

DOI: 10.53116/pgafnr.2021.2.7

# Socio-economic Governance in the EU

Ágnes Orosz<sup>\*</sup>, Norbert Szijártó<sup>\*\*</sup>

\* Assistant Professor, University of Public Service, Department of Economic and International Economics; Research Fellow, Institute of World Economics, Centre for Economic and Regional Studies, e-mail: [OroszAgnes@uni-nke.hu](mailto:OroszAgnes@uni-nke.hu)

\*\* Assistant Professor, University of Public Service, Department of Economic and International Economics; Junior Research Fellow, Institute of World Economics, Centre for Economic and Regional Studies, e-mail: [norbertszijarto@gmail.com](mailto:norbertszijarto@gmail.com)

**Abstract:** This paper focuses on the complexity of socio-economic governance in the European Union. We define socio-economic governance as the process of governing societies in a situation where no single actor can claim absolute dominance thus socio-economic governance is the outcome of the interaction between European Union institutions (European Union decision-makers) and member states (national policy-makers). Since the onset of the global financial crisis and the euro crisis a decade ago, social issues have become substantially prominent in EU governance and policy debate. Furthermore, the Covid-19 crisis brought again social issues to the fore. There is no dedicated social governance framework in the European Union but there are several mechanisms (strategies, initiatives and regulations) through which social governance is practiced. At the same time, the framework for European economic governance has substantially been strengthened as a consequence of the global financial crisis and the euro crisis and can be characterised by a matured but incomplete framework. On the one hand, this paper aims to collect and investigate all governance tools related to economic and social issues in the European Union, and on the other hand, this research examines the impacts of those governance tools on member states.

**Keywords:** economic governance, social policy, socio-economic governance, European Union

## 1. Introduction

The European integration has survived various crises since its inception: the collapse of the Bretton Woods system, the oil crises, the crisis of the European exchange rate mechanism in 1992–1993, and most recently, the European Union was able to weather the dramatic impacts of the global financial crisis of 2008 and 2009 and avoided disintegration during the euro crisis. All these crises provided an impetus for strengthening the governance of the European Union. Community-level responses to crises have created an ever deeper and comprehensive framework for governance, particularly in economic areas. This popular description or narrative of the European Union clearly congruent with the reactive approach to the European integration based on the famous sentence of

Jean Monnet (1976): “Europe will be forged in crises, and will be the sum of the solutions adopted for those crises.” However, it is worth taking into consideration that the European Union project of combining the European single market, the Economic and Monetary Union, and the actual architecture of the European governance framework is still incomplete. Successive crises constantly test and challenge the current state of European (economic and social) governance as has been the case with the coronavirus crisis since the beginning of 2020.

Several factors, including the question of sovereignty, lack of willingness, unclear division of competencies and lack of deep supranational redistribution among others, hinders the great leap forward establishing a complete economic union on the basis of the actual economic, fiscal, financial and social governance frameworks. Jones et al. (2015) offer another explanation why European decision-makers postpone the radical completion of the governance framework of the European Union. Their approach, the so-called failing forward, merges two integration theories, the intergovernmentalism and neofunctionalism, and claims that intergovernmental bargaining leads to incompleteness because member states are having diverse preferences and always opting for the lowest common denominator solutions. Moreover, if a crisis hit the European Union, member states respond by again negotiating the lowest common denominator solution to address that crisis. In this sense, successive crises can be considered triggers of the spillover phenomenon from neofunctionalism. So, member states’ reluctance prevails to perform the above-mentioned great leap forward, nevertheless, this creates continuous but incremental deepening of the European integration, where the different stages of the governance framework are perfectly separable along crises.

This paper investigates the complexity and evolution of the European Union’s socio-economic governance framework. We define socio-economic governance as the process of governing societies in a situation where no single actor can claim absolute dominance, thus socio-economic governance is the outcome of the interaction between European Union institutions (European Union decision-makers) and member states (national policy-makers). Since the onset of the global financial crisis and the euro crisis a decade ago, social issues have become substantially prominent in EU governance and policy debate. Furthermore, the Covid-19 crisis brought again social issues to the fore. The global financial crisis (and the euro crisis) and the coronavirus crisis provide break-points in the evolution of both economic governance and social policy governance in the European Union. Thus, we are able to separate three time periods regarding both parts of European socio-economic governance.

The pre-global financial crisis period represents our first time period (between the early 1990s and the eruption of the global financial crisis). European economic governance can be characterised by the rules and regulations of the European single market, the architecture of the Economic and Monetary Union, and fiscal rules of the Stability and Growth Pact. EU directives covered relevant social policy issues during the pre-crisis period, the Open Method of Coordination as a soft ‘acquis’ provided institutionalised harmonisation of social issues. Social policy institutions, in general, are built on non-coercive initiatives for harmonising national social policies. Moreover, the Lisbon Strategy, as a development plan, aimed to make the European Union the most

competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greatest social cohesion.

The second period is a challenging decade between the global financial crisis of 2008 and 2009 and the ongoing Covid-19 crisis. The global financial crisis hit hard Europe and created a second round of euro crisis undermining economic recovery in the Southern periphery of the European Union. Ad hoc crisis response measures were replaced by a purposeful institution building, the so-called new economic governance of the European Union or Economic and Monetary Union 2.0, declared by the Five Presidents' Report in 2015 and confirmed by the European Commission's Reflection Paper published in late 2017. Moreover, we have witnessed the erosion of social safety nets in numerous member states. The global financial crisis (and the euro crisis) evidenced in a sharp decline in economic and social well-being indicators, such as increased unemployment, loss of income, rising poverty and increased vulnerability. Therefore, European Union decision-makers have eagerly worked on to strengthen the social policy governance framework of the Community. Although a comprehensive social policy governance framework has not been established, some pre-crisis initiatives were incorporated into the European Semester. Soft coordination tools of European socio-economic governance (including country-specific recommendations, in particular social issues and the Europe 2020 priorities) were organised under the European Semester and launched in 2010. Finally, since the mid-2010s, political guidelines (and strategies) of the European Commission have significantly strengthened to govern socio-economic issues.

The second breakpoint is the coronavirus crisis erupted in the early 2020. Accurate conclusions cannot yet be drawn regarding the evolving nature of the governance of the European Union. Nevertheless, supranational responses to the Covid-19 crisis initiated by the European Commission partly envisions and determines the trajectory of future evolution of the European socio-economic governance.

The separation of European economic governance and the governance of social policy in the European Union is a necessary step, since there is an existing (matured) framework for economic governance in the European Union; however, there is no dedicated social governance framework, European Union decision-makers build on several mechanisms (strategies, initiatives and regulations) through which social governance is practiced. In this research our objective is to collect and investigate all governance tools related to social and economic policy issues in the European union. Moreover, the gradual evolution of economic and social policy governance framework in the European Union generates permanent tensions between European Union bodies and member states. If supranational institutions gain more competences over social policy issues – be any of the following: monitoring, supervision, harmonisation, coordination, regulation or complete control – then member states are required to delegate competences to supranational level and thus lose competences (sovereignty) over policy issues, which is not necessarily acceptable to all member states. So, this research briefly studies how the “hardening” socio-economic governance framework impacted the members states, how member states adapted or disputed this kind of new intervention by the European Commission.

The article proceeds as follows. The next chapter reviews the literature, we build on three strands of academic discourse: we define governance related to the European integration in a nutshell, we determine economic governance and then we turn to the governance issues of social policy in the European Union. The third chapter has two parts and investigates the evolution of the European economic governance and the European social policy governance. The fourth chapter attempts to unify economic and social governance under the label of European socio-economic governance. And finally, conclusions conclude.

## **2. Defining various forms of governance in the European Union context**

Our theoretical framework is centred around three strands of literature. Firstly, we provide a brief review to define the nature of governance in the European Union context. Secondly, we investigate the European economic governance. And thirdly, we scrutinize the governance of social policy in the European Union.

### **2.1. Governance in the European Union**

There are many ways to define governance and there are many forms of governance. Bevir (2012) provides a simplified definition: governance refers to all processes of governing undertaken by a government, market or network. Technically, governance is a system by which entities of an economy or state are directed and controlled. Other scholars, such as Fukuyama (2013), relies on a single actor regarding governance which can be determined by a government's ability to make and enforce rules, and provide services. Kohler-Koch & Rittberger (2006) draw attention to the fact that governance has become a popular research focus of European Union studies, but the definition of governance still leads to confusion. This confusion can be solved by distinguishing between the meanings of the conception of governance. Thus, Pierre (2000) provides two concepts, the first refers to state adaptation: "The empirical manifestation of state adaptation to its external environment as it emerges in the late twentieth century" (Pierre, 2000, p. 3). The second deals with a coordination of social systems: "Conceptual and theoretical representation of the co-ordination of social systems" (Pierre, 2000, p. 3). The first stresses a hierarchical structure for decision-making and the second offers a society-centred approach.

Since the inception of the European Union (European Economic Community), the question of governance has always been in the foreground. This popularity has further increased since the launch of the European single market as the attention turned to the policy-making in the European Union. The strengthened European Union policy-making required new approaches and generated competing governance theories.

Some governance concepts are grounded on the multi-level nature of the European integration. Multi-level governance is a decision-making process in the European Union that vertically and horizontally spreads power (Marks et al., 1996; Bache et al., 2016). In other words, regional integrations have multiple levels of decision-making centres, including local, regional, national, and federal, thus governance in such complex systems means the sharing of power among sub-national, national and supranational actors. Other approaches also evolved to determine the nature of the governance of the European Union. The ‘community method’ emphasises the role of supranational actors such as the European Commission (Scharpf, 2003). Supranational bodies capitalise on the transferred sovereignty, launch independent agendas to further support, harmonise, coordinate or in extreme cases control specific policy areas. One strand of the literature of the ‘governance turn’ in European Union studies characterises the Union as a regulatory state (Majone, 1996). This approach claims that the European Union has reached a high-level degree of political autonomy thus started exercising ‘political functions’ such as the provision of public policy. However, diverse national regulatory systems and various preferences of national actors undermine the perfect functioning of a one-size-fits-all supply of common public policy. Finally, scholars also argue for a network governance in the European Union on the basis of public–private policy networks.

The Maastricht Treaty established a new version of governance, the open method of coordination in the European Union as a response to the growing role of supranational decision-making in the Community. This new mode of governance was designed for coordinating national economic policies via the use of recommendations and guidelines, instead of binding rules and regulations (Hodson & Maher, 2001).

We have demonstrated the various approaches to the governance of the European Union. In order to provide a simplified version or a common denominator of diverse governance theories, we apply the approach of Peters & Pierre (2009). According to Peters & Pierre (2009, p. 91.), the European Union is a large territory with different and complex economic, social and political structures, thus governance needs capacity: “Governance implies the capacity of a society to develop some means of making and implementing collective choices.” In theory, institutions – supranational institutions, rules and regulations – are tools to decrease the complexity of our life; in terms of the European Union, institutions can be understood as an apparatus to govern the processes, outcomes, preferences and behaviour through the maximisation of relevant actors’ benefits. Empirically, this mechanism starts with the identification of a common problem, and we can assume that common problems require common solutions. However, reaching a common solution in the nexus of member states, European Union bodies and other actors is not easy. Member states insist on representing their own preferences, therefore, the identification and decision on common goals generates long lasting debates. If common goals are identified, the following step is to design and implement the means (institutions) to achieve those purposes. And finally, this chain ends with a feedback loop. Through this empirical process of governance, decision-makers of the European Union are able to “govern” the complex structure of the integration.

## 2.2. European economic governance

Economic governance is a popular terminology in economics, political science and in European Union studies as well. Theoretically, the role of economic governance is to ensure the proper functioning of markets, economic actions among actors and in general all transactions that take place in the economy. According to Dixit (2003, p. 449), economic governance is a necessary and obligatory part of the functioning of the economy: “Almost all economic transactions need governance”. Scholars of institutional economics can quickly answer the question of what satisfies this need, their argument is that legal systems properly and costlessly provide this service. Based on Dixit’s (2009) approach, economic governance refers to the structure and functioning of the legal and social institutions that support and determine economic activities and transactions by protecting property rights, enforcing contracts and overcoming collection action dilemmas to administer physical and organisational infrastructure.

Since, the European economic governance is a matured framework in the European Union, we can find definitions provided by different bodies of the Community. The European Parliament’s think tank defines economic governance as follows: “Economic governance refers to the system of institutions and procedures established to achieve Union objectives in the economic field, namely the coordination of economic policies to promote economic and social progress for the EU and its citizens” (European Parliament, 2019, p. 1). The European Parliament also determines the policy areas of economic governance that involves fiscal policies, macroeconomic issues, crisis management, macro-financial supervision and investments. The European Commission defines European Union economic governance as to monitor, prevent and correct problematic economic trends that could weaken national economies or negatively affect other member states.

## 2.3. The European Union’s role in shaping social policies

Generally, social policy is a governmental interference with the aim to improve or reform society. In a more detailed view, social policy consists of all means to meet human needs for security, education, work, health and wellbeing. The European Union and its member states share several objectives regarding social policy such as the promotion of employment, improved living and working conditions, proper social protection, dialogue between management and other members of staff, the development of human resources with ensuring lasting high employment and the prevention of social exclusion (European Parliament, 2021). European social policy coincides with the first founding treaties of the European Union. Hantrais (2007) claims that through the history of the European integration, market-driven processes dominated over social policy objectives; however, the social policy dimension of the integration has been present since the launch of the project and has uninterruptedly gained more and more relevance through time. The Lisbon Strategy reinforced the role of social policy without seeking any harmonisation of national social policies.

The EU (bodies of the EU) is actively developing policies – employment and social policies – to provide widespread practical benefits to European citizens, for example: in finding jobs, upgrading skills, coordination of social security schemes, ensuring better working conditions, combating poverty and social exclusion, supporting the reforms of national social protections systems, protecting and improving the health of citizens, modernising health infrastructures, etc. These policies and the provision of benefits to European citizens are on the one hand often organised under comprehensive strategies (such as the Lisbon Strategy, the Europe 2020 Strategy, various social policy packages and long-term operation programmes) and/or on the other hand, often institutionalised as elements of the European economic, social and legal governance (Employment Policy Strategy, Open Method Coordination in the field of social policy and European Social Dialogue [Heise, 2012]).

The EU's active intervention in European social policy leads to a question that how much the EU prefers to influence national welfare states and social policy models, and what are the EU's goals with the establishment of a wide range of policies. In other words, whether the EU intends to boost convergence among national social policies and welfare state models? Or the EU just designs and creates minimum requirements for social policy issues? Only few studies have tried to offer answer for these questions. De la Porte & Heins (2015) investigate the EU's post-crisis involvement in labour market and social policy coordination. They accentuate that strict budgetary institutions make expansionary public spending difficult even in prosperous economies. Continuing this argument, Graziano & Hartlapp (2020) explicitly state that former "social Europe" has terminated. A large number of social policy initiatives, strategies and institutions were replaced by macroeconomic governance tools ignoring social expectations, needs and problems. In contrast, some papers highlight that increasing social policy spending and strengthening welfare states are able to tackle the challenges posed by globalisation, demographic changes, economic uncertainty and inequality (Starke et al., 2013; Vanhercke et al., 2020).

### **3. The evolution of the European Union's economic and social policy governance framework – Empirical research**

Our empirical research applies the framework of historical institutionalism through which we can properly detect institutional changes in the socio-economic governance of the European Union. Historical institutionalism embodies a complex framework to understand the economic, political and social processes, and particularly concentrates on the evolution of policy issues (policy changes). In a straightforward way, historical institutionalism (HI) states that history matters, and for research purposes it is necessary to identify the elements of policy-making which are stable through time (Thelen & Steinmo, 1992; Pierson, 1994; Hall & Taylor, 1996; Thelen, 1999; Peters, 1999). Historical institutionalism conceptualises the relationship between institutions and individual behaviour as institutions shape individual's behaviours; therefore, institutions determine individual preferences. Moreover, it takes into consideration the asymmetries

of power during decision-making processes, recognises path dependency and unintended consequences – as institutions produce long-term intended or unintended paths that structure a nation's response to new challenges – and finally, incorporates the role of ideas, beliefs and mental models.

Drawing on historical institutionalism literature, we analyse the institutional structure that had profound effect on shaping the EU's economic and social policy governance. Historical institutionalism accentuates how timing, sequencing and path dependence in casual processes impact institutions, and thus shape social, political and economic behaviour and change (Farrell & Newman, 2010). In the spirit of the historical institutionalist framework, this paper concentrates on the long-term trajectory of the governance of the European Union economic and social policies. In this paper we study the changing landscape of European economic and social policies and adherent institutions, rules and regulations.

### 3.1. The evolution of European economic governance

The pre-global financial crisis period of the European integration can be characterised by the often-used half-built house analogy. National monetary policies were delegated to supranational level to the European Central Bank and the European System of Central Banks, but fiscal policy remained decentralised but coordinated under the Stability and Growth Pact. The two major pillars, the supranational monetary policy and the rule-based fiscal policy were augmented by some 'soft' coordination mechanisms of financial supervision and structural issues. In general, we can state that the tools of the European economic governance during this period had limited capacity to influence economic outcomes and correct economic failures.

The primary objective of the European Central Bank was and is to achieve price stability, and price stability means to anchor the inflation rate at 2% or below. As a secondary objective, without compromising price stability, the European Central Bank supports general economic policies in the European Union (more accurately in the Eurozone) such as economic growth, competitiveness, employment, social development and the protection of environment.

Regarding the supervision of national fiscal policies, the Maastricht Treaty determined limits to government deficits to 3% of GDP and public debt levels to 60% of GDP if a member state would prefer to join the Eurozone. Later, this fiscal provision was institutionalised under the Stability and Growth Pact to strengthen the monitoring and coordination of national fiscal and economic policies and to enforce the deficit and debt limits instituted by the Maastricht Treaty. The preventive arm of the Stability and Growth Pact ensures sound budgetary policies over the medium term: member states are obliged to submit an annual Stability (for Eurozone countries) or Convergence (for non-Eurozone member states) Programmes (and National Reform Programmes). And the corrective arm of the Pact (namely the Excessive Deficit Procedure) deals with the non-compliance with sound public finances, and non-compliance with these recommendations may lead to sanctions for member states. In 2005, the Stability and Growth



Pact went through a reform process, and the 'new' Stability and Growth Pact better considers country-specific circumstances and strengthens surveillance and coordination of national fiscal policies. Moreover, the Excessive Deficit Procedure was also amended in order to respond easier and faster to non-compliance.

The Single European Act – the principle of four freedoms – ensures the free movement of capital, labour, goods and services among member states of the European Union. The European single market is the common denominator of member states enhancing market-driven processes inside the regional integration. The free flow of capital contributed to the deepening of financial integration; nevertheless, decision-makers of the European Union missed to set-up institutions related to financial supervision, regulation and monitoring and keep pace with the increasing financial integration. Only some harmonisation took place (the Financial Services Action Plan and the Lamfalussy Process), moreover, the European Union institutionalised the Basel I and Basel II regulations to govern the financial and banking sector.

This framework was augmented by some soft law initiatives such as the Broad Economic Policy Guidelines and the European Macroeconomic Dialogue. These platforms were organised around discussion and information sharing without any binding rules and regulations (Heise, 2012). Finally, it is worth emphasising, that during this decade, the European Union had a horizontal long-term project, the Lisbon Strategy that aimed to transform the Union into the most competitive region in the world.

Potential results of the Lisbon Strategy were washed away by the global financial crisis at the end of the decade. The European Union (and the Economic and Monetary Union) faced the most severe challenge of its existence so far; the global financial crisis and the subsequent Euro crisis have revealed various shortcomings of the economic governance framework of the European Union: asymmetrical institutional structure of the monetary union, poor or inadequate economic governance framework and powerless regulatory systems, strong core-periphery dichotomy, and finally diverse welfare and social structures. In summary, the heterogeneity of member states seemed to be an unmanageable problem for European Union decision-makers.

Generally, the European economic governance is made up of four closely interrelated building blocks: monitoring of national economic policies, prevention, correction and enforcement. The European Commission plays a crucial role in this new economic governance framework by regularly monitoring macroeconomic developments of member states to detect macroeconomic problems, unsustainable macroeconomic trends and changes in member states' competitiveness (Verdun, 2015). This framework has been organised into annual cycles under the European Semester, in which the bodies of the European Union and national governments have to carry out tasks related to macroeconomic and budgetary areas in specific times and in specific order. Sound public finances, avoiding substantial macroeconomic imbalances, implementing structural reforms and facilitating economic growth and employment are the major objectives to be achieved by the European Semester. However, other European Union bodies (and tasks) represent inherent parts of the new economic governance framework.

The European Central Bank played a crucial role resolving the euro crisis. This activity no longer aimed at achieving a stable inflationary environment, but rather

targeted the stability of the whole Eurozone economy. To carry out this task, the European Central Bank has increasingly focused on the application of non-conventional monetary instruments to clean-up the transmission mechanism channels, boost economic recovery in crisis-ridden member states and support financial stability through large-scale refinancing programs to commercial banks. Under a specific measure, Outright Monetary Transactions, the European Central Bank officially fulfilled the lender of last resort function vis-à-vis sovereign member states of the Eurozone (De Grauwe, 2013).

Since the eruption of the euro crisis, European Union decision-makers have significantly consolidated the fiscal framework. The new fiscal governance framework can be characterised by the strengthening of rule-based fiscal regulations (Eyraud & Wu, 2015) and creating a permanent firewall to backstop financial contagion and support Eurozone member states (Gocaj & Munier, 2013). The rule-based fiscal regulations are the followings:

- The Six-Pack, introduced in 2011, aimed to develop and strengthen the Stability and Growth Pact by ensuring the viability of national public finances through either preventive and corrective actions and to reduce macroeconomic imbalances of member states.
- The Compact reinforced the initiative of the Six-Pack. Furthermore, the Treaty on Stability, Coordination and Governance contains a second and third pillar above the Fiscal Compact. The objective of the second pillar was to bolster economic governance and convergence among Eurozone member states, while the third pillar formulated the Euro Summit.
- The “Two-Pack” improved budgetary coordination through the introduction of a common budgetary timeline and a system of enhanced surveillance.

The European Union (as well as the Eurozone) lacked a permanent firewall or a rescue mechanism for sovereigns because of the strict “no bail-out clause”. In 2009, Greece officially requested financial assistance from the decision-makers of the European Union, and as the euro crisis escalated, decision-makers of the European Union had no other choice than to establish first temporary firewalls and then a permanent firewall to provide financial assistance to crisis-ridden member states and in general to prevent the disintegration of the Eurozone. The temporary measures (firewalls) were unable to backstop contagion in the Southern periphery of the European Union, so a permanent firewall, namely the European Stability Mechanism, was created by melting the two temporary mechanisms into one.

The European Union’s crisis management heavily concentrated on monetary and fiscal policies in the first years of the euro crisis. Responding to the global financial crisis, decision-makers of the European Union created a macroprudential supervisory body, the European Systemic Risk Board, to regularly monitor systemic risks. A microprudential supervisory body, the Banking Union, was only launched a few years later in 2014 (Howarth & Quaglia, 2014). The Banking Union consists of a Single Rulebook and three pillars of supervision, resolution and insurance. The elements of the Banking Union are the followings:

- Single Supervisory Mechanism: this mechanism is the core of the supervisory activities by overseeing all Eurozone and European banks (approximately 6,000 banks).
- Single Resolution Mechanism: effective and rapid treat of banking crisis to minimise impacts on the real economy. An element of the mechanism, the European Resolution Fund, will be a permanent firewall for European banks in the mid-2020s.
- European Deposit Insurance Scheme: the objective is to cover all retail depositors (but it is under negotiations).

Reforming the European economic governance also aimed at boosting competitiveness and structural reforms that were neglected issues prior to the global financial crisis. Two instruments were created to deal with the obstacles of such reforms: the Euro Plus Pact and the Macroeconomic Imbalance Procedure under the Six-Pack. The aim of the Euro Plus Pact is to enhance structural reforms (improve competitiveness, employment, financial stability and fiscal stance of participating countries). Parallely, the task of the Macroeconomic Imbalance Procedure is to identify, prevent and address the emergence of adverse macroeconomic imbalances that could negatively affect economic stability of member states, or the European Unions as a whole.

Summarising, the European economic governance has been substantially altered since the global financial crisis. On the one hand, new objectives have emerged during the euro crisis, and on the other hand, new institutions, instruments, rules and regulations were created to tackle challenges stemming from the euro crisis and reach and satisfy new objectives.

### **3.2. The evolution of social policy governance in the European Union**

The European Council called for a fundamental transformation on its meeting in 2000 in Lisbon. A new strategic goal for the European Union was established in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy (European Parliament, 2000). The new feature of this agenda explicitly coupled economic and social agendas. To achieve these aims, the social model needs to be modernised, while ensuring long-term sustainability of the social security systems in the light of the ageing process, participation rates should be increased (Caminada et al., 2010). The Lisbon strategy represented a twofold ambitious goal for the European Union: “To transform the European economy of the 21<sup>st</sup> century (and make it the most competitive knowledge-based economy in the world) and to innovate EU governance through new forms of interaction between national practices and European objectives” (Natali, 2010, p. 4).

In order to achieve convergence in the field of social inclusion, the European Union adopted an appealing approach, the “Open Method of Coordination” (OMC) as a new form of EU governance. OMC is created as part of the employment policy and the Luxembourg process, defined as an instrument of the Lisbon strategy (2000) (Eurostat,

2014). The OMC as defined by the Lisbon European Council (European Parliament, 2000):

- Implementation of the strategic goal will be facilitated by applying a new open method of coordination as the means of spreading best practice and achieving greater convergence towards the main EU goals. This method, which is designed to help Member States to progressively develop their own policies, involves:
  - fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms
  - establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice
  - translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences
  - periodic monitoring, evaluation and peer review organised as mutual learning processes

In general, OMC is a form of EU soft law, a process of policymaking which neither leads to binding EU legislative measures nor requires Member States to change their law. The open method of coordination aims to spread best practices and achieve greater convergence towards the main EU goals. This process reduced the member states' options in the field of employment policy, which was designed as an alternative to the existing EU modes of governance (Eurofound, 2010). Even though the open method of coordination is not binding, a soft law can also be effective, because it allows for policy experimentation and better problem definition. Regarding the diversity within the European welfare models, soft law is more suitable enabling different policy solutions in different member states. In addition, OMC facilitates policy learning through the regular exchange of ideas, deliberation, peer reviews, diffusion of discourses, "socialisation", and bottom-up experimentation (Büchs, 2009).

OMC has been implemented in the areas of social inclusion, health care and long-term care and pensions (social OMC). The social OMC is a voluntary process for political cooperation based on agreeing common objectives and measuring progress towards these goals using common indicators. The process also involves close co-operation with stakeholders, including Social Partners and civil society (European Commission, 2014).

OMC is used by member states to support the definition, implementation, and evaluation of their social policies and to develop their mutual cooperation. A tool of governance based on common objectives and indicators, the method supplements the legislative and financial instruments of social policy. It is part of the implementation of the process of coordination of social policies, particularly in the context of the renewed Lisbon Strategy. The single social OMC established in 2005 applies to the fields of: 1. the eradication of poverty and social exclusion; 2. guaranteeing adequate and sustainable pension systems; and 3. providing accessible, high-quality and sustainable health care and long-term care (EUR-LEX, 2008).

OMC can be understood as a building block of the “European Social Model”, however there are optimists and pessimists about the success of this process. The European Social Model refers to the institutional arrangements comprising the welfare state (transfer payments, collective social services, their financing) and the employment relations system (labour law, unions, collective bargaining). The general term “social model” refers to “ideal-types” in the Weberian sense, conceptual abstractions of distinctive and central commonalities derived from a variety of empirical situations. “Ideal-types are designed to help social analysis by virtue of their capacity for elucidating the underlying similarities and differences across a range of complex social phenomena” (Martin & Ross, 2004, p. 11). OMC instruments can strengthen “social Europe”, both at EU level and the performance of national welfare states. “The European Union, acting as a ‘semi-sovereign’ policy system, seems slowly but surely to be carving out a distinct ‘policy space’ regarding social policy – a space which may gradually work to rebalance ‘softly’ and ‘from below’ the current structural asymmetry between negative and positive integration” (Ferrera and Rhodes, 2000, p. 278).

Beside the optimistic views, there are several pessimists who doubt that this instrument is powerful enough to balance the negative and positive consequences of integration (Scharpf, 2002) and improve national welfare state performance. Pessimists argue that European integration is a potential challenge for the national welfare states because the creation of the single market increases competitiveness pressure which might lead to a downward adjustment of social standards. Additionally, with the creation of the Eurozone, member states are no longer able to assign an individual monetary policy, which may put additional direct pressure on welfare systems (Büchs, 2009).

It can be concluded that on the one hand, there is a theoretical argument that welfare states have become more similar, on the other hand, the European Union promotes closer social policy coordination, the need to “reinforce”, “improve” and “preserve” the “European Social Model” (Büchs, 2009).

Even without the effects of the crisis, the Lisbon Agenda had produced mixed results, calling for revision (Armstrong, 2012). Europe 2020, as the successor of the Lisbon Strategy is aimed at social purposes as well, creating conditions to deliver a higher level of well-being for European citizens by 2030 and beyond. The Europe 2020 Strategy was designed as a European exit strategy from the global economic and financial crisis that started in 2008, targeting to improve the competitiveness of the EU and achieve sustainable growth (Bongardt & Torres, 2010).

Europe 2020 agenda presented itself as an integrated policy strategy with a strategic focus based around the mutually reinforcing objectives of “smart”, “sustainable” and “inclusive” growth. There are seven “flagship initiatives” in thematic areas: Digital agenda for Europe, Innovation Union, Youth on the Move, Resource Efficient Europe, An Industrial Policy for the Globalisation Era, An Agenda for New Skills and Jobs and European Platform against Poverty. Each flagship initiative acts as an umbrella vehicle for more specific initiatives and, deploying a range of tools and instruments: e.g. legislation, non-binding recommendations, EU funds, policy coordination processes. Policy proposals associated with achieving the economic aims of growth and competitiveness

must, nonetheless, take their social implications into account, meaning the social dimension of Europe 2020 (Armstrong, 2012).

Europe 2020's social agenda is the basis for "creating a somewhat stringent social snake binding member states to remain within certain quantitative bands after reaching the headline targets (e.g. in terms of social inclusion levels) but also for establishing a fully-fledged EU system of social protection" (Ferrera, 2010, p. 65). The OMC processes in the social sphere of the Europe 2020 strategy have remained largely untouched (Michalski, 2013). It is a possible threat to Europe 2020's social dimension that it will lose out in the competition for political time and attention.

The OMC and any social policy coordination have been implemented in the areas, where the EU has no formal competence and are regulated under the subsidiarity principle.

The asymmetries in social policies within the European Union, especially in the European South, has become even more stressed due to the recent economic crisis, since "the politics of austerity predominantly affect the welfare state, hitting drastically social rights, a fact with explosive effect in social cohesion" (Zambeta, 2014, p. 3).

However, there has been political configuration and commitment to EU level social policy; the initial differences have remained salient. The effects of the recent financial and economic crisis on social policy divergence have exceeded the aftermath of any political tools (e.g. OMC) to promote EU level social policy convergence. The continuing social OMC has been challenged by the financial and economic crisis, it is crucial to formulate a meaningful and substantive social dimension of EU policies.

#### **4. Socio-economic governance in the European Union**

Since the onset of the global financial crisis and the euro crisis, social issues have become substantially prominent in European Union governance and policy debate. Furthermore, the Covid-19 crisis brought again social issues into the fore.

We assume that the European socio-economic governance is the process of governing societies in a situation where no single actor can claim absolute dominance, thus socio-economic governance is the outcome of the interaction between European Union institutions (European Union decision-makers) and member states (national policy-makers). This approach is clearly based on the multilevel nature of the European integration with supranational, national and sub-national actors. Moreover, socio-economic governance in the European Union is substantially limited. Firstly, the European Union decision-makers and national policy-makers do not necessarily accept even the existence of socio-economic governance, rather it is treated as two separate policy areas. European economic governance has been significantly strengthened over the past decade; however, it is still incomplete, e.g. there is no fiscal union in the European Union (or in the Eurozone), or there is no fully-fledged Financial Union. The governance of the social policy in the European Union is almost primarily based on soft law with limited binding rules and regulations. Additionally, the role of the European social policy has been considerably increased during the last two decades, its

institutional set-up has also been reinforced and reconfigured, but effective institutions have not been established. So, socio-economic governance can be referred to as a half-built house. Social policy lost in the struggle for competences between the European Union bodies and member states. Secondly, the impacts of the euro crisis and the actual coronavirus crisis clearly demonstrated an active relationship between the European economic governance and the European social policy governance. For instance, budgetary policy and social policy are inseparable, technically, social policy expenditures (financing the social safety net, education, pension and so on) represent the largest part of the expenditure side of national budgets. Notwithstanding, this interaction did not reach into the spotlight of decision-makers, meanwhile economists and political scientists have long been investigating the issue (Vanhercke et al., 2020).

The shortcomings of the European socio-economic governance are crystal clear. Then, what can be highlighted as positive? Initially, the European economic governance consisted of a supranational monetary policy and a rule-based fiscal policy. As a response to the global financial crisis and the euro crisis, this governance framework has been augmented by several new institutions, rules and regulations. On the one hand, this process generated an overly complex system of economic governance, but on the other hand, some new institutional elements now address areas, such as employment, pension system, healthcare system, that are already close to social policy. Euro Plus Pact, the Macroeconomic Imbalance Procedure and the European Semester were the most important steps in this direction. Verdun & Zeitlin (2018) refers to the European Semester as a new architecture of European Union socio-economic governance. Moreover, Zeitlin & Vanhercke (2018) emphasise the socialisation of the European Semester, through the European Union's social policy objectives translated into concrete claims. Yearly rounds of country-specific recommendations transmit the social policy priorities of the European Union to the member states, moreover, there is an intensified social monitoring of national reforms, and an enhanced decision-making role for European Union social and employment actors. A deeper social policy governance, slowly and gradually but surely, gains ground in the European Union. And the strengthening of European social policy governance will eventuate in the creation of effective socio-economic governance framework.

## 5. Conclusions

The economic crisis rapidly dismantled the well-being and welfare structures and states of European countries; thus, a decade of prosperity and development fell into the dust. The global financial crisis was followed by the euro crisis when the countries of the Southern periphery and Ireland went bankrupt again. Skyrocketing unemployment and years of economic uncertainty substantially increased social spending in European countries. Adverse effects of economic globalisation have intensified in European countries, emerging social risks, economic uncertainty, and rapidly growing inequality posed another challenge for social policies within the European Union. Since post-crisis economic recovery has not been able to ensure rapid increase in individual well-beings and provide sufficient number

of jobs, social dissatisfaction started growing larger. Other shocks such as Brexit and the migration crisis generated additional problems and concerns, which can lead to a surge in social expenses, meanwhile revenues have been stagnant.

Since the end of the 20<sup>th</sup> century, European states have been constantly challenged by three interlinking factors, namely globalisation, demographic changes and new social risks (Pierson, 2007), resulting in rapid changes putting the European welfare states under constant pressure to adapt. These challenges are accompanied with the harmful effects of the 2008–2009 financial and economic crisis and the new unknown effects of the current processes. Covid-19 has affected the EU and its member states in different ways; however, the EU have been able to set up a recovery plan, ‘Next Generation EU’ which integrates social and economic measures into the proposal for a 2021–2027 multi-annual financial framework (European Commission, 2020).

Summarising, we have displayed the transformation of the European socio-economic governance; even though that this framework has substantially been reinforced and reconfigured by the decision-makers of the European Union (the combination of new institutions, instruments, rules and regulations), after a series of crises, it is still incomplete. Nevertheless, a future crisis will test again this framework, and scholars will have enough information to evaluate the efficiency, resilience and depth of the new European socio-economic governance. Given its complex nature, the current EU governance system and its complicated and slow processes cannot offer rapid and effortless solutions for economic and social problems. Good framework conditions and incentives at European level can simplify the national implementation of different economic and social policies.

## References

- Armstrong, K. A. (2012). EU social policy and the governance architecture of Europe 2020. *European Review of Labour and Research*, 18(3), 285–300. Online: <https://doi.org/10.1177/1024258912448600>
- Bache, I., Bartle, I., & Flinders, M. (2016). Multi-level Governance. In Ch. Ansell & J. Torfing (Ed.), *Handbook on Theories of Governance*. Edward Elgar Publishing, Cheltenham. Online: <https://doi.org/10.4337/9781782548508.00052>
- Bevir, M. (2012). *Governance. A very short introduction*. Oxford University Press, Oxford. Online: <https://doi.org/10.1093/actrade/9780199606412.001.0001>
- Bongardt, A. & Torres, F. (2010). The Competitiveness Rationale, Sustainable Growth and the Need for Enhanced Economic Coordination. *Intereconomics*, 45(3), 136–141.
- Büchs, M. (2009). The open method of coordination – effectively preventing welfare state retrenchment? *European Integration Online Papers (EIoP)*, 13(1), 1–20. Online: <http://doi.org.10.1695/2009011>
- Caminada, K., Goudswaard, K. & Van Vliet, O. (2010). Patterns of Welfare State Indicators in the EU: Is there Convergence? *Journal of Common Market Studies*, 48(3), 529–556. Online: <https://doi.org/10.1111/j.1468-5965.2010.02063.x>
- De Grauwe, P. (2013). The European Central Bank as Lender of Last Resort in the Government Bond Markets. *CEifo Economic Studies*, 59(3), 520–535. Online: <https://doi.org/10.1093/cesifo/ift012>
- De la Porte, C. & Heins, E. (2015). A new era of European Integration? Governance of labour market and social policy since the sovereign debt crisis. *Comparative European Politics*, 13(1), 8–28. Online: <https://doi.org/10.1057/cep.2014.39>



- Dixit, A. (2003). On Modes of Economic Governance. *Econometrica*, 72(1), 449–481. Online: <https://doi.org/10.1111/1468-0262.00415>
- Dixit, A. (2009). Governance Institutions and Economic Activity. *American Economic Review*, 99(1), 5–24. Online: <https://doi.org/10.1257/aer.99.1.5>
- EUR-Lex (2008). COM/2008/0418 final. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – “A renewed commitment to social Europe: Reinforcing the Open Method of Coordination for Social Protection and Social Inclusion” {SEC(2008) 2153} {SEC(2008) 2169} {SEC(2008) 2170} {SEC(2008) 2179} Online: <https://bit.ly/3rHEmoH>
- Eurofound (2010). Open method of coordination. Online: <https://bit.ly/3dpDsEW>
- European Commission (2014). Social Protection & Social Inclusion. Online: <https://bit.ly/3IpktbS>
- European Commission (2020). Communication, ‘The EU budget powering the recovery plan for Europe’. Annex thereto in a separate document, COM (2020) 442 final, 27 May 2020.
- European Parliament (2000). Lisbon European Council 23 and 24 March 2000: Presidency Conclusions. Online: <https://bit.ly/3oqsaH1>
- European Parliament (2019). Economic Governance. Fact Sheets on the European Union. Online: <https://bit.ly/3Im3jMe>
- European Parliament (2021). Social and Employment Policy: General Principles. Fact Sheets on the European Union. Online: <https://bit.ly/3oqPvZa>
- Eurostat (2014). Glossary: Open method of coordination (OMC). Eurostat. Online: <https://bit.ly/3dlPgYK>
- Eyraud, L. & Wu, T. (2015). Playing by the Rules: Reforming Fiscal Governance in Europe. IMF Working Paper No. WP/15/67. Online: <https://doi.org/10.5089/9781484300282.001>
- Farrell, H. & Newman, A. L. (2010). Making global markets: Historical institutionalism in international political economy. *Review of International Political Economy*, 17(4), 609–638. Online: <https://doi.org/10.1080/09692291003723672>
- Ferrera, M. (1996). The “Southern” Model of Welfare State in Social Europe. *Journal of European Social Policy*, 6(1), 17–37. Online: <https://doi.org/10.1177/095892879600600102>
- Ferrera, M. & Rhodes, M. (2000). Building a Sustainable Welfare State. *West European Politics*, 23(2), 257–282. Online: <https://doi.org/10.1080/01402380008425375>
- Fukuyama, F. (2013). What is Governance? Center for Global Development, Working Paper No. 314.
- Gocaj, L. & Meunier, S. (2013). Time will tell: The EFSF, the ESM and the euro crisis. *Journal of European Integration*, 35(3), 239–253. Online: <https://doi.org/10.1080/07036337.2013.774778>
- Graziano, Paolo and Hartlapp, Miriam (2019). The end of social Europe? Understanding EU social policy change. *Journal of European Public Policy*, 26(10), 1484–1501. Online: <https://doi.org/10.1080/13501763.2018.1531911>
- Hall, P. A. & Taylor, R. C. R. (1996). Political science and the three new institutionalisms. *Political Studies*, 44(5), 936–957. Online: <https://doi.org/10.1111/j.1467-9248.1996.tb00343.x>
- Hantrais, L. (2007). *Social Policy in the European Union* (3<sup>rd</sup> edition). Palgrave Macmillan, Basingstoke.
- Heise, A. (2012). Governance Without Government or, The Euro Crisis and What Went Wrong with European Economic Governance. *International Journal of Political Economy*, 41(2), 42–60. Online: <https://doi.org/10.2753/IJP0891-1916410203>
- Hodson, D. & Maher, I. (2001). The Open Method as a New Mode of Governance. *Journal of Common Market Studies*, 39(4), 719–746. Online: <https://doi.org/10.1111/1468-5965.00328>
- Howarth, D. & Quaglia, L. (2014). The Steep Road to European Banking Union: Constructing the Single Resolution Mechanism. *Journal of Common Market Studies*, 52, 125–140. Online: <https://doi.org/10.1111/jcms.12178>
- Jones, E. R., Kelemen, D. & Meunier, S. (2015). Failing Forward? The Euro Crisis and the Incomplete Nature of European Integration. *Comparative Political Studies*, 49(7), 1010–1034. Online: <https://doi.org/10.1177/0010414015617966>

- Kohler-Koch, B. & Rittberger, B. (2006). Review Article: The ‘Governance Turn’ in EU Studies. *Journal of Common Market Studies*, 44(Annual Review), 27–49. Online: <https://doi.org/10.1111/j.1468-5965.2006.00642.x>
- Majone, G. (1996). *Regulating Europe*. Routledge, London. Online: <https://doi.org/10.4324/9780203439197>
- Marks, G., Hooghe, L. & Blank, K. (1996). European Integration from the 1980s: State-centric v. Multi-level Governance. *Journal of Common Market Studies*, 34(3), 341–378. Online: <https://doi.org/10.1111/j.1468-5965.1996.tb00577.x>
- Martin, A. & Ross, G. (2004). *Euros and Europeans: Monetary Integration and the European Model of Society*. Cambridge University Press, Cambridge. Online: <https://doi.org/10.1017/CBO9780511492020>
- Michalski, A. (2013). Democratic Governance and Policy Coordination in the EU. In D. G. Mayes, D. G. & A. Michalski (Eds.), *The Changing Welfare State In Europe: The Implications for Democracy*. Edward Elgar, Cheltenham, Northampton, MA. Online: <https://doi.org/10.4337/9781782546573.00016>
- Milotay, N. (2020). Social governance in the European Union: Managing complex systems. In-depth Analysis, European Parliamentary Research Service. Online: <https://doi.org/10.2861/81099>
- Monnet, J. (1976). *Mémoires*. Librairie Arthème Fayard, Paris.
- Natali, D. (2010). The Lisbon Strategy, Europe 2020 and the crisis in between. *European Social Observatory Deliverable*, 4(31), 3–26. Online: <https://bit.ly/31n0mux>
- Peters, G. (1999). *Institutional theory in political science – The “new institutionalism”*. Pinter, London.
- Peters, G. & Pierre, J. (2009). Governance Approaches. In A. Wiener & T. Diez (Eds.), *European Integration Theory* (pp. 91–104). Oxford University Press. Online: <https://doi.org/10.1093/hepl/9780198737315.001.0001>
- Pierre, J. (2000). Introduction: Understanding Governance. In J. Pierre (Ed.), *Debating Governance. Authority, Steering and Democracy*. Oxford University Press.
- Pierson, C. (2007). *Beyond the Welfare State? The New Political Economy of Welfare*. Polity Press, Cambridge.
- Pierson, P. (1994). The Path to European Integration: A Historical Institutionalist Perspective. *CES Germany & Europe Working Papers No. 5.2*. Online: <https://bit.ly/3xWYz62>
- Scharpf, F. W. (2002). The European social model: Coping with the challenges of diversity. *Journal of Common Market Studies*, 40(4), 645–670. Online: <https://doi.org/10.1111/1468-5965.00392>
- Scharpf, F. W. (2003). Problem-Solving Effectiveness and Democratic Accountability in the EU. *Max-Planck-Institut für Gesellschaftsforschung, Working Paper No. 1*. Online: <https://bit.ly/3pwZuLC>
- Thelen, K. (1999). Historical Institutionalism in Comparative Politics. *Annual Review of Political Science*, 2, 369–404. Online: <https://doi.org/10.1146/annurev.polisci.2.1.369>
- Thelen, K. & Steinmo, S. (1992). Historical institutionalism in comparative politics. In S. Steinmo, K. Thelen & F. Longstreth (Eds.), *Structuring Politics – Historical Institutionalism in Comparative Analysis* (pp. 1–32). Cambridge University Press. Online: <https://doi.org/10.1017/CBO9780511528125.002>
- Vanhercke, B., Ghailani, D., Spasova, S. & Pochet, P. (2020). Social policy in the European Union 1999–2019: the long and winding road. Brussels, European Trade Union Institute (ETUI) and European Social Observatory (OSE).
- Verdun, A. (2015). A historical institutionalist explanation of the EU’s responses to the euro area financial crisis. *Journal of European Public Policy*, 22(2), 219–237. Online: <https://doi.org/10.1080/13501763.2014.994023>
- Verdun, A. & Zeitlin, J. (2018). Introduction: the European Semester as a new architecture of EU socioeconomic governance in theory and practice. *Journal of European Public Policy*, 25(2), 137–148. Online: <https://doi.org/10.1080/13501763.2017.1363807>
- Zambeta, E. (2014). Education in times of crisis. *Education Inquiry*, 5(1), 1–6. Online: <https://doi.org/10.3402/edui.v5.24042> ; DOI: <https://doi.org/10.3402/edui.v5.24042>
- Zeitlin, J. & Vanhercke, B. (2018). Socializing the European Semester: EU social and economic policy coordination in crisis and beyond. *Journal of European Public Policy*, 25(2), 149–174. Online: <https://doi.org/10.1080/13501763.2017.1363269>