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## Social Europe since the Crisis

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*The changes to Eurozone governance in response to the crisis have had considerable impact on national welfare states, argue **Elke Heins** and **Caroline de la Porte**. They suggest that, despite more recent efforts to take the social dimension into account, the Eurozone's new structures strongly favour economic and financial objectives.*

The Great Recession has hit the Eurozone's soft spot – the interdependent, yet vastly different, economies of its members share a common monetary policy, but maintain separate fiscal policies. In response to this mismatch, the governance of the EU's Economic and Monetary Union (EMU) through the Stability and Growth Pact (SGP) has been adapted, with the aim of preventing default in the Eurozone and future crises. But what precisely has changed and what has the effect been on welfare states?

### Background: Welfare States in an Asymmetric EMU Architecture

Economic and Monetary Union is asymmetric since, while monetary policy is pooled at the central EU level, responsibility for fiscal policy – essential for welfare states – remains at the national level. Under EMU, all members of the Eurozone must meet criteria for balanced budgets – to have a budget deficit below 3 per cent and a public debt rate below 60 per cent of GDP.

When the common currency became a reality, the concepts of 'activation' and 'social investment' became fashionable. In practice, these concepts meant that many countries adopted measures to include more people in the labour market, such as by increasing requirements for training and education for the unemployed and by increasing the availability of childcare. These policies had the aim of enabling parents to work and making children and young people, particularly from socially disadvantaged backgrounds, fit for the future labour market.

The idea was that this predominantly early years investment would pay off in the long run. In order to make sure welfare states were even more sustainable, costs in areas such as healthcare and pensions were also curbed. This approach allowed Member States – with notable short-term violations of the rules – to mostly maintain balanced budgets, but also to partially succeed in retaining the core welfare aims of equality and protection.

The 2007/2008 Financial Crisis and the Great Recession that followed led many countries to breach the balanced budget aims. Furthermore, financial markets became unstable and national governments reacted to the potential threat of

negative ratings by credit rating agencies. Under these conditions, the EU undertook a rapid succession of decisions on the EMU's governance structure which are often cited, but not well understood, especially regarding their impact on national welfare states.

### **The EU's Crisis Response**

Many decisions were taken rapidly at EU level during the 2010–2014 period aimed at restoring stability in the Eurozone, while also preventing future crises. These decisions put indirect but strong pressure on welfare states, with an emphasis on structural reforms, such as privatisation, flexibilisation and similar mechanisms. Analysis of alterations to EMU governance shows that the nature of EU intervention into domestic welfare states has changed, with an enhanced focus on fiscal consolidation.

Altogether a series of new instruments – the Six-Pack, the Fiscal Compact and the Two-Pack being the most important – have in rapid succession been grafted onto the existing institutional framework to further strengthen the aims of fiscal consolidation and balanced budgets already present in the original SGP.

Although their overall aims are not novel, they represent a major leap forward in EMU integration. They include new benchmarks necessitating greater fiscal restraint, for example, by requiring Member States to keep their structural budget deficits below 1 per cent. They also introduce high levels of monitoring of Member State performance and stronger means of enforcement compared with before the crisis.

These ever tighter budgetary criteria may severely impact on welfare states, since social expenditure typically makes up the lion's share of public spending in advanced welfare states. Expansionary public spending will become difficult in healthy economies, let alone in crisis-ridden countries.

The new EMU institutional architecture holds Member States accountable to the EU throughout the process of their annual budgets and public expenditure, including social expenditure. This suggests that finance ministries will become increasingly accountable to the EU, and that they may become even more influential in the national agenda-setting process for public policy.

### **Strengthening of EMU and Weakening of the Social Dimension**

The instruments to ensure budgetary discipline in Eurozone countries have become much stronger since the crisis and can include EU advice on welfare reforms. At the same time as promoting fiscal prudence, the EU is also increasingly pushing for social investment reforms, such as through the 'Youth Guarantee' launched in 2013 to deal with the growing issue of youth unemployment. However, the youth guarantee and other social initiatives are far from sufficient to combat the problem.

As a result of the crisis, the balance of powers has shifted further towards economic and financial affairs actors, bringing with it a clear prioritisation of the 'economic' over the 'social'. Reforms, especially in the countries hardest hit by the crisis, were

likely necessary and long overdue to ensure welfare state sustainability. However, they have also in part undermined the welfare state principles of social solidarity – a key feature of the ‘European Social Model’.

It is a welcome change that EU policymakers now seem to be more serious about making the necessary investments for welfare societies to flourish and economies to grow. Nevertheless, the monetarist paradigm continues to lack proper counter-balance.

*The authors have co-edited a recent special issue in Comparative European Politics titled: [The Sovereign Debt Crisis, the EU and Welfare State Reform](#). Its main focus is on the impact of the crisis and the role the EU has played in national welfare state reforms in Ireland, Italy, Spain, Greece, Portugal and France. An updated version of the issue will be published as a book in Palgrave Macmillan’s Work and Welfare in Europe Series in early 2016.*

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