

## After Austerity: Welfare State Transformation in Europe after the Great Recession

Peter Taylor-Gooby, Benjamin Leruth, and Heejung Chung

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## Title Pages

Peter Taylor-Gooby, Benjamin Leruth, Heejung Chung

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#### Welfare State Futures: Our Children's Europe

WelfSOC examines the aspirations, assumptions, and priorities that govern the ideas of ordinary people about the future development of welfare in Europe. It relies on innovative deliberative forums and focus groups in order to investigate attitudes towards the future of the welfare state.

Five deliberative forums were conducted by the research teams in Denmark, Germany, Norway, Slovenia, and the United Kingdom between October and November 2015. These two-day events, organized with the help of national research agencies, gave the opportunity for participants to reflect on the future of the welfare state and address the following question: 'What should the priorities of the government in [country] be for benefits and services in 2040?' Early findings suggest that the discussion at such events generates attitude changes among participants, in relation to their ideas about government responsibility, welfare chauvinism, and the part to be played by the individual. It also indicates that the justifications for different policies differ between

countries and this can be related to national welfare state traditions and regime types.

The first major publication related to this project is the current volume: *After Austerity: Welfare State Transformation in Europe after the Great Recession*, published by Oxford University Press in 2017. This book, co-edited by the coordinating team (Peter Taylor-Gooby, Benjamin Leruth, and Heejung Chung), conceptualizes policy responses to the Great Recession across Europe and includes a wide range of empirical chapters written by WelfSOC members and external contributors.

The next stage of the WelfSOC project uses focus groups conducted in October and November 2016 in the five countries in order to investigate the issues of solidarity, responsibility, and deservingness. The data is currently being coded and shared between the research teams. The material from the deliberative forums and the focus groups will be analysed further during 2017 and the findings published in comparative research papers and a further book.

More information about the project as well as working papers can be found on the website <http://welfsoc.eu>, or follow us on Twitter @WelfSOC.



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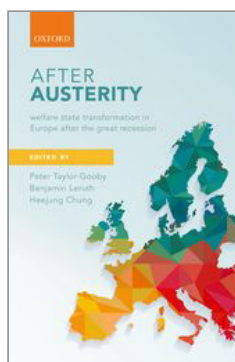
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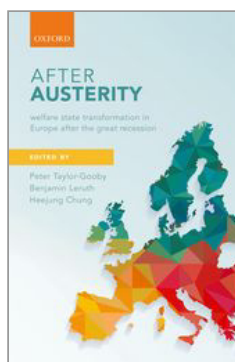
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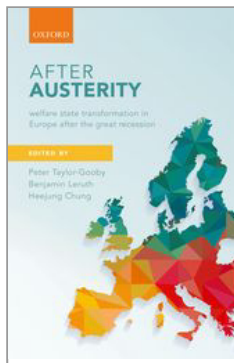
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## (p.xi) Acronyms

Peter Taylor-Gooby, Benjamin Leruth, Heejung Chung

AfD

Alternative for Germany (Germany: populist right)

ALMP

Active Labour Market Policy

ANEL

Independent Greeks (Greece: Conservative-nationalist)

BSA

British Social Attitudes Survey

CEE

Central and Eastern European countries

EC

European Commission

ECB

European Central Bank

EOPYY

Greek National Health Service Organization

ESS

European Social Survey

EU

European Union

EU15

First 15 members of the European Union

EU28

Members of the EU between 2013 and the departure of the UK

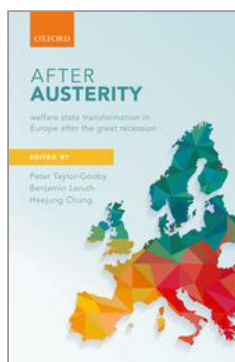
FN

Front National (France: populist right)

GDP

Gross Domestic Product  
GDR  
German Democratic Republic (former East Germany)  
GMI  
Minimum income guarantee  
ILO  
International Labour Office  
IMF  
International Monetary Fund  
ISSP  
International Social Survey Project  
ND  
New Democracy (Greece: centre-right)  
NPM  
New Public Management  
OECD  
Organization for Economic Cooperation and Development  
OMC  
Open Method of Coordination  
PASOK  
Panhellenic Socialist Party (Greece: centre-left)  
SAP  
Social Action Programme  
SYRIZA  
Coalition of the Radical Left (Greece: left anti-EU, anti-austerity)  
UK  
United Kingdom  
UMP  
Union pour un Mouvement Populaire (France: former centre-right party)  
UNHCR  
United Nations High Commissioner for Refugees  
VAT  
Value Added Tax

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## (p.xiii) Notes on Contributors

Peter Taylor-Gooby, Benjamin Leruth, Heejung Chung

### **Jørgen Goul Andersen**

is Professor of Political Science and Director of the Centre for Comparative Welfare Studies at the Department of Political Science, Aalborg University, Denmark. His research centres on welfare policy, political behaviour (election studies, political parties, political attitudes, and political participation), political economy, and policy analysis.

### **Heejung Chung**

is a Reader in Social Policy at the University of Kent, England. Her research deals with cross-national comparison of labour markets, working conditions, and work/life balance issues, focusing on the role institutions and socio-economic factors play therein.

### **Ana M. Guillén**

is Professor of Sociology at the University of Oviedo, Spain. Her research interests include comparative social and labour policies, Europeanization, and European integration.

### **Jan-Ocko Heuer**

is a postdoctoral researcher at the Humboldt University of Berlin, Germany. His current research focuses on welfare state change, financialization, and social inequality.

### **Maša Filipovič Hrast**

is Associate Professor at the University of Ljubljana, Faculty of Social Sciences, and a member of the Research Centre for Welfare Studies. Her research interests focus on social policy, housing policy and social exclusion.

### **Bjørn Hvinden**

is Professor in Sociology and Head of Research at Norwegian Social Research (NOVA) at Oslo and Akershus University College of Applied Sciences, Norway. His main research interests are comparative and European social policies, social citizenship, climate change and welfare, disability, and solidarity.

**Benjamin Leruth**

is an Assistant Professor in Public Administration at the Institute for Governance and Policy Analysis, University of Canberra. His research focuses on comparative European politics, Euroscepticism, differentiated integration in the European Union, and public attitudes towards immigration and the European welfare state.

**Steffen Mau**

is Professor of Sociology at the Humboldt University of Berlin. His research focuses on social policy, social inequality, migration, and Europeanization.

**Emmanuele Pavolini**

is Associate Professor in Economic Sociology and Social Policy at the University of Macerata in Italy. His research interests are comparative welfare state studies and in particular Southern European welfare states, family policies, healthcare, occupational welfare, and non-profit organisations. **(p.xiv)**

**Maria Petmesidou**

is Professor of Social Policy at Democritus University (Greece) and Fellow of CROP/ISSC (Comparative Research on Poverty/International Social Science Council). Her current research focuses on policy learning and comparative frameworks with regard to the social inclusion of young people (EU funded project).

**Tatjana Rakar**

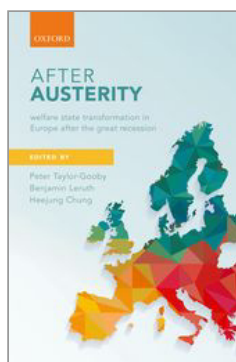
is a Researcher and Assistant Professor at the University of Ljubljana, Faculty of Social Sciences, Centre for Welfare Studies. Her fields of research involve studies in social policy, family policy and civil society organisations.

**Mi Ah Schoyen**

is a Senior Researcher at the Centre for Welfare and Labour Research (Oslo, Norway) and Akershus University College of Applied Sciences. Her interests lie in political science and comparative political economy and her research covers comparative welfare state/social policy, the welfare mix, and public pension systems.

**Peter Taylor-Gooby**

is Research Professor of Social Policy at the University of Kent. He researches comparative social policy and social policy theory and writes novels with social policy themes.



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# The Europeanization of the Welfare State

## The Case for a 'Differentiated European Social Model'

Benjamin Leruth

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### Abstract and Keywords

Since the ratification of the Treaty of Rome in 1957, the European integration project has been committed to reducing inequalities between member states. However, social inequalities remain high, and public support for the welfare state varies between countries. Some experts have suggested a common European social policy. This chapter analyses recent developments and future prospects at the European Union level. After discussing the initial ambitions of social policy harmonization, it focuses on the role of the EU during the Great Recession by examining the range of policy responses advocated by Brussels in order to fight against a multi-faceted crisis. These are dominated by the tightening of austerity, but include social investment and greater labour market flexibility. The final section reflects on the future of European integration after Brexit. It argues that further common policy development is only likely through agreements restricted to a particular a number of member states in an 'ever more differentiated Europe'.

**Keywords:** European Union, social policy, Brexit, harmonization, Euroscepticism, neo-liberalism, social investment, Growth and Stability pact, differentiated integration

### 9.1 Introduction: Social Policy and the EU

Since the ratification of the Treaty of Rome in 1957, the European Union (EU) has been committed to reducing socio-economic inequalities between member states as part of its integration project. Article 3 of the Treaty on European Union states that the Union 'shall combat social exclusion and discrimination,

and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child'. Today, the EU provides cooperation between member states in a wide range of policy areas, from a Common Security and Defence Policy to common agricultural and fisheries policies. The harmonization of social policy has been promoted throughout the history of the EU, to reduce socio-economic disparities between member states. Nowadays the scope of the European Social Model is largely restricted to issues related to the construction of an open labour market, such as employment rights, equal employment opportunities, free movement of labour, health and safety at work, working conditions, and social dialogue (Larsen and Taylor-Gooby 2004). Little progress has been made over the past five decades, despite the introduction of Social Action Programmes in the 1970s and the use of common social strategies in order to reduce disparities within the EU.

Despite these attempts to harmonize social policy at the European level, social inequalities remain high within the EU, and public attitudes towards the welfare state vary considerably from one member state to another. As previous chapters in this volume show, the recent crisis brought the various political and societal challenges to European welfare state to a head. Prominent **(p.181)** scholars have suggested the creation of a true Common European Social Policy as a response (for example Allespach and Machnig 2013; Habermas 2013). While such proposals are not new in the field of European studies (see Leibfried 1993; Scharpf 2002), the reaction to the Great Recession at the EU level has been broadly neo-liberal and a common interventionist social policy now appears controversial or even utopian (Crespy and Menz 2015).

This chapter offers an analysis of changes and future prospects at the EU level. It first describes the main steps towards EU social policy harmonization, from Guy Mollet's initial attempt in the 1950s to the most recent 'Europe 2020' strategy. It then focuses on the role of the EU during the Great Recession and the range of policy responses advocated by Brussels in order to combat the multi-faceted crisis, and its implications for the harmonization of social policy. This second section also includes an analysis of public support for a common European welfare state in a range of policy areas based on recent studies and Eurobarometer surveys. The third section reflects on the future of European integration, and the potential for further welfare harmonization between member states. The status quo no longer seems viable, especially after the United Kingdom's vote to leave the EU, but the use of differentiated mechanisms of European integration, such as enhanced cooperation in specific areas, may offer opportunities to relaunch the European social model and reduce inequalities between member states.

### 9.2 Social Policy Developments at the EU Level

The potential for a true common European social policy, or European Social Union, has been extensively discussed in the existing literature (see for example Leibfried 1993; Leibfried and Pierson 1995; Streeck 1996; Larsen and Taylor-Gooby 2004; Blanke and Hoffmann 2008). The extensive range of the literature on European social policy may lead to confusion since the terms used are often not defined. In a valuable attempt to clarify the debate, Jepsen and Pascual (2005: 232) explain that the notion of the European Social Model, often used to 'describe the European experience of simultaneously promoting sustainable economic growth and social cohesion', can be conceptualized in four ways. The first, stemming from Scharpf's much-cited analysis (2002), studies the European Social Model as an *entity*, a common European objective to achieve full employment, social protection, and equality, used as the motor for harmonization of policy regulation, especially in the field of workers' rights and labour law. The second perceives the European Social Model as an *ideal type*, as advocated by Esping-Andersen (1999) and Ferrera et al. (2001). This approach highlights specific national models, offering basic social protection to all citizens, relatively low levels of income inequality, and **(p.182)** a high degree of collective bargaining. The third perceives the European Social Model as a *European project and instrument for cohesion*. This approach emphasizes the need for a transnational and multi-level system of social policy in response to globalization, as economic integration (most importantly through the creation of the Economic and Monetary Union) reduces the capacity of EU member states to use traditional economic policy instruments to achieve their own social policy objectives (see Vaughan-Whitehead 2003). The fourth and final one, added by Jepsen and Pascual in their analysis, studies the European Social Model as a *political project*, used to legitimize European institutions and their actions, in order to foster a European identity based on policy paradigms. This last conceptualization helps in understanding some of the most recent actions from the European institutions, highlighted below.

Throughout the development of the European Community (and now Union), attempts have been made to bring together the very different social welfare systems of member states described in Chapter 1. The first dates back to the creation of the European Economic Community, when French socialist Prime Minister Guy Mollet tried to harmonize social regulations as a key element of the integration of the industrial markets (Scharpf 2002). As policies in the original six member states had been shaped by the Bismarck model of welfare, diversity was not an obstacle to such harmonization. However, more pressing economic and worker-related matters were addressed, and the proposed commitment to harmonization was abandoned despite the creation of the European Social Fund (intended to finance vocational training programmes and to promote occupational mobility) as the first social policy instrument (Laffan 1983). One might argue that the founding member states missed a once in a lifetime

opportunity, as further attempts to create a common European social policy failed in the following decades. These attempts could be grouped into three periods: the 1970s, with the emergence of the first Social Action Programme; the 'Delors years' in the mid-1980s and early 1990s, with the promotion of the 'Social Dimension project'; and the Lisbon period, which immediately preceded the Great Recession (Daly 2007).

Following Guy Mollet's initial attempt to harmonize social policy across the six founding member states and a period of political instability throughout the 1960s, the issue only returned to the European Community's agenda in the early 1970s. The 'Report on the Development of the Social Situation in the Community in 1973' published by the European Commission in 1974 effectively revived ideas of harmonization, by stating the objective of 'setting out in a purposeful way the initial practical steps on the road towards the ultimate goal of European Social Union' (quoted in Atkinson 2002: 627). The first Social Action Programme, adopted in 1974 by the European Council of Ministers and driven by social democratic national governments, was the first major attempt to expand the scope of the European Community's social policy **(p.183)** (Streeck 1994). This programme set three main objectives: achieving full and better employment; improving living and working conditions; and improving social dialogue by increasing the involvement of social partners in the economic and social decisions of the Community (European Council 1974). One of the underlying goals of the Programme was for countries with high levels of social protection to protect their own social policy regimes (which entailed higher labour costs) by spreading them to the rest of the member states (Streeck 1996). After running for a period of six to seven years until the early 1980s, the output of this first Social Action Programme was rather modest, with minor improvements made in the areas of gender equality and health and safety at work. As Daly summarizes (2007: 3), '[o]ne of the lessons learned from this first period is that it is hard for social policy to "stick" at the EU level'.

Despite the limited results of the 1974 Social Action Programme, further efforts to promote social policy harmonization were advocated by Jacques Delors, during his two terms as President of the European Commission between 1985 and 1995, once again with the support of a broad social democratic coalition of governments. During this period which saw the ratification of the Maastricht Treaty and the creation of the Economic and Monetary Union, three major developments in terms of European social policy took place. Firstly, economic and social cohesion became a competence of the European Community with the ratification of the Single European Act in 1986. This principle aims at reducing socio-economic disparities between member states through the implementation of European policies and through the use of structural funds such as the European Social Fund, the European Regional Development Fund, and the Cohesion Fund. Secondly, the Community Charter of Fundamental Social Rights of Workers (or 'Social Charter') was adopted in Strasbourg in 1989. The Social

Charter was later included within the Maastricht Treaty as the 'Protocol on Social Policy'. This protocol, from which the UK was exempted through a formal opt-out until 1997, set out social objectives for European member states, including 'the promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment, and the combatting of exclusion' (Article 1). Thirdly, a second Social Action Programme including 47 proposals based on the Social Charter was drafted by the European Commission in 1989.

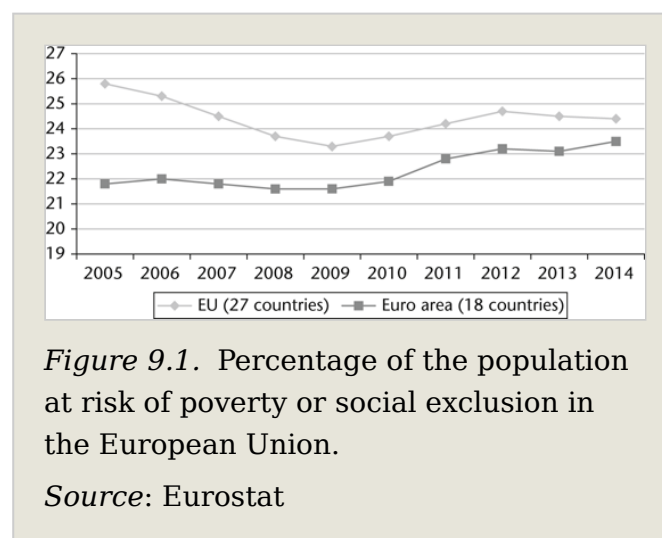
Taken together, these texts led to the adoption of further directives concerning health and safety at work, working conditions, and social dialogue at the European level. There is no consensus on whether the 'Delors years' could be considered as a cornerstone in shaping EU social policy: while some authors describe it as a period of underachievement and political failure (for example Streeck 1995; Keller 2003), others argue that it delivered the necessary institutional innovation which opened up further opportunities to **(p.184)** harmonize social policy (Daly 2007). By the end of this period, Streeck (1996: 83) described European social policy as relying on neo-voluntarist practices, which represents 'a break with the practice of the European national welfare state to create "hard", legally enforceable status rights and obligations for individual citizens and organized collectives acting in, taking advantage of, and being disadvantaged by, market relations' (see also Dukes 2014: 144).

The third stage of social policy at the European level is the Lisbon strategy, which ran from 2000 to 2010 and was strongly influenced by the social investment paradigm (Hemerijck 2013). The extraordinary European Council held in Lisbon in March 2000 set up a decade-long strategic goal 'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' (European Council 2000). Two of the key objectives of the Lisbon strategy were to tackle social exclusion, and to increase the employment rate across all member states. Two new policy instruments were introduced in order to implement this strategy: first, the use of the Open Method of Coordination (OMC) rather than the construction of new Europe-wide agencies for issues relating to 'social protection' and 'social inclusion'; and secondly, a strengthened role for the European Council in terms of coordinating employment, macroeconomic, and social policies (Ferrera et al. 2002). As the objective was to reform national welfare states rather than create an unwanted European welfare union, the OMC was initially perceived as a tool to negotiate common objectives and to propose common policies while comparing national policy performance (Scharpf, 2002; Larsen and Taylor-Gooby, 2004). However, the report on the Lisbon strategy from the High Level Group chaired by Wim Kok (2004) heavily criticized the OMC for failing to mobilize member state commitment to the implementation of the Lisbon strategy. In 2005, following the 'big bang

enlargement' which saw the European Union joined by twelve new member states, the Lisbon strategy was relaunched by the European Commission (2005) and the European Council. On the one hand, this Lisbon II plan involved a shift in policy priorities: economic and job growth prevail over social cohesion (Copeland and Daly 2012). On the other hand, the European Commission started to emphasize social investment and flexicurity from 2006 onwards. Guideline 21 of the European Employment Strategy 2007 called for EU member states to 'promote flexibility combined with employment security', to prioritize policies aimed at achieving full employment, to improve productivity, and to strengthen social and territorial cohesion (European Commission 2013a). These goals were later re-emphasized in the Europe 2020 agenda (see sections 9.3.2 and 9.3.3).

Overall, the assessment of the Lisbon strategy is mixed, much like that of the 1974 Social Action programme and the Delors years. Hemerijck (2013: 76) acknowledges that it 'played an important role in raising the importance of (p. 185) the EU's social dimension' and that employment rates have increased considerably across Europe, but also that many of its objectives have not been met, especially with regards to social inclusion. It has failed to address social inequalities, especially after the Great Recession and within Eurozone countries where the percentage of the population at risk of poverty or social exclusion increased from 21.8 per cent in 2005 to 23.2 per cent by 2012 (see Figure 9.1).

The development of welfare provisions at the European level, combined with difficulties in harmonizing policies and creating a truly common European social policy, demonstrates that European welfare provision must operate at several levels involving policies, regulations, and competencies if it is to succeed (Burgoon 2009).



The Great Recession, and the subsequent multi-faceted European crisis, required responses both at the national and the European levels. Hemerijck's assessment (2013: 76) argues that the multi-level dynamics between member states and the European institutions reached a point of no return:

It does seem that the old division of labour between EU institutions and domestic political arenas, with the former concentrating on market liberalization and the latter seemingly retaining near monopoly over

domestic social policy and labour market governance has reached a cul-de-sac in the aftermath of the global financial crisis.

The following section focuses on some of the most recent developments across Europe as well as the policy responses promoted by Brussels.

### 9.3 The Great Recession and the Role of the European Union

The Great Recession hit the members of the Economic and Monetary Union in late 2009.<sup>1</sup> The level of the gross public debt reached 90 per cent of GDP, and **(p.186)** the GDP growth rate for 2009 was negative (−4.5 per cent for the whole EMU area; see Chapter 1). Southern European countries such as Cyprus, Greece, Spain, and Portugal were particularly hit. The impact of the crisis on the European Union is not limited to the period of recession. In her excellent book *Crisis*, Sylvia Walby summarizes the effects, cascading through societies across Europe: ‘first, a crisis in finance; next, a crisis in the real economy of production and employment; then a fiscal crisis over government budget deficits; and a political crisis, which is on the edge of becoming a democratic crisis’ (Walby 2015: 1). This chapter argues that, from the perspective of the EU, the crisis is composed of six key elements that all had (and will have) an impact on the future of the European welfare state: financial, economic, social, political, migration, and security. These six facets of the crisis are interconnected and cannot be isolated from one another when considering future scenarios for the European Union, especially with regards to the harmonization of social policy. This section focuses on these six elements and highlights the range of policy responses advocated by Brussels.

#### 9.3.1 Financial Aspects

As illustrated throughout this volume, policy responses to the *financial* aspect of the crisis vary from one European country to another. In general, however, neo-liberal and austerity programmes prevailed. National governments which opposed this trend (in particular France, Chapter 4, and Greece, Chapter 8) either lost public support or were brought into line by the ECB and EU.

Eurozone member states are no longer equipped to face financial shocks at the national level and the European Union established a series of common policy guidelines to cope with the crisis. The Stability and Growth Pact, which came into force in 1999 with the aim of ensuring budgetary balance and low public debt (limiting annual budget deficits to three per cent of GDP), has been revised in two further sets of reforms created on the initiative of the European Commission: the ‘Six-Pack’, which came into force in 2011 and aimed to correct future economic instabilities and fiscal imbalances, and the ‘Two-Pack’ agreement between member states, which entails further coordination and surveillance (Buti and Carnot 2012). Taken together, both reform packages have strengthened the role of the European institutions, particularly the ECB, by establishing more detailed monitoring of national financial plans.

'Bailout' deals to safeguard the banking systems of countries threatened with bankruptcy involved stringent austerity measures, including welfare cuts, tax increases, the privatization of state assets, reduced employment protection, and weaker collective bargaining. The most severe was the agreement between Greece and the 'troika' (the European Commission, the International Monetary Fund, and the European Central Bank) which led to the **(p.187)** collapse of the government, public protests, and political instability (Chapter 8). Deals were also implemented in Spain (2012), Ireland (2010), Portugal (2011), and Cyprus (2013).

### 9.3.2 Economic Aspects

As a response to the *economic* aspect of the crisis, the European Union has offered three main strategies in order to stimulate growth. Firstly, the EU launched the European Economic Recovery Plan in December 2008, which included a fiscal stimulus of 1.5 per cent of the EU's GDP (around 200 billion euros), mostly funded by member states (1.2 per cent, with the remaining 0.3 per cent coming from the EU budget). This plan, building on the *acquis* of the Lisbon strategy, further recommended structural policies to member states in order to support employment and household income in the short term. Such policies, funded by national budgets, started to be implemented by EU member states in early 2009. The most frequently pursued of these measures was in line with social investment and flexicurity policy strategies, since it aimed at improving job placement and invested in retraining (implemented in 21 member states). Other neo-Keynesian measures in the European Economic Recovery Plan (European Commission 2009) included a reinforcement of activation policies (implemented in 19 member states); supporting household purchasing power (in 18); cutting labour costs (17); encouraging flexible working time (16); mitigating the impact of the financial crisis on individuals (13); reinforcing social protection (12); enhancing education and lifelong learning (7); and revising employment protection legislation in line with flexicurity (4). However, the impact of the European Economic Recovery Plan as a whole was mixed. Cameron (2012) suggests that by leaving most of the response to the Great Recession to member states, the EU has accentuated a regional divide between members, while Euzéby (2010) suggests that the European Union should look for other ways to reinforce solidarity among EU citizens, for instance, the creation of a European Solidarity Fund.

Secondly, the European Commission (2010) drafted the 2020 Strategy for Smart, Sustainable and Inclusive growth, which followed the Lisbon strategy and focused on three objectives: developing an economy based on knowledge and innovation; promoting a greener and more competitive economy; and fostering a high-employment economy delivering social and territorial cohesion (see Marlier and Natali, 2010).

Thirdly, the European institutions started negotiations with the United States on a massive free trade agreement: the Transatlantic Trade and Investment Partnership (TTIP). This move was heavily criticized by civic movements and left-wing parties, who perceived it as extending neo-liberalism. One of the main criticisms is that TTIP would transfer powers from governments to **(p.188)** corporations, threaten existing European food and environmental regulations, and open up public services to commercial providers (Walby 2015; see also De Ville and Siles-Brügge 2015). However, TTIP negotiations have failed to reach any agreement and are likely to be indefinitely deferred, following the more isolationist US Trump presidency and the UK Brexit vote.

### 9.3.3 Social Aspects

National and European responses to the economic and financial facets of the crisis have also fuelled *social* unrest and increased social inequalities within European societies. As illustrated in Figure 9.1, the percentage of people at risk of poverty in the Eurozone increased from 21.6 per cent in 2008 to 23.5 per cent in 2014. Unemployment figures also increased from 7.6 per cent to 11.6 per cent between 2008 and 2014 for Eurozone countries, and from 7 per cent to 10.2 per cent for the same period within the European Union as a whole. Youth unemployment (between the ages of 15 and 24) is even more problematic across the European Union, as it increased from 17.5 per cent in 2008 to 21 per cent in 2014. This rate skyrocketed in Southern European countries, especially Croatia (45.8 per cent by the end of 2014), Italy (40.9 per cent), Greece (51.2 per cent), and Spain (51.8 per cent). Furthermore, civic protest movements across Europe have coordinated their actions to raise awareness about the austerity and neo-liberal policies advocated by the elites, leading to the emergence of transnational Eurosceptic movements (see FitzGibbon et al. 2016).

The European Union attempted to address social concerns by focusing on the shortcomings of the Lisbon strategy in the Europe 2020 strategy published in 2010. Three of the seven flagship policies deal with the issues of employment, social affairs, and inclusion. Firstly, 'youth on the move' aims at tackling youth unemployment by advocating social investment measures such as prioritizing training opportunities for young workers. Secondly, Europe 2020's Agenda for New Skills and Jobs focuses on improving flexicurity, job quality, and the conditions for job creation. Thirdly, the European platform against poverty and social exclusion includes the objective of lifting 'at least 20 million people out of the risk of poverty and exclusion' by 2020. This was the first quantitative social target in the history of the European integration, 'an unlikely and unexpected outcome, which, at first glance anyway, suggests a deepening Europeanization of social policy' (Copeland and Daly 2012: 274). In order to meet this target, the European Union strengthened its monitoring mechanisms through the creation of the European Semester.<sup>2</sup>

The social component of the Europe 2020 agenda was criticized for failing to address work/family life balance and gender equality issues, despite an emphasis on social investment and the introduction of directives such as the 2010 Parental Leave Directive. A report published by the **(p.189)** European Commission (2013a) suggests that in countries where flexicurity policies were in place, flexibility seems to have increased, and that ‘the effects of the crisis (in terms of unemployment and GDP growth) have been less severe than in other countries characterized by high labour market rigidities,’ though it ‘is still unclear whether the increased flexibility will produce the economic advantages to reach enhanced security levels in the long run or if rising social inequality, worsened by flexibility, will rather damage the social fabric and will ultimately be detrimental to the entire economy’.

In addition to these measures, the European Commission launched in 2013 the Social Investment Package for Growth and Cohesion, urging EU member states to put more emphasis on social investment. In this package the European Commission (2013b) determined that social investment ‘helps to “prepare” people to confront life’s risks, rather than simply “repairing” the consequences’ (see also Nolan 2013). Finally, in order to cope with rising concerns from citizens over TTIP, the European Union attempted to outline the social benefits of the proposed treaty, especially on the labour market.

### 9.3.4 Political Aspects

The European Union has also been facing a series of *political* crises since 2008, both domestic and international in origin. The public lost confidence in the well-established political parties, leading to the rise of Euroscepticism and the emergence of populist parties across the European political spectrum. Right-wing populist Eurosceptic parties have considerably increased their influence in the European Parliament, following the EP elections of 2009 and 2014. Most of these parties either advocate radical reforms for a more flexible and differentiated European Union (such as parties from the European Conservatives and Reformists pan-European group; Leruth 2017), or have rebelled against austerity and neo-liberal measures advocated by the European Commission (such as parties from the pan-European Confederal Group of the United European Left; Holmes 2016). Despite the rise in popularity of these Eurosceptic political parties, the European institutions are still dominated by a Christian democratic and conservative coalition.

The politics of the European crisis reached a tipping point on 24 June 2016, after the UK voted to leave the European Union with 51.9 per cent of the votes and a relatively high turnout of 72.2 per cent. This unexpected result was a huge victory for Eurosceptics across Europe, who called for further referendums to be held in other countries including France, the Netherlands, and Finland. This added to the instability surrounding the European integration project. Such a vote for a member state to leave the European Union is unprecedented in the

history of European integration, and may trigger a process of differentiated *disintegration*. While the impact of Brexit on the **(p.190)** future of the European Union remains hard to determine at the time of writing, the response of European leaders will be crucial. Brexit could be perceived as an opportunity for European actors to renew and strengthen the European Union, as the UK has always been an ‘awkward partner’, supporting national sovereignty over the process of deepening European integration. For European leaders, the status quo is no longer an option because a Brexit effectively changes the very nature of European integration.

### 9.3.5 Migration

In recent years, as the result of war and disruption in the Middle East and Afghanistan and poverty elsewhere, the European Union also had to face a *migratory* aspect of the crisis. Throughout 2015 millions of refugees crossed the Aegean Sea between Turkey and Greece to seek asylum in the European Union. Asylum applicants mushroomed in 2015: 1,321,600 as against 225,150 in 2008. Most applications were made in Germany (476,510), Hungary (177,135), and Sweden (162,450). Responses to this facet of the crisis varied greatly from one country to another: while Germany welcomed more than a million refugees between 2015 and 2016, other countries such as Austria, Slovakia, and Macedonia decided to close their borders on a temporary basis or even to build a fence (as in Hungary; see also Chapter 6 on Slovenia). Attempts were made at EU level to find a consensus between member states in order to establish quotas regarding the resettlement of these refugees. However, opposition from many countries (especially from Eastern Europe, led by the Eurosceptic Hungarian Prime Minister Viktor Orbán) led to yet another political failure for the European Union.

Linked to this aspect of the European crisis is the rise of welfare chauvinism across Europe. Some countries, particularly the UK, faced strong public scrutiny over their migration policy. As part of the 2015 renegotiation package between the UK and the European Union, a so-called ‘emergency brake’ was proposed. This policy proposal would prevent new EU migrants from gaining access to in-work benefits for a specific period of time in countries experiencing an inflow of workers of ‘exceptional magnitude’ over ‘an extended period of time’. While this proposal was not implemented following Britain’s 2016 vote to leave the European Union, such an emergency-brake mechanism could be used by other member states in the future, or be part of the new relationship between the UK and the EU.

### 9.3.6 Security

Finally, between 2014 and 2016 the European Union faced a series of *security* threats. Russia’s military intervention in Ukraine and the subsequent **(p.191)** annexation of Crimea, combined with increasing tensions between the European Union and Turkey, led to geopolitical tensions. In addition, several European

cities such as Brussels, Paris, and Nice have been the target of terrorist attacks orchestrated by Daesh. Border controls were also temporarily reintroduced within the European Union in order to cope with these security threats. The attacks fuelled anti-immigration movements across Europe, most particularly in France (see Chapter 4) and Germany (see Chapter 2), and may be used to legitimize the introduction of immigration quotas at the national level in some countries.

So far as social policy goes, even though the financial response to the crisis at EU level strengthened austerity and neo-liberalism in some countries, the economic and social responses included a major emphasis on social investment. Political responses were generally anti-EU and were reinforced by concerns over migration but allowed for the possibility of national initiatives, and the security concerns also strengthened national decision-making. The shift towards neo-liberalism and financial discipline weakened the capacity of EU members to deliver traditional tax and spend policies, but there were some new developments in investment in human capital mainly relevant to the labour market. The impact of austerity in curbing social spending was in general most powerful in the weakest countries.

The multi-faceted European crisis analysed in section 9.3 is thus far from being over. Even though European economies have started to recover, the most recent political and migration shocks have further intensified pressures on the EU and raised questions over the future of European integration. The range of policy guidelines advocated by the European Union are summarized in Table 9.1. The following section highlights the future scenarios for the future of European integration and the European Social Model.

**Table 9.1. Aspects of the European crisis, the EU's response, and future scenarios**

Aspect of the crisis	The challenge	The EU's response	Future scenarios
<b>Financial</b>	• Sovereign debt crisis	• Strengthening the role of the ECB	• Further austerity
		• 'Six Pack' and 'Two Pack' reforms	• 'Grexit': Greece leaving the Economic and Monetary Union
		• Imposing austerity programmes in Greece	
		• Bailout loans to Spain (2012), Ireland (2010), Portugal (2011), and Cyprus (2013)	
<b>Economic</b>	• Recession	• European Economic Recovery Programme (2009)	• New Europe-wide strategy to cope with socio-economic challenges
	• High unemployment rates, especially among young people	• 2020 Strategy for Smart, Sustainable and Inclusive Growth (Europe 2020)	
		• TTIP negotiations	

## The Europeanization of the Welfare State

Aspect of the crisis	The challenge	The EU's response	Future scenarios
<b>Social</b>	<ul style="list-style-type: none"> <li>• Increase in numbers at risk of poverty, especially within the Eurozone</li> </ul>	<ul style="list-style-type: none"> <li>• Europe 2020 flagships: 'Youth on the move', 'agenda for new skills and jobs', and the 'European platform against poverty and social exclusion'</li> </ul>	<ul style="list-style-type: none"> <li>• Further social policy harmonization at the EU level: a deepened European Social Model</li> </ul>
	<ul style="list-style-type: none"> <li>• Emergence of transnational Eurosceptic movements (e.g. Stop TTIP)</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting flexicurity and social investment policies at the EU and member states levels</li> </ul>	<ul style="list-style-type: none"> <li>• Positive EU-wide response with social investment and stronger citizen and worker rights</li> </ul>
		<ul style="list-style-type: none"> <li>• 2013 social investment package</li> </ul>	<ul style="list-style-type: none"> <li>• Wider gap between countries committed most strongly to austerity and others</li> </ul>
		<ul style="list-style-type: none"> <li>• Attempts to increase transparency; publication of documents explaining the social advantages of TTIP</li> </ul>	
<b>Political</b>	<ul style="list-style-type: none"> <li>• Rise of Eurosceptic parties nationally and in the European Parliament</li> </ul>	<ul style="list-style-type: none"> <li>• Pending projects to relaunch European integration after Brexit</li> </ul>	<ul style="list-style-type: none"> <li>• European disintegration ('soft' or 'hard')</li> </ul>
	<ul style="list-style-type: none"> <li>• UK vote to leave the EU</li> </ul>		<ul style="list-style-type: none"> <li>• More integrated Union</li> <li>• 'Ever more differentiated Union'</li> </ul>

## The Europeanization of the Welfare State

Aspect of the crisis	The challenge	The EU's response	Future scenarios
<b>Migratory</b>	<ul style="list-style-type: none"> <li>Refugee 'crisis': the increasing flows of refugees into Greece and Italy</li> </ul>	<ul style="list-style-type: none"> <li>Failed attempts to establish refugee 'quotas'</li> </ul>	<ul style="list-style-type: none"> <li>End of Schengen</li> </ul>
		<ul style="list-style-type: none"> <li>Temporary reintroduction of border controls between Austria and Croatia</li> </ul>	<ul style="list-style-type: none"> <li>'Fortress Europe'</li> </ul>
	<ul style="list-style-type: none"> <li>Welfare chauvinist responses to migration flows at the national level</li> </ul>	<ul style="list-style-type: none"> <li>Proposed emergency brake</li> </ul>	<ul style="list-style-type: none"> <li>'Fortress member states'</li> <li>Increased and generalized welfare chauvinism</li> </ul>
		<ul style="list-style-type: none"> <li>Support for Turkey to hold back refugees</li> </ul>	
<b>Security</b>	<ul style="list-style-type: none"> <li>Terrorist attacks linked to Daesh in Belgium, France, and Germany</li> </ul>	<ul style="list-style-type: none"> <li>Temporary reintroduction of border controls for security reasons</li> </ul>	<ul style="list-style-type: none"> <li>Use of security threats to legitimize welfare chauvinism</li> </ul>
	<ul style="list-style-type: none"> <li>Ukrainian crisis</li> </ul>	<ul style="list-style-type: none"> <li>Mostly dealt with at the national level</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the Common Security and Defence Policy</li> </ul>
	<ul style="list-style-type: none"> <li>Cooling-off in EU-Turkey relations</li> </ul>		

### 9.4 Future Scenarios and their Impact on the European Welfare State

Even though the potential for deepening the European Social Model has declined considerably over time, the extent of Europeanization of social policy should not be underestimated. As highlighted above, the European Union advocated social investment as one of the main policy responses to the crisis, mostly through targets and recommendations to member states. However, it also imposed austerity measures through the 'Six Pack' reforms and bailout programmes, especially for Greece. This contributed to fuelling Euroscepticism across the continent, and to the emergence of anti-establishment parties on both sides of the political spectrum. **(p.192)**

**(p.193)** With Brexit, the European Union is now at a crossroads. There is no status quo option. Brexit is unprecedented. All political elites, analysts, and scholars agree that change is needed within the European Union in order to cope with the most recent elements of the European crisis. Increased levels of Euroscepticism, at both the public and elite levels, create further uncertainties over the future of integration. In addition to the structural elements of the crisis described in this chapter, the EU will also have to respond to the long-term economic, social, and demographic changes analysed in this book. These include an ageing population, an increased proportion of the European population at risk of poverty (despite Europe 2020's target of reducing the numbers), and higher unemployment (see Chapter 1). Table 9.1 also summarizes some of the future scenarios based on the six aspects of the crisis discussed earlier. The future of the European Social Model requires us to pay particular attention to future developments regarding European integration and the responses to the political aspect of the European crisis. Three overarching scenarios can be foreseen: the disintegration of the European Union; a more integrated Europe; and an 'ever more differentiated Union'. This section analyses these scenarios and their implications for the future of European social policy.

#### 9.4.1 Disintegration of the European Union

This scenario marks the end of the European project as it has developed since the ratification of the Treaty of Rome in 1957. Disintegration of the EU would not necessarily mean the end of cooperation at the European level, or the end of social policy harmonization. Two 'versions' of European disintegration are possible. First, a 'soft' disintegration, meaning that the European Union is drastically reformed and its competence confined to a few policy areas. European integration would take a step back without disappearing. The principle of subsidiarity (established in Article 5 of the Treaty on European Union, whereby the EU can only intervene if it is able to act more effectively than member states at national, regional, or local levels) would be strengthened in order to emphasize national sovereignty over European cooperation. 'Soft' Eurosceptic parties such as Alternative for Germany (which calls for the breakup of the Economic and Monetary Union) advocate this option. Former French President Nicolas Sarkozy also supported this option after the Brexit vote and

argued that EU policy should be limited to a maximum of ten priorities, including energy, agriculture, scientific research, and market policy. Soft disintegration is likely to limit EU social policy strictly to the areas directly relevant to competition in an open market in which it is already strongest, including employment protection, working hours, and health and safety at work.

**(p.194)** The second option of ‘hard’ disintegration would return Europe to a collection of nation states. This is the scenario advocated by some of the ‘hard’ Eurosceptic parties on the populist right across Europe, such as the UK Independence Party, the Dutch Party for Freedom, and, to some extent, the French Front National. The implications for the European Social Model would be catastrophic. One of the immediate consequences of the disintegration of the European Union in either its ‘soft’ or ‘hard’ version would be a generalization of welfare chauvinism and the emergence of ‘fortress member states’, in which European migrants would not have any access to specific benefits and services.

While some analysts fear that the recent Brexit vote will trigger a ‘domino effect’, with further referendums called in different countries with a similar outcome, the ‘hard’ disintegration scenario is not favoured by the existing political leadership. However, a generalized ‘soft’ disintegration, implying the retraction of European authority and an empowerment of nation states, could happen if political divisions between member states continue to deepen.

### 9.4.2 A More Integrated Union

This second scenario implies a positive response by European leaders to the most recent developments in the crisis. Instead of leading to a contraction of European competences as advocated by some, member states would consolidate their relationship by strengthening the competences of the EU. Most particularly, proposals have been made recently to reinforce the powers of the Economic and Monetary Union by constructing mechanisms of economic governance and building a true fiscal union (Natali 2015). This could also lead to the emergence of a deepened European Social Model, where more social regulations are formulated and adopted at the EU level, breaking with the traditional division of labour in terms of policy-making between European institutions and member states.

This option has often been advocated by prominent scholars as a response to the Great Recession (for example Habermas, 2013; Offe, 2013). However, the political obstacles to this scenario are numerous, as it means that all remaining 27 member states would have to agree on a common direction. The recent conflict over refugee quotas demonstrates the EU’s incapacity to reach an agreement over sensitive political issues. Yet common solutions to the existing challenges are possible. The scenario of a ‘fortress Europe’ is one of them, strengthening the European Union border through the creation of a proposed European Border and Coast Guard. While all European citizens would be treated

equally, no matter in which member state they lived, 'outsiders' would have limited access to benefits and services. In other words, this would lead to the emergence of a welfare chauvinistic policy at the EU level.

**(p.195)** Public opinion is another factor that makes this scenario unrealistic, at least in the short-term future. Increased levels of Euroscepticism means that the European Union is facing a crisis of legitimacy. Using data from the Eurobarometer 2000, Mau (2005) demonstrated that public support for a true common European social policy is linked to the emergence of a European identity, and that the democratization of the European Union does not necessarily lead to increased demand for supranational arrangements. His study suggested that citizens from the most advanced welfare states tend to oppose the Europeanization of social policies, unlike citizens from Southern European countries. Data from the most recent Eurobarometer survey on the future of Europe, conducted in 2014, tend to show similar results: overall, 50 per cent of respondents across Europe believe that more decision-making on health and social security issues should take place at the European level, but support drastically varies from one country to another (ranging from 78 per cent in Cyprus to 21 per cent in Finland). Accordingly, there is no consistent and overwhelming support for a common European social policy within all European member states.

### 9.4.3 An Ever More Differentiated Union

In contrast to the motto of 'ever closer Union' or the disintegration of Europe, this scenario offers a pragmatic 'third way' by suggesting an increased differentiation between member states. Over the past two decades there has been an increase in the use of differentiated integration to cope with the fundamental political and societal divergences between European countries (Leruth and Lord 2015). The literature often mentions a 'two-speed Europe', consisting of the Eurozone on the one hand and other EU member states on the other (see Piris 2012; Majone 2016). Member states and non-member states might cooperate in policy areas where there is a common interest, such as the European Free Trade Association or Schengen. Yet differentiation can go both ways. Some countries might be tempted to advocate differentiated *disintegration*, by trying to renegotiate the terms of their membership to the European Union, in order to be granted new exemptions or opt-outs from existing European policies, as appeared to be the case in pre-Brexit referendum negotiations. On the other hand, the procedure of enhanced cooperation allows a minimum of nine member states to establish advanced integration within EU structures, without the involvement of other member states. This mechanism, introduced by the Treaty of Amsterdam, has so far only been used in the fields of divorce law, unitary patent regulation, and property regimes for international couples. However, a proposal on a European Union financial transaction tax involving ten member states has been approved and may soon come into force.

**(p.196)** The two mechanisms described above can be used to solve any political deadlock not only within the European Union, but also within the Eurozone. As far as the future of the European Social Model is concerned, some member states might use the procedure of enhanced cooperation in order to carry on harmonizing their policies. However, it does not seem to be part of the agenda at the time of writing. Still, an increased differentiation could offer the possibility of ‘saving’ the European integration project. As public support for more health and social security policy coordination at the EU level is strongly supported in countries such as Cyprus (87 per cent), Italy (76 per cent), and Greece (73 per cent; see European Parliament 2016), a differentiated European Social Model in this area, with further political commitment between member states, could emerge in the near future.

### 9.5 Concluding Thoughts

The crisis that the European Union has been facing since 2008 is unprecedented. The financial and economic shocks of the Great Recession still affect national economies and the EU still faces high levels of social inequality, political instability, strong migration flows, and security threats. EU policy responses to the economic, social, and financial aspects of the European crisis have focused on social investment and also on enforcing drastic neo-liberal and austerity measures for some of its member states (particularly Greece). The future of European integration is now at stake following the UK’s vote to leave the Union, and the option of the political status quo is simply not viable.

As this chapter demonstrates, welfare state policies in some areas have gone through a process of Europeanization, from the first Social Action Programme of 1974 to the Europe 2020 strategy emphasizing social investment. Even though the scope and the evolution of the European Social Model over the past decades have been rather limited for some, policy developments at the EU level need to be taken into consideration in order to understand the future of the welfare state across Europe. While the scenarios of European disintegration or increased integration are not currently favoured by political realities or by public opinion, it does not mean that the European Social Model is unlikely to change in the near future. Section 9.4 made the case for the use of differentiated models of integration to bring an unsustainable status quo to an end and escape the crisis. Political willingness to overcome existing challenges is, however, needed in order to achieve this objective.

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**Notes:**

(1.) For a detailed account of the Economic and Monetary Union Sovereign Debt crisis, see Buti and Carnot (2012).

(2.) The European Semester is a mechanism that '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, the Macroeconomic Imbalances Procedure, and the Fiscal Treaty to the Europe 2020 Strategy and the Integrated Economic and Employment Policy Guidelines' (Zeitlin and Vanhercke 2014: 11).