

# The EU Strategic Agenda: Prospects and Challenges

Written by Mark Baimbridge

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MARK BAIMBRIDGE, JUL 18 2014

The period since the 2008 Global Financial Crisis induced Great Recession has been tumultuous for the European Union (EU) with a sovereign debt crisis raising questions over the Eurozone's sustainability. This is crucial not only as the flagship of the EU's macroeconomic policymaking, but also for the political capital invested by several generations of national and EU leaders.

Furthermore, the 2014 European Parliamentary elections yielded a less than endorsing verdict on the EU's performance with turnout continuing its long-term declining trend. Although the main party groupings of the *European People's Party* and *Progressive Alliance of Socialists and Democrats* maintained their dominance, the *European Conservatives and Reformists*, *European United Left/Nordic Green Left*, and *Europe of Freedom and Direct Democracy* made significant gains to reflect the increasingly fragmented nature of European politics (European Parliament, 2014).

Consequently, it should come as no surprise that the EU has felt the necessity to take a policy-lead through its Strategic Agenda that focuses upon

five overarching priorities which will guide the work of the European Union over the next five years: stronger economies with more jobs; societies enabled to empower and protect; a secure energy and climate future; a trusted area of fundamental freedoms; effective joint action in the world (EC, 2014:1).

The purpose of this article is to explore its first two elements named as "A Union of jobs, growth and competitiveness" and "A Union that empowers and protects all citizens".

### Pre-History of the Strategic Agenda

Whilst the sovereign debt crisis appeared to surprise many observers its occurrence via spill-over or free-rider effects was long predicted (von Hagen and Wyplosz, 2008). The former may occur if members run large budget deficits over a prolonged period of time leading to their fiscal stance being unsustainable, which, given its financing through the financial markets, results in ever higher interest rates on sovereign debt. Additionally, with such growing recourse to financial markets, the availability of liquidity may decrease and therefore further drive-up interest rates. Thus, one member's debt issue spills-over to others as financing sovereign debt becomes more expensive for all countries (Arezki et al., 2011).

The potential hazard of free-rider effects materialises when a country cannot meet the repayment of its outstanding debt; with default on the horizon, it can either undertake surprise devaluation or inflation to reduce its debt's real value. However, for Eurozone members, these methods are no longer available, thereby increasing the possibility of outright default (McKinnon, 1996). Moreover, with the integration of financial markets, one country's bonds may be widely held by other members. Thus, outright debt default harms not only domestic bond holders, but other government and private investors whereby, as has been witnessed, Eurozone governments become uniquely vulnerable to self-fulfilling panic over default.

Without an adequate effective adjustment mechanism then to date, the Eurozone's response has been piecemeal in

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terms of moral suasion through castigating debtor countries for their profligacy to ad hoc loans, whilst minor revisions to the Lisbon Treaty were agreed to enable the creation of a bail-out fund (Baimbridge et al., 2012).

However, such 'solutions' deal with the symptoms rather than the fundamental causes economic structural weaknesses. Hence, in light of how the EU reacted to the Eurozone sovereign debt crisis the Strategic Agenda is a welcome departure to provide a positive, forward-thinking framework to rejuvenate the EU economy.

## Jobs, Growth, and Competitiveness

Although economic remedies to the Eurozone crisis have emerged, a potentially more significant outcome is to the body-politic of the EU through the imposition of 1930s style austerity policies. Overall, the effects of austerity on macroeconomic indicators remain problematic to ascertain; however, the consensus has now shifted in favour of refuting the applicability of fiscal consolidation. In particular, they indicate that fiscal contraction prolongs the pain when an economy is weak compared to when the economy is strong; in other words. precisely not the policy to pursue in times of crisis (Blyth, 2013).

Indeed, the neoliberal direction of the EU since the Treaty on European Union (TEU) of 1992 requires alternative strategies, given that the EU possesses different trade cycles, economic structures, histories, languages, and cultures. History indicates that advanced capitalist economies are inherently unstable such that, left to themselves, they cannot maintain full employment, whilst being marred by inequalities in the distribution of power, income, and wealth. Hence, the immediate prospects do not look positive for the amelioration of "slow growth, high unemployment, insufficient public and private investment, macroeconomic imbalances, public debt, and a lack of competitiveness" (EC, 2014: 2), whilst still adhering to the Stability and Growth Pact (SGP).

To resolve this new bout of eurosclerosis, the European Council recommends several strategies: (i) fully exploit the potential of the single market, (ii) promotion of a climate of entrepreneurship and job creation, (iii) investment, (iv) reinforcement of economic attractiveness of the Union, and (v) make the Eurozone a more solid and resilient factor of stability and growth (EC, 2014). Obviously, whilst none of these are objectionable, the issue is whether they amount to more than rhetoric that has been heard before with few tangible outcomes. It is noticeable that much of the emphasis has been again, rightly, placed on supply-side initiatives (Baimbridge and Whyman, 2008 & 2015); however, previous EU-led efforts in these areas in the form of the Lisbon Strategy (European Parliament, 2000) and latterly Europe2020 (EC, 2010) programmes have generally been found severely wanting (European Parliament, 2010).

Moreover, there is the issue as to how Member States, especially those within the Eurozone, can square the circle of generating funds to commit to these long-term supply-side policies whilst adhering to the fiscal rules of the SGP that presumably will now actually be enforced under the new Fiscal Compact/Fiscal Stability Treaty (European Council, 2012). Additionally, there remains the European Central Bank (ECB) setting Eurozone-wide interest rates that are not necessarily optimal for individual economies (Baimbridge and Whyman, 2008 & 2015).

Consequently, the danger is that the EU will find itself perpetually in a Catch-22 situation whereby it needs to foster strong economic growth to generate funds through either taxation and/or affordable sovereign debt to deliver the jobs, growth, and competitiveness required to generate successful economies. Presently, the new Strategic Agenda only appears to offer more of the same ideas that have consistently failed to allow most Member States to escape from a vicious to virtuous circle; hence, more radical thinking is required to offer an alternative framework for the EU to develop policies to address the necessary economic rebuilding process.

Considerable scope exists for government in initiating, pursuing, and implementing economic policies; on the demand side, insufficient aggregate demand and instability of investment are the key problems to resolve, whilst on the supply side, planning of prices and incomes, training, plus active industrial measures to direct investment to resolve any balance of payments problems are central. However, in light of the neoliberal framework of central EU institutions, the prospect of an EU-wide strategy to achieve these objectives is remote, whilst supra-national directives may prevent the implementation of effective national policies (Baimbridge et al., 2007).

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## Empowerment and Protection of EU Citizens

The second element of the Strategic Agenda relates to balancing the dynamism of its economy against instances where citizens experience poverty and social exclusion that necessitates: (i) the development of skills to unlock talents and life chances, (ii) the guarantee of fairness, and (iii) ensuring all societies have safety nets in place to accompany change and reverse inequalities (EC, 2014). This is particularly to be welcomed, since in addition to a return to austerity-orientated economics and political discourse, a further aspect of the EU's response to the Eurozone crisis has arguably been a weakening of the bonds of social cohesion through increasing internal and external discrimination, together with the rising spectre of racism in Europe (Baimbridge et al., 1994; Baimbridge, 2015).

Essentially this aspect of the Strategic Agenda is referring to the EU's desire to create a social dimension (*espace social européen*) or European Social Model (ESM), a relatively new phenomenon grafted onto a predominately economic or trade-orientated focus for integration, which for its advocates is a result of dissatisfaction with the shift in economic stance towards a neoliberal Europe (Strange, 1997; Whyman, 2002). However, there is little evidence that the ESM has slowed let alone reversed this path of neoliberalism (Whyman et al., 2012).

Moreover, there is increasing tension over what the ESM should be, as labour market strategy conflicts with the focus upon market-driven corporate strategy, whilst conceptions of employee participation in corporate decision-making and/or economic democracy would appear less likely to be accommodated (Watson, 2006). For progressive forces, there should be greater state involvement in economic policy, promoting employment, and developing the ESM to the benefit of citizens and workers (Gray, 2004; Mathers, 2007). However, whether these will occur is again uncertain, for whilst the Strategic Agenda possesses the correct sentiments about the EU being "more caring inside", the concern remains how this can be delivered whilst "respecting the competences of member states, who are responsible for their welfare systems" (EC, 2014: 4).

It should be noted that this present direction is not inevitable, since counter-hegemonic social forces have devised a number of European-level alternatives to construct a Europe-wide social model. Although some elements were adopted, fundamentally none of these alternatives was fully enacted through failing to generate enough support to dislodge the dominant market liberal model and the bias towards negative integration (Whyman et al., 2012); crucially, there is now the opportunity for the Strategic Agenda to fulfil the ESM's potential.

However, such alternatives are likely to face four major obstacles: (i) building a coalition of support for Euro-Keynesianism in the face of a concerted campaign of opposition by the forces of capital; (ii) coordination of the simultaneous election of such coalitions; (iii) achievement of unanimity, thereby bypassing national vetoes, to successfully revise EU treaties; and (iv) overcoming counter-forces of the international financial nexus. Consequently, individual countries, or groups of countries, have found it difficult to reform the European project from within because of this quadruple lock (Whyman et al., 2012). Hence, it has become increasingly essential for the EU to meaningfully explore such alternatives, given that the turbulence of the Great Recession and the Eurozone crisis has generated a compelling case for revisiting such ideas to revitalise not only the ESM, but as part of a rebalancing of the EU as a whole.

Finally, in addition to the barriers previously described to creating a true ESM, there are a number of contemporary developments that have increased this challenge that the Strategic Agenda needs to address. In particular, how the austerity programmes implemented by Member States was relatively uniform in character and that via the European Semester system and the Annual Growth Survey, the EU is trying to direct social policy developments in a way that is qualitatively different to the past. Consequently, analysis needs to be undertaken to examine how the combination of these issues has resulted in the erosion of the ESM as it existed pre-crisis, together with encouraging the development of a new direction of travel towards the minimalist Anglo-Saxon model (Whyman et al., 2012); all of which appears inimical to the aims of the Strategic Agenda.

## Conclusion

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The economic and social policy aspects of the European Council's Strategic Agenda for the next five years are evidently part of a well-intentioned attempt to demonstrate leadership and positive action in response to the Eurozone sovereign debt crisis and growing disquiet in several Member States regarding the EU's role and purpose. However, as discussed, at first glance there is little in the way of fresh ideas being presented in the Strategic Agenda, whereby much of it appears to be the rephrasing of previous initiatives.

Indeed, in its present albeit brief form, it does not appear to confront two fundamental dilemmas of EU policymaking in terms of how to generate growth, jobs, and prosperity (in a sustainable fashion). First, that by the end of its term in 2020, all EU members will have to adopt the euro (Lilico, 2014), such that they will be severely limited in domestic fiscal policy, whilst entirely foregoing monetary and exchange policy. Second, the balance, or trade-off, between EU- and national-level responsibilities, otherwise known as the principle of subsidiarity, remains unresolved and if applied could thwart many of the ambitions of the Strategic Agenda.

Additionally, there is the question, albeit it highly subjective and as yet unknown, of whether the new European Commission will be able either to devise the detailed policies, or work with Member States to fulfil the Strategic Agenda's ambitions. In this context, ultimately the essential question for the EU is whether there should be 'an ever closer union' in real policymaking terms.

Only the passage of time will reveal whether the Strategic Agenda will signal a tectonic shift in Europe's economic and social landscape as the question again remains whether the outcome will be 'more, or less, Europe'.

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