The political and policy consequences of the Eurozone crisis raise doubts about the future of egalitarian capitalism and the development of a 'Social Europe'

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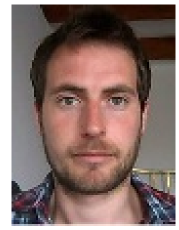
Responses to the Eurozone crisis are having an impact on welfare reform across Europe. **Aidan Regan** *argues that the current focus on austerity has reduced the ability of states to pursue egalitarian policies and reflects a general movement toward neoliberalism at the European level.*



Across Europe, the welfare state is subject to continued reform. But this begs the question: in what direction and in whose interest? This question has become particularly acute for countries in the Eurozone, a democratic experiment in multilevel governance that is now in crisis. The economic shock has been felt differently in member-states, all of which have different welfare traditions. This has exposed new structural fault lines in the common currency area, particularly between the north and south of Europe. Given the absence of exchange rate adjustments, the entire focus of adjustment must fall on fiscal, wage and labour market policy. This focus on austerity decreases the capacity of the democratic sovereign state to adopt an egalitarian response to the crisis, or one based on solidarity.

The fiscal adjustment being proposed to deal with the Eurozone crisis is neoliberal in orientation, with a broad focus on structural reforms and spending cuts. This has obvious implications for the public sector. The policy focus of the Lisbon agenda from 2000 was concerned with balancing social security and labour market flexibility. This focus on 'flexicurity' or 'productive social policy' was informed by different variants of 'third way' social democracy, centred on competing versions of the state. The Lisbon agenda has now given way to de-regulation of the labour market as a means to promote economic and employment performance. But how has this shift from human capital investment to neoliberalism in European social policy taken place, and does it have an impact on the national labour market reform strategy in each member-state?

The gradual shift to neoliberalism at a transnational European level was a political practice that began with the institutionalisation of the single European act in 1992, establishing the Single Market. The era since then has been marked by the opening up of finance markets, increased temporary and precarious employment, tightened eligibility for social protection, more corporate takeovers, privatised public services, weakened trade unions and greater income inequality. This has been a general process across Europe but it does not mean that neoliberalism manifested itself in the same way in each country. It is mediated by country specific electoral and political regimes, particularly the organisation of industrial relations, social protection and wage setting institutions.

Across Europe we can identify distinct trajectories of liberalisation, conditioned by national political coalitions in each member state. In Germany there has been an increased dualisation of the labour market, creating political tension between 'insiders and outsiders'. In the Netherlands and Denmark there has been an increase in part time employment and flexibility, but also a generalised social safety net to ensure income replacement. In the UK, there has been a gradual de-regulation of the labour market and active promotion of low wage employment. In Spain and Italy, the trajectory of change has deepened the division between labour market insiders and outsiders. Very few countries adopted the social investment or 'flexicurity' regime. Given the reliance on coordinated social policies, it was only applicable to the developed welfare states of Northern Europe, and even here it required constructing new political coalitions capable of significant institutional reform.

The social investment approach that emerged in pre-crisis Europe was an attempt by some member-states (primarily small open Nordic and Alpine economies with a tradition of social corporatism to compensate global market risk) to manage the political constraints of neoliberalism, many of whom chose not to enter the currency union. Governments shifted social policy away from de-commodification toward supplying the market with human capital, with active support from trade unions. This led to a renewed focus on active labour market policies, skill formation and training. These 'supply side' policies were promoted as new variants of social democracy, and made possible by maintaining a high tax-GDP ratio. But it is highly questionable whether the 'flexicurity' approach to social and employment policy actually leads to egalitarian outcomes, even if it improves economic and employment performance.

The general point is that models of egalitarian capitalism are determined at the national not the European level. Furthermore, a social investment strategy can only be pursued by national governments in a period of economic growth, with a secure form of tax revenue. We are now facing a fiscal crisis of the nation-state, brought about by the reckless behavior of private finance markets and low tax regimes that decreases the capacity of the state to be re-distributive. This problem is exacerbated by the monetary constraints of the EMU, which have made national welfare states more fragile, given that the adjustment cannot be externalised. The question, therefore, is whether an egalitarian response to the crisis can be carved out at a *transnational* European level. The empirical evidence seems to suggest otherwise, which is reflected in the terms and conditions of the 'Euro plus pact' adopted by member-states in March 2011, and the fiscal compact of March 2012.

These reflect a crisis of the democratic sovereign state to reconcile the distributional tension that emerges from Europeanisation, a process which has removed many of the traditional policy tools available to governments to deal with economic crises. The political conditions for a 'Social Europe' do not exist, given the massive diversity in welfare state traditions across the European Union, and a general policy preference for competing tax regimes. There is growing support for populist parties across Europe, who increasingly equate increased European integration with more neoliberalism and the erosion of national sovereignty. Examining the policy responses to the crisis at the European level, this is not without good reason. But it should not be assumed that Europe is incapable of a more solidaristic approach. The 'beggar thy neighbour' approach, in which one country's response to the crisis may exacerbate problems in neighbouring countries, is primarily a reflection of national governments responding to domestic electoral interests. Policy choices are political and non-deterministic.

The main actor in Europe in the 'aftershock' of the crisis is Germany. The conservative CDU coalition, with support from center-right governments across Europe, the ECB and the European Commission, have clearly opted to prioritise economic orthodoxy to deal with structural problems in the Euro area. They insist upon wage restraint to increase competitiveness, de-regulated labour markets to enhance employment, tougher fiscal rules to ensure balanced budgets and structural reforms to promote economic growth in creditor countries. The adjustment strategy does not propose learning from the policy regimes underpinning the organised model of capitalism that has made German, Nordic and Alpine export economies so successful. Nor does it propose tackling the deeper structural imbalances between the north and south of the Eurozone through issuing Eurobonds or fiscal transfers. It has exacerbated the trade imbalances between different regions of Europe.

At the European level monetarism reigns supreme as the dominant macro-economic policy paradigm, with the political implication that national social policy reforms are neoliberal in orientation. Decision making is increasingly handed over to economic technocrats, within a complex multi-level governance system that prioritises market integration over social integration. The role of the state in this context is to ensure balanced budgets through the implementation of austerity impose structural reforms in the labour market, increase the eligibility criteria for income transfers, and in some countries, to act as a debt collection agency on behalf of financial markets. In this regard, the transnational adjustment to the Eurozone crisis is certainly coordinated but it is Hayekian rather than Polanyian in design. This does not bode well for the future of egalitarian capitalism and seriously calls into question the future of 'Social Europe'.

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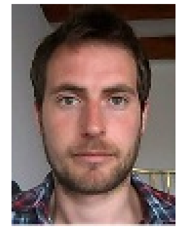
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