ROUTLEDGE STUDIES IN THE EUROPEAN ECONOMY

The Political Economy of the European Social Model

Philip B. Whyman, Mark Baimbridge and Andrew Mullen

Routledge

The Political Economy of the European Social Model

Philip B. Whyman, Mark Baimbridge and Andrew Mullen

2012

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

The Political Economy of the European Social Model

This book seeks to analyse the development of the European Union (EU), which was founded upon the principle of the free movement of capital, goods, services and people in 1957. Its central thesis is that, from a practical and theoretical point of view, such a basis is fundamentally at odds with the creation of an interventionist regime that the construction of a Social Europe would require.

The authors argue convincingly that – economically: the EU does not currently possess the budget or the economic tools to pursue such a strategy; politically: close to none of the institutions of the EU have backed such a policy; practically: conservative and neo-liberal forces (among member states and the institutions of the EU) have repeatedly thwarted any moves in this direction. In reality, the single internal market, Economic and Monetary Union, enlargement, the Lisbon Agenda and European Constitution projects all prioritize supply-side measures and expanding the scope of the market rather than the boosting of demand and other economic intervention. Consequently, constructing a Social Europe in the face of this would appear problematic. Hence, in both theory and practice, the idea that there can be a Social Europe vis-à-vis neoliberalization is a contradiction in terms.

This controversial book will be an educating and refreshing read for advanced students and academics involved with European politics, the European Union, European economics and economic institutions.

Philip B. Whyman is Professor of Economics at the University of Central Lancashire, UK.

Mark Baimbridge is Senior Lecturer in Economics at the University of Bradford, UK.

Andrew Mullen is Senior Lecturer in Politics at Northumbria University, UK.

Contents

List of illustrations ix
Preface xi
European integration timeline xii
Abbreviations xvi

1 The European Social Model 1

PART I
From liberal to neo-liberal Europe 25

2 Liberal Europe during the Cold War Order (1947–1982): from the European Recovery Program to the socialist challenge 27

3 The political economy of Western Europe's social models in the Cold War Order: inevitable and convergent welfare states? 38

4 Neo-liberal Europe in the New World Order (1985–2007): from the single market to the European Constitution 62

5 The political economy of Western Europe's social models in the New World Order: retrenching welfare states and the emergence of Social Europe? 84

PART II
Alternative social models to neo-liberal Europe 117

6 Progressive social forces and the transformation of the World Order: radical national alternatives 119

7 Progressive social forces and the transformation of the World Order: Euro-Keynesian and radical European alternatives 144

PART III
The neoliberalization of EU policy 175

8 Operation of economic policy 177

9 Fiscal federalism: a missed opportunity or an emerging consensus? 198

10 European social policy: constructing a European Social Model and defending the European model of society? 211

11 Social partnership and labour market flexibility 222

PART IV
What future for a Social Europe? 233

12 Neoliberalization and enlargement: incompatible goals? 235

13 Social Europe and enlargement: threat or opportunity? 248

14 National economic policy alternatives 266

15 From rescue and stimulus to the age of austerity: the European response to the great recession and the prospects for Social Europe 281

Notes 322
Bibliography 327
Index 389

Illustrations

Figures

4.1	Eurozone macroeconomic imbalances (1998-2010)	73
8.1	Monetary and fiscal policy under EMU	184
13.1	Social protection as percentage of GDP, 2000	257
15.1	The European Semester in action	311

Tables

1.1	Comparison of social market and current EU ‘social dimension’	7
3.1	The extension of citizenship	40
3.2	The introduction of social insurance	41
3.3	The growth of social expenditure	41
3.4	The growth of social expenditure, 1960–1975	42
3.5	Intra-Western European foreign trade as a percentage of national income, 1938–1951	51
3.6	The regional structure of EC-12 trade, 1958–1990	52
4.1	Divergence within the eurozone	72
4.2	Comparison of the ECB interest rate with the notional ‘appropriate rate’ in member states	73
4.3	EU enlargement referendum results, 2003	77
5.1	Social protection expenditure in EU member states as a percentage of GDP, 1980–1997	86
5.2	Average growth rates in the pre-Keynesian and Keynesian periods	96
5.3	The Keynesian and neo-liberal periods compared	96
5.4	Ownership of financial assets by type of institution, 2007	100
5.5	Exports to EU member states as a percentage of each country’s total exports, 2005	106
7.1	Effects of a \$1billion reflation in a single European country	150
7.2	Cumulative reflation: illustrative projection	151
8.1	A comparison between features of progressive alternative and EMU	196

12.1 Summary of EU accessions 237
12.2 EU CCs 238
12.3 EU PCCs 238
12.4 Adherence to EMU convergence criteria 242
13.1 Comparator statistics – European labour markets 249
13.2 Casualization in selected NMS, 2000 252
13.3 Level and coverage of wage bargaining in EU member states, 2004 254
13.4 Distribution of income in selected NMS, 1998 256
15.1 European rescue and stimulus packages in 2008 283
15.2 Budget deficits and public debt levels across Europe 286–7
15.3 Austerity across Europe from 2010 290–301

Preface

There are many people to think for their input into making of this book possible. Most obviously, we must thank our commissioning editor at Routledge, Terry Clague, for his immediate support for this project and Simon Holt (editorial assistant – Economics). Second, we would like to thank our colleagues at the universities of Central Lancashire, Bradford and Northumbria for their comradeship and general support for our research on European economic integration. Finally, we owe a deep sense of gratitude to our families and partners for their forbearance during the preparation of this book. It is to them that this book is dedicated: PW: Barbara, Boyd and Claire; MB: Mary, Ken, Beibei and Douglas.

Any remaining errors and omissions we gladly attribute to each other.

Heaton Norris, Haworth and Gateshead
December 2011

European integration timeline

From its beginnings, half a century ago, in the immediate aftermath of the Second World War, through the expansion of the 1970s and 1980s and the great debate surrounding the Maastricht Treaty, here we highlight some of the key events which have shaped the development of the EU towards closer integration.

1948 The Organization for European Economic Co-operation (OEEC) is set up in Paris in April 1948, co-ordinating the distribution of the Marshall Plan financial aid which will amount to $12.5 billion from 1948 to 1951. The OEEC consists of one representative from each of the 17 Western European countries which join the organization. In May 1948 in The Hague, the Congress of Europe (a meeting of delegates from 16 European countries) agree to form the Council of Europe with the aim of establishing closer economic and social ties.

1951 The European Coal and Steel Community (ECSC) is established by the signing of the Treaty of Paris in April 1951. Along with France and West Germany, Italy, Belgium, Luxembourg and the Netherlands also choose to join the organization. Members of the ECSC pledge to remove all import duties and quota restrictions on the trade of coal, iron ore, and steel between the member states.

1952 The European Defence Community (EDC) Treaty is signed by France, West Germany, Italy, Belgium, Holland and Luxembourg in May 1952. It includes the provision for the formation of a parallel European Political Community. However both initiatives are destined to founder since the French National Assembly never ratifies the EDC Treaty, finally rejecting it in August 1954.

1955 The process of further European integration is given fresh impetus by a conference of ECSC foreign ministers at Messina, Italy, in June 1955. The meeting agrees to develop the community by encouraging free trade between member states through the removal of tariffs and quotas. Agreement is also reached to form an Atomic Energy Community to encourage co-operation in the nuclear energy industry.

1958 The two Treaties of Rome are signed, establishing the European Economic Community (EEC) and the European Atomic Energy Community

(Euratom). As well as stipulating the eventual removal of customs duties on trade between member countries (over a period of 12 years) the EEC Treaty sets out allow the free movement of workers, capital and services across borders and to harmonize policies on agriculture and transport.

1960 At the Stockholm Convention in January 1960 Austria, Britain, Denmark, Norway, Portugal, Sweden and Switzerland form the European Free Trade Association (EFTA). The objective of EFTA is to promote free trade but without the formal structures of the EEC.

1961 The United Kingdom applies to join the EEC.

1963 British application for EEC membership fails.

1967 The United Kingdom submits second application to join EEC.

1968 Customs union completed and Common Agricultural Policy enacted.

1972 In October, following the recommendations of the Werner Report, the EEC launches its first attempt at harmonizing exchange rates. The mechanism adopted is the so called 'snake in the tunnel' whereby participating governments are required to confine the fluctuations of their currencies within a range of ±1 per cent against each other. The value of the group of currencies (the snake) is also to be maintained within a range of ±2.25 per cent against the US dollar (the tunnel). Countries requiring assistance to keep their currencies within the required band may receive help only in the form of loans.

1973 Denmark, Ireland and the United Kingdom join the EEC.

1975 A UK referendum supports staying in EEC.

1978 At a summit in Bremen in July, the French and West German governments announce their intention to create the European Monetary System (EMS). At the centre of the EMS is the European currency unit (ecu). The value of the ecu is to be derived from a weighted basket of all participating currencies with the greatest weighting against the West German mark.

1981 Greece joins the European Community (EC).

1986 Portugal and Spain join the EC.

1990 The United Kingdom joins the EMS.

1992 At a summit of the European Council in Maastricht, Holland, the Treaty on the European Union (TEU), also known as the Maastricht Treaty, is signed. Originally intended to include a declaration of an intention to move towards a federal union, at Britain's insistence this aspect is played down. Subsequent to the signing of the Maastricht Treaty, the EC is referred to as the European Union (EU).

The United Kingdom leaves the EMS.

1993 The Single European Market takes effect. Trade tariffs are scrapped, but duty-free shopping remains until 1999.

1994 Stage 2 of EMU is initiated on 1 January with the establishment of the European Monetary Institute (EMI) to oversee the co-ordination of the monetary policies of the individual national central banks. The EMI will also work towards the introduction of stage 3 by organizing the creation of the European Central Bank (ECB).

1995 Austria, Finland and Sweden join the EU, bringing membership to 15.
The Schengen agreement comes into force and scraps border controls. The United Kingdom and Ireland stay out of the agreement.

1997 Heads of government draft a new agreement in Amsterdam which updates the Maastricht Treaty and prepares the EU for its eastward expansion. Qualified majority voting (QMV) is introduced into new areas, reducing individual countries' powers to veto new measures.

1998 At the beginning of May, at a summit of EU officials and heads of state in Brussels, the announcement is made as to which countries will participate in the launch of the euro the following January. In June the ECB is established in Frankfurt, Germany. The ECB together with the national central banks of the 15 EU member states form the European System of Central Banks (ESCB) which will be responsible for setting monetary policy for the euro countries and managing those countries' foreign reserves.
The EU opens accession negotiations with Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus.

1999 Romania, Slovakia, Latvia, Lithuania, Bulgaria and Malta are invited to begin accession negotiations.
The euro is adopted by 11 countries as their official currency (although national currency notes and coins remain in circulation), but Sweden, Denmark and the United Kingdom stay out.

2000 The Nice summit agrees to limit the size of the commission and increase the president's powers. QMV is introduced in new areas, but members keep their vetoes on social security and tax. A timetable for taking forward accession negotiations is endorsed.

2001 The Laeken European Council establishes the Convention on the Future of Europe.

2002 Euro notes and coins are introduced in 12 EU countries.
The European Commission announces that ten countries are on course to meet the criteria for accession to the EU in 2004.

2003 The United Kingdom has been a member of the EU for 30 years.

2004 EU enlargement to 25 member states with addition of Slovakia, Latvia, Lithuania, Malta, Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus.

2005 EU Constitution ratification ended by referendum defeats in France and the Netherlands.
The UK holds EU presidency, but fails to make progress on new 2007–2013 budget.
Accession negotiations are opened with Turkey and Croatia.

2006 Slovenia's entry into the euro on 1 January 2007 is confirmed.
Accession negotiations with Turkey are suspended.

2007 EU enlargement to 27 member states with the addition of Bulgaria and Romania.

2008 Slovenia becomes the first of the recent enlargement members to hold the presidency of the council of the EU.

Treaty of Lisbon ratification ended by referendum defeat in Ireland.

2009 Final year of the Barroso Commission.

Seventh series of elections to the European Parliament.

Second Irish referendum approves the Treaty of Lisbon.

Herman Van Rompuy is appointed first permanent president of the EU council.

2010 Spain takes over the rotating presidency of the council of the EU, the first under the Lisbon Treaty and the new 'trio presidency system'.

The European Parliament approves the Barroso II Commission.

EU leaders adopt Europe 2020 targets.

Heads of state within the euro area agree to deeper fiscal consolidation, stronger economic coordination and budgetary surveillance to defend the euro.

2011 Estonia adopts the euro as its currency, becoming the seventeenth member of the euro area.

Three new European financial supervisory authorities begin operating: the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.

The European Council agrees that the accession negotiations with Croatia should be concluded by the end of June 2011, paving the way for the country to become the twenty-eighth EU member in 2013.

The EU seeks to resolve the eurozone crisis centred on Greece through establishing the European Financial Stability Facility (EFSF) to become the European Stability Mechanism from 2013.

2012 Croatia vote 'yes' by 66 to 33 per cent in its accession referendum and so will become the twenty-eighth EU member on 1 July 2013.

The European Council proposed a new treaty on stability, coordination and governance in the economic and monetary union, which is agreed by all EU countries with the exception of the Czech Republic and the UK.

Abbreviations

AC	Accession country
AES	Alternative economic strategy
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BCC	British Chambers of Commerce
BWS	Bretton Woods system
CAP	Common Agricultural Policy
CBI	Confederation of British Industry
CC	Candidate country
CEEC	Central and Eastern European country
CFR	Council on Foreign Relations
CFSP	Common Foreign and Security Policy
CIA	Central Intelligence Agency
CPE	Critical political economy
CWO	Cold War Order
DWSR	Dollar–Wall Street Regime
EC	European Community
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
ecu	European currency unit
EDC	European Defence Community
EEC	European Economic Community
EEP	European employment pact
EES	European Employment Strategy
EFSF	European Financial Stability Facility
EFTA	European Free Trade Association
EFTS	European Federal Transfer Scheme
EIB	European Investment Bank
EIF	European Investment Fund
EMI	European Monetary Institute
EMS	European Monetary System

EMU	Economic and Monetary Union
EPC	European Political Co-operation
EPU	European Political Union
ERM	Exchange Rate Mechanism
ERP	European Recovery Program
ERT	European Round Table of Industrialists
ESF	European Social Forum
ESM	European Social Model
ETUC	European Trade Union Confederation
EU	European Union
EWC	European works council
FDI	Foreign direct investment
FSB	Federation of Small Businesses
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GRP	Gross regional product
HICP	Harmonized Index of Consumer Prices
IGC	Intergovernmental conference
IMF	International Monetary Fund
IoD	Institute of Directors
IS-LM	Investment–saving/liquidity preference–money supply
JHA	Justice and Home Affairs
KWNS	Keynesian welfare national state
MCC	Maastricht Convergence Criteria
MEP	Member of the European Parliament
MTEPC	Medium-term Economic Policy Committee
NAFTA	North American Free Trade Agreement
NAIRU	Non-accelerating inflation rate of unemployment
NATO	North Atlantic Treaty Organization
NEC	National Executive Committee
NMD	National Missile Defense
NMS	New member states
NSC	National Security Council
NRU	Natural rate of unemployment
NMW	National minimum wage
NWO	New World Order
OCA	Optimum Currency Area
OECD	Organization for Economic Co-operation and Development
OEEC	Organization for European Economic Co-operation
OMC	Open Method of Coordination
PAC	Potential accession country
PCC	Potential candidate country
PCF	*Parti Communiste Français*
PCG	*Programme Commun du Gouvernement*
PS	*Parti Socialiste*

QMV	Qualified majority voting
R&D	Research and development
SAP	Structural adjustment programme
SEA	Single European Act
SGP	Stability and Growth Pact
SIM	Single internal market
SM	Single market
SPD	*Sozialdemokratische Partei Deutschland*
SWPR	Schumpeterian workfare post-national regime
TEU	Treaty on the European Union
TNC	Transnational corporation
TUC	Trades Union Congress
UNCTAD	United Nations Conference on Trade and Development
UNICE	Union of Industrial and Employers' Confederations of Europe
WTO	World Trade Organization

1 The European Social Model

Introduction

One distinctive feature of the model of regional integration advanced by the European Union (EU) concerns the creation of a social dimension (*espace social européen*) or European Social Model (ESM). This is a relatively new phenomenon, having been grafted onto a predominately economic or trade-orientated focus for economic integration. Nevertheless, it is one which has had increasing resonance amongst certain parts of the European citizenry as economic integration has deepened, as it is perceived as a means of counter-balancing the less desirable consequences likely to arise from the unfettered operation of free market forces (Bean *et al*., 1998). In this way, the ESM sets the EU apart from other contemporary examples of regional economic integration (Vaughan-Whitehead, 2003: 23).

In general discussion, the concept of a 'Social Europe' is typically counterpoised against the neo-liberal, free market 'Anglo-Saxon' model. Not surprisingly, therefore, it has proven particularly popular amongst social democratic and trade union constituencies. Indeed, it represents a significant reason why these groupings remain amongst the most enthusiastic advocates of deeper European integration (Strange, 1997; Edmonds, 2000: 194; Whyman, 2002, 2007). Nevertheless, there remains a deep ambivalence concerning the precise meaning of the ESM, its importance and how (or indeed, whether) it complements other aspects of policies intended to promote a broadening and deepening of European integration. It is these aspects of the subject matter that this book is intended to evaluate.

Foremost an economic union?

The EU was founded as an economic organization, focused upon promoting integration through trade, and facilitated through the progressive removal of trade barriers between EU member states, whilst maintaining barriers against the rest of the world. As such, the employment and social aspects remained underdeveloped. The Treaty of Rome did include a Title on Social Policy, within Article 117 (later to become Article 136), which committed the organization to 'promote improved working conditions and standards of living of workers', however this statement of intent was not accompanied by a consideration of measures to deliver these objectives (EU, 1957). Indeed, the early years of the organization made little impact upon the social and employment spheres, outside the impact arising from economic integration, except in so far as the free movement of labour has an impact upon employment opportunities for European workers and the subsidies extended to rural employment through the Common Agricultural Policy (CAP).

This began to change in the mid-1970s, with the development of the first Social Action Programme, although this aspect remained marginalized until the Delors presidency of the European Commission, when a Charter of Fundamental Social Rights of Workers was established, in 1989, and which advocated the creation of a minimum set of social rights for EU citizens. Yet even this remained a non-binding, political declaration, signed by 11 of the then 12 EU member states (the United Kingdom being the exception) until its evolution into a social protocol annexed to the Treaty on European Union (TEU or Maastricht Treaty) in 1992. Once again, opposition from the UK Conservative administration and their consequent opt-out from the provisions prevented the protocol from being included in the main body of the treaty itself. Nevertheless, it was cited in the preamble and Article 2 of the TEU committed the EU

> To promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union, ultimately including a single currency in accordance with the provisions of this Treaty.
>
> (EU Commission, 1992)

This, in turn, resulted in the adoption of a wave of directives relating to employment and social policy, including, amongst others, measures to regulate collective redundancies, maternity rights and working time. Moreover, this area was further strengthened by incorporating the protocol into the main body of the subsequent Amsterdam Treaty, where the resulting Article 11 provided the EU Commission new competences in the areas of industrial relations and combating social exclusion (Adnett, 2001).

ESM: a contested ideal

Despite its centrality as a feature of debate relating to the future development of the 'new Europe', it is perhaps surprising that the ESM remains poorly defined – including by the EU itself, possibly as a deliberate attempt to obfuscate the political differences between conservative and social democratic groupings likely to surface if greater clarity was forthcoming (Vaughan-Whitehead, 2003: 3). One of the few attempts, arising from the Nice summit in 2000, suggested that the

ESM derived from a "common core of values" relating to the provision of a high degree of social protection, the recognition of the importance of dialogue between social partners and the necessity to promote social cohesion as essential elements within the process of European integration (EU, 2000: 4). It is therefore intended to be more than the sum of the approximately 70 directives or legislative tools that seek to influence European social policy, principally in the fields of labour law, equal opportunities within the workplace, occupational health and safety and the free movement of labour.

Despite these attempts, the concept of the ESM remains both unclear and contested territory. For its advocates, the ESM has been viewed as a means to 'construct a progressive counterweight to an increasingly pervasive global market ideology' (Kenner, 2000; Watson, 2006: 146). Indeed, it may be argued that it was conceived at least partly as a result of popular dissatisfaction with the shift in economic stance towards a neo-liberal Europe (Mathers, 2007: 49–84). For its most consistent advocates, organized labour, the ESM offers a means of evading declining national influence, establishing bargaining rights in transnational corporations (TNCs) whilst helping to evade the economic logic arising from Economic and Monetary Union (EMU), that wage restraint and reductions in social provision are the most obvious ways to slow cost increases and maintain international competitiveness within a single currency zone (Crouch, 2002: 297; Whyman, 2002, 2008). When combined with a neo-liberal advocacy of deregulation, the absence of an ESM is likely to result in pressure towards a competitive diminution of employment conditions and welfare provision across the European single market (SM).

The evidence is, however, more problematic, as it would appear that the drift of policy has been in the opposite direction, with the creation of a more 'unsocial Europe' (Gray, 2004; Mathers, 2007: 2). The removal of barriers to financial flows and increasing integration of European capital markets has led to an increasing dominance of capital market over bank credit financing, resulting in a shift in corporate control and governance across much of the European economic space. This creates a further potential rift with the ESM ideal, as labour market strategy, intended to protect workers from at least certain market vagaries, would conflict more clearly with this new focus upon market-driven corporate strategy, whilst conceptions of employee participation in corporate decision-making and/or economic democracy, would appear less likely to be accommodated (Watson, 2006). Moreover, the economic architecture surrounding EMU would appear to encourage the consideration of wages and social protection as costs rather than benefits, likely to undermine the competitiveness of a participating nation unable to restore competitive advantage through devaluation and/or changes in monetary policy due to the single currency.

The result is tension over both the definition of what the ESM should be, alongside what Bieler (2006) has termed a "struggle" for a Social Europe – where progressive forces within the European economy press for greater state involvement in economic policy, promoting employment and developing the ESM to the benefit of citizens and workers, against the neo-liberal logic of the single internal market (SIM) and EMU. Thus, Mathers (2007) highlights the consistent critique of neo-liberal solutions to Europe's economic difficulties, and details the various marches and pressure inflicted by a combination of new social movements and organized labour.

Yet, the fact remains that this has failed in its primary mission, namely to arrest the permeation of neo-liberal economics and develop a truly alternative conception of a Social Europe. Indeed, it might be argued that organized labour and progressive political forces remain divided as how to advance a preferred conception of ESM without damaging the goal of deeper European integration, to which they remain committed. Hence, when opposition to neo-liberal permeation led to national labour movements supporting a 'no' vote in Dutch and French referendums on the Constitutional Treaty, in 2005, the European Trade Union Confederation (ETUC) announced its disappointment in the result and insisted that the proposed constitution was not, after all, neo-liberal in intent, and therefore trade unionists should support, not oppose, its implementation (Mathers, 2007: 191). Thus, whilst many progressive political forces might wish to utilize the larger European space to extend the ESM such that progressive priorities supersede market determination, there is an equal if not greater argument in favour of the need for national systems to be defended against neo-liberal economic imperatives emanating from the EU (Watson, 2006: 146).

One possible definition (amongst many)

For the purposes of this book, a maximal (or strong) definition of ESM is employed, where it is considered to be a multi-faceted approach encompassing elements of economic, social and labour market policy, including:

1 Competitive market economy, but where social institutions mediate between state and market
2 Promoting social solidarity, primarily through initiatives designed to reduce inequality and protect worker–citizen rights
3 Combining the desirability of universality (through social protocols) with the realisation of the subsidiarity principle through encouraging social partners to complement state activity

Traditionally, the ESM has been associated with the prioritization of full employment, often through Euro-Keynesianism, as advocated by the Tindemans (1976) report prepared for the EU Commission, although this emphasis has markedly lessened amongst leading figures in the EU Commission in recent times (Coates, 1999; Notermans, 2000). This, in turn, is supported by a quasi-corporatist interest in the co-ordination of wage formation – the latter has the ability to promote a stable labour market at internationally competitive aggregate wage rates, whilst preventing high quality producers being undercut by 'sweatshop' employers. It has been suggested that the impact of the globalization of production and international freedom of movement of capital have combined to weaken the ability of national governments to pursue progressive policies, and therefore full employment policies may be more successfully re-created on a larger geographical basis. Thus, in the eurozone, trade and capital flows will be of lesser proportionate significance, and hence counter-cyclical macroeconomic policy will have fewer leakages and will be proportionately more vigorous (Coates, 1999; Notermans, 2000).

The social policy element of the ESM is viewed as favouring the extension of universal, comprehensive welfare state provision to cover all EU citizens, and thereby creating a minimum safety net for European citizens across the entire SIM. Social policy aims are considered to include a reduction in the degree of inequality within and between European member states, in order to promote conceptions of equity and social cohesion. Social policy has been, moreover, associated with the decommodification of labour and knowledge; in the process, encouraging investment in human capital (Esping-Andersen, 1990; Teague, 1997). Furthermore, decommodification arguably empowers employees and enables the development of work relationships based upon trust and loyalty, rather than the market nexus; a difference increasingly important in the dynamic knowledge-based sectors of the economy.

In contrast to neo-liberal theorists, this conception of social protection advances the proposition that a trade-off between social equity and economic efficiency is not inevitable, and, rather, the former can enhance efficiency through reducing poverty, thereby reducing constraints upon participation in economic activity (de Neubourg and Casonguay, 2006: 180). Indeed, in the long term, there does appear to be some evidence that reductions in inequality may have a positive impact upon economic growth developments (Wilkinson and Pickett, 2009). Of course, social expenditure must be financed, and this may lead to higher costs for employees or firms, but the net impact upon productivity depends upon how policy design enhances incentives to invest in human capital and the extent to which training opportunities are available (de Neubourg and Casonguay, 2006: 201–2). Hence, generous social security systems do not *necessarily* result in lower labour market participation rates and higher unemployment if this is supplemented by active labour market measures (de Groot *et al.*, 2006: 175).

The ESM is, furthermore, considered to embrace an employment aspect, whereby European citizen rights and wellbeing is promoted through the enhancement of social partnership between employers and employees – typically, though not exclusively, through trade unions. The emphasis upon the inclusion of workers and their unions in the working of the economy is intended to facilitate 'voice' rather than 'exit', and in turn, facilitating co-operation in adapting to change, superior morale resulting in enhanced productivity and lower employee turnover, and finally the prevention of low skill, low investment competitive alternatives stimulates productive investment and innovation (Streeck, 1992: 5; Hutton, 1994; Coates, 1999: 654–5). The introduction of European works councils (EWCs), in large TNCs operating within the EU economies, demonstrates an interest in facilitating consultation and enhancing micro-level flexible adaptation. Furthermore, universal employee protection whilst at work forms a core element of the ESM (Strange, 1997).

The broadening of collective bargaining across member states rather than remaining a predominantly national preserve – so-called euro-bargaining – reinforces social partnership as a component of wider integration objectives. However, although advocated by the ETUC, European employer organizations remain hostile to this development. Nevertheless, a large body of the literature has indicated that co-ordinated wage formation produces a superior macroeconomic flexibility in real wages and hence industrial adjustment to external shocks to the economy (Bruno and Sachs, 1985; Calmfors and Driffill, 1988; Rowthorn and Glyn, 1990).

The ESM is, as thus conceived, a variant of the post-war German *social market*, which has combined a successful, competitive market economy with generous welfare provision, labour protection and an exceptional vocational training system that produced skilled workers of sufficient quantity and quality, thereby rectifying the corporate tendency to under-invest in skill formation (Glasman, 1997: 136; Teague, 1997). Yet, the precise nature of the social dimension remains the focus of political struggle, as diverse opinions seek to realize their preferred interpretation of the concept.

A coherent model?

The discussion of the ESM, thus far, suggests that it is a well considered, internally consistent entity, fully realized in practice across the internal market created by the EU(15) member states, and largely on the way to fulfilment in those new member states (NMS) joining following one of the enlargement phases. However, this is far from the case. There is considerable divergence between the social and employment policies pursued by individual member states, with the Scandinavian and UK Anglo-Saxon models representing two extremes, whilst many of the NMS appear to be pursuing quite a different employment and social policy, in order to maintain economic competitiveness amidst lower productivity rates.

The current form of social dimension being constructed across the EU is, arguably, a *minimalist* (or weak) version of a fully-fledged system of social protection of the kind idealized in discussion of the ESM (Keller and Sorries, 1997: 93; Whyman, 2001, 2007). This is why critics of the current position describe it as having ‘retarded [the] advancement of European-level political rights’, alongside the ‘almost complete absence of a European system of industrial citizenship’ indicating that there is little reason to anticipate these initiatives will prove particularly successful (Streeck, 1992: 218–19). Consequently, it is a moot point whether the subsidiarity principle informs and reinforces the considerable fragmentation in this area of policy, or is actually an *ex post facto* attempt to recognize and provide a narrative to justify the divergence in social and employment matters across the EU member states. The contrast between current and ideal type of ESM is illustrated in Table 1.1.

The fact that the ESM is an idealized form of reality does not, however, imply that the concept of creating a 'Social Europe' may be dismissed completely. The minimalist version of the ESM that has been created amongst EU nations has still provided notable benefits for workers and citizens in less regulated economies (such as the United Kingdom), whilst other initiatives (i.e. the EWC Directive) have the potential to develop into a more significant form over time. Moreover, the idealized version of the ESM can be utilized by social democrats, trade unionists and other progressives, to argue the case for further advances to be pursued in this area (Bieler, 2006). Consequently, it is of great significance to ascertain how, first, the ESM may impact upon the EU's NMS and, second, how their accession may influence the future development of the social dimension.

Is the Lisbon Agenda compatible with the ESM?

In the Lisbon Summit, in March 2000, EU member state governments committed themselves toward ensuring that the EU became 'the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable economic growth, with more and better jobs and greater social cohesion'

Table 1.1 Comparison of social market and current EU 'social dimension'

	EU social dimension	*European social market*
Welfare State		
Type	Minimalist	Comprehensive
Coverage	Safety net	Universal
Replacement Ratio	Low	High
Association with labour market	Re-commodification	De-commodification
Response to globalisation	Competitive – improve labour market skills	Protective – social citizenship requires non-market income source to make effective choices
Industrial Relations		
Collective bargaining recognition	Patchy	High/comprehensive
Corporatist	Diverse – some member states deregulated wage formation, whilst others rely upon social contracts to secure budget cuts	Established – facilitates superior inflation: employment trade-off
Euro-level IR	Minimum – EWC, consultation only	Developed – framework bargaining between federal-level social partners
Labour regulation	Minimum – complements single market; over-regulation impedes competitiveness	Fundamental – basis of social accord, combining industrial adjustment with employee protection

(cited in Mundschenk *et al.*, 2006: 3). The Lisbon Strategy was the mechanism intended to achieve this goal. However, this was largely a symbolic expression of intent, being based upon neither academic research nor considered policy appraisal, and therefore it fell to later work to try and place flesh upon the bones outlined. The Sapir Report (2004) was the first significant contribution to this endeavour.

The Lisbon Agenda, therefore, seeks to pursue a dynamic economic strategy, enhancing productivity and international competitiveness, whilst simultaneously seeking to protect and, indeed, enhance social equity through the development of the ESM. It sought to close the persistent GDP gap with the United States, through enhancing productivity per hour, even though lower employment rates and shorter working hours would actually appear to account for a greater element of this differential (Sapir *et al.*, 2004: 27–50; Dierx and Ilzkovitz, 2006: 17). The aims are, undoubtedly, laudable. However, the means, expressed through the Sapir Report (and more generally, under the auspices of what has come to be known as the 'Brussels–Frankfurt Consensus'), and the development of the ESM, would appear to be fundamentally conflicted.

Structural reforms have sought to enhance allocative efficiency through the creation of better functioning markets. In the labour market, this has focused upon flexible working arrangements, active labour market policies and reform of wage setting institutions to decentralize or individualize wage formation, in order to better reflect productivity rates (Dreger, 2006). Similarly, product market reforms focused upon enhancing competition, removing remaining barriers to inter-union trade, furthering financial market integration, encouraging productive investment and innovation (Dierx and Ilzkovitz, 2006).

Thus the Lisbon Treaty which was signed by EU member states on 13 December 2007 and entered into force on 1 December 2009 represents the current zenith of EU treaty making and places into context the present position of whether a Social Europe is attainable in any meaningful sense, as we argue in this book.

The 'Brussels–Frankfurt Consensus' and the Sapir Report

The 'Brussels–Frankfurt Consensus', as described in the Sapir Report, provides the focus for a new and quite different approach to the slow rates of growth and lagging productivity which have characterized many parts of the European economy for several decades (Sapir *et al.*, 2004). The 'Brussels–Frankfurt Consensus' focuses upon the importance of economic stability, and claims that this is to be achieved via price stability and fiscal discipline (Issing *et al.*, 2001). The hypothesized relationship is therefore seen to follow that price stability is the central focus of economic policy, as it is predicted to result in higher economic growth over the medium term and lower rates of cyclical instability. Constrained (or 'sound') public finances are therefore necessitated to dampen demand, in pursuit of this causal relationship, and in turn, is expected to lead to lower budget deficits and public debt, thereby facilitating a lower long-term interest rate and reducing the possibility of crowding out productive private sector investment (Sapir *et al.*, 2004: 51).

This 'consensus' is based upon a shared understanding of macroeconomic forces, such that: (a) The economy has a tendency to fluctuate around an objective conception of a NAIRU (non-accelerating inflation rate of unemployment), meaning that, when unemployment is below this rate, inflation will occur, whereas when above the rate, it will decline; (b) The level of economic activity, and the level of economic growth, are both determined by the interaction of supply (not demand) factors (Sapir *et al.*, 2004: 5). This is an example of a pre-Keynesian or neo-liberal, New Keynesian synthesis version of economic policy, in which supply-side interventions dominate considerations of aggregate demand (Arestis and Sawyer, 2001: 2, 2006: 57–8). Whilst noting the availability of contrary evidence in the literature, however, the Sapir Report largely accepts this analysis. So, for example, it suggests that the ECB should take greater note of potential deflationary aspects of its policy, without challenging the fact that its sole objective is price stability – defined at an inflation rate of approximately 2 per cent per annum (Sapir *et al.*, 2004: 166). This is not a step towards greater symmetry, as the report suggests, but simply a restatement of the existing asymmetric approach. Similarly, whilst conceding that newer member states might be allowed an element of greater flexibility in their fiscal policy rules, and suggesting the establishment of a 'rainy day' fund, funded through retained surpluses during boom years to help to stabilize EMU through less buoyant periods, the report nevertheless sticks firmly to the importance of the excessive deficit procedure element of the Stability and Growth Pact (SGP), which is the primary means of constraining fiscal policy and undermining its ability to pursue an aggressive counter-cyclical strategy.

The resulting policy stance is therefore to maintain a neutral fiscal policy and rely primarily upon monetary policy, through the medium of the interest rate policy instrument, to smooth demand shocks and thereby enable supply-side factors to determine development in the real economy. There is, therefore, no need for democratic control over fiscal or monetary policy, as these are supportive to the primary drivers of economic growth, and therefore these instruments can be subcontracted to technocratic specialists in the ECB and/or be constrained by the operation of the SGP.

'Brussels–Frankfurt Consensus' economics

The two foundations of the 'Brussels–Frankfurt Consensus', namely the belief in a NAIRU and the supremacy of supply-side economics, are both controversial and subject to significant criticism within the literature.

Supply-side determined equilibrium rate of unemployment

The acceptance of a *supply-side determined equilibrium rate of unemployment* is common to two economic schools of thought. In the first, the monetarist natural rate of unemployment (NRU) derives from the adaptive expectations-augmented, vertical long run Phillips Curve, first developed by Friedman (1968) and Phelps (1968). Its rationale relies upon the neo-classical view of the labour market, where individuals seek to optimize their satisfaction by determining how much time they allocate to work and leisure at the prevailing real wage rate. In this model, workers recognize (whether through adaptive or rational expectations) whether changes in nominal wages convert into real wage effects, and therefore government attempts to boost economic activity and reduce unemployment below the supply-determined long run equilibrium rate, will be ultimately self-defeating.

A more recent variant of this general approach is the NAIRU, it is defined as that level of unemployment, determined by the interaction between market forces of demand and supply within the labour market, which maintains a steady rate of inflation. There are orthodox and imperfect competition variants of this theory, yet both hold that if unemployment is pushed below the NAIRU rate, it will result in rising inflation, and consequently the NAIRU, which is determined in the labour market in the same way as the NRU theory, essentially determines the long run level of economic activity.[1] Depending on the particular variant of the theory, policies which may shift the NAIRU may include increasing the supply of labour through lowering reservation wages via reducing marginal taxation, tightening the generosity and duration of social security transfer payments, changes in union bargaining power, state incomes policies, variations in taxation and external shocks to the economy. Thus, it is the labour market, and not the time path of aggregate demand, that determines the equilibrium position to which the economy would converge. This is, therefore, highly significant for the development of an ESM, since labour market issues form a core element of the initiative.

The NAIRU has become a widely accepted theoretical tool, not necessarily because it accurately describes objective reality, but because it is considered to be a *useful* aid to policymaking even though it can only really be estimated after the fact (Eller and Gordon, 2002). There is, however, a large literature which highlights the uncertainty and unreliability surrounding NAIRU estimates (Setterfield *et al.*, 1992; Staiger *et al.*, 1997; Sawyer, 2003). Estimates of the NAIRU have rather large statistical error terms and the estimated NAIRU tends to track the actual unemployment rate, although subject to a small but significant time lag. All of which raise the difficulty in basing economic policy decisions upon a theoretical proposition which may not be a strong attractor for the actual level of unemployment (Galbraith, 1997: 102; Arestis and Sawyer, 2004: 33).

Indeed, one of the originators of the concept of NAIRU, Modigliani (cited in Mitchell and Muysken, 2006: 6), recently criticized the ‘objectionable use of the so-called NAIRU approach’, based upon ‘an obsessive fear of inflation’, to neglect the reduction of unemployment as a policy objective and hence overly constrain economic activity. Indeed, Modigliani is quoted as stating, in no uncertain terms, that unemployment arises ‘primarily due to *lack of aggregate demand*’, which is in clear contrast to how the Brussels–Frankfurt Consensus appears to have designed its macroeconomic stance.

Supply-side economics

The second element of the 'Brussels–Frankfurt Consensus' derives from the first, namely that if government policy can have little or no sustainable impact upon real economic variables, with the exception of measures intended to alter the supply side of the labour market, then macroeconomic policy should be constrained to prevent negative consequences. Thus, the traditional Keynesian-social democratic utilization of discretionary fiscal policy to influence the level of aggregate demand in the economy, to pursue full employment objectives, is considered to be self-defeating, as it will only impact upon inflation levels. Part of this critique rests upon the concept of crowding out, whereby government spending displaces more productive private investment because of how this is financed. Thus, this may result from disincentive effects caused by taxation, inflationary effects of printing money, and/or rising interest rates caused by an increase in the demand for money, assuming, of course, a neo-classical model of the money markets (Friedman, 1962: 81; Neville, 2000: 159).[2] However, fiscal activism is further criticized on the grounds that time lags inherent within the policy determination and implementation process may be sufficiently long that fiscal policy leads to the mistiming of fiscal boosts and reductions, thereby exacerbating business cycles rather than counteracting their fluctuations (Friedman, 1962: 38; Hemming *et al.*, 2002a).

In the place of discretionary fiscal policy, a combination of pre-commitment to fiscal rules, combined with transparency of operations, has been adopted as the modus operandi for policy makers, as this is intended to promote the credibility of economic policymakers with economic actors (Lucas, 1976; Barro and Gordon, 1983). The intention is to solve what is known as the time inconsistency problem, whereby economic actors are suspicious that government may try to fool them into changing their behaviour through an inflationary expansion of demand, and therefore they may only respond hesitantly, after a time lag, to real expansions in demand (Kydland and Prescott, 1977). Convincing economic actors that government will not use fiscal policy to inflate the economy is supposed to increase responses to real changes in economic variables. Moreover, it is suggested that the policy reduces risk premiums added to internationally determined interest rates by the financial markets, as investors feel less threatened by unexpected inflation undermining asset value, hence securing lower interest rates consequent to a given level of inflation and growth in a nation-state. This should in turn encourage investment and productivity growth, and hence economic growth rates (Baker, 2000: 230). Fiscal policy should, therefore, be largely passive in nature and be left to automatic stabilizers, operating alongside budgets balanced over the business cycle (Arestis and Sawyer, 2004: 119).

One variant of this approach has been termed constrained discretion, as the intention is to circumscribe the freedom of fiscal authorities to act according to their short-term assessment of optimal policy options in order to keep to their pre-commitment to their budgetary rules, and as a result, the cost of operating economic policy declines because international financiers are willing to reduce risk premiums placed upon interest rates due to the lowered perceived risk of unwise, inflationary fiscal and monetary policy (Blanchard, 1984). To the extent that economic actors grow to trust the government to keep to its fiscal rules. This approach provides for a moderate, time limited opportunity to engage in expansionary discretionary policy, as long as this does not detract from meeting the long-term fiscal rules. In essence, it is based upon the strategy of pleasing the markets, and once achieved they will give the government the benefit of the doubt if it engages in short-term expansionary policy because of the belief that it will reverse this quickly and keep to its long-term fiscal rules. In essence, lower interest rates are said to 'crowd in' private activity (Elmendorf *et al.*, 2002). Note, however, that this new approach depends upon the existence of crowding out for the crowding in effect to work, and this, as previously stated, is hotly disputed by Keynesian theorists.

Demand matters

There are, however, a number of fundamental weaknesses with reliance upon supply-side determined equilibrium rates of unemployment, such as the natural rate and NAIRU approaches. A Keynesian critique reiterates Keynes' observation that workers are concerned with *relative* wages in addition to real wages, and yet they can only negotiate for nominal wages, thus undermining the concept of a classical labour supply curve (and hence an aggregate labour market) upon which orthodox variants of equilibrium theories are based. Instead, the post-Keynesian theory of employment arises out of Keynes' discussion of 'the principle of effective demand' in the *General Theory*, when he argued that the demand for labour is derived from the equilibrium rate where the aggregate supply function and aggregate demand intersect, at the point where entrepreneurs expectations of future profits will be realized, an effective demand point determined in the product markets (Keynes, 1936). Thus, for post-Keynesians, no aggregate demand for labour schedule exists whereby the real wage is capable of determining employment level (Davidson, 1983 and 1998; Galbraith, 1997: 95). Employment is determined in the product market by the aggregate demand for output. Thus, 'mass unemployment is a macroeconomic phenomenon and can never be a real wage problem' (Mitchell, 1998: 2).

Second, contrary to the assumptions made by the 'Brussels–Frankfurt Consensus', there is little evidence to suggest that wage inflexibility and rigidities associated with labour market institutions have acted as significant factors in the increase in European unemployment (Madsen, 1998; Baker *et al.*, 2002b; Ball, 1999; OECD, 1999b; Blanchard and Wolfers, 2000). Instead, a more plausible explanation envisages demand shocks leading to lower rates of capital accumulation; an initial impact which was magnified due to the existence of hysteresis (Rowthorn, 1995). Indeed, this conclusion would appear to be confirmed by the experience of those European nations (i.e. Ireland, Netherlands, Portugal and the United Kingdom) that managed to significantly reduce high levels of unemployment, which suffered during recession periods in the early 1980s and 1990s, due to expansionary monetary policy pursued during subsequent periods of recovery (Ball, 1994, 1999).

Regional variations in levels of unemployment would seem to fit poorly with explanations based upon factors such as the NAIRU, labour market institutions, regulations and unemployment benefits, as these typically apply throughout the entire economy, whereas regional variations in industrial structure, productive capacity and aggregate demand may offer a more plausible rationale (Arestis and Sawyer, 2004: 93). Furthermore, there is a large and growing literature that claims that productive capacity has a large, statistically significant impact upon employment (Bean, 1989, 1994; Rowthorn, 1995, 1999; Arestis and Mariscal, 1997: 191; Miaouli, 2001: 23; Alexiou and Pitelis, 2003: 628; Baddeley, 2003: 214). Indeed, in one study, Stockhammer (2004a) contrasted the NAIRU explanation of unemployment with the Keynesian alternative, and found capital accumulation to be a far better explanatory for changes in unemployment than labour market factors.

A considerable body of evidence, therefore, indicates that aggregate demand does in fact have an impact upon the real economy principally because it influences, and in turn is influenced by, the rate of investment, which alters the stock of capital and thereby affects productive capacity. A larger capital stock will permit a higher level of aggregate demand – and hence higher output and employment – without resulting in an increase in inflation. Depressed economic conditions result in the deterioration and premature scrapping of productive capital, whilst the accompanying dismissal or underemployment of a firm's workforce damages a firm's intangible capital through eroding corporate learning resources, customary working practices and industrial relations. An economic recovery will not immediately rectify this deterioration in economic performance, and thus demand shocks can have a significant impact upon the real economy that are still being experienced several years after the initial event. Major recessions cause a downward shift in the growth path of productivity and hence potential productive capacity, with stable growth paths resuming in the aftermath of the recession, but only from the low point that capacity scrapping first caused (Arestis and Mariscal, 2000: 487). As a result, the important finding is that the utilization of Keynesian measures to prevent the disruption to economic development caused by economic recessions can have a significant impact upon investment rates, industrial capacity, output and productivity. As Rowthorn (1995: 38) states, 'the problem of unemployment is ultimately one of investment'.

The fact that sufficient productive capacity can shift the NAIRU to full employment does not mean that this will necessarily occur, and indeed the existence of high rates of unemployment, together with low levels of capacity, will dissuade investors to finance the construction of such an extension in future capacity. This would leave the economy stuck in deflation, as the necessary increase in aggregate demand, required to raise expectations sufficiently to facilitate an expansion in investment, would, according to the NAIRU theory, result in inflation.

The recognition of the importance of aggregate demand upon employment and inflation does not, however, marginalize other factors that have been found to influence macroeconomic variables. Ownership and corporate governance have been found to influence the investment climate and, therefore, productive capacity and employment. Stockhammer (2004b: 19–24), for example, identified globalization leading to liberalized financial markets as resulting in a shift in many countries from a bank-based to a market-based financial system, which, in turn, led to increased instability and asset price speculation (Minsky, 1985; Shleifer and Summers, 1990; Skott, 1995). Furthermore, 'financialization' may have caused a shift in corporate governance, empowering shareholders relative to managerial interests, and consequently prioritizing profitability at the expense of a decrease in investment and hence productive capacity (Stockhammer, 2004c).

One further source of theoretical challenge to a supply-side determined equilibrium rate of unemployment relates to the hysteresis hypothesis. First developed by Phelps in 1972, this approach suggests that the equilibrium rate of unemployment is *path-dependent*, in that it depends upon the actual history or path of unemployment. Unemployment persistence can be considered to influence future unemployment rates because the skills held by an unemployed individual may deteriorate over time, as can their work discipline, confidence and hence employability in the eyes of the employer. The longer an individual remains unemployed, the more their search efforts may decline, together with their expectation that they may succeed in securing a new job.

The literature relating to hysteresis is split between those who hold a 'weak' and a 'strong' version of the theory. The former typically adopt the New Keynesian assumption that aggregate demand policies have no impact upon long-term equilibrium unemployment (Layard *et al.*, 1991). Consequently, hysteresis may have a marginal impact upon unemployment rates during the short term, but in the medium and longer term the supply-determined equilibrium rate of unemployment will hold. However, those theorists who advocate a 'strong' version of hysteresis believe that it is sufficiently powerful that actual unemployment largely determines equilibrium unemployment, and therefore governments can shift the NAIRU by affecting actual unemployment (Blanchard and Summers, 1988; Ball, 1994).

In the latter case, an increase in *actual* unemployment can, in the medium term, cause the *equilibrium* rate of unemployment to similarly rise, whereas a reduction in unemployment in the short term may cause a reduction in the equilibrium rate of unemployment. Empirical evidence tends to support this position, as Arestis and Mariscal (1998: 202) identified hysteresis effects in addition to worker militancy and the level of capital stock, as significant determinants of the level of unemployment. The 'strong' version of hysteresis, therefore justifies policy activism to reduce unemployment beneath the prevailing equilibrium rate, because by doing so it will enable that equilibrium rate to decline itself in the future.

Hysteresis thereby implies that any equilibrium rate is only a temporary phenomenon, since current unemployment remains a significant factor determining future rates. This is tantamount to rejecting the concept of an equilibrium rate at all, and replacing the concept with a *disequilibrium* analysis so favoured by the famous Stockholm School of economics.[3] If an equilibrium rate of unemployment can be altered by every shift in government policy, together with demand and supply shocks to the economy, and is influenced considerably by the actual unemployment rate pertaining at any one moment, it is scarcely of any practical use. It will not provide a fundamental barrier to lowering actual unemployment in the longer term because actual unemployment can be reduced by demand stimulation and, through hysteresis, can itself cause the original equilibrium rate to be reduced. Hence, the practical result is that government might as well operate as though disequilibrium is the natural state of affairs, because even if the economy is ultimately converging to a long-term equilibrium position, it does so slowly. Thus, short-term policy changes can shift the long-term equilibrium so that it is likely to have shifted position long before actual unemployment could ever have converged with the original equilibrium position.

Lisbon – a dead end?

The Lisbon process has provided the ESM with a problem which may prove difficult (if not impossible) to solve. On the one hand, the EU is committed to developing a more participatory, citizen-friendly form of social and economic governance, involving employees in decision-making within the workplace and creating a form of economics centred upon maintaining a high level of employment. However, at the same time, the EU is committed to an economic agenda seeking to raise productivity through market determination in the social and labour market spheres. One vision of the future takes as its basis a quasi-Keynesian, negotiated economy model, whereas the other has supply-side, neo-liberal foundations. To prevent cognitive dissonance, the EU needs to either demonstrate how it can square this particular circle, or else decide which approach it wishes to pursue.

Structure of the book

The book is divided into four principal parts which essentially adhere to the chorological development of ideas relating to the ESM from the immediate post-war era of the rebuilding of Europe to the aftermath of the 2008 credit crunch financial crisis/recession.

The first part of the book *From liberal to neo-liberal Europe* contains four chapters which provide the historical backdrop to the overall narrative commencing with the first of these chapters: *Liberal Europe during the Cold War Order (1947–1982): from the European Recovery Program to the socialist challenge.* This chapter presents a brief overview of the European integration process during the Cold War Order (CWO) from 1947 until 1982 through advancing six main arguments. First, that the nature and trajectory of the European project during the CWO resulted, in part, from the contest between anti- and pro-European forces and conservative, liberal and socialist forces within EEC/EC (European Economic Community/European Community) member states, and between intergovernmental and supranationalist forces and conservative, liberal and socialist forces at the EEC/EC level and beyond. Second, that the liberal and supranationalist forces were, generally speaking, the dominant ones in this struggle. Third, and following from the second argument, that the European project evolved as a *liberal entity* during this period, whereby the founding treaties of the EEC ensured the pre-eminence of market liberalism and thus negative, rather than positive, integration. Consequently, the EEC/EC prioritized economic liberalization rather than social policy and, in so doing, precluded the creation of a common, Europe-wide social model and/or a unified EEC/EC-level welfare state. Finally, that the European project influenced the development of Western Europe's welfare states in a structural rather than direct sense.

Chapter 3, *The political economy of Western Europe's social models in the Cold War Order: inevitable and convergent welfare states?*, explores the development of Western Europe's social models in the context of the CWO, drawing upon the critical political economy (CPE) tradition, which utilizes a comprehensive set of analytical and conceptual tools to identify a diverse range of explanatory factors which orthodox approaches tend to ignore. Hence, it situates the development of Western Europe's welfare states within a specific 'historical structure': the CWO. By attending to the nature of the *capitalist* system during this epoch, the *historical* specificities of this era and the *global* configuration of social forces during this period, it seeks to chart a new course for the study of these formations through identifying the dominant actors and structures, often neglected by the existing literature, which both shaped and constrained these formations during the CWO. In particular, the chapter advances four main arguments. First, that the nature and trajectory of Western Europe's welfare states were the product of the struggle between social forces at the national, European *and* global levels during the CWO. Second, that the deployment of US power in Western Europe was decisive in determining the outcome of this struggle. Third, that Western Europe's welfare states were *shaped by*, and, equally importantly, *constrained by*, the structure of the World Order during this period. Fourth, that the nature and trajectory of the European project, as an integral part of the World Order, precluded the creation of a common, Europe-wide social model and/or a unified EEC/EC-level welfare state.

Chapter 4, *Neo-liberal Europe in the New World Order (1985–2007): From the single market to the European Constitution*, presents an overview of the European integration process during the New World Order (NWO) from 1985 until 2007. The chapter advances six main arguments. First, that the nature and trajectory of the European project during the NWO was shaped by the struggle between competing social forces in Europe and beyond. Second, that the hegemony of liberal and supranationalist forces was repeatedly challenged during the NWO by advocates of an alternative World Order and by the rising tide of Euroscepticism. Third, that in the face of such opposition the European project evolved as a *neo-liberal* entity during this period. Fourth, that EC/EU reification of market liberalism, bias towards negative integration, choice of social regulation and preference for competition and economic liberalization was consolidated, if not accelerated, by a series of treaties in the 1980s, 1990s and 2000s. Fifth, that although the EC/EU became more active in terms of social policy, its efforts were directed at both 'reforming' the supply-side of Europe's economies and 'modernizing' Western Europe's welfare states rather than creating a unified EC/EU-level welfare state. Consequently, the European project influenced the development of Western Europe's welfare states in an increasingly direct as well as structural sense. Sixth, that the ESM concept and the Social Europe discourse emerged in the early 1990s as a result of one of the periodic crises faced by the EC/EU – namely the problematic passage of the Maastricht Treaty – and that these constructions represented an attempt to neutralize opposition to the neoliberal trajectory of the EC/EU and to incorporate progressive social forces.

The final chapter in this opening part is: *The political economy of Western Europe's social models in the New World Order: retrenching welfare states and the emergence of Social Europe?*. This chapter explores the retrenchment of Western Europe's social models and the emergence of the ESM concept and the Social Europe discourse in the context of the NWO. The chapter draws upon the CPE tradition, which utilizes a comprehensive set of analytical and conceptual tools to identify a diverse range of explanatory factors which orthodox approaches tend to ignore. Put simply, it situates the retrenchment of Western Europe's welfare states and the emergence of the ESM concept and the Social Europe discourse within a specific 'historical structure': the NWO. By attending to the nature of the capitalist system during this epoch, the historical specificities of this era and the global configuration of social forces during this period, it seeks to chart a new course for the study of these formations and ideas. The chapter does not advance a CPE-inspired conceptual and/or theoretical exposition of the retrenchment of Western Europe's welfare states and the emergence of the ESM concept and the Social Europe discourse, within the context of European integration and the NWO, as such work has been initiated elsewhere. Instead, it seeks to identify the dominant actors and structures, often neglected by the existing literature, which both shaped and constrained these formations and ideas during the NWO. Specifically, the chapter advances four main arguments. First, that the nature and trajectory of Western Europe's welfare states, the ESM concept and the Social Europe discourse were the product of the struggle between social forces at the national, European *and* global levels in the NWO. Second, that the continued deployment of US power in Europe influenced this struggle. Third, that Western Europe's welfare states, the ESM concept and the Social Europe discourse were *shaped by*, and, equally importantly, *constrained by*, the structure of the World Order in this period. Fourth, that the retrenchment of Western Europe's welfare states and the failure to create a unified EU-level welfare state in their place has fatally undermined the ESM concept and the dream, held by many social democratic and socialist political parties, trade unions and other progressive social forces, of constructing a Social Europe.

The second part of the book, *Alternative social models to neo-liberal Europe*, focuses on both national and pan-nation radical alternatives. Hence, Chapter 6, *Progressive Social Forces and the Transformation of the World Order: Radical National Alternatives*, discusses how, in the midst of the transformation of the World Order from the CWO to the NWO, progressive social forces in Britain and France sought to fashion radical and national alternatives to neo-liberalism. The previous four chapters assessed the impact of competing social forces and the transformation of the World Order on Western Europe's welfare states, the ESM concept and the Social Europe discourse, focusing in particular on the role of *hegemonic* social forces in shaping and constraining these formations and ideas. This chapter, by contrast, evaluates the attempts of *counter-hegemonic* social forces – more specifically social democratic and socialist political parties, trade unions and other progressive social forces – to develop an *enhanced* social model on a *national* basis. That is to say, rather than merely defending the social democratic consensus which underpinned the CWO, with its particular balance of power between capital and labour, from the 1970s the left in Britain and in France sought to radically shift power and wealth from capital to labour and to deepen and widen the welfare state as part of a transition to socialism. Thus, the chapter advances three main arguments. First, that the social democratic consensus underpinning the CWO – more specifically its economic, ideological and institutional arrangements – was relatively conducive to the construction of an enhanced social model on a national basis. Second, that although the British and French experiments ended in failure, there was nothing inevitable about this; these attempts at reflation encountered a range of problems, many of which were anticipated, but they were not intrinsically flawed. Third, that these experiments provide some valuable lessons for contemporary progressive social forces that are seeking to defend Europe's social models against globalization and neo-liberalism.

In contrast, Chapter 7, *Progressive social forces and the transformation of the World Order: Euro-Keynesian and radical European alternatives* discusses how, in the midst of the transformation of the World Order from the CWO to the NWO, progressive social forces sought to fashion Euro-Keynesian or radical European alternatives to neo-liberalism. Following the previous chapter, which focused upon national experiments, this chapter reviews the proposals put forward by counter-hegemonic social forces to develop a *Europe-wide social model* or an *enhanced* social model on a *European* basis. Hence, the chapter advances five main arguments. First, that any attempt to redirect the European project towards positive integration had to overcome the EC/EU reification of market liberalism, bias towards negative integration, choice of social regulation and preference for competition and economic liberalization. Such a transformation required the reform of the EC/EU treaties by all member states. Second, and following from the first argument, that the unanimity needed to revise the EC/EU treaties required the simultaneous election of left-wing governments in all member states. This problem was compounded by the existence of different electoral cycles in each country. Third, that in the absence of such a transformation, the ideological and material resources for constructing an enhanced social model on a European basis were lacking; in short, there was no European polity and the EC/EU budget was too small. Fourth, that when the opportunity to initiate such a transformation arose, in the 1990s when most member states were governed by the left, social democratic governments were successfully outflanked by a right-wing alliance that sought to defend the neo-liberal trajectory of the EU. Fifth, that because of the aforementioned hurdles, the chances of progressive social forces successfully constructing an enhanced social model on a European basis *using the present-day EU as a vehicle* are poor.

Part III of the book, *The neoliberalization of EU policy*, addresses the contemporary situation in relation to economic policy, fiscal federalism, the operation of the ESM and labour market flexibility. Hence, Chapter 8, *Operation of economic policy*, explores how a crucial idea introduced by Keynes into the corpus of economic thought is that the level of output and employment under market capitalism depends upon interaction between total spending and the economy's capacity to produce. Decisions to produce are made primarily by private profit-making firms; production, the source of employment, takes place only if companies anticipate a market in which goods and services can be sold at a profit. If demand is insufficient, productive capacity will stand idle and people will be without jobs. There is no automatic mechanism, which guarantees that output and spending decisions always coincide. Imbalances between aggregate demand and aggregate supply require active government policy to change either its own or private expenditure through budgetary or monetary instruments. The neoclassical assumption of an automatic tendency towards market clearing is replaced by the necessity for active government intervention in the economy to secure simultaneous internal and external balance in the economy. Thus the chapter highlights the incompatibility between the monetarist model, upon which EMU is constructed and the possibility of creating an alternative economic strategy (AES) grounded in Post-Keynesian tradition. Despite the inability of theorists to develop a universal Post-Keynesian theoretical model, due in large part to the complexity and dynamic nature of modern economies, it is nevertheless possible to identify a number of important themes that denote the essence of Post-Keynesian/traditional democratic-socialist thought.

Chapter 9, *Fiscal federalism: a missed opportunity or an emerging consensus?*, examines this notion, whereby the pace of European integration accelerated considerably during the past decade, stimulated by the agreement to form the SM and enhanced by the process of forming an EMU amongst EU member states. However, whilst the nature of this community of nations significantly changed over this period, many aspects of the EU financial and administrative apparatus failed to evolve to meet these challenges. Whilst detailed consideration has been given to whether individual member states will meet the Maastricht Convergence Criteria (MCC) for membership of the EMU, the inadequacies of the EU's budgetary arrangements have received far less attention. Nevertheless, the advent of EMU would necessitate a fundamental review of fiscal policy within the EU. The present crisis talks, arising from the Greek fiscal crisis and destabilization of the eurozone, have meant tentative moves in this general direction, but a final consensus on these issues remains elusive and further work would appear necessary. Hence, this chapter seeks to complement and extend the existing literature which discusses the evolution of fiscal policy within the context of EMU, and examines the potential for fiscal federalism to negate certain design flaws within EMU economic architecture, whilst providing a degree of stabilization for a diverse eurozone economy.

Chapter 10, *European social policy: constructing a European Social Model and defending the European model of society?* provides an overview of the development of European social policy during the CWO and NWO periods and, in so doing, it challenges the claim put forward that European social policy aimed to construct an ESM so as to defend the European model of society. The chapter advances four main arguments. First, that the European social policy agenda was consistently subjugated to the economic imperatives of competitiveness and economic liberalization and was not valued in its own right. Second, that the reification of market liberalism, the bias towards negative integration, the choice of social regulation and the EEC/EC/EU-level preferences for competition and economic liberalization – conspired to preclude the creation of a common, Europe-wide social model and/or a unified EEC/EC/EU-level welfare state. Third, that during the CWO the EEC/EC influenced the nature and trajectory of Western Europe welfare states in a structural rather than direct sense. Fourth, that in the NWO the EC/EU aimed to influence the development of these entities in a direct as well as structural sense. Consequently, the chapter is divided into three main sections. The first section explores Europe's preference for soft rather than hard law in terms of European social policy development. The second section assesses the development of European social policy during the CWO. The third section evaluates the development of European social policy in the NWO.

Chapter 11, *Social partnership and labour market flexibility* is the final chapter in this section; one of the central tenets of the ESM involves the creation of social partnership between employer and employee representatives in order to develop positive-sum solutions to issues pertaining to industrial relations. Social partnership between peak level actors is, additionally, intended to develop a wider legitimacy for the EU's decision-making process, and tailor directives to meet the requirements of those most closely affected by work-related relations. However, this model of inclusivity is contrasted against another stated aim advanced by the EU in the years since the production of the Lisbon Treaty, namely the promotion of a more flexible labour market. It is, therefore, this potential contradiction that this chapter examines.

The fourth part of the book completes the chorological progression of our analysis of the ESM by addressing the question of *What future for a Social Europe?* through three chapters relating to enlargement and the possibility of developing nation-based options. The section begins with Chapter 12 *Neoliberalization and enlargement: incompatible goals?*; a significant transformation has taken place in Europe since the late 1980s when the EU was still emerging from its internal difficulties of Eurosclerosis and the 'iron curtain' was firmly in place across the continent. However, with the EU pursuing the single internal market programme and monetary union, the collapse of Communism triggered both an economic and political transformation that swept across Central and Eastern European countries (CEECs) and ultimately led to the clamour for EU membership. Consequently, together with the four potential candidate countries (PCCs), EU membership is likely to extend towards 40 member states by the mid-2020s. Hence, the trajectory is clear in terms of the most recent and likely future enlargements encompassing countries with characteristics significantly more divergent than previous accessions as they are now extending beyond established western European mixed economies. Consequently, the key issue becomes whether this central tenet to European integration of 'widening' is compatible with that of 'deepening' in relation to EMU, which encapsulates the quintessence of EU neoliberalization. Hence, the initial part of the chapter reviews the major challenges raised by accession in terms the main economic conditions of the Copenhagen and MCC criteria, followed by the route towards membership and macroeconomic policy reforms, which are necessary to meet the Copenhagen Criteria and to endorse the aim of EMU. Second, the chapter reviews the current position of the accession countries (ACs) that are outside the eurozone, together with the candidate countries (CCs) and potential accession countries (PACs), against the stipulated convergence criteria for EMU membership. Finally, the major part of the chapter examines the potential problems and prospects for the recent enlargement countries in achieving eurozone membership. These relate to the initially over-optimistic timetable envisaged, the necessity of addressing structural weaknesses, the frequently problematic definition of fiscal measures, conformity to ERM II, the interaction between inflation and exchange rates, together with adherence to the notions of Optimum Currency Area (OCA) criteria. Hence this chapter seeks to explore whether enlargement possesses a heightened dilemma for the EU in terms of whether the push to broaden its membership is wholly compatible with its current neo-liberal philosophy.

Chapter 13, *Social Europe and enlargement: threat or opportunity?*, continues this general theme in relation to how the enlargement process has created a larger and more diverse European SM, and this has potentially far-reaching consequences, not only for individual member states (both established and newer entrants), but also for the sustainable development of a Social Europe as a whole. For example, has enlargement effectively ended the conception of creating a single, homogenous European labour market, complete with identical labour regulation and social protection, or will the NMS rapidly converge towards this norm? If not, then are existing differences in social provision and labour protection an example of unacceptable 'social dumping', whereby states seek to gain a cost advantage within a SM by beggar-thy-neighbour competition for the lowest value placed on workers and citizens, or is it a natural reflection of states at different levels of economic development needing to maintain international competitiveness through a lower wage economy? These are fundamental questions which need to be satisfactorily answered before the future development of the ESM can be accurately predicted.

In contrast, to the previous two chapters focusing upon the potential clash between the EU's neoliberalization and enlargement, Chapter 14 *National economic policy alternatives* is concerned with the potential for such alternatives, whereby participation in further EU integration will place an additional straight-jacket upon sovereign macroeconomic policy and increase the difficulty of pursuing those policies optimal to its own national interest. For example, the model for the EMU seeks to impose a particular institutional framework that restricts the flexibility of action of individual countries in order to enable economic policy to be determined, or at least co-ordinated, from the centre. In contrast, greater autonomy for individual nation-states, under the principle of subsidiarity, might provide a more stable economic environment in which to pursue further co-operation between countries. However, largely due to the political desire to tie members more closely together, the EU is seeking to progressively replace economic autonomy for a nation-state by the requirement to co-ordinate its economic strategy with the EU norm, or else be subject to sanctions levied by the EU Commission. Hence, to illustrate the broad range of different policies that could be enacted, this chapter outlines a number of broad alternative economic strategies that could be pursued, once a nation is freed from the restrictive grip of the ECB and the requirements of the TEU, let alone any future developments. Additionally, it discusses the development of complementary industrial strategy and exchange rate policy. The former can only prove effective if supplemented by fiscal and monetary policies that target growth and reject deflation. For example, inflation is not a disease in itself, but the symptom of an economy that cannot produce enough to satisfy domestic demand. The solution is to boost demand and channel it to domestic industry, improving profits, stimulating production and hence productivity, and providing the incentive to invest; thereby cutting unit costs and inflation through a considered policy of economic expansion. It can be achieved, free from EU constraints, through control of the exchange rate and the accompanying interest rate changes. Such a policy makes it profitable to produce domestically, by utilizing the price mechanism to boost exports, encourage import substitution and lure British industry back into sectors it has abandoned. A tax on imports would provide crucial support. An effective exchange rate policy is critical to the successful implementation of the outlined options for macroeconomic policy. The intention is to demonstrate, not only that national economic management is still feasible, but also that it is preferable to transferring the main levers of macroeconomic policy into the hands of the EU, which is incapable of using them consistently in the best interests of all member states simultaneously.

Finally, the book concludes with Chapter 15, *From rescue and stimulus to the age of austerity: the European response to the great recession and the prospects for Social Europe*, which locates the issue of the ESM within the context of the recent 2008 credit crunch recession through reviewing the responses of the EU and its member states. The chapter advances four main arguments. First, that the response of the EU and its member states during the first phase of the economic crisis – the coordinated and Keynesian rescue and stimulus packages – was a temporary one to rescue capitalism; it did not signal a fundamental shift in the nature and trajectory of the EU or its member states. Second, that the response during the second phase of the economic crisis – the adoption of austerity measures – consolidated the neo-liberal nature and trajectory of the EU and accelerated the transformation of Europe's social models towards the market liberal form. Third, that the medium-term plans devised by the EU in the wake of the economic crisis – to expand its power over member states' economic policy-making – amounted to a power grab. Fourth, and following from the second and third arguments, that the prospects for Social Europe in the so-called age of austerity are grim. While progressive social forces such as the far left and the greens favour the construction of radical alternatives to the EU, and while social democratic parties favour the reform of the EU, the balance of power lies with the international financial nexus, and capital more generally, which demand the dismantling of social protection systems.