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# Alternatives to neoliberal Austerity: Redefining a Progressive Structural Reforms Agenda to reduce Inequalities and promote Jobs, Growth and Social Investment

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## 1. Introduction

Seven years after the beginning of the financial crisis, the Gross Domestic Product (GDP) in Europe is still at a lower level than in 2008 and unemployment has increased by 50% in the EU28. Following the recommendations of the European institutions, member states have been implementing consolidation policies since 2011, mainly by reducing public spending and increasing taxes. The cost of the crisis in terms of unemployment and poverty is huge and it shows that austerity policies are a failure in numerous dimensions. Two main - and

contradictory - reasons have been invoked to explain such low economic and social performances. The first strand argues that European economic policies were inappropriate and have contributed to the crisis itself. By trying to reduce public deficits, governments have directly contributed to the depression, by lowering aggregate demand. Fiscal austerity explains the gap between economic performances in the EU and the US, where fiscal consolidation has been much lighter, leading to the faster recovery of the US economy.

On the contrary, the second strand argues that countries are paying for their incapacity to reform themselves. The official narrative is that better economic performances (of Germany for instance) have shown that it is possible to reach fiscal discipline, competitiveness and growth, thanks to 'successful structural reforms' in the years since 2000. Based on this supposed success, countries are pushed to make additional 'reforms'.

It is symptomatic to see that most European officials are supporting the second narrative, while most academics in Economics are defending the first option. Despite the strong criticism of influential economists such as Joseph Stiglitz, Paul Krugman and Thomas Piketty, the European institutions have continued to adopt and promote austerity-driven policies and a vast range of 'structural reforms'.<sup>1</sup> In fact, it appears that the narrow and one-sided conception of such reforms is mainly driven by short-term objectives in terms of deficit reduction - and thereby implementing old policy recipes - rather than by an innovative reformist agenda and long-term commitment to genuine structural reforms.<sup>2</sup>

This obsession with 'structural reforms' is not surprising. Economic crises have often been seen by neoliberals as an 'opportunity' to move on, following their political and economic agenda. In a context of tight public finance, it is easier to push for additional cuts and reforms of social protection. If the pressure is put on European countries today, especially Southern European countries, structural reforms have been on the agenda of numerous developing countries for years, with the structural adjustment plans of the International Monetary Fund (IMF) and the World Bank. Following their disastrous social consequences, especially in terms of education, health and poverty, the discourse within international financial institutions has evolved, taking into account the need to prioritise poverty eradication. The efficiency of this strategy can be discussed, but it is nevertheless paradoxical that the Troika<sup>3</sup> did not take into account the social consequences of their programs. In fact, it seems that neoliberals have used the financial crisis as a window of opportunity to pursue their long-standing agenda. This has been facilitated by the absence of a strong alternative, progressive policy agenda.

- 1 The European institutions do not provide a precise definition of 'structural reforms'. The concept mostly derives its meaning from the type of reforms that are introduced in practice. For all intents and purposes in the EU policy context, structural reforms to labour and product markets are understood as reforms that '[...] help to improve economic growth prospects and the ability of economies to adjust to shocks by expanding flexibility and improving the efficiency of how and where productive factors are used.' (Canton et al., 2014, p. 1)
- 2 In a recent op-ed, Dani Rodrik (2015) argues that structural reforms will be completely inefficient for recovering growth.
- 3 The decision group led by the European Commission with the European Central Bank and the International Monetary Fund, that organised loan programmes to the governments of Greece, Ireland, Portugal, and Cyprus.

## Alternatives to neoliberal Austerity: Redefining a Progressive Structural Reforms Agenda to reduce Inequalities and promote Jobs, Growth and Social Investment

The purpose of this volume is to show that there is not one single package of structural reforms. In the context of the current economic meltdown, alternative economic and social policies do exist. A better mix between demand and supply-side policies is needed and investments in the right areas are more than necessary. Our goal is to show that there are progressive ways to reform societies and that structural reforms are not necessarily neoliberal policies aiming exclusively at deregulating markets. There is a need to tackle the challenge of growing inequalities and to promote investment in youth, social infrastructure and productivity gains in the real economy. Progressives need to re-appropriate themselves the concept of structural reforms and propose an alternative definition of their content. Social investment and policies aiming at reducing inequalities are key pillars of such reappraisal.

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This volume engages a critical debate with a particular conception of social investment as put forward by the EU institutions, which has clearly hindered its potential as a truly progressive social policy agenda. In the current context of lingering unemployment, involuntary part-time work, precarious work and declining real wages across Europe, we see a danger of social investment to be hijacked by non-progressive political forces and policy-makers.

EU member states' governments have responded to the current crisis by adopting a set of regulatory and treaty-based measures to ensure fiscal discipline through austerity, limiting the capacities to run budget deficits and to maintain social welfare provisions. Primacy is given to restoring investor confidence and a competitive business climate. Social investment has become one of the many policy strategies to enhance the competitiveness of European economies. Competitiveness unequivocally refers to the ability to compete and thereby evokes a social imaginary of being part of a successful and 'winning' community. Although this might sound politically appealing and motivating particularly against the backdrop of a rising popular fatigue with further fiscal austerity and the concomitant rhetoric of an overall belt tightening, the suggested social investment to spur competitiveness is in many ways essentially premised on internal devaluation through the labour markets, depreciating real wages and introducing new labour market reforms. German Chancellor Merkel (2013) has been rather straightforward in this respect when arguing that it is vital to keep driving down labour costs in order to create a regulatory environment in Europe that is attractive to investors. To recover economic competitiveness, EU institutions and Eurozone governments have sought to precipitate the ongoing trend of making the labour market more flexible ('flexibilisation') by deregulating labour laws in the form of easing employee dismissals, reducing minimum wages, increasing working time for less remuneration, introducing additional conditionalities and time limits for unemployment benefits, and decentralisation of collective bargaining more generally. The hollowing out of the concept of flexicurity is also telling in this respect: it ended up being about flexibility without much security for workers.

At the same time, social welfare state provisions and social rights are being dismantled and increasingly disembodied from the state. The far-reaching cuts in services of general in-

terest such as education, child, health or elderly care, social housing and other social services preclude a serious engagement with the much-needed social investment. In the discourse of EU institutions, and the European Commission in particular, the idea of social investment has been reduced to participation in the labour market. One central tenet of social investment is precisely to replace cash transfers or benefits – which only compensate for social inequalities *ex post* – with services which enable individuals to fully participate in a society's activities – and thus aims to avoid inequalities *ex ante*. It is striking, for example, when reading the Country Specific Recommendations (CSR) made by the Commission and the Council in the European Semester, that recommendations related to the welfare state put the emphasis on those services which are directly connected to improving people's employability – such as childcare (for women), vocational education, and services for job seekers. Everything else seems to be regarded as non-growth-oriented and hence, not immediately relevant.

A worrying configuration emerging from the European multi-level constellation is a dualisation (the creation of a population of 'insiders' and 'outsiders' who are not covered by society's safety nets) resulting from a flawed conception and implementation of social investment. Increasingly, public resources are targeted at specific categories of the population such as the young, the long-term unemployed and the elderly in the framework of policy programmes which often lack long-term financial security. In a context of declining real wages and ongoing labour market flexibilisation, close to ten percent of the EU population is affected by in-work poverty, or what better can be termed the 'working poor', and nearly a quarter of the EU population is facing the risk of poverty or financial and social exclusion (Eurostat, 2013a and 2013b). With the privatisation of public goods, services previously free of charge now have to be purchased with private money, with the result that access to debt has become essential to ensure the material conditions of existence and to cover basic needs. In fact, the share of citizens who resort to debt out of necessity, rather than out of convenience or a hedonistic lifestyle, has been on the rise. The wide availability of financial products such as complex forms of consumer credit (credit cards, store cards and high street bank loans, current account overdrafts, as well as the growth of more flexible and diverse forms of mortgage finance) has become central to the reproduction of labour. The prevailing understanding of social investment is geared towards profitability, and subordinated to competitiveness rather than social cohesion. As a consequence, the perspective of equal opportunities within society as a whole is, again, replaced by a discrimination between the 'haves' and the 'have nots'.

The broader understanding of social investment which should guide progressive decision-makers has a set of implications. First, a comprehensive social investment policy should override notions of competitiveness. Social investment should become the primary rationale for the European integration trajectory. It should not reduce people's full participation in society simply to inclusion in the labour market. Participation in the labour market is not sufficient to tackle inequalities as many inequalities are built into the labour market. The current approach only exacerbates structural imbalances and economic disintegration in Europe.

Second, rather than seeing the purpose of social investment in terms of strengthening peoples' capabilities alongside the conservative-neoliberal understanding of competitiveness, the aim should be to address the coverage of basic needs to allow social inclusion more broadly. Thirdly, social equality is productive per se: More cohesive and egalitarian societies are more prone to economic and social welfare. Above all, social cohesion is desirable from a political, value-based point of view. Finally, social investment should be part of a global modernising agenda, which does not lead to the fragmentation of welfare states in a way that prevents the coherence and consistency of social policy.

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This book develops alternative visions and policies from a progressive perspective.

The first chapter of this book by Claassens, Saenen and Schneider summarises the European Commission's current vision of structural reforms, and follows this with criticism focused on the impact of its vision on equality of opportunity, equality of outcome, and horizontal equality. They also highlight the huge social cost of the current crisis, based on the findings of the SOLIDAR Social Progress Watch. Finally, they present 15 SOLIDAR proposals, showing that there are alternatives to the current concept of structural reforms.

The following part of the book highlights specific complementary aspects and is organised in three parts. The first part focuses on the identification and targeting of inequalities, drawing specific proposals to address different types of inequalities. The second part focuses on a social investment strategy and policies, highlighting the need to get our proper vision of social investment. Lastly, the third part deals with specific policies affecting social safeguards, such as trade policy, labour market policy and poverty reduction policies.

## 2. Part I - Identifying and Targeting Inequalities

Part one of this book presents some compelling evidence on the need to reconsider the role of social and economic policies for promoting equitable and sustainable economic recovery. Indeed, it is now well documented how the economic crisis and austerity policies in Europe have undermined progress towards equality, not only in terms of income, but also in terms of pay and conditions, as well as employment opportunities for women, and access to jobs for young Europeans.

However, despite the increased recognition of the negative impact of the economic crisis and recession on equity, policy responses, both at European and national levels, have so far broadly neglected this dimension of the crisis and have predominantly focused on fiscal containment and public debt reduction. Indeed, at the onset of the crisis it was believed that a policy approach focusing on fiscal containment and government debt control would bring about higher economic growth and higher levels of employment.

Seven years after the onset of the crisis it is now evident that this policy approach has failed. Economic growth is still too low in many countries, unemployment remains very high and inequalities have further increased. This is most evident in Southern Europe, where

a country like Italy has experienced a decrease of more than 5 percentage points in GDP between 2008 and 2014. But also in Germany, which is doing much better economically than other European countries, output growth averaged at little more than 1% per annum over the same period (Griffith-Jones & Cozzi, forthcoming March 2016).

Further, the preoccupation with fiscal deficits and government debt has also had repercussions on equity. For instance, austerity policies had negative impacts on public sector employment and welfare provision, and this has particularly hit women as public sector jobs tend to be female-dominated. Further, fiscal austerity has also led to recruitment freezes or job cuts which have then resulted in increased working intensity (longer hours, fewer holidays, and less family-friendly shift patterns) for those remaining in employment. Women have been disproportionately affected by such changes, thus undermining the progress made towards gender equality (Cozzi & De Henau, 2015).

To reverse these worrying trends powerful action is needed. There is a growing consensus that Europe should move away from an exclusive focus on fiscal consolidation and put forward policies which would bring it to a more sustainable and equitable development trajectory. To this end, the European Commission has put forward new policies such as the 315 billion Euro ‘Investment Plan for Europe’. The objective of this plan is to increase investment across Europe in infrastructure, research and development, and education, among other areas, in order to increase economic growth and create jobs for men and women of all ages.

Although this plan represents a good point of departure from the usual exclusive focus on fiscal containment and public debt reduction, the plan’s almost exclusive focus on physical infrastructure spending and investment will further undermine progress towards equality, in terms of pay and conditions as well as employment opportunities for women and young people.

Instead, a long-term recovery that would not only be more equitable but also more sustainable should focus its efforts on achieving a caring economy, where care for people as well as for the environment is the central objective. This means that any progressive policies for Europe should not only focus on investing in physical, and in particular green, infrastructure but also on social infrastructure. The contributions in part one of this book address some of these concerns and present some of the fundamental social policies that the European institutions should consider to bring equity and sustainability to the core of the economic recovery.

The chapter by De Rosa shows that in order to improve progress towards a more social Europe and to put social cohesion back at the heart of EU policies, it is necessary to pay more attention to the gender dimension of the economic crisis and counter-crisis measures, going beyond the formal recognition of the principle of gender equality. Antonucci, in her chapter, discusses the limits of the social investment strategy pursued in EU social policy. In particular Antonucci deals with the increased challenges faced by young graduates in transition to the labour market. She proposes the institution of a universal transition fund, financed by contributions of all workers (insiders included), employers and the state. The purpose of such a fund would be both to intervene in the crucial phase of the first job search and to offer protection during the increasingly frequent spells of unemployment in between jobs. Finally,

the contribution by Gabor et al., using Hungary as a case study, focuses on the need of instituting an economically and politically viable basic income scheme. In particular they argue that a bold new European system of basic income might help the EU to get closer to a truly social Europe, ‘a Europe of the citizens for the citizens’.

### 3. Part II - Shaping Social Investment

The three contributions gathered in the second part of this book bring insights at various levels of the debate. The contribution by Sacha Dierckx puts the emphasis on the ideas and values which should be underlying policy-making. On the topical issue of investment, we have good reasons to believe that relying simply on the private sector, which seems to be the philosophy underlying the recent ‘Juncker Plan’, is illusory, especially because the private sector has a narrow conception of utility which focuses on profit making in the short-term rather than social utility in the longer term. Instead, Dierckx advocates for a ‘socialisation’ of investment, which can be activated at three levels: through public investment, through the stimulation of public development banking, and through the promotion of cooperatives and the social economy. All this should go hand-in-hand with a democratisation of investment-fostering participation in decisions.

Taking a closer look at the social investment agenda in the realm of social and care services, Andrea Ciarani sheds light on the pitfalls of its implementation. While this sector can be an important reservoir of growth and jobs, the focus has mainly been put on job quantity at the expense of job quality in a context where productivity gains are difficult to achieve. In this regard, Ciarani calls for two courses of action. On the one hand, specific policy tools and budget lines must be identified that can feed investment into social care infrastructure in the long run. In this regard, it is clear that the current pressure of fiscal discipline leaves most EU member states with a lack of appropriate financial means. Thus, there should be a strategy coordinated at EU level for identifying possible sources of funding. On the other hand, education and training policies must be developed in order to enhance the level of qualification, hence the quality of jobs in the social services sector.

At the micro level of analysis, Menno Soentken offers a thorough study on activation and work disability in the Netherlands. The Dutch case describes how policy efficiency can be fostered by appropriate institutional arrangements. More specifically, Soentken shows that, in the Netherlands, a reform of sickness and disability funds aimed to make employers more responsible by coupling their contribution more tightly with their ability to include sick or disabled people in the workplace. This reform has led to a significant decrease in the caseload of disability benefits. This study shows that, besides financial investment, the social investment agenda also involves a crucial institutional dimension. Measures related to the governance of individual policy sectors can be taken which create incentives for all actors, starting with employers, to adopt a behaviour which is in tune with social investment.



#### 4. Part III – European Policies Affecting Social Safeguards

This volume advocates a clear, progressive rethinking of the European Union's structural reforms and social investment agenda. The contributions in Part III argue that this can only succeed when it is being supported by reforms in policy domains that indirectly affect social conditions in the Union. Only a holistic reorientation of EU socio-economic policies can lead to a real alternative approach that stimulates jobs, growth and social investment while safeguarding social protection at the same time.

It has been recognised for a long time that the monetary policy regime of the European Central Bank (ECB) is biased towards low inflation policies and exchange rate appreciation and against growth and full employment. The result is that welfare states are put under financial strain, and that lowering labour costs has become the ultimate adjustment variable for European economies. The euro crisis and the involvement of the ECB in the troika have only made this role of the ECB more visible. In an (in)famous interview with the Wall Street Journal in 2012, the ECB President Mario Draghi even declared the European Social Model 'gone'. But also the EU's external economic relations contribute to the structural privileging of conservative and reactionary social policies. All too often, the dismantlement of social protection is legitimated by references to (global) competitiveness pressures. This discourse can again be exemplified by a favourite line of Chancellor Merkel: "Europe accounts for 7% of the world's population, 25% of its economy, and 50% of global social welfare spending", the implication being that this is unsustainable and the EU should 'reform' its social model. A trade policy that is directed only at further liberalisation without ambitious and enforceable social and environmental conditions implies that the EU itself reinforces the competitive pressure on European welfare states. The contributors in this part therefore all call for different approaches to such socio-economic policies that affect social safeguards.

In their contribution, Ranft and Thillaye analyse one of the clearest examples of how a potentially progressive concept ('flexicurity') has been hijacked and instrumentalised by conservative forces in the EU. Instead of empowering workers and giving them more choice to achieve their desired work-life balance, it has in practice been a coercive weapon to decrease job protection. When at the same time European labour markets are becoming ever more polarised and dualised, this conservative application of the flexicurity concept makes both 'insiders' and 'outsiders' more insecure. Ranft and Thillaye discuss how progressives can reclaim the flexicurity concept, and how this can be put into practice.

Del Priore goes beyond a critique of the ECB's role in the euro crisis and puts forward an alternative monetary policy strategy that would support the fight against unemployment. Building on proposals for 'helicopter money' and 'quantitative easing for the people' that have recently received wide support amongst economists, the author argues that the top priority of the fiscal-monetary policy-mix in the Eurozone should be to restore full employment and that, consequently, the ECB should financially 'guarantee' a genuine Job Guarantee programme.

Basso examines the effects of the Transatlantic Trade and Investment Partnership (TTIP), under negotiation since the summer of 2013, on employment and labour rights. Rather than being an instrument at the service of social protection, he demonstrates that TTIP risks putting further competitive pressure on the European social model, especially if the ‘sustainable development’ chapter(s) on labour and environmental rights remain as vague and weakly enforceable as in past EU trade agreements.

Taken together, this book shows from a number of different points of view that the austerity policies favoured by governments since the economic crisis are not helping Europe’s citizens and therefore, a clear, progressive rethinking of the concept of structural reforms and the social investment agenda is urgently needed.

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