The impact of EMU on European social governance

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Introduction

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

In the following paragraphs, we will begin by describing the three main policy dynamics underlying the different models of economic and monetary union (EMU). These dynamics influence the architecture of monetary union and, in our view, they also influence the resulting social model.

Secondly, we shall see how these different dynamics have developed, and which political preferences they reflect. Our hypothesis is that the current handling of the ‘euro crisis’ reaffirmed the move away from a model of EMU backed up by a form of political union towards another model, without political integration but governed by the market. This shift is the result of a threefold change: in ideas (policies to be implemented), institutions (whose role would change in the new governance system) and in the interests of the relevant players (a growing divergence between groups of countries – North, South, centre, periphery, Central and Eastern Europe, Western Europe, etc.). All three were recently challenged by the new Tsipras government in Greece ("wrong" austerity policies, refusal of the self-institutionalized troïka, and clear economic and social divergences to be addressed).

We will then consider the consequences of this intended transformation on social models at national and European levels. These consequences are not so much linked to the crisis itself, but are, rather, inherent to that one particular vision of how economic and monetary union should operate. Thus, the question is: had the crisis be used as a window of opportunity by the proponents of a deregulatory form of monetary union?

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

1. Theoretical frameworks and institutional dynamics

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

1.1 Monetary union as the natural outcome of political union

The different sequences in accordance with the first dynamic are as follows. During an initial period, the aim is to achieve real convergence of production structures among those Member States wishing to take part in the monetary union; this entails the need for deeper economic integration. Once adequate convergence of policies, including wage and social policies, has been achieved, it is time to move on to a second stage, to make a democratic leap, so to speak, and to create a political union as a means of achieving a greater degree of solidarity among states. Finally, this integration of the real economies and this political union enables the last stage of the construction to be completed in the form of a monetary union. In the view of Pierre Werner, former Prime Minister of Luxembourg and the author of the first report on monetary union: ‘the realization of economic and monetary union demands the creation or the transformation of a certain number of Community organs to which powers until then exercised by the national authorities will have to be transferred. These transfers of responsibility represent a process of fundamental political significance which implies the progressive development of political cooperation’ (Werner 1970). In this federal-type model, therefore, political, economic and social convergence is one of the (many) prerequisites for monetary union.

1.2 Monetary union as the trigger for political union

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

1.3 Monetary union without political union: procedural governance and ‘adjustment' of social models

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

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

2. From one model to another

The first approach – monetary union as the natural outcome of political union – enjoyed its heyday in the 1970s. It can be found in the draft Werner Plan, which stated that ‘the complete monetary unification of Europe was to be expected only as the outcome of a more protracted process of political union’

(Werner 1968). Analyses published at the time (Marjolin report 1975 and McDougall report 1977) presented the main features of the approach that envisaged monetary union as the final stage of an economic, social and political sequence (meaning more precisely "convergence"). With the crisis of the euro, this vision has, to some extent, returned into the public debate, with some economists – mostly, but not exclusively, Americans (Eichengreen 2012) – arguing that there is a basic fault in the construction of EMU. This approach no longer has political currency because EMU has, in its present form, followed a different path.

The two other approaches have been in a state of mutual tension over the last twenty years. In the first of these two approaches, it is possible to recognise the sequence of reforms followed in the European Treaties. After the architecture of economic and monetary union outlined in the Maastricht Treaty (1992) with its model of strong federal governance for the monetary aspect, and of weak and procedural inter-governmental coordination for its economic aspect (except concerning the sustainability of the public finances, with the so-called Stability and Growth Pact), the Amsterdam Treaty (1997) sought to add a coordinated 'employment' dimension. This dimension was later extended to other social policy areas by the use of Open Methods of Coordination – OMCs – in the social sphere. After this, the political dimension was debated between 2000 and 2005 in the context of the draft constitutional treaty. The aim here was not only monetary union but also a real economic, social and political convergence in the long term prefiguring the emergence of a European *demos*, in other words a European identity, by way of a constitution.

This approach to economic and social convergence by way of political integration was, in our view, abandoned as from 2005 in favour of a model based on market-driven convergence within monetary union: convergence, in other words, without political integration but by way of deregulation. This shift, in our hypothesis, made the EMU most vulnerable to economic shocks - notably that of 2008- and their consequences in terms of divergence (Boisson-Cohen *et al.* 2015), EU having left the process of convergence to the market, and lacking other instruments in order to reach such convergence. The theoretical underpinnings of this model were in place even back in the 1990s, but 2005 represented, as we shall see, a turning point.

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

In the 1990s, and in the context of preparation of monetary union, a series of political, social and trade union actors, aware of the risk of social policies being turned into an adjustment variable in the case of economic shocks in the eurozone, sought to develop a genuine social dimension of the EMU. The period, between 1995 and 2004, that might be described as the 'social moment' is the result, on the one hand, of a critique of the Maastricht Treaty, which was regarded as unbalanced in the employment and social policy field as compared with the more developed aspects of monetary union, and, on the other hand, of the coming to power in the Member States, as of 1995, of a majority of centre-left parties (Manow et *al*. 2004). The period in question was characterised by structural reforms, but the difference between then and now is that these reforms were subject to negotiation.

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

At the national level, the 1990s also saw the conclusion of numerous national social pacts among political, economic and social actors (Pochet and Fajertag 2000). In the majority of EMU accession countries a great deal of thought was being given during this period to the new framework of constraints represented by monetary union, particularly in relation to inflation and wage policy – including the national-level structuring of collective bargaining (Pochet 1999). This process of reflection led to attempts at institutionalisation by means of social pacts – in most cases, with the exception of Belgium, for countries outside the DM zone. Furthermore, the years between 1995 and 1999 were the ‘golden age’ of the European cross-industry social dialogue (Degryse, 2011).

In parallel, different forms of wage coordination were emerging at the European level. On the cross industry level, the European Trade Union Confederation (ETUC) set up a working group on wage coordination, based on an explicit mandate received at its Helsinki Congress in 1999. It adopted a first resolution on this subject in 2000 (ETUC 2000). At the sectoral level the European Metalworkers' Federation (EMF) and the Textile Workers' Federation (ETUF) both adopted, towards the end of the 1990s, guidelines for national negotiators (EMF 1998, Pochet 1999; for a general overview Glassner and Pochet 2011). Some authors perceived this development as the emergence of a multi-level industrial relations system (Freyssinet 1996, Marginson and Sisson 2004).

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

The end of the 1990s was also the time of the creation of a set of open methods of coordination (OMCs) in the social policy field (healthcare, pensions and poverty).

As noted by Kenneth Dyson, 'The ECB-centric eurozone policy community had to absorb and accommodate the so-called Luxembourg 'process' – with its annual employment guidelines and national action plans and the Cologne 'process' – the Employment Pact and the macroeconomic dialogue. These developments opened up the dialogue about EMU by transforming the definition of who was in the policy domain' *(*Dyson 2002: 101*).* This same period witnessed also the attempt to enshrine monetary union within a European constitutional treaty and a European charter of fundamental rights. In this paper we will not go into detail as to the content – which was controversial – of these texts; what interests us here is the general dynamic that underpinned them at the time.

2.2 The end of a political and social dynamic

This dynamic of political union and strengthened socio-economic coordination was brought to an end by France's and the Netherlands' rejection – by referendum – of the draft European constitution. Similarly, the social dynamic was halted from 2005, with, notably, the publication of the Kok report, entitled 'Jobs, jobs, jobs' which had been commissioned by the European Commission and which refocused the whole debate on growth, competitiveness and flexibility.

On the political front, the European elections of 2004 saw the moderate right-wing group EPP-ED win a sweeping victory over the socialists, who did much more poorly than in the previous elections[1], while the liberal parties did much better. As of 2005, the Commission was led by the centre-right, with the presidency of José Manuel Barroso. In the autumn of 2005, Angela Merkel won the elections in Germany. Silvio Berlusconi was in power in Italy and Jacques Chirac in France, the latter soon to be replaced by Nicolas Sarkozy.

1. From receiving 34.9% of votes in 1994, their share fell to 27.3% in 2004, 25,59% in 2009, and 25,43% in 2014. In other words, over a twenty year period, the European Socialists' share of the votes fell by almost 10%.

More generally, between 2005 and 2012, the balance of power in the Member States was increasingly in favour of the right and centre-right; to such an extent that by March 2012, only three out of 27 Member States – Denmark, Austria, Cyprus – were governed by left-wingers, while one, Belgium, had a left-right coalition led by a socialist prime minister[2]. At the end of 2004, by contrast, twelve of these governments had been left-wing or centre-left in orientation[3].

2.3 Political integration abandoned: towards market-driven convergence

It was in this political context that the social developments of the 1990s and early 2000s were gradually unravelled. After a pretty sharp turn starting in 2005, the social OMCs were weakened in favour of a vision that gradually brought an economic approach back into the centre of European public policies and discourse (Zeitlin, Vanhercke, 2014).

From 2004 to 2010, the national social pacts were gradually abandoned, as were the national debates on the constraints represented by EMU (Pochet *et al.* 2010). Attention should also be drawn to the case of Greece, where EMU entry took place in the absence of a social pact and without giving rise to the development of a strong institution of coordination in the 2000s (Ioannou 2012). This may be the reflection of the spirit of a period during which EMU appeared to be such a success that it did not require, or no longer required,

2. Since then, the centre-left has been making some progress (Italy, Czech Republic, Sweden, France) and, in 2015, the so-called "radical left" in Greece (Syriza), without counting the rising movement Podemos in Spain
3. See http://www.europarl.europa.eu/aboutparliament/fr/004a50d310/Composition-du-Parlement.html and also http://www.theguardian.com/world/interactive/2011/jul/28/ europe-politics-interactive-map-left-right.

national and European institutions. Ireland and its dynamic growth, Spain and its millions of newly-created jobs, had become key references in terms of economic and employment success.

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

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

Austerity policies and structural reforms currently underway are not in any way linked to the eurocrisis itself, contrary to the assertions of the great majority of national and European political leaders, but are the result of a specific vision of monetary union, as a "disciplinary" tool, in particular in social policies. As mentioned above, reforms were not absent from the first phase of monetary union and its ‘social moment’, but these reforms were negotiated (Pochet and Fajertag 2000), and not imposed as the unique cure possible to the so-called lack of competitiveness. This seems to be precisely what the new elected Greek government is currently trying to demonstrate to his partners.

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

When the financial crisis broke out in 2008, an initial response was to call into question the concept of self-regulating markets. However, very soon the transformation of the crisis of bank debts into a crisis of public debt was a chance for these well-prepared strategic actors to put their ideas into practice and alter the function of social policy so that it became the main adjustment variable in the eurozone. Adjustments, particularly in terms of competitiveness and productivity, were henceforth, according to them, to take place by way of wages, labour law and social security. This is the principle of internal devaluation, the application of which to Greece, at least until 2015, has achieved the status of an archetype.

At the same time, one actor took on a central role: the ECB and its two most recent presidents (Jean-Claude Trichet and Mario Draghi) made creative use of the instruments at their disposal in response to the risk that the eurozone might break apart. This endowed them with an increased power of influence.

The ECB, the most independent central bank in the world, indicated what national structural reforms were required in return for its intervention on the sovereign debt market. This involvement went as far as the central banker sending, in secret, letters to (the Italian and Spanish) governments, detailing the list of reforms to be adopted. To some extent, the ECB took *de facto* control, then, of the reins of economic and social policy "coordination" (not to say imposition) within the eurozone. It took over the post left empty by Maastricht and the national governments, of a genuine economic governance of the eurozone.

3. Financial crisis and dismantling of the social model

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

3.1 Social policy and country-specific recommendations (CSR)

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

The CSRs focus on the structural reforms likely to strengthen growth and competitiveness, and the Member States are supposed to incorporate the recommendations issued into the National Reform Programme for the following year. They are drawn up by the Commission, discussed with the Member States and adopted, in principle, each July by the European Council.

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

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

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

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

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

Country	CSRs 2011-2012		CSRs 2012-2013		CSRs 2013-2014	
	Total	'Social'	Total	'Social'	Total	'Social'
AT	5	2	7	2	7	3
BE	6	3	7	2	7	4
BG	6	3	7	2	7	3
CY	7	3	7	3	-	-
CZ	6	3	6	3	7	3
DE	4	1	4	1	4	1
DK	5	2	5	2	3	1
EE	4	1	5	2	5	2
ES	7	4	8	5	9	4
FI	5	2	5	2	5	2
FR	5	4	5	3	6	4
HU	5	2	7	3	7	3
IT	6	2	6	3	6	2
LT	6	2	6	3	6	3
LUX	4	3	5	2	6	3
LV	-	-	7	3	6	3
MT	5	3	6	3	4	2
NL	4	2	5	2	4	2

PL	7	3	6	2	7	2
RO	-	-	-	-	8	3
SE	3	1	4	1	4	1
SI	6	3	7	4	9	2
SK	6	3	7	5	6	2
UK	5	2	6	2	6	2
	117	**54**	**138**	**60**	**139**	**57**

Source: Clauwaert (2013).

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

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

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

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

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

A careful reading of the CSRs on pensions, labour market and labour law leaves no doubt as to the intended direction of the reforms advocated, even though the formulations in 2013 are less rigid than was the case in 2012 (for a full analysis see Degryse et al., 2013). According to Zeitlin and Van Hercke (2014), the last developpments seem to lead to a "substantive reorientation of the European Semester towards a more socially balanced policy stance", which would be reflected in the new CSRs.

3.2 New institutional roles

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

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

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

The CSRs undeniably give strong support to the position of the proponents of deregulatory reforms in the Member States; to some extent they exert pressure from above on national democratic discussions, and very much help to direct these discussions. The recommendations give the impression that there is a European 'right way' to carry out reforms; they thus carry considerable weight.

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

In any case, what is quite clear is that the strengthening of the system of economic governance has brought about new forms of interrelationship between the the Commissionand the Member States (de la Porte and Heins, 2014).

b) As well as these new procedures and new instruments, the role of certain actors is changing. As a result of the crisis, the financial markets have become players in their own right in the new European governance system: by issuing differing credit ratings for individual Member States, by increasing economic instability, but also by immediately punishing any uncertainty by means of the famous ‘spreads’. (By the way, it is rather ironical to hear Commissioner Jonathan Hill titled his speech of 2 March 2015: "The Role Financial Markets can play in Growth and Jobs"[4]).

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[4] http://europa.eu/rapid/press-release_SPEECH-15-4523_en.htm

The ECB is an external agent taking part in discussions, but, above all, creating the conditions for its ‘independence’ from political powers and for its credibility vis-à-vis the markets (Buiter 2008). One of its strengths is that the conditions for changing its statute (28 unanimous votes) are almost impossible to meet. It did, however, step out of its isolation and became explicitly part of the new structures (Troika, now called "the institutions"; the Greek people having become allergic to the troïka). This was the counterpart of the fact that the ECB, in the absence of any credible coordinated political response, became the only body capable of exerting influence on the financial markets. It agreed to take on this role in exchange for the guarantee that the EU would oversee developments in those countries that had run adrift. The ECB’s new position was therefore right at the centre of gravity of the normative apparatus, located mid-way between the markets and the political sphere. As pointed out by Torres: ‘For the ECB, this “invasion of other policy domains” – by calling for sound economic policy management, in particular in the fiscal domain, for structural reforms and for reinforced economic governance in general – is motivated by the fact that the euro area is at the epicentre of sovereign debt crisis.’ (2013: 293-4)

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

There is, however, an imbalance in this prescriptive approach. Just looking at the example of pension systems, the fragile political balances struck between the social and financial aspects of these systems disappear and are replaced by prescriptive indications based solely on their financial sustainability: a lengthening of working life and a later statutory retirement age. Not all Member States are willing to leave the initiative to the EU (as already mentioned, some authors consider that we are now seeing a change in the "too prescriptive" recommendations from the Commission, especially in the field of pensions). The countries receiving financial assistance, anyway, are subject to much greater constraints, and the reforms required are set out in much more detail. This is by the way one of the core stake of the current discussions between the Tsipras government and his European partners.

Let us emphasise in passing that these recent developments have indeed caused concern in those involved in work-related issues – fears, above all, of the European institutions ‘intruding’ in the autonomy of the collective bargaining process and in national social dialogue (in some countries, at any rate). The European trade union movement, therefore, is trying to define an alternative to this model of procedural governance based on deregulatory reforms. Currently, the text that best describes this alternative is the ‘Plan for investment, sustainable growth and quality jobs’[5], presented by the European Trade Union Confederation (ETUC) on 7 November 2013. This plan, by means of the institutional arrangements and financing it proposes, would reintroduce a certain prospect of political union into economic and monetary union. The "Investment Plan for Europe" proposed by the Juncker Commission goes in this direction, even if not sufficiently ambitious, according to the ETUC.

Conclusions

The imbalances in the institutional structure of economic and monetary union as adopted under the Maastricht Treaty (and as the result of a political choice ‘by default’) were able to be redressed in the 1990s and early 2000s by the conclusion of social pacts in the Member States, but also by social strategies put in place at the European level that included the development of the European social dialogue, the European employment strategy, the Lisbon strategy, the open methods of coordination in the fields of pensions, health care, and so forth. The economic and monetary union thus had, to a certain extent, its social dimension, even if this was weak, contradictory and fragile.

From the middle of the decade of the 2000s, this dimension was subjected to a first phase of dismantling with the arrival in power in most of the European capitals of governments of the centre-right and right, as well as the arrival of the

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

new European Commission with Mr. Barroso as President. The open methods of coordination were gradually voided of their substance, the European social dialogue was no longer fed, the social goals of the Lisbon Strategy were neglected, and few new European legislative initiatives were taken in the social policy field. The process of economic and social convergence was entrusted to the benevolent market forces.

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

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

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

In the first "European semesters" at least, the social policy recommendations addressed to Member States were developing a new message containing specific ideas about how a national economic and social model should operate and that this message was being communicated to all the Member States, albeit with some slight variations. The tenets of this message are as follows: the costs of health care and pension systems should be pegged or even reduced; the wage formation systems should be brought within the realm of competition; the social benefit systems create disincentives to labour market participation; labour costs must be reduced. This message contains nothing or very little about how social models should reduce inequality, supply citizens with greater protection against the (growing) social risks, nor about the ways in which they could contribute to the operation of a regulated market economy. In 2014 and 2015, political changes in the European Commission and in some Member states could contribute to a more balanced message. But however it is a matter of fact that the new European governance has gain power during the eurocrisis. Its impact will still depend on the real power of the European recommendations, and on the capacity and determination of the governments to make use of them or to modify their content.

Anyway, this new system of governance will become an extremely effective instrument for making fundamental changes to the bases of the current European Social Model. For better or for worse.

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