convergence. PI cooperated with the CGTP in anti-government protests in October 2012, and helped mobilise the general strike in the following month. In its Manifesto, PI insists that trade unions remain the most representative associations of workers, but adds that the world of work has changed and that trade union structures must change to accommodate temporary workers, those forced into dependent self-employment and the unemployed. 'Insisting on an antagonism between those who, for various reasons, are remote from experience of organisation and the world of trade unionism helps nobody and weakens the working class as a whole'. And indeed, Accornero and Ramos Pinto (2015: 501) conclude from their study of protest events that 'labour has remained throughout the most significant protest actor'.

3.4 Greece

In Greece, resistance to Troika-imposed austerity was strongly influenced by the Spanish example, with *Amesi Dimokratia Tora!* (Direct Democracy Now!), formed in May 2011, helping initiate a mass occupation of *Plateia Syntagma* (Constitution Square, in front of the parliament) as a forum for direct discussion and debate. The label *Aganaktismenoi* was soon applied as a direct equivalent of *Indignados.* As in Portugal and Spain, Greek trade unions are weak in terms of membership, particularly in the private sector. Traditionally, they have had little financial need for members because of payments received from the welfare fund (*ergatikí estía*) to which all private sector workers are required to contribute.

As in Spain, those groups resisting austerity often dismissed the unions as components of the established institutional structure; but there also developed a certain rapprochement. Thus the unions 'were obliged...to invent new repertoires of collective action and to mobilise new power resources. Within this framework, more radical types of demand and new alliances have emerged' (Karakioulafis 2015).

One form of resistance, which has often involved coalitions of trade unions and other social actors, has been the mounting of legal challenges – in constitutional courts or supranational bodies – to austerity measures. Kilpatrick and De Witte (2014: 5) suggest that 'Greek unions and worker-pensioner associations have adopted the most active and multi-pronged approach to fundamental rights challenges'. This has included a complaint to the International Labour Organization (ILO) by the main union confederations, which resulted in an implicitly critical report (ETUI 2014: 65; ILO 2011). The Greek unions also submitted a successful complaint to the European Committee of Social Rights (an institution of the Council of Europe, a body completely separate from the EU), on the grounds that some of the legal changes were incompatible with its European Social Charter. Kilpatrick and De Witte (2014: 5) add that – in a broader European perspective – 'the dominance of trade unions and associations of pensioners (former workers) in taking legal challenges has meant that work rights and occupational pensions have been central to many challenges whilst there are few traces of challenges to health and education cuts'. However, in Portugal and Spain, constitutional review mechanisms have been used in response to 'cuts (or reduced coverage) of welfare benefits and health care services. Housing was a special focus of legal mobilisation in Spain.' In Portugal in particular, legal challenges have successfully blocked a number of austerity measures (Rocha and Stoleroff 2014).

3.5 Italy and beyond

In Italy, almost 30% of workers aged 15-24 are unemployed and almost 40% of those in work are on temporary contracts. Perhaps for this reason, all three main confederations established special unions for precarious workers in the late 1990s (Burroni and Carrieri 2011; Leonardi 2001). Such initiatives were, however, double-edged: while offering a dedicated structure for mainly young workers with non-standard contracts, they risked segregating such workers from the unions' 'core' membership (Murgia and Selmi 2012).

Some of the most prominent actions on behalf of these workers, however, have occurred outside the formal framework of trade unionism. The *San Precario* movement, named after the fictitious 'patron saint' of temporary workers, was created in 2004 to highlight the issue of labour market insecurity, in similar ways to PI in Portugal. But the methods were distinctive: mimicking Italian religiosity, activists

carried effigies of *San Precario* during their demonstrations, invented the prayer of *San Precario* and combined street theatre with political campaigning.

Italy has been an important locus of resistance to the EU privatisation agenda. A long process of creeping privatisation of municipal water supplies provoked a number of local initiatives, which led to the formation in Florence in 2003 of the *Forum Alternatif Mondial de l'Eau* (FAME, Alternative World Water Forum). The *Forum Italiano dei Movimenti per l'Acqua* (FIMA, Italian Forum of Water Movements) was established three years later as an unusually broad alliance of local groups, NGOs, trade unions and religious organisations. When the Berlusconi government in 2009 adopted a law requiring municipalities to put water provision out to private tender, the movement used its constitutional right to organise a referendum, calling for a campaign of 'civil obedience' to overturn the legislation. The result of the vote in June 2011 was a 95% majority against privatisation on a 57% turnout (Berlusconi had hoped that abstentions by his supporters would prevent the required 50% threshold being met). Displaying its contempt for democratic process, the European Central Bank (ECB) in its 'secret letter' two months later effectively called on Berlusconi to ignore the result, demanding 'the full liberalisation of local public services... through large-scale privatisation' as a condition of a rescue package, but with the change of government the plans were dropped after the constitutional court ruled against regulations designed to circumvent the popular vote.

The Italian achievement, it has been said – with only a degree of hyperbole – 'really shook the whole of Europe' (Fattori 2013a: 378). In 2012, the European Federation of Public Service Unions (EPSU) launched a campaign for a European Citizens' Initiative – a mechanism introduced in the Lisbon Treaty, which took effect in 2009 – on the right to water (Fattori 2013b). Right2Water, a broad coalition of unions and NGOs, was established to manage the campaign, and succeeded in obtaining almost double the number of one million citizens necessary for demands to be discussed by the European Parliament (EP). In part, this initiative can be seen as a part of a longer-term struggle to defend public services (Marcon and Zola 2007), from the mobilisations against the 'Bolkestein Directive' for the liberalisation of services in 2005-6 to the current fight against the Transatlantic Trade and Investment

Partnership (TTIP). But the principle of ‘water as a human right’ acquired particular sensitivity, and the Italian experience has been replicated elsewhere. The Troika bail-out packages included a requirement, in the case of Portugal, to privatise the state-owned water company, *Aguas do Portugal*; and in Greece, to sell off a large number of public assets, including the water companies for Athens and Thessaloniki. In the first case, a major campaign, *Agua de todos* (water for all), gathered 40,000 signatures, and achieved a parliamentary debate in October 2014. In Thessaloniki, a referendum was organised despite government attempts to block it. EPSU took a lead in coordinating financial support and volunteers to help as international observers. The referendum took place in May 2014, at the same time as local elections, and achieved a 97% vote against privatisation.

In France, as in the other countries discussed, labour market insecurity is a particular problem for young workers, with 23% unemployed in 2011 and 55% of those employed having temporary contracts. The term *Génération précaire* (‘precarious generation’) was coined by a young, minority ethnic worker in the fast-food sector in a book describing his efforts to build collective action and organisation among fellow workers (Mabrouki 2004).

Somewhat ironically, however, the label was adopted in the following year by graduates and university students protesting against the abuse of internships, often paid at a fraction of the minimum wage or else unpaid. ‘We have work but not employment’, they declared, and attempted to organise strike action by interns and demanded legislative reforms with some success.

In most countries, labour market insecurity does not create a homogeneous ‘precariat’ (Standing 2011) or a simple polarisation between ‘insiders’ and ‘outsiders’, but affects in different ways social groups with contrasting capacities for collective mobilisation. In France, there is a history of institutionalised student organisation and often ritualised protest, analogous to the impressive demonstrative actions of the numerically weak trade unions and at times undertaken jointly. If the tactics have sometimes been innovative, most of the time the protests of the highly educated but precariously employed have addressed familiar interlocutors through traditional channels. In some ways, suggest Béroud and Yon (2012: 175), the closest French equivalent to the outrage of the

Indignados has been the violent rioting in the impoverished *banlieues*, ‘where the protests unfold outside the customary frameworks of collective action’.

3.6 Social protest in comparative perspective

Social protests have of course been a global phenomenon. Ortiz *et al.* (2013) document 843 events between 2006 and mid-2013, showing an upward trajectory. They also find a disproportionate prevalence of social protests in ‘high-income countries’. Their data indicate that among these countries, the protests are dominated by Europe, with the majority of the largest taking place in France, Italy, Portugal and Spain (Ortiz *et al.* 2013: 34). Understandably, protest has been greatest in countries particularly affected by austerity. One notable early example was Iceland, which is not a member of the EU but was the first European casualty of the global financial crisis. The collapse in 2008 of the three main private – and deregulated – banks led to a devaluation of the *króna* by some 50% against the euro. Mass protests, with demonstrators banging pots and pans outside parliament, led to the resignation of the government. A grassroots movement emerged, known as *Mauraþúfan* (the anthill), which convened an assembly of citizens to draft a new constitution (Castells 2012: 31-43). A subsequent grassroots campaign also ensured that in two referendums, in 2010 and 2011, voters rejected proposals to repay British and Dutch banks which had lost reserves invested at unrealistic interest rates in Iceland.

Ortiz *et al.* attempt to classify the reasons for protest. In the high-income countries, five broad but related issues predominate: inequality and the demand for fiscal justice; cuts in public services and pensions, and privatisation; corporate power and deregulation; the power of the International Financial Institutions (IFIs), including the ECB; and the absence of ‘real democracy’. Protests are most often directed against governments, but also against the IFIs, the EU, corporations and employers and the politico-economic system as a whole. Though trade unions, NGOs, political parties and established community groups are prominent in many of the protests, so are ‘new agents for change’, and ‘mass middle-class involvement’ which ‘indicates a new dynamic’ (Ortiz *et al.* 2013: 31). Nevertheless, it would be wrong to assume a simple dichotomy between ‘old’ and ‘new’ agents of protest: ‘at least in part, the agenda and the objectives of the newly emerged social movements and the trade unions coincide' (Campos Lima and Martin Artiles 2014: 142).

3.7 Social movements: six variations on a theme

From a cross-national comparative perspective, six key features of social movements can be addressed. The first is the complex interconnection between national and supranational dynamics. On the one hand, there has been a rapid process of mutual learning across frontiers. The 'Arab Spring' provided an inspiration for many of the mass protests from 2011 onwards. 'Occupy Wall Street' informed the Blockupy protests against the ECB in Frankfurt and the actions of UK Uncut in London. The *Indignados* were emulated across southern Europe. There was 'a kind of contagion effect, suggesting the presence of learning processes and the modular character of the mobilization' (Fonseca 2014: 47). Yet 'on the other hand, institutional differences, different traditions of political and social participation and the degree of trust in the political institutions help explain some of the marked differences of the protests in European countries, in particular as to their relationship to conventional channels such as political parties and trade unions' (Campos Lima and Martin Artiles 2014: 145). The national prevalence of most protest activity has meant that there has been only limited coordination at the EU level, where the key decisions underlying austerity are taken (Pianta and Gerbaudo 2014). But there are exceptions: notably, the campaigns against water privatisation mentioned above.

A second key theme is the central role of social media in the 'new' forms of protest and resistance (Estanque and Fonseca 2014; Loader *et al.* 2014). Social media provides a channel for discussing grievances, formulating demands and coordinating action, and for disseminating the initiatives – and any incidents of repression by the authorities – to a mass public. For some, such as Castells (2012) or Mason (2012), this new means of communication – taken for granted by the generation which is worst affected by austerity – permits autonomy rather than authority and explosive spontaneity rather than the routines of traditional organised negotiation with governments and employers. However, Gerbaudo cautions against uncritical 'techno-optimism'. Social media channels are fragmented and individualised, and do not

automatically generate collective identities and collective action. What is necessary, argues Gerbaudo (2012: 12), is a 'choreography of assembly' which functions in 'directing people towards specific protest events, in providing participants with suggestions and instructions about how to act, and in the construction of an emotional narration to sustain their coming together in a public space'. Such choreography is typically undertaken by an often invisible and perhaps reluctant core of activists who provide a form of 'soft' leadership.

The third key feature of social movements is that the 'choreography of assembly' involves reclaiming public spaces as arenas for discussion and debate as well as demonstration. Drawing from the Egyptian example of Tahrir in January 2011, the 'movements of the squares' in southern Europe claimed a space for new forms of participative democracy (Gerbaudo 2014). While the first actions were directed against governments (national but also supranational), it was a logical step to target the financial institutions which both initiated the crisis and drove the austeritarian response. Occupy Wall Street in September 2011 achieved echoes not only across North America but also in Europe, with the first Blockupy protest in Frankfurt in May 2012. In London, an occupation began in October 2011 outside St Paul's Cathedral, the nearest location to the Stock Exchange that protestors could use.

A fourth, but related, aspect of the protests is the 'defence of the commons'. As outlined above, this has involved, most obviously, resistance to privatisation, particularly when imposed by the Troika. But there is also a less defensive dimension, as proposed in the series of World and European Social Forums since 2001, to 'reinvent the world'. The link between the quality of work, the quality of living and the environment is made explicit: neoliberal global capital destroys nature as it destroys workers. Some protests have demanded what Fattori (2013a: 385) calls 'commonification: the introduction of elements of self-government of the good by the citizens'. This accords with the spirit of many of the 'new' forms of protest: it seeks to assert elements of participative democracy which in some ways are novel but in others can be traced back to ancient traditions.

Fifth, the notion of 'commonification' links in some respects to the idea of a 'social and solidarity economy'. This concept is sometimes used primarily to encompass producer and consumer cooperatives, which have a very long history (ILO 2010). But the newer understanding of *économie solidaire* or *economia solidária* points to a more specifically political strategy to resist neoliberal globalisation (Draperi 2007; Laville 2007).

The crisis and austerity have generated a range of grassroots initiatives in response to the dual effects of the loss of jobs and income, and cutbacks in public services. This has been evident, for example, in Spain and Greece. Sotiropoulos and Bourikos (2014) describe a rich variety of 'exchange and distribution networks' involving not only 'social groceries' but also networks of non-monetary distribution and exchange and informal healthcare networks providing 'make-shift clinics' and a range of other social services. Most notably, the Syriza party took a strategic decision to focus on developing such networks. Its leader, Alexis Tsipras, declared (Dericquebourg 2013) that 'in these times of crisis, resistance and solidarity are both necessary, but solidarity is more important', and the party directed its efforts to the collective provision of food, medicine and housing. Syriza created an initiative entitled Solidarity4all (2013), which was in part an appeal for international support but also explained in detail how the party was helping build self-organised collectives covering pharmacies, social kitchens, social groceries, evening classes, cultural clubs and legal support teams.

A sixth feature common to all the movements is the need to build cohesion out of diversity. Mason (2012: 66-79) identifies the social roots of the revolts as 'the graduate with no future' and 'the Jacobin with a laptop'. Yet as already noted, the constituencies of deprivation and anger are more heterogeneous. They include the young, unskilled and poorly educated whose protests in some countries have been particularly violent but with no clear political focus. Also important are older workers who are victims of workplace closures or public sector job cuts, and who in most countries no longer have trade union representation (Faniel 2012). As Andritsos and Velegrakis argue (2014: 1), in Greece, the 'struggles have their origins in different social strata, geographical scales, political views and perspectives'.

3.8 Making sense of diversity

The diversity reflected in these six key features results in obvious problems of aggregation of interests and objectives. In this context, Gerbaudo (2014: 2) argues that a distinctive feature of recent mass protests has been the effort to reclaim 'the ancient belief that there is such a thing as "the people", and that this collective actor is the ultimate source of sovereignty and legitimate power'. The slogan 'we are the 99%' coined by the Occupy movement similarly expresses a thesis that might be termed progressive populism. Yet clearly the oppositions underlying crisis and austerity are more complex than 99% versus 1%. A substantial proportion of the population, even in the worst affected countries, see themselves as at least partial beneficiaries of the existing system, whatever its irrationalities and degradations. At least they believe that they have more to lose than to gain in contesting it. At best, the notion of the 99% can be considered a myth which inspires self-confidence and solidarity and so might eventually make the slogan self-fulfilling. Yet the downside, as Juris *et al.* point out (2012: 436), is that 'the Occupy movements with their majoritarian populist impulse and organizational logic of massing large numbers of individuals in concrete physical spaces have had difficulty recognizing and addressing internal specificity and difference'. Hence, the divisions and potential conflicts of interest according to class, gender and ethnicity can easily be disregarded, whereas a genuinely popular movement needs to admit and negotiate these. I return to this issue in the conclusions.

The ultimate question is this: can mass protest overcome austeritarianism? Waves of protest fade, either because of repression by the authorities or protest fatigue among the participants, or both. Accornero and Ramos Pinto (2015: 508-509) emphasise the potential of the developing cooperation between 'old old' and 'new new' movements of resistance. 'Time will tell, but we would emphasise two aspects: it is evident that neither the massive demonstrations, nor the multiplication of the general strikes, nor the months-long strike of the dockworkers seem to have had much effect in reversing the application of austerity measures. The weapons of anti-austerity mobilisation are, at first sight, blunt. Yet intriguing synergies have emerged from the participation of these two types of actor in anti-austerity protests.' From a broader perspective, Ortiz *et al.* (2013: 36-37) conclude that some two-thirds of the protests examined 'achieved neither their intended demands (when demands are stated) nor results toward alleviating the expressed grievances'.

Yet this implies that the other one-third do achieve some success; as Bailey (2014: 8) suggests, 'the less malleable and containable nature of innovative, elite-challenging forms of contention – provided they are carried out by a sufficiently large number of participants to avoid straightforward repression – are more likely to prompt concessions from policy makers seeking to maintain or bolster their own governing capacity.' Moreover, Ortiz *et al.* add that 'many of the protests are engaged with long-term structural issues that may yield results in time, while incremental, short-term or symbolic achievements may prove to be precursors to a comprehensive shift in power structures'. Indeed, the aim of many of the mobilisations has been to shift the political agenda by redefining the discourse of crisis to demonstrate that there is indeed an alternative to austeritarianism.

Conclusion: the variable geometry of resistance

A number of conclusions stem from the discussion that has preceded. First, to return to a previous point, the focus of resistance to austeritarianism must be international, even though it occurs in nationally specific contexts. This is one of the central arguments developed in recent decades by the alter-globalisation movements. Trade unions have their own, more institutionalised international structures, but internationalism is less embedded in everyday trade union action. Generalising international solidarities – I use the plural deliberately – has to be a priority. And internationalism means little if it is purely a concern of 'international experts'; it must be built into the routine discourse and practice of labour movements.

Second, building solidarity is also a challenging task *within* countries. As already argued, different social and economic groups have been affected in significantly different ways by crisis and austerity. An understanding of a common fate and common interests, is not objectively given but is an objective requiring a difficult struggle. Unity cannot be built by a linguistic sleight-of-hand – 'the people united' – but requires sustained dialogue and debate. Otherwise, the interests of the weakest are easily submerged beneath a spurious conception of

commonality. The same is true in the case of attempts to build coalitions between trade unions and other NGOs, for example, in order to mobilise and organise precarious workers, or to build effective political campaigns. In many countries one can identify a trajectory in trade union relations with social movement NGOs: first, unions tended to dismiss them as unrepresentative challengers to their own status as encompassing workers' organisations; then, they often adopted an instrumental approach, turning to NGOs when they needed allies; finally, in at least some countries, accepting that real coalition-building must involve mutual respect and a willingness to enable NGO partners to help shape the agenda in the light of their own priorities (Frege *et al.* 2004; Gumbrell-McCormick and Hyman 2013).

Third, it follows that the construction of solidarities at both national and international levels involves vital cognitive and discursive elements. In this context, della Porta (2012: 276) notes that 'the proposals and practices of the *Indignados* and occupying movement – as well as those spread in and by the Arab Spring – resonate in fact with (more traditional) participatory visions, but also with new deliberative conceptions that underline the importance of creating multiple public spaces, egalitarian but plural'. For Melucci (1989), the creation of a collective identity is a process of negotiation over time which contains three aspects: shaping a cognitive framework within which the environment is understood and goals and tactics are formulated; fostering social relationships among participants; and stimulating an emotional dynamic among those involved. Such processes are somewhat alien to most trade unions (or have been lost over time), but have been vital for many of the 'new' social movements.

Fourth, it is necessary to address the systemic nature of the crisis, but in comprehensible terms. A century ago, Rosa Luxemburg wrote that 'bourgeois society stands at the crossroads, either transition to socialism or regression into barbarism'. The lineaments of the second alternative – economic subjugation, political oppression, environmental devastation, military aggression – are even starker today than when she wrote. Movements of resistance must embrace the principle that 'capitalism is the reality, but not our perspective' (Urban 2014: 41). To be effective, different modes of resistance must be mutually supportive, and informed by a vision of an alternative. The challenge, as always for those pursuing a different socio-economic order, is to formulate alternatives which are concrete, comprehensible and attractive. Iglesias of *Podemos* said recently: 'this is what the enemy expects of us, that we use words that nobody can understand, that we remain a minority in the shelter of our traditional symbols. This way we would pose no threat' (Lambert 2015). The issue is partly one of language, which should simplify without trivialising; but it is also to provide concrete examples of economic solidarity outside the market. Some of these examples were discussed above.

Finally, today's barbarians rely on the demoralisation of their victims. Resistance may well draw its inspiration from anger, but to be translated into constructive action it requires self-confidence in the capacity to initiate change. 'To be truly radical is to make hope possible rather than despair convincing', wrote Raymond Williams (1989: 118). 'Hope is coming!' was Syriza's election slogan. In dark times, to build hope is perhaps the most difficult challenge, and not only because hopes can so easily be disappointed. But fatalism and surrender should not be the only options. Another world – and another Europe – is possible.

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The European Commission's investment plan: a critical appraisal and some alternatives

Martin Myant

The idea of a systematic plan to boost investment and hence to spur economic recovery across the European Union has been thrust into the centre of European policy-making by the new President of the European Commission Jean-Claude Juncker. The details of his proposal took shape fairly rapidly in the last months of 2014 and the first months of 2015 and met with a generally positive, if sometimes slightly sceptical, welcome. The proposal promised a boost to investment equivalent to 0.8% of EU GDP to run over a three-year period.

An EU-wide stimulus to boost growth was not a new idea. Measures to increase demand by running fiscal deficits were proposed by the European Commission and also the International Monetary Fund (IMF) in late 2008. However, that was a short-lived episode and was reversed with the strong emphasis on fiscal discipline and austerity especially from 2010. The idea of stimulating investment then made periodic appearances as a means to promote growth that could run alongside severe constraints on current spending. Thus in June 2012, the European Council agreed on its Compact for Growth and Jobs, intended as a means to boost growth, which contained a commitment to a €120 billion investment package.

However, the Eurozone continued to record negative growth in 2012 and 2013 and the Juncker plan is intended to help reverse that trend. It has clearly been developed in the face of political constraints, which rule out the general stimulus recommended in 2008-2009, that would require abandoning austerity and adopting greater flexibility in fiscal rules. The same political constraints also rule out increased capitalisation of the European Investment Bank (EIB), which would require contributions from all EU Member States. The result is an investment plan, which is likely to contribute to some increase in investment, but

not enough to satisfy legitimate needs, and not enough to provide a substantial economic stimulus in the context of continuing policies of fiscal restraint.

Section 1 of the present chapter provides a background to the meaning of the term 'investment' and to its place in economic policy. The following sections then develop a critical assessment of the Juncker plan by setting it against different criteria, including its structure and justification (section 2), the proposed means of financing and the conditions of repayment (section 3), and the governance of the scheme and arguments for running it at the European level (section 4). Section 5 concludes by setting out some suggestions for alternative, arguably more promising, approaches to investment.

1. Defining 'investment'

A standard economic definition of investment is 'capital formation – the acquisition or creation of resources to be used in production' (Coen and Eisner 2008). It is frequently understood as the production of physical goods that can then create more goods in the future, although, as will be argued in the discussion of education and research, investment does not always need to lead to visible physical results. A common contrasting usage presents investment as putting funds into financial assets, with no direct relationship to any productive activity. For economic policy purposes the economic definition is the appropriate one. Investment can then play a role in an economy, both as a basis for long-term growth and to provide an immediate stimulus.

Basic textbook macroeconomics, starting from Keynesian theory, explains depression in terms of a level of aggregate demand below the level required to achieve full utilisation of a country's resources. This can be corrected by injecting demand into the economy, and increased investment is one way to achieve this, albeit neither the only nor the quickest way. For a rapid stimulus, the best method is to increase the purchasing power, and hence the consumption, of the lowest paid as they are the most likely to spend it quickly. Reducing taxes on company profits, or on the highest personal incomes, will have less effect as a smaller proportion of any increase is likely to be spent. In this respect the stimulus packages of 2008-2009 were relatively ineffective, often amounting to little more than reductions in business taxes which were continued even as cuts were made within the new austerity agenda (Watt 2009).

The most obvious reason for choosing to stimulate an economy specifically through investment is a desire to boost longer-term growth, with the short-term stimulus to demand as a welcome by-product. It has further justifications as the stimulus may be easier to finance from private sources and may also pay for itself from higher incomes in future years, assuming that the investment takes appropriate forms. In fact, a specific advantage of investment over other forms of stimulus is that it can attract private finance to boost the impact of public spending.

As indicated, investment is usually taken to mean physical products: buildings, machinery and the like. In national accounts, this comes under the heading of 'gross fixed capital formation', which includes investment in commercial businesses intended to enable production of goods and hence to bring financial returns in the future. It also includes investment in infrastructure, such as roads and public buildings, that may be publicly funded and that will not lead directly to financial returns, but could be expected to do so indirectly by increasing productivity across the economy (for example, by improving communications and access to a previously remote area). Fixed capital formation also includes private house building, which appears closer to private consumption in that it improves living standards but has no necessary implications for future production.

By way of contrast, an interpretation of investment as spending now that increases production in the future points to the case for including some activities that appear in private or public sector accounts as current expenditure, along with consumption, but which should bring long-term benefits. Research spending has been reinterpreted in national accounts from consumption to an addition to fixed capital, albeit with difficulties and simplifications in how it will be measured. Education has been reinterpreted in European Union and EIB thinking not as consumption but as investment in human capital, as it leads to higher productivity of people in the future (European Investment Bank 2006: 2-3). However, in national income accounts only investment in fixed assets that can be used for education appears as investment. Ongoing activities are classified as consumption.

The choice made between different possible interpretations of investment has implications for the criteria to be used in an investment plan. The EIB has recognised that assessing the viability of an investment project requires an assurance that facilities will be used, and that depends on availability of finance for future current spending (European Investment Bank 2011: 18-21). This implies that countries facing the most severe fiscal restraints will be less able to justify investment in education, irrespective of the benefits it might bring if adequately financed. Indeed, as will be argued, the conception of the Juncker plan as running alongside austerity leads to severe limitations on the kinds and locations of investment likely to be financed.

2. The Juncker investment plan

2.1 A plan for the 'last chance' European Commission

The importance of an increase in investment for economic recovery in the European Union is clearly recognised in Jean-Claude Juncker's proposal for a comprehensive investment package, approved at the European Council meeting on 18 December 2014; more details and clarifications surfaced in the following weeks (European Council 2014, European Commission 2015a). The European Commission President predicted at least €315 billion in additional investment over the three years of 2015-2017, giving this a central place in the 'last-chance' European Commission[1]. A caveat was that the investment plan came with accompanying requirements for Member States 'to intensifying structural reforms' and to pursue what was described as 'growth-friendly fiscal consolidation' (European Council 2014: 1). These requirements, it will be argued below, will weaken its effectiveness.

The justification and background to the Juncker plan are set out in various public and policy statements, above all in a substantial report produced by the so-called Special Task Force on Investment in the EU, set up in September 2014 with representation from the European

1. The President warned that voters were losing patience with EU bureaucracy and a failure to create prosperity. In his view it is therefore the 'last-chance Commission' (http://www.euractiv.com/video/juncker-will-be-last-chance-commission-309405).

Commission, the European Investment Bank (EIB) and Member State governments. Its final report (Special Task Force 2014), produced in December 2014, gave a justification for the plan and filled in details on possible ways forward. Significantly, the Task Force left no doubt of a perceived need for substantial investment. Member States were immediately encouraged to identify projects awaiting implementation and a list of 2000 projects was quickly prepared with a cost of €1300 billion, of which €500 billion could be committed in the next three years (Special Task Force 2014: 10).

The following sections examine the Juncker proposal against a set of questions that provide a basis for judging its likely outcomes and also for assessing possible alternatives. In particular, the proposal for an investment plan needs to explain why investment is necessary, where such investment should be directed, why such a scheme has not been implemented so far, how it will be financed, how credits will be repaid, which (new) institutions will be involved, what governance structures will be set up, what other measures might be needed to make it effective and, finally, why such a programme should be organised at the European level.

2.2 Why do we need investment?

A simple argument for special measures to increase investment is provided in the aforementioned Special Task Force's report. Investment had fallen 15% below its pre-crisis peak in the EU and this was said to be the major cause of continued economic stagnation. Two immediate reservations are, first, that the ultimate cause of low investment remains to be proven: it could be low overall demand or austerity policies, indicating that targeting investment might be the wrong starting point. Secondly, the Juncker plan would cover only about one quarter of the gap it identifies.

Moreover, there are substantial differences in the extent of the decline in investment between countries. Table 1 below compares investment as a percentage of GDP in 2014 with the period of the pre-crisis boom. While GDP had recovered, investment remained depressed, with particularly severe declines in Greece, Ireland, Cyprus, Romania, Spain and the Baltic Republics. Most of the decline was in private investment,

but public fixed investment also fell by more than 50% in Ireland, Spain and Greece. Some other countries stood up rather well, with investment recording an increase in Germany. Using the criterion of the fall in investment from pre-crisis levels therefore provides a justification for an investment with a geographical bias towards those countries where investment has fallen the furthest.

Table 1 **Gross fixed capital formation as per cent of GDP in a sample of EU countries, 2004-2008 and 2014**

	2004-2008	2014
EU	22.0	19.3
Eurozone	22.5	19.5
Germany	19.7	20.0
Estonia	34.1	25.8
Ireland	27.3	16.4
Greece	23.6	11.6
Spain	30.0	18.9
France	22.5	21.6
Italy	21.3	16.8
Austria	23.2	22.1
Poland	20.4	19.5
Portugal	22.8	14.6
Romania	31.2	22.0
Sweden	23.1	23.1
United Kingdom	18.1	17.2

Source: Calculated from AMECO database (http://ec.europa.eu/economy_finance/ameco/user/serie/ResultSerie.cfm).

It could be argued that these declines should not be interpreted entirely negatively, as the level of investment up to 2008 was partly directed into unproductive assets, notably private housing, and was based on high levels of credit that proved unsustainable (Gros 2014). This argument can justify ensuring that investment is well-directed in the future, but it is not a persuasive argument against an investment plan as such. The sustainable level of investment remains unclear after the crisis, which followed in large part from banking activities unrelated to real investment. There were significant construction booms in a few EU Member States, but the subsequent fall in investment affected almost all activities and sectors, in many cases with no obvious relationship to any conceivable past over-investment. Indeed, investment has been brought to extraordinarily low levels in a number of countries, leaving unemployed people and unused productive capacity that could contribute to a revival of well-directed investment activity. A final point is that, as indicated by the list of projects prepared by Member States (Special Task Force 2014), there are identifiable needs for new investment both in public sector activities and in the private sector.

However, a strong case for an investment plan does depend on more than just evidence of past decline. It needs to be demonstrated that it will bring positive results. Here the Juncker proposal is cautious, predicting an increase in investment but giving no details on its wider impact. It does give general indications of the aims and these broadly correspond to the priorities of *Agenda 2020* (European Commission 2010), covering transport and energy infrastructure, education, health, research, information and communication technologies, innovation, renewable energy, environmental infrastructure, urban renewal and social fields. The investment plan is also to provide financial support for smaller businesses.

In fact, the effects of the immediate stimulus are relatively easy to predict in terms of GDP and to a lesser extent employment. If nothing else changes in the economy except the level of investment, there will be an immediate and equal increase in GDP. That may be reduced if other economic activity is squeezed out, but this is unlikely in a period of high unemployment and low long-term interest rates. The increase in GDP would probably be greater than the initial increase in investment thanks to the Keynesian multiplier effect. This further increase is harder to predict, in terms of timing and extent, and depends on the nature of the investment. Labour-intensive activities with a high share of domestic inputs (housing construction and heat insulation are examples) should have the greatest impact on domestic employment, thereby stimulating further demand and economic activity.

Some multiplier effects are therefore likely, meaning an increase in GDP and employment greater than the initial investment. Longer term effects, after investment projects have been completed, may be considerably greater, but are very hard to estimate and even more dependent on the nature of the investment. Thus improved education is widely accepted to have contributed to past growth, but it is very difficult to separate its effects from that of other factors. Returns to education have been evaluated by its effects on personal incomes, which generally rise with the years spent in formal education, but that arguably ignores many further benefits of education to society. It also offers widely differing results between countries, reflecting partly different income levels and different degrees of inequality (OECD 2009). Moreover, as indicated above, investment in education is interpreted as investment in facilities and buildings and it is very difficult to separate out their contribution from that of current spending (European Investment Bank 2006: 20).

It should be added that the impact of investment in increasing GDP and employment will also depend on any geographical bias. Short-term multiplier effects should be greater where there are the most unemployed resources, meaning countries in the greatest difficulty. Conventions for measuring longer-term returns may lead to a bias towards higher-income countries where returns will often appear greater. On the other hand, investing in research or higher education facilities in lower-income countries could be judged very positively, bringing the potential for wider social benefits and development across economies. An aim of reducing divergences across the EU would therefore imply emphasising criteria that take account of the wider development potential following from investment projects.

2.3 Why is investment currently so low?

To explain why investment was not being undertaken without the investment plan, the Special Task Force (2014: 5) pointed to 'a wide array of barriers and bottlenecks'. That explanation seems to serve as justification for policy responses that go beyond the investment plan and encompass structural reforms and fiscal consolidation. In fact, there is nothing in the Special Task Force report to demonstrate that fiscal consolidation, essentially meaning keeping to the rules of the

Stability and Growth Pact, would lead to higher levels of investment. Nor is there much reason to see structural reforms making a positive contribution. This term has frequently been used to mean policies to reduce employment protection, the scope of collective bargaining and ultimately wages and there is no basis in the Task Force's analysis for expecting such measures to contribute to higher investment.

Indeed, the insistence on fiscal consolidation and structural reforms, and much of the accompanying emphasis on regulatory uncertainty and administrative burdens, do not follow from an analysis of what led to the fall in investment. They rather echo preoccupations present in past European Commission policies. There is some common ground here with the emphasis in the Business Europe contribution to the discussion on the investment plan which called for 'a step change in efforts to tackle the obstacles hampering private investment in Europe (Business Europe 2014: 3). Some obstacles they refer to could be genuine problems, but they are not new and therefore cannot be seen as the cause of the low level of investment after 2008. No argument is presented to show how they could be.

In fact, the key constraints on investment are recognised at various points in the Task Force report. The report differentiates between the private and public sectors. The issue for private investment has been 'low demand growth, low levels of capacity utilisation, heightened economic and policy uncertainty, and, in some countries, the bursting of construction/housing bubbles, corporate deleveraging and financing constraints (Special Task Force 2014: 8), leading to expectations of continued low demand in the future. There are frequent references to the issue of business confidence, as if it were an independent influence. However, any lack of confidence should be seen rather as following from an accurate perception of reality. Demand is low. Businesses are aware of this and therefore have every reason to hold back on investment. The importance of this factor in explaining low levels of business activity emerges clearly from the European Commission's Business Surveys and from the European Business Cycle Indicators (European Commission 2013a).

In the years up to 2008 60% of managers in manufacturing firms reported no barriers limiting production. This fell to 40% in 2009 and only partially recovered in the following years. The main barrier was identified as

'insufficient demand' and this perception never returned to its pre-crisis levels, remaining at around 40% of respondents (European Commission 2013a: 9). Finance was far less of a problem, growing in importance somewhat in 2009 and remaining relevant to 7-8% of businesses. It was a particularly severe constraint on businesses in Greece, Spain, Italy and Cyprus, with the numbers affected reaching almost 50% of businesses in some years (European Commission 2013a: 10). It was relatively short-lived and unimportant in Germany and France.

Bank lending has also failed to recover in full from the low point in 2008. Wide divergences between countries were revealed by a European Central Bank (ECB) survey for the six months up to March 2013, showing that 85% of SMEs seeking credits in Germany encountered no obstacles, while only 25% in Greece had the same good fortune (European Central Bank 2013). Interest rates charged also varied widely, with businesses in periphery countries paying about twice as much as those in Germany. It can be added that effects on economies as a whole were compounded by the greater importance of smaller businesses in the countries worst affected, while larger firms are more important in France and Germany. These large firms are the ones most able to finance investment, should they feel it justified by demand levels.

Research based on a survey of borrowers and lenders across the EU showed a number of factors contributing to the decline in lending to SMEs (Bain *et al.* 2013), including banks' need to be more cautious after the financial crisis, changes in the structure of banking that reduced competition between potential creditors and finally the disruption of long-established links between lenders and borrowers which made assessments of credit-worthiness more difficult.

However, the differences in lending between countries appear to be more a consequence than a cause of differences in economic conditions. Evidence from ECB surveys shows that banks' risk perceptions about 'overall economic activity as well as industry and firm-specific developments played an increased role in the tightening of credit standards' (European Central Bank 2013: 45). Thus, reluctance to lend reflected banks' fears that demand would remain depressed and credits would not be repaid (see the comment on Ireland in Bain *et al.* 2013: 28) – a logical fear in countries faced with the most severe austerity policies and a logical fear in relation to SMEs that tend to be domestically-oriented rather than export-oriented. A restoration of bank lending therefore depends to a great extent on increasing demand in those countries where it has been the most depressed.

The barriers to public sector investment can be deduced from the list of projects submitted to the Special Task Force. Of the almost 2000 projects in the main list, the report took a more in-depth look at an illustrative sample of 46 projects, including 'purely' public sector projects, some mixed and some that were to be run by private companies but with close links to public policy issues. Funding is strongly dependent on public provision or, at the minimum, implicit public guarantees. Finance appears explicitly as the key barrier in all but three. One of these was a complex cross-border project and the other two were airport extensions requiring difficult political decisions. As far as the others are concerned, for some the barrier was a lack of long-term finance, for others it was the effects of Eurozone budget rules and the cuts that had been imposed while for some others it was the unattractiveness of the projects to private lenders. Remarkably, regulatory issues appear very rarely, even in a secondary role, one of the few examples being a German off-shore windfarm development with private involvement where the issue was said to be uncertainty over future government support. Thus, it is not excessive regulation that constitutes a barrier, even if this is a frequent complaint from business, but rather possible changes in implicit subsidies at a time of potential energy price volatility.

So, despite Juncker's references to three strands in his policy for increasing investment, including fiscal consolidation and structural reform alongside direct support for investment, the key issue for the post-2008 decline comes down to demand in the private sector, which could be increased by a public-sector stimulus, and to finance for the public sector. The next two sections therefore consider how the plan is to be financed and how credits could be repaid.

3. The investment plan in action: funding and repayments

3.1 How would the investment plan be financed?

A central argument behind the Juncker plan is that there is no shortage of long-term finance seeking safe outlets. There is indeed evidence to support this claim. It could even be argued that a considerably larger investment plan could be financed with little difficulty. That is indicated, for example, by the views of long-term investors, such as pension funds, expressed in response to a Green Paper on long-term financing issued in April 2013 (European Commission 2013b). The amount needed annually to meet the Juncker plan's needs, the equivalent of 0.8% of EU GDP, is about 2.5% of what EU governments borrow annually, in several cases at interest rates around zero in real terms, and should therefore be comfortably manageable.

However, mobilising this private finance would depend on a public financial contribution to provide a guarantee against the possible failure of a borrower to repay a loan. One means to achieve this, in line with past practice, would be to use the EIB, the EU's non-profit long-term lending institution. Its capital is contributed by Member States, roughly in proportion to their levels of GDP. Increased lending would normally require an increase in its capital and, to keep in line with past practices, all Member States would be expected to contribute and would come under strong pressure to do so. These capital requirements are not enormous when set against the likely returns from investment, but reluctance to contribute could be expected from some if not many Member States. Once capital is increased, the EIB can issue bonds on commercial markets. Interest rates have been low thanks to its cautious investment policy.

Armed with these financial resources, the bank lends to both commercial and public-sector projects, with each in the recent past representing about half of total lending. The latter are the responsibility of that country's government. The former often require a government guarantee so that a significant body of EIB investment is already guaranteed by governments. The practice has been to seek co-financing, meaning that investments are also partly financed by a private bank or investment fund, although this is not a statutory requirement. This gives the potential for a multiplier effect, with considerably more total investment than that promised from the EIB alone. Thus in June 2012 the European Council launched its Compact for Growth and Jobs and increased the EIB's capital by €10 billion. This compact, it was claimed, would enable the EIB to borrow on financial markets at low interest rates and lend €60 billion which, with established co-financing practices, would lead to a total investment of €180 billion.

However, the Juncker plan assumes no addition to the EIB's capital. Instead, it proposes the establishment of a new fund, the European Fund for Strategic Investment (EFSI), with a starting value of €21 billion, of which €5 billion will come from the EIB, €8 billion will be gradually transferred from other parts of the EU budget and the remainder will be a guarantee from the European Commission. This guarantee will then be used to insure credits from the EIB, and possibly also private-sector investors, reaching the value of €315 billion, fifteen times the original commitment. Thus the hope is for almost as large a multiplier effect as has been achieved from EIB credits to very low-risk projects. It is also hoped that the initial sum will be increased by contributions from Member State governments.

Thus the use of EFSI is conceived as playing a similar role to an increase in EIB capital. European Commission Vice President Jyrki Katainen has referred to the EIB using the €21 billion guarantee as a basis for issuing AAA-rated bonds, thereby strengthening its ability to lend and hence to set the direction for investment (Katainen 2015).

This alternative to an EIB capital increase has three obvious attractions for the European Commission. The first is that it avoids putting any demands on Member States, which would not be the case for an increase in the EIB's share capital. The second is that there will be no need for extra finance, as it uses resources already available in the EU budget. The third is that it can be done fairly quickly, with hopes of getting the plan under way in 2015.

However, these advantages to policy makers come with considerable costs. The EU is committing only a small guarantee and counting on a high leverage rate. For reasons explained below, the total investment will therefore either be strongly focused on countries in the least difficulty, or which fall well below the target level. Moreover, the scale of the plan will

remain limited. There is no reason why Member States should commit extra resources to the EFSI. They are expected to do so out of a general desire to help EU economic recovery (European Commission 2015a) without any promise of return, with no guarantee that their projects would be financed and without any direct ability to influence investment decisions. A small number of governments (Spain, Finland, and Slovakia) came forward quickly to say that they would be willing to contribute. German Finance Minister Wolfgang Schäuble was reported on 27 January insisting that his country would not contribute but should provide financial help for investment within Germany. That is not a surprising view and one likely to be followed by other governments. The initial funding of €21 billion is therefore unlikely to increase much, if at all.

3.2 Repaying the credits: conditions and timing

Where investment is commercially viable, repayment of credits should come from future returns. However, most public sector investment will provide returns in the form of social rather than private benefits and often quite far into the future. The obvious solution is to repay the credits out of the state budgets of the governments responsible for the investment, but that is bound to be difficult for countries constrained by Eurozone debt rules. The only solution proposed is 'an increased adoption of the user-pays principle' (Special Task Force 2014: 48), meaning higher charges for public services. Although not explicitly linked to privatisation, this could be expected to favour provision of such services as health and education from the private sector, thereby encouraging trends towards further privatisation.

For some important areas of investment there is no realistic basis for repaying out of user charges. This applies for urban transport and regeneration of urban neighbourhoods, for which the EIB has in the past judged financial viability by governments' commitment to provide and continue subsidisation (European Investment Bank 2011), something which has become much less certain since 2010. The implication is that investment will be biased towards projects offering quick financial returns and towards countries free from the constraints of the Stability and Growth Pact or, if already covered by Eurozone rules, facing the smallest budget difficulties.

This bias is a highly unfortunate by-product of the Eurozone budget rules as it can easily be demonstrated that repayment should present no serious problem once growth resumes. Indeed, it may be because the calculations are so simple and the results so decisive that they are rarely considered or presented. The issue receives no comment in the Task Force report, but it is worth demonstrating that state budgets would not be threatened even by a considerably larger investment programme.

The ease of repaying credits can be demonstrated with an example related to the investment plan proposed by the European Trade Union Confederation (ETUC), referred to in section 5 below. This plan assumed an additional investment equivalent to 2% of GDP over a 10 year period (thus increasing slightly in absolute terms as GDP increases), financed by credits to be repaid over 10 years – a reasonable figure when set against EIB past practice – meaning that all repayments would be completed in 20 years. To simulate the effects, various growth and interest rates are assumed along with tax revenue equivalent to 40% of GDP, this being approximately the average tax burden in the EU in 2014. Table 2 shows the results of calculations.

Table 2 **Simulations for repayment of credits out of higher taxes**

Growth rate, % (1)	Interest rate, % (2)	Total to be repaid, % of GDP (3)	Total interest payments, % of GDP (4)	Extra tax revenue, % of GDP (5)	Extra tax/ repayment needs (6)
3.5	2.5	29.3	5.9	166	5.6
3.5	1	25.8	2.3	166	6.4
2.5	2.5	28.0	5.6	222	7.9
2.5	1	24.6	2.2	222	9.0
1.2	2.5	21.7	5.3	104	4.78
1.2	1	20.4	2.1	104	4.84

Source: author's calculations.

Outcomes are calculated for a GDP growth rate (column 1) of 3.5%, near the top of the range in years prior to 2008, and for more modest rates of 2.5% and 1.2%, the latter being the level achieved in 2014. In each case, investment is increased by 2% of this growing GDP level. That

builds up the total to be repaid after 10 years, in all cases to somewhat more than 20% of the initial GDP level. Interest also needs to be paid on a total level of debt, which at first increases and then decreases and the effects of two different interest rates are included (column 2). The figure of 1% is comfortably above the level for 10-year government bond spreads in the better placed EU Member States in 2014. The figure of 2.5% is above the equivalent level for all but a very few countries. The fourth column of Table 2 shows the resulting total interest payments over the whole 20-year period. The fifth column shows the increase in tax revenue over the 20-year period thanks to the increasing level of GDP, assuming that 40% of GDP is taken as tax revenue. The final column relates this to the total debt-service needs, showing that the former is several times greater than the latter. In other words, debts can be repaid out of increased tax revenues leaving a substantial surplus that can finance other government activities.

Increasing the interest rate increases the amount that needs to be paid in interest, but it would need a very large increase to threaten the financial viability of the investment programme. Reducing the growth rate presents a bigger threat, because it reduces the additional tax revenue. However, even with a growth rate of 1.2% and an interest rate of 2.5%, the last column in Table 2 shows that the extra revenue is still almost five times the level needed to cover the total repayment needs over the 20-year period.

It should be noted that there is no assumption here about the sources of this growth. The aim is simply to show that plausible rates of growth lead to tax revenues that more than cover the needs of debt repayment. There is also no assumption about inflation. Adding in inflation makes debt repayment easier in the same way as does an increase in the GDP growth rate. Thus an inflation rate of 2.5% per annum alongside zero economic growth would have exactly the same implications for debt repayment as a GDP growth rate of 2.5% with zero inflation. The most likely scenario is a combination of GDP growth and some inflation, together ensuring the affordability of debt repayment. This scenario is in line with past international experiences. As demonstrated by case studies in the IMF's *World Economic Outlook* of October 2012, repayment is most difficult in the context of lasting economic stagnation and falling price levels (IMF 2012: 101-126).

Finally, to repeat a point already made, this simulation assumes that all credits need to be repaid out of taxation. If up to half of credits were for commercial projects, then repayment needs out of tax revenues would be greatly reduced. Shifting to a more optimistic scenario, with a substantial share of commercial projects, some inflation and a reasonable real GDP growth rate, the needs for debt repayment appear quite trivial when set against the expected extra tax revenue.

4. Managing the investment plan: EU and domestic architecture

4.1 What kind of governance will be needed at EU level?

The Juncker plan is conceived with a minimal need for new institutions. Decisions are to be taken by an Investment Committee of the EFSI made up of 'independent market experts' (European Commission 2015a). The EFSI in turn will formally fall under the EIB but it will have its own distinct financial profile and decision-making procedures such that it does not affect the EIB's overall credit rating. The general picture is that of a very simple organisational and governance structure with investment decisions well removed from direct political influence. Early discussion of the role of the EFSI left ambiguity over its precise relationship with the EIB. This was clarified in early 2015. The EFSI would play a role only in response to proposals submitted to the EIB, approving for guarantee those it considers acceptable subject to criteria it will formulate, but which, it was stated, would exclude reference to any geographical or sectoral priorities. The EIB will then be free to decide how to use that guarantee. It will be able to grant a credit for a project, take an equity stake in a company or give a guarantee for a private-sector investor. The emphasis is likely to be on credits, in line with past practice.

Despite early insistence that there would be no geographical bias, a central role for the EIB might give some hope for a small bias towards countries in the greatest difficulty. In the past, although the EIB did invest significantly in higher-income countries, it also directed investment towards those in greatest difficulty. Past lending practices show considerable variations between countries in per capita credit

levels, with Spain doing particularly well (Myant 2015, p.8). In 2013, the expectation was that four programme countries, representing 4.2% of EU GDP, would receive 5.6% of investment, up from 5.2% in 2012 (calculated from European Commission and European Investment Bank 2013: 9). Final results showed a figure of 5.3%, so there was some bias and some increase. It was small but, at the equivalent to almost 0.7% of those countries' GDP, made some contribution to countering the negative effects of austerity policies imposed in recent years (Bouget *et al.* 2015) and halting the decline in investment levels and credits to businesses from banks.

However, the problem of the conflict between the volume of investment that can be undertaken and its risk profile remains. The Juncker plan is billed as enabling the financing of projects with a higher risk profile than those previously financed by the EIB, which has been determined to maintain its AAA rating. To achieve that rating, the EIB would need to accept a lower leverage ratio and would need to offer a larger guarantee to private investors. In short, the Juncker plan will either be biased towards the safest projects and safest countries, or will fall far short of the predicted investment volume.

4.2 What kind of governance at the national level?

An EU investment plan depends on proposals for projects coming from the Member States. There are financial barriers that affect some countries more than others. Where co-financing from public authorities is needed, it is obviously most difficult for countries with the most constrained budgets. However, even if that were overcome, various institutional barriers would remain for a project aimed at reducing divergences across the EU, notably the capacity of institutional infrastructures to produce plausible and viable project ideas. The experience of EU Structural and Cohesion Funds has revealed difficulties, with substantial variations between countries and regions in the speed of take-up of what is being offered. Wide variations are also revealed by the project proposals in the Task Force report. Some countries seemed able to produce very few proposals, notably Bulgaria, while some were ready with a large number of often expensive projects, notably Greece, Estonia and Belgium (Myant 2015: 9).

The report of the Special Task Force offers a step towards a solution, referring to the benefits of advising and sharing best practice and of countries developing their own coherent plans for future investment. The problem is deeper than these solutions suggest. Institutions that can formulate projects need to be developed. Part of the solution could be provided by national investment banks and bodies at the regional level that can coordinate and formulate plans for economic development.

4.3 What 'accompanying measures' are proposed?

The emphasis on accompanying measures implies a preference for deregulation wherever conceivable and a continuation of existing rules on budget deficits and public debt levels, albeit allowing for some (limited) flexibility in their interpretation. The continued focus on austerity makes the financing of public sector projects extremely difficult where co-funding is required. It makes repayment of credits potentially very difficult, especially in the early years before any sustained growth can be restored. The focus on austerity also raises questions over the usefulness of investment: there is, as already indicated, little point in building and equipping new schools and research facilities or constructing new transport networks if there is no funding to run or subsidise them once completed.

In two small concessions towards reducing the effects of austerity in the Juncker proposal, Member States that contribute to the EFSI will not be penalised for a resulting breach of the Stability and Growth Pact, provided that the breach is small and temporary, and some co-financing may also be viewed with benevolence in a country with negative growth or a GDP level judged to be 'well below its potential' (European Commission 2015b: 7-9). That is far short of allowing exemption from the Stability and Growth Pact for all activities linked to the investment plan, a step that should not, as indicated above, carry any risks of escalating public debt levels. On the contrary, by helping to restore growth it should work to reduce budget difficulties.

4.4 Why a 'European' plan?

A final remarkable feature of the Juncker plan is that it does not provide convincing arguments for such a programme to be managed at the European (rather than the national) level. There are some cross-border projects, but they are only one part of the total. For the most part, the same effect could be achieved by programmes run separately in individual countries. Countries and businesses will have no new access to finance beyond what could be financed from their own budgets with, in a few cases, a very slight relaxation in budgetary rules. Thus the programme will allow countries contributing to a fund to circumvent those rules without facing penalties, while using those resources directly to support projects of their own choice would not be allowed.

Juncker plan misses a unique benefit from a plan coordinated at the European level, which is that it can bring investment to countries that need it the most, raising finance from private investors who will be able to trust an EU-level institution. Thus the 'South' could benefit from the credit-worthiness of the EU as a whole. If investment is then biased towards countries in the greatest need, that need be no more than a temporary transfer between countries. Even if economically stronger regions contribute more to financing than weaker regions, loans will have to be repaid out of the resulting higher GDP levels, so that there would be no net transfers between countries.

The Juncker plan gives no such basis for ensuring support to investment in countries that need it the most. A reasonable forecast is that it will lead to some increase in investment in EU 'core' countries. Much the same result could have been achieved by those same Member State governments using their own resources directly to promote investment. It will have the least effect in Eurozone members that have experienced the greatest economic difficulties. Alternatives can be found that offer more investment, counter the geographical bias that would follow from leaving decisions to the financial markets, and that give a clearer role to institutions at the European level.

5. Developing an alternative investment plan

The Juncker plan can be read as a serious effort to move in a new economic policy direction. However, it suffers from serious weaknesses that will limit its effectiveness. These can be explained in terms of recent EU political realities. The plan has been developed essentially in the framework of policy continuity. No sacred cows of the immediate preceding years are to be challenged and no Member State governments are to be troubled. There is a pragmatic logic to this reasoning, but the result is a programme that lacks economic coherence.

A number of alternatives have been proposed in recent years that provide a basis for overcoming the weaknesses in the Juncker plan, albeit with the recognition that they would require some degree of political battle before they could be implemented. Such alternatives can be put into four groups.

The first set of options emphasise investment within one country only, avoiding all the political and other difficulties involved in creating a programme at European level. That also has the advantage of allowing a more balanced programme that includes both investment and current spending. However, the benefits across the EU as a whole are relatively small when, as is likely to be the case, investment is focused on activities with a high labour intensity. Thus, for example, a proposal from Swedish trade unions (LO Sverige 2013) for a boost in public spending equivalent to 2% of GDP foresaw a leakage into imports equivalent to only 0.25% of GDP. Spending was well targeted to increasing domestic demand with a forecast reduction in unemployment of 2 percentage points, but there was little impact on other EU Member States.

The second group focus on the EIB providing a relatively rapid stimulus to demand. This was proposed by Kollatz-Ahnen (2012) and Griffiths-Jones *et al.* (2012). They foresaw higher investment coming from the EU budget and from the EIB, with a possible capital increase for the latter, within an investment plan equivalent to 0.5% of GDP and running only for a few years. The focus was to be on projects that show immediate effects and bring commercial returns (Kollatz-Ahnen 2012: 14-15), making repayment appear much easier. Their predictions, using the Heimdal model (Economic Council of the Labour Movement, undated) were for an increase in GDP of slightly under 0.6% and employment

creation of up to 1.2 million. Thus, in scale, this was a modest proposal and had much in common with the Juncker plan, seeking a means to provide a stimulus without breaching EU or national budget rules.

A third approach was adopted by the ETUC (2013), which proposed a more substantial investment plan, set to increase investment by the equivalent of 2% of GDP over a 10 year period. This does not assume unchanging budget rules, as that would rule out co-financing, debt repayments and utilisation of investment once completed, but it does start from investment as the central element in economic revival. The plan would require contributions from Member States to increase the EIB's capital, a step certain to be politically difficult, but the greater scale means that the programme could be linked to more ambitious long-term objectives, including energy transformation and reducing the growing divergences across the EU. Using the HEIMDAL model it was possible to predict the effects of the investment stimulus as leading to an increase in GDP of almost 5% over 5 years, with an accompanying increase in employment of nearly 6 million. Longer term effects cannot be estimated with any serious degree of confidence.

The fourth type of approach, setting investment explicitly within a broader alternative policy, is embodied in the so-called 'modest proposal' from Varoufakis *et al.* (2013). These ideas include measures to overcome difficulties in banking systems and in relation to sovereign debt. Alongside this, the authors of the approach emphasise in general terms the need for investment, and propose to use the EIB and its subsidiaries as the investing agents. Financing issues are not dealt with in detail, but the authors have proposals for relaxing some existing rules and are confident that debts can be repaid by the recipients of credits so that no transfers between states will be required. Dealing as they are at a high level of generality, the authors also do not provide any precise forecasts of the results of their proposals, should these be put into practice.

In conclusion, moving on from the previous criticisms of the Juncker plan and from the alternatives that have been proposed, the basis for a coherent alternative can be summarised in the five points below.

— Clear objectives could be set: to provide an immediate stimulus, to satisfy identifiable needs for economic and social modernisation and to start to reduce the divergences across the EU. This would point immediately to the logic of linking investment with other demand-enhancing measures and of finding an organisational structure to encourage an investment bias towards countries in the greatest difficulty.

— The scale could be tailored more to the needs of the above objectives. The volume of projects identified by Member State governments and included in the preliminary list is equivalent to approximately four times the volume initially proposed for the Juncker plan. This justifies a larger project running over a longer period. That in turn raises further questions about governance and the organisational forms that would be required for its implementation.

— Ensuring that investment is undertaken and biased towards the areas that need it the most requires criteria that reflect those aims. Commercial viability is adequate for many private-sector projects. Criteria that relate to wider development objectives, difficult to evaluate in precise financial returns and not providing revenue streams to the investor, should also be used. The EIB has used cost-benefit analysis where possible, but that too encounters difficulties for long-term projects with complex social consequences. Evaluation criteria that take full account of wider development effects should therefore be used. This does not need to be incompatible with past EIB insistence on maintaining its AAA rating provided governments are not unnecessarily hampered from repaying debts by the budget rules.

— An ambitious investment plan requires a strong and well-equipped organisation to coordinate and evaluate projects. The EIB has the most experience, but mostly in supporting relatively small numbers of projects. It will need to take on a larger role and there will need to be clear outside control over priorities and guidelines. Moreover, consideration would need to be given to the difficult task of creating organisational forms within Member States, to come forward with project proposals and monitor and evaluate implementation of past projects.

— Above all, the success of such an investment plan depends on relaxation of the rules underpinning austerity, low demand and the prolonged stagnation in the EU. The limits set for the Eurozone are not related to any proven level at which debt is in danger of becoming unsustainable. Indeed, most EU members have exceeded the 60% debt quota and many of those below that level pay more to borrow than many above. Rules should be relaxed, to give, at least, clear support to the investment plan and economic recovery. Logically, that should include contributions into an investment fund or to an increase in EIB capital, public co-funding of projects, repayment of debts and of the current costs of running projects once they are in operation.

With these conditions met, an investment plan could play a central role in reviving economies across the European Union.

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