

The Eurozone crisis, austerity, COVID and the new European economic governance

Joshua Cova 

joshua.cova@mpifg.de

Max Planck Institute for the Study of Societies

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Today's seminar

1. Quick recap
2. The European Union and member states' national labor markets.
3. European economic governance: The financial crisis and the COVID pandemic
4. The socialization of the European Semester and the European Pillar of Social Rights
5. In-class exercise

1. Quick recap

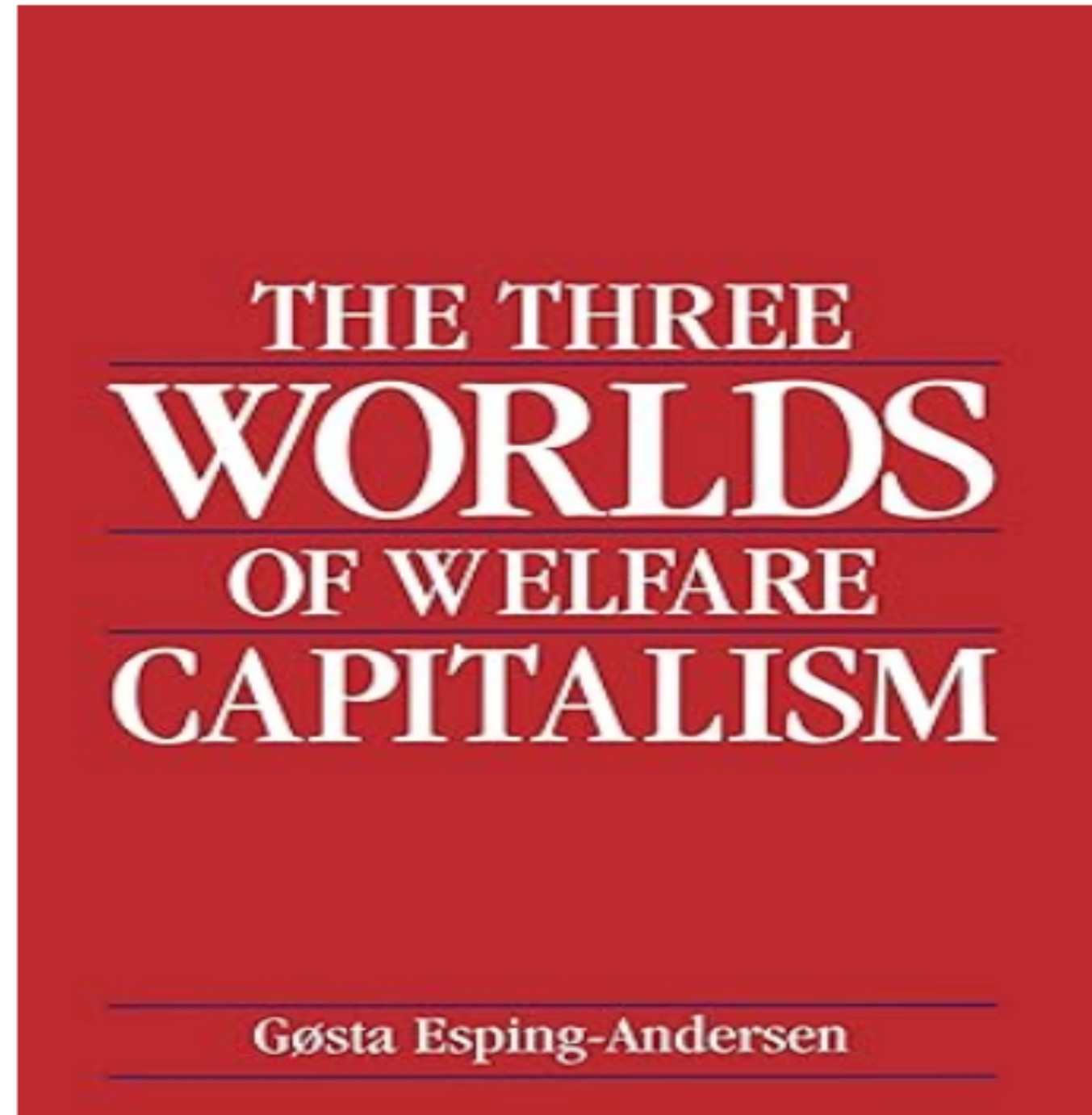
How we left things...

We discussed what the European Monetary Union (EMU) means for member states in:

- Monetary policy
- Fiscal policy (Stability and Growth Pact)
- Labor market policy

Some important terms and themes for today

- **European integration**
 - Vertical vs. Horizontal integration ([Maccarrone et al., 2023](#))
 - Positive vs. Negative integration ([Scharpf, 1998](#))
- **Commodifying vs. Decommodifying** policy reforms
 - Welfare state literature ([Esping-Andersen, 1990](#))
 - Labor as a market commodity
 - Examples?



Some more important terms and themes for today

- **Moral hazard**

- Popularized during the financial crisis, but what is the application in the Euro context?

- **Conditionality**

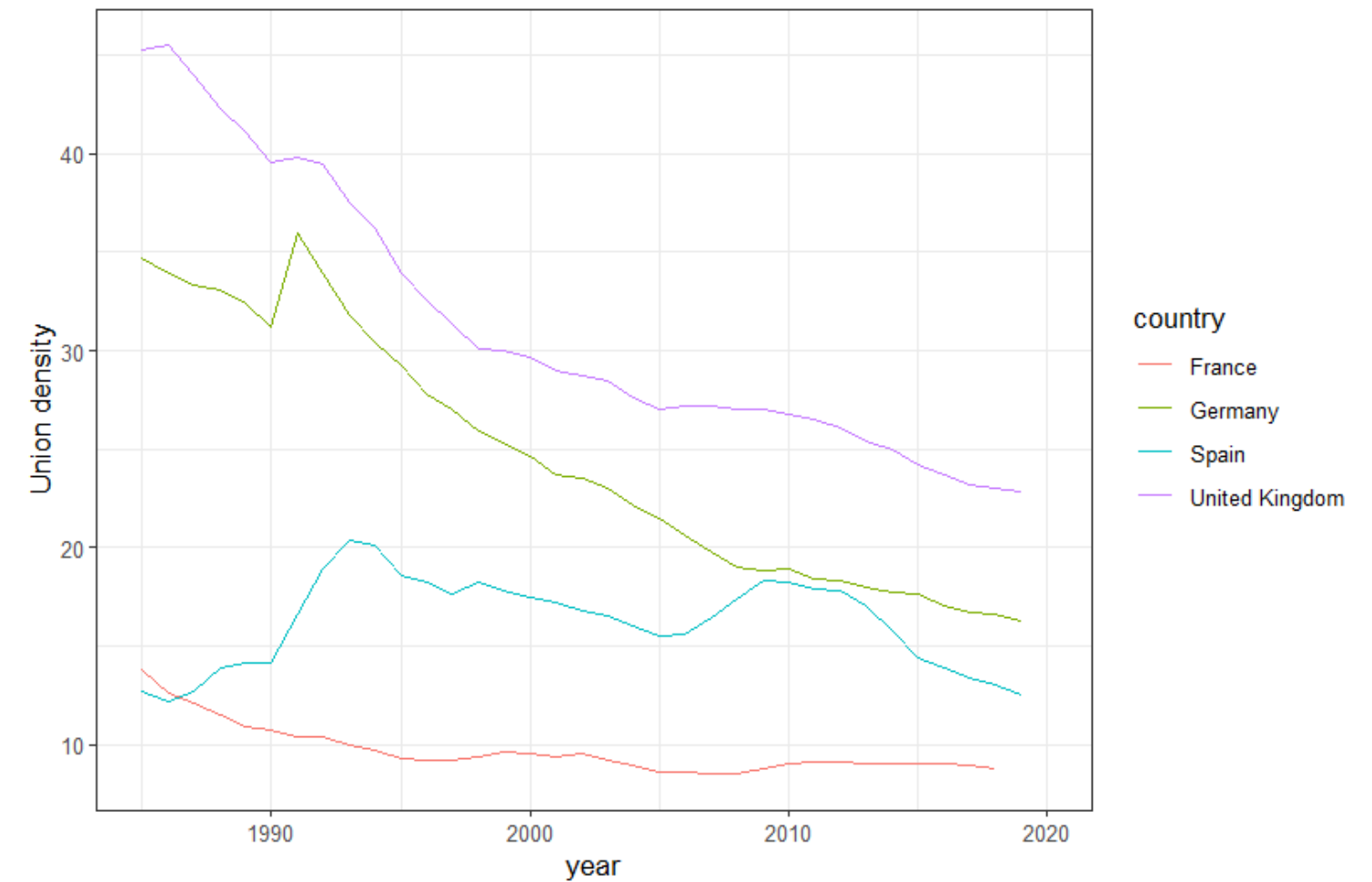
- Lending by the IMF coupled to structural reforms
- Implicit conditionality



2. The EU and member states' labor markets

Decline in collective bargaining and trade union membership

- Political economy/structural changes
- White-collar workers are more difficult to unionize
- Fraying alliance with social-democratic parties
- Competitive corporatism/social pacts not great PR for unions (Molina and Rhodes, 2002)
- Labor market insiders vs. outsiders (Häusermann et al., 2012)




European integration and national labor markets

- Industrial relations and a 'common trajectory of neoliberalism' ([Baccaro and Howell, 2017](#))
- How does European integration affect member states' labor markets? ([Meardi, 2018](#))

Potential factors

- Increased mobility in labor
- Increased mobility in capital (Foreign direct investments)
- European monetary union and labor cost competition
- Concrete policy example: Posted workers and social/wage dumping ([Cremers et al., 2007](#))

Competences of the European Union

EU competences			
Exclusive	Shared	Support, coordinate or supplement actions of the member states	Provide arrangements within which EU member states must coordinate policy
<ul style="list-style-type: none"> customs union the establishing of the competition rules necessary for the functioning of the internal market monetary policy for the member states whose currency is the euro conservation of marine biological resources under the common fisheries policy common commercial policy concluding international agreements <ul style="list-style-type: none"> when their conclusion is required by a legislative act of the EU when their conclusion is necessary to enable the EU to exercise its internal competence in so far as their conclusion may affect common rules or alter their scope. 	<ul style="list-style-type: none"> internal market social policy, limited to the aspects defined in the TFEU economic, social and territorial cohesion agriculture and fisheries, excluding the conservation of marine biological resources environment consumer protection transport trans-European networks energy area of freedom, security and justice common safety concerns in public health matters, limited to the aspects defined in the TFEU research, technological development and space development cooperation and humanitarian aid 	<ul style="list-style-type: none"> protection and improvement of human health industry culture tourism education, vocational training, youth and sport civil protection administrative cooperation <p><i>Legally binding EU acts in these areas cannot imply the harmonisation of national laws or regulations.</i></p>	<ul style="list-style-type: none"> economic policy employment social policies 
Article 3 TFEU	Article 4 TFEU	Article 6 TFEU	Article 5 TFEU

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Policy coordination

Before the Eurozone crisis

- Coordination between member states largely absent
- Policy coordination through non-binding broad economic policy guidelines
- Open method of coordination
- Hard vs. soft policy

Changes after the crisis

- Enhanced macroeconomic surveillance and improved economic crisis management
- Excessive Deficit Procedure and Macroeconomic Imbalance Procedure
- European Monetary System: financial assistance to countries in distress
- Banking Union (Single Supervisory Mechanism)
- Enlarged scope of EU interventions in labor and social policies
- Policy instruments: European Semester and Country-specific recommendations (CSRs)

3. European economic governance: The financial crisis and the COVID pandemic

The New European economic governance: The European Semester and Country-specific recommendations

- Yearly cycle of policy coordination, different policy areas
- Public finances, budgetary deficits and reducing government debt
- Fostering economic growth and preventing macroeconomic imbalances
- Coordinating and monitoring employment and social policies
- Member states should take these recommendations into account when formulating their budget plans

Example of CSRs

EN

13

EN

3.

Speed up the digitalisation of the entire service chain for public services and improve people’s digital skills. Remove investment obstacles and boost investment in very high capacity digital communication networks.

(11)

The social partners’ agreement of June 2011 to reform the wage-bargaining framework has been formalised in legislation. It should allow more extensive use of firm-level contracts, taking better account of the needs of specific production activities.

8

Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

4

EN

However, to fully address the issue of more dynamic nominal unit labour costs than its trade partners, which is a key factor for Italy’s competitiveness loss, the wage-bargaining system should be reformed further by allowing more flexible arrangements also at the national sectoral level. In April 2012, the government proposed an ambitious labour market reform addressing long-standing challenges in the Italian labour market, including its segmentation. This reform needs to be adopted as a matter of urgency, ensuring that its objective and level of ambition remains commensurate to the challenge of the Italian labour market. The scale and effectiveness of the liberalisation of employment services should be closely monitored.

COVID, Next Generation EU and the Recovery and Resilience Facility

- Key differences in EU policy response between Euro sovereign debt crisis and COVID (Buti and Fabbrini, 2023)
- Escape clause of the Stability and Growth Pact, increased public spending
- Next Generation EU - joint EU borrowing (a first!)
- €723 billion in loans & grants
- Disbursement of funds is linked to implementation of agreed reforms and investments (Conditionality)
- Support to Mitigate Unemployment Risks in an Emergency (SURE) and relaxation of state aid rules
- Country-specific recommendations also linked to progress on RRF reforms and milestones

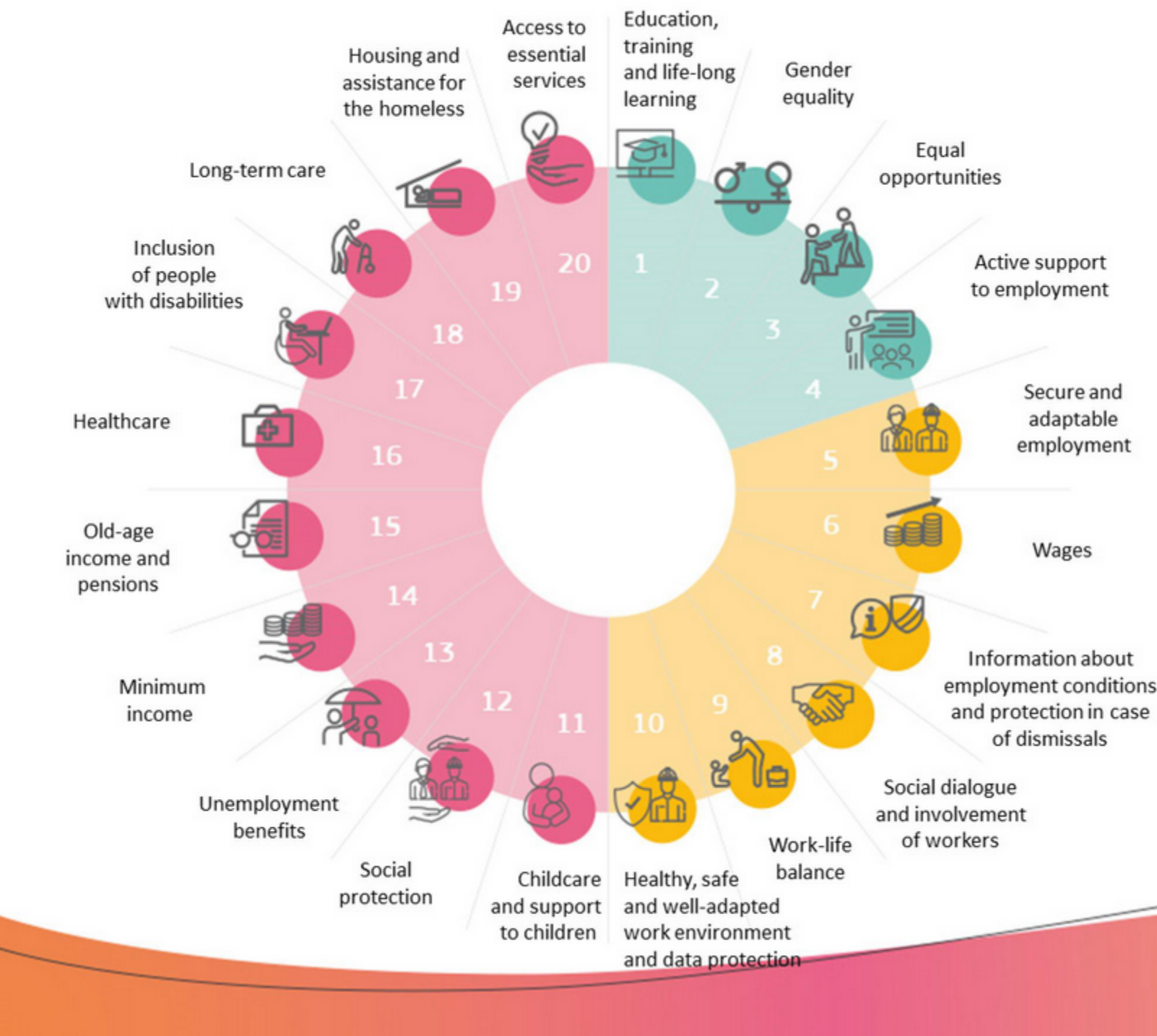


4. The socialization of the European Semester and the European Pillar of Social Rights

The European Pillar of Social Rights

#SocialRights

Your social rights at a glance



A more pro-social policy direction?

- The political costs of austerity
- The 'socialization' of the European Semester ([Zeitlin and Vanhercke, 2018](#))
- Directive on adequate minimum wages
- Platform work directive
- Strengthening social dialogue

5. In-class exercise

In-class exercise

- Divide into groups (ca. 4-5 people per group)
- Each group will prepare a max of 3 CSRs per country
- Follow this template for the CSR:
 - Problem Identified
 - EU Priority/Objective
 - Recommended Action
 - Expected Impact
- Present in class

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