A Model for Implementing Sustainable and Qualitative Growth in the EU

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Executive summary

Five years after the beginning of the economic, financial and social crises, the voices stressing the need to promote growth-enhancing policies have multiplied. In this paper we argue that simply asking for ‘more growth’ (that is, growth in gross domestic product, GDP) is not enough: the crises should represent the opportunity to place more emphasis on the qualitative aspects of the growth model needed for long-term sustainability. In this context, we endorse the need to promote a ‘sustainable and qualitative growth’ (SQG) model. This is defined as a growth model in which the achievement of quantitative objectives (such as GDP growth and competitiveness) are compatible with the improvement of a wider set of qualitative dimensions which characterise the well-being of present and future generations. More specifically, in an SQG perspective, the objective of promoting more growth should be consistent with the achievement of objectives related to a wider range of qualitative dimensions. These dimensions include environmental protection, employment promotion, the fight against poverty and social exclusion, the promotion of fair standards of living and income distribution, technological advancements and innovation, the attainment of high standards of education and health, the promotion of fair work/life balances and support for active ageing paths. In this paper, after having discussed those dimensions and identified indicators able to measure progress, we focus on those policies which appear particularly promising for reconciling quantitative objectives of growth with quality and sustainability. These policies primarily relate to green growth and social investment (including early childhood education and care, education and training, lifelong learning and active ageing strategies). These policies, which are aimed at the development of natural, physical, human and social capital, represent an opportunity to enhance the quality of both current and future growth patterns.

Having defined SQG, we assess if and to what extent existing EU strategies are consistent with our definition. Our analysis of the main features of EU economic and social governance arrangements, together with an examination of the role played by EU institutions, suggests a nuanced answer to the question. On the one hand, the launch of the Europe 2020 strategy for smart, sustainable and qualitative growth has contributed to the promotion of a more multidimensional approach towards growth. Targets and indicators reflecting the environment, employment, education, poverty, social exclusion, and research and development (R&D) have been introduced. Furthermore, the launch of the European Semester should allow for better coordination between those policy domains and the budgetary surveillance tools provided for in the Stability and Growth Pact. On the other hand, however, EU priorities and strategies seem to be excessively unbalanced: economic objectives and budgetary stability goals are predominant compared with social and environmental ones.

Indeed, the analysis of progress made so far in relation to the Europe 2020 targets, as well as the analysis of the actual implementation of EU socio-economic strategies, highlight the presence of three challenges the EU must address before being able to implement a true SQG strategy:

1. *The lack of an all-encompassing growth strategy.* Although Europe 2020 can be seen as a proxy for an SQG strategy, many elements characterising the latter are still missing. This is, for example, the case for objectives that refer to the quality of employment created, the health status of European people or relevant aspects related to the protection of the environment (e.g. the preservation of biodiversity).

2. *Inconsistency over time.* Recent EU actions seem too centred on promoting fiscal consolidation objectives which, aside from having uncertain effects on the enhancement of growth in the shortterm, are likely to limit investments in the domains we consider key for promoting SQG, thus constraining future EU growth potential. The long-term effects of those measures should be better taken into account.

3. *Growing territorial divide.* Looking at EU member states, it is possible to find evidence of growing divergence as far as their economic, social and environmental performances are concerned. This trend is unlikely to change, since, under budgetary pressures, many countries lack the resources needed to invest in SQG.

Against this backdrop, in order to make SQG a reality in the EU, we propose the following recommendations:

1. *A more all-encompassing, balanced and multidimensional EU strategy for growth should be promoted.* First, issues, objectives and indicators related to the variety of dimensions characterising SQG should be addressed in key EU documents such as the Annual Growth Survey. Second, the role played by 'social actors' such as the Employment Committee (EMCO) and the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) should be strengthened. Third, the effective implementation of recent initiatives such as the 'Social Investment Package' and the 'Youth Guarantee' should be assured.
2. *A symmetric and 'time-consistent' macroeconomic strategy, allowing for investments in SQG-related domains, should be pursued.* Countries that have stabilised their debt ratios should be allowed to spend more. However, growth-enhancing investments should primarily target SQG-related domains: education and training, R&D, technological innovation, environmentally sustainable

modes of production and consumption, active ageing and lifelong learning strategies, care services (in particular, childcare), and other services aimed at improving people's quality of life. In countries experiencing budgetary difficulties, investments through national budgets should be complemented by EU resources (available through an increased focus of EU funds on those priorities and the use of outstanding and/or uncommitted Structural and Cohesion Fund resources).

3. *A common automatic stabiliser should be set up.* The setting up of a common EU automatic stabiliser (e.g. an EU unemployment insurance scheme) appears to be urgently needed, especially in the countries of the euro area. The protection provided by such an EU unemployment insurance—financed by employees and employers through social contributions and/or taxes—would be basic (below the level provided by current national insurance programmes) and limited to a particular time period. Member states would be able to top up such basic protection through their own social security schemes (and in line with their own social standards).

Keywords Sustainable and qualitative growth – EU governance – Economic and social policy – Environmental policy – Beyond GDP – Crisis

Introduction

The period since 2008 has been marked by economic recession and signs of growing tensions in the European integration project. These two trends have led to renewed attention being given to the capacity of member states to foster economic and social progress and to the EU's ability to safeguard European standards of living. The debate has thus focused on how to strengthen economic recovery while also clarifying the kind of growth we want. The issue of a 'quality path' for growth has gained momentum. This paper aims to shed light on some key questions regarding the future of Europe's economies, while making some proposals on how to improve the EU's economic and social strategy in line with a 'sustainable and qualitative growth' (SQG) perspective.

In Section 1, we summarise the key events in the long-term debate, which has largely centred on the definition of SQG and how it should be measured. Many of the tensions related to defining SQG are the result of the limited progress achieved in finalising quantitative and qualitative indicators. We take an analytical approach to these problems, while stressing some of the most innovative proposals for tackling these shortcomings in the international context.

Section 2 describes the recent changes to EU economic and social governance, both through treaty revisions and the redefinition of the European toolkit for addressing common economic, social and environmental problems. EU economic and social governance has been simplified in order to facilitate more focused coordination on growth, primarily through (smart) fiscal consolidation. This has coincided with the introduction of the European Semester and the Euro Plus Pact, as well as the revision of the Stability and Growth Pact (SGP). In Section 2 we also assess the initial implementation of the EU's socio-economic strategy. The main targets fixed for 2020 for smart, sustainable and inclusive growth are difficult to reach in the current economic context, while reforms have not gained momentum in all the policy areas under scrutiny.

In Section 3, we propose some alternative paths to improve economic performance while making progress on environmental and social issues. Three main lines of action are proposed: defining a more all-encompassing and multidimensional EU strategy for true sustainable and qualitative growth (though a more balanced approach to smart, sustainable and inclusive growth); establishing a more symmetric macroeconomic strategy (greater investment through national and EU budgets); and the introduction of a pan-European automatic stabiliser.

A model for European growth: defining sustainable and qualitative growth

The definition of a true 'sustainable and qualitative growth' (SQG) strategy has been a major topic for both analysts and policymakers in recent decades. Indeed, fierce debates about the limits and implications of a growth model exclusively oriented towards continuous increases in production and consumption (i.e. GDP growth) have been ongoing since the 1960s. Initially spurred on by concerns about long-term environmental sustainability, these debates have called into question the contributions made by the traditional (quantitative) growth model to the attainment of a variety of other objectives of importance to individuals and societies. Furthermore, discussions about the quality of existing indicators for measuring progress towards those objectives (and on how to refine them) have also continued.

The debate on the limits of quantitative growth is extremely rich, and describing it in detail is outside the scope of this paper. In this section, we first summarise the main messages emerging from two debates which have stressed the limits of a purely quantitative growth model: those on 'sustainable development' and 'well-being'. Given the scope of the literature concerning these two concepts, this paper focuses on the debate on sustainable development in the context of the United Nations and on the contributions arising from the debate on 'Beyond GDP' as developed in the European context in the late 2000s. In particular, this paper also highlights the work undertaken by the Commission on the Measurement of Economic Performance and Social Progress (CMEPSP), which was appointed by French President Nicolas Sarkozy in 2008. Second, building upon these concepts, we provide a working definition of 'sustainable and qualitative growth' (SQG) by identifying the main dimensions and objectives related to this concept. We also identify a list of policy domains and initiatives which seem particularly promising for promoting such a growth pattern in Europe. Third, we propose a list of indicators for measuring progress towards the attainment of SQG.

Putting growth into a wider context: 'sustainable development' and 'well-being'

A key point emerging from the debates on both sustainable development and well-being is the necessity of putting the objective of enhancing GDP growth into a wider context.

Other objectives besides quantitative growth can be valued by individuals and societies, and the interconnections (the synergies as well as the possible trade-offs) between these objectives should be taken into account. In other words, GDP growth should be considered as one of the dimensions characterising what has been variously called 'development,' 'progress' or 'societal well-being'. Indeed, according to the United Nations, the concept of sustainable development implies the convergence of three goals (which constitute the three pillars of sustainable development):

- economic development,
- social equity, and
- environmental protection.

These goals should be attained by the present generation without compromising the opportunities of those to come.[2] From this perspective, the objectives of GDP growth, social equity, environmental protection and their long-term sustainability are seen as interrelated and mutually reinforcing. Technological advancements are considered a key factor in combining quantitative growth with the preservation of human welfare and the environment.[3] Achieving economic stability and sustained economic growth are considered priorities.[4] However, economic growth should be compatible with (and contribute to) the achievement of the other objectives:

[2] According to the report *Our Common Future* (known as the Brundtland Report), sustainable development is a development path that 'meets the needs of the present without compromising the ability of future generations to meet their own needs' (United Nations, *Our Common Future*, report of the World Commission on Environment and Development (New York: United Nations, 1987), paragraph 27).

[3] Innovation and technological advancements are generally considered key conditions for improving the qualitative dimension of growth. However, some authors have expressed more prudent views on this issue (see C. Degryse and P. Pochet, *Paradigm Shift: Social Justice as a Prerequisite for Sustainable Development*, European Trade Union Institute Working Paper 2009.02 (Brussels, 2009); Strasser et al., *At the Limits of Growth. The Promise of New Progress*, Friedrich Ebert Stiftung (Berlin, March 2012)).

[4] United Nations, *Resilient People, Resilient Planet. A Future Worth Choosing,* report of the United Nations Secretary General's High Level Panel on Sustainability (New York: United Nations, 2012), paragraphs 20–1.

> [I]t should be inclusive and equitable . . . creating greater opportunities for all, reducing inequalities, raising basic standards of living, fostering equitable social development and inclusion, and promoting integrated and sustainable management of natural resources and ecosystems that supports, *inter alia*, economic, social and human development while facilitating ecosystem conservation, regeneration and restoration and resilience in the face of new and emerging challenges.[5]

Over time the academic community and international organisations have identified comprehensive sets of indicators for measuring progress towards sustainable development. The set drawn up by the United Nations is organised around 14 themes which show the multi-dimensionality of the concept. These themes relate to 1) poverty; 2) governance; 3) health; 4) education; 5) demographics; 6) natural hazards; 7) atmosphere; 8) land; 9) oceans, seas and coasts; 10) freshwater; 11) biodiversity; 12) economic development; 13) global economic partnership; and 14) consumption and production patterns.[6]

[5] United Nations, *Report of the United Nations Conference on Sustainable Development,* Rio de Janeiro, Brazil, 20–2 June 2012, A/CONF.216/16, paragraph 4. That said, a variety of—often conflicting—approaches to sustainable development (implying a more problematic relationship between sustainable development patterns and economic growth) do exist. For an overview, see M. Sedlacko and N. Gjoksi, 'Sustainable Development and Economic Growth: Overview and Reflections on Initiatives in Europe and Beyond', *ESDN Quarterly Report*, December 2009; G. Drexhage and D. Murphy, *Sustainable Development: From Brundtland to Rio 2012*, Background paper prepared for consideration by the High Level Panel on Global Sustainability at its first meeting (United Nations Headquarters, New York, 19 September 2010).

[6] United Nations, *Indicators of Sustainable Development: Guidelines and Methodologies.* Third edition (New York: United Nations Publications, 2007), 9.

Echoing the international debate, an EU Strategy on Sustainable Development (EU SDS) was launched in 2001 (Goteborg Council) and reviewed in 2006 and 2009.[7] In line with the multi-dimensionality of the concept, the EU SDS adopts a comprehensive approach towards sustainable development based on the attainment of four main objectives: environmental protection, social equity and cohesion, economic prosperity and meeting our international responsibilities. In addition to those objectives, seven concrete, 'key challenges' (climate change and clean energy, sustainable transport, sustainable consumption and production, conservation and management of natural resources, public health, social inclusion, demography and migration, and global poverty and sustainable development) and three 'cross-cutting themes' (education and training, R&D, and financing and economic instruments) characterise the EU SDS.

The dimensions constituting the concept of 'sustainable development' as framed in UN discourse largely correspond to what, in recent European debates has been defined as 'well-being'. Indeed well-being is also a multi-dimensional concept which is intended to include a broad set of dimensions and objectives which individuals and societies may deem worth pursuing. A peculiar characteristic of this debate is the attention paid to measurement issues, that is, to the identification and development of indicators able to fully capture the various dimensions (components) of well-being and monitor their evolution over time.

We refer here to the work of the Stiglitz, Sen and Fitoussi Commission set up in 2008 by the French government. Indeed, the starting point of the work undertaken by the CMEPSP was an awareness of the limits of existing indicators and, in particular,

[7] European Council, *Review of the EU Sustainable Development Strategy (EU SDS) – Renewed Strategy*, 10117/06 (Brussels, 9 June 2006); European Commission, *Mainstreaming Sustainable Development into EU Policies: 2009 Review of the European Union Strategy for Sustainable Development*, Communication, COM (2009) 400 final (24 July 2009).

of the limitations of the tendency to use GDP as a proxy for measuring well-being.[8] Starting from this premise, the CMEPSP identified a series of dimensions that can contribute to 'well-being' and put forward recommendations for improving their measurement. Importantly, the CMEPSP stressed the need to distinguish between the well-being of present and future generations. Two broad components of the well-being of the current generation have been identified:

- economic well-being (standard of living), and
- quality of life.

According to the Commission, GDP should remain a central indicator for economic well-being. However, when providing a description of people's real standard of living, it should be complemented by other measurements.[9] First, the role of other indicators which provide a more realistic measurement of the standard of living—such as net domestic product or net national disposable income—should be emphasised in national accounts. Second, government-provided non-market services (such as education and medical services) should be more carefully measured. Measurements capturing their quality (that is, their actual output) should be improved. Third, assessments of economic activities should pay more attention to dimensions other than production, such as household income, consumption and wealth. To have a more precise idea about the real standards of living in a country, these three elements should be considered

[8] J. Stiglitz, A. Sen and J. P. Fitoussi, *report by the Commission on the Measurement of Economic Performance and Social Progress* (Paris 2009).

[9] The starting point for the CMEPSP was the need '*to shift emphasis from measuring economic production to measuring people's well-being*. [However], changing emphasis does not mean dismissing GDP and production measures [but] working towards the development of a statistical system that complements measures of market activity by measures entered on people's well-being and by measures that capture sustainability' (Stiglitz et al., report, 12, italics in the original).

jointly at both the aggregate and household level. Indeed, a better consideration of households' income, consumption and wealth was considered crucial by the CMEPSP, which, for example, suggests considering 'adjusted household disposable income', a measure which takes into account governments' in-kind social transfers. Fourth, distributional issues should be emphasised: average figures for income, consumption and wealth should be accompanied by indicators which reflect their distribution among the population. Finally, in order to gain a more precise picture of people's material well-being, income measures should be broadened to capture some non-market activities performed by households, given their importance in determining their standard of living (such as the services provided by households themselves, e.g. cleaning, cooking, childcare).

Alongside standard of living, quality of life was the second component of well-being considered by the CMEPSP. This is a broad concept which goes beyond economic production and standard of living since 'it includes the full range of factors that influences what we value in living, reaching beyond its material side'.[10] The CMEPSP identified a series of objective features affecting quality of life (defined as 'components of quality of life'): 1) health, 2) education, 3) personal activities, 4) political voice and governance, 5) social connections, 6) environmental conditions, 7) personal insecurity and 8) economic insecurity. As is evident, many of those components correspond to the dimensions of sustainable development illustrated above.

Finally, the CMEPSP suggested a distinction between the assessment of current well-being and the assessment of its sustainability, with the latter determining whether 'we can hope to see the current level of well-being at least maintained for future periods or future generations, or whether the most likely

[10] Stiglitz et al., *report*, 41.

scenario is that it will decline'.[11] In fact, even if the well-being of future generations is clearly linked to the stock of capital (natural, physical, human and social) that the present generation will pass on to them, the CMEPSP stressed that trying to simultaneously measure current well-being and its sustainability (with a unique set of indicators—as done by the UN and the EU—or with single index) poses formidable normative and methodological challenges.[12]

As noted above, the focus on indicators for measuring 'well-being' was key to the work of the CMEPSP. In this respect, although a number of suggestions are provided, many questions still remain unanswered. One among them appears particularly relevant and concerns the possibility of aggregating the various dimensions that constitute well-being to obtain an aggregate measure. Clearly, a synthetic index would enable easier comparisons of the situation in different countries. The CMEPSP[13] noted that the procedure for obtaining such an index requires the aggregation of a number of indicators of average performances in the various fields at the national level (this is the procedure used for the Human Development Index). However, this choice does not take into account the fact that each individual can attach different weight to each dimension. One of the most recent proposals for overcoming this problem is the one advanced by Decancq and Schokkaert, who compare social welfare in a number of countries by relying on the concept of 'equivalent income'.[14] What is particularly interesting in this proposal is that,

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[11] Stiglitz et al., *report*, 61.

[12] According to Stiglitz et al. (ibid., 62), existing measures of sustainability can be roughly grouped into '(1) large and eclectic dashboards, (2) composite indices, (3) indices that consist of correcting GDP in a more or less extensive way, and (4) indices that essentially focus on measuring how far we currently "overconsume" our resources'. For an extensive presentation of those measures and a discussion of their strengths and weaknesses, we refer to Stiglitz et al., *report*, Chapter 3.

[13] Ibid., 56.

[14] K. Decancq and E. Schokkaert, *Beyond GDP. Measuring Social Progress in Europe*, Euroforum, KULeuven (Leuven 2013).

before being aggregated at the country level, equivalent incomes are calculated at the individual level, thereby taking into account from the beginning the relative value attached by individuals to each of the dimensions considered in the analysis (material living conditions, health, productive and valued activities, leisure and social interactions, economic and physical security). This kind of information is in fact contained—albeit with some limitations—in the European Social Survey which collects information every two years on citizens' attitudes, beliefs and behavioural patterns in 30 countries.[15] While the synthetic measures proposed by Decancq and Schokkaert aim to assess current well-being, Vanhuysse tries to build a measure able to capture sustainability aspects.[16] The author proposes an 'Intergenerational Justice Index' which aims to assess how present choices will affect today's living conditions. The Index takes into account four relevant dimensions: the environmental dimension (measured through ecological footprint), the economic–fiscal dimension (measured through total public debt per child), the social dimension (child poverty), and welfare states' spending bias towards elderly persons (the 'elderly-bias indicator of social spending').

Towards a working definition of sustainable and qualitative growth: dimensions, policies and indicators

Based on the main findings of the debates on sustainable development and well-being, we define sustainable and qualitative growth as the following: a growth model in which

[15] See European Social Survey, *ESS Round 5 Source Questionnaire* (London: Centre for Comparative Social Surveys, City University London, 2010) for the questionnaire used to collect data for the 2010/2011 round.

[16] P. Vanhuysse, *Intergenerational Justice in Aging Societies. A Cross-National Comparison of 29 OECD Countries* (Gütersloh: Bertelsmann Stiftung, 2013).

the achievement of quantitative objectives is compatible with the improvement of a wider set of qualitative dimensions which characterise the well-being of the present generations, without compromising the opportunities for future ones. The contributions illustrated above identify a variety of goals and aspirations that can be considered as part of the development of a society. Some of them concern the attainment of fairer standards of living, others the satisfaction of non-material needs (such as living a healthy life, attaining high levels of education, living in a quality environment or enjoying a fair amount of free time for personal activities). In an SQG framework, the dimensions constituting ‘quantity,’ ‘quality’ and ‘sustainability’ should be convergent and mutually reinforcing. Furthermore, an SQG strategy requires a comprehensive set of indicators in order to assess progress made and to identify possible trade-offs among the different objectives. Table 1 below provides a list of dimensions against which the quality and the sustainability of quantitative growth should be benchmarked, as well as a list of possible indicators.

Table 1 Dimensions and indicators potentially characterising an SQG pattern

DIMENSIONS	INDICATORS*
Environment	**- Greenhouse gas emissions** **- Primary energy consumption** **- Share of renewable energy in energy use** - Resource productivity - Freshwater abstraction by major use versus GDP - Water stress[17] - Freshwater abstraction per capita - Forested area as share of total land area - Threatened species - Population exposure to urban air pollution
Employment	**- Employment rate** - Long-term unemployment - Involuntary part-time employment - Average annual earnings per employee - Work accidents: fatal and non-fatal injuries
Research and development	**- Gross domestic expenditure on R&D**
Poverty and social exclusion	**- People at risk of poverty or social exclusion** - Children at risk of poverty by age group - In-work at-risk-of-poverty rate
Standard of living and income distribution	- Household net adjusted disposable income - Income inequality (Gini index)
Education	- Education levels and access **- Early leavers from education and job training** **- Tertiary educational attainments** - Young people not in employment, education or job training.
Health	- Life expectancy at birth - Healthy life expectancy at birth - Self-reported health status - Self-reported unmet need for medical care
Work/life balance	- Time devoted to leisure time activities and personal care - Percentage of workers satisfied with their work/life balance
Active ageing	- Active Ageing Index[18]

Sources: Data from Eurostat, 'Europe 2020. Headline Indicators'; Eurostat, 'Social Protection and Social Inclusion Indicators'; Eurostat, 'Quality of Life Indicators'; Eurostat, 'Youth Indicators'; Eurostat, 'Education and Training Indicators'; European Centre Vienna, Active Ageing Index 2012; OECD, *Towards Green Growth: Monitoring Progress; OECD, How's Life? Measuring Well-being.*

Note: Indicators in bold are already included in Europe 2020.

Summing up, the pursuit of an SQG strategy requires an awareness of the interrelations between the various dimensions and a careful assessment of the consequences that policy choices have on each of them (including the long-term consequences). It is then important to focus on those policies which are deemed most suitable for the development of synergies and to be willing to make choices when trade-offs arise.[19] In this sense, it is necessary to 'look inside GDP', that is, to look at the modes of production and consumption as well as at the goods and services produced by our economies, and to invest in those which enhance standards of living and quality of life for the present generation (quality) without compromising the possibilities for future generations (sustainability). While it appears logical that it will not always be easy to simultaneously maximise the objectives linked to economic growth, social equity and environmental protection without profound changes taking place,[20] sometimes it will be possible, especially if a longer-term perspective is adopted.

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[17] "Water stress is defined as the intensity of use of freshwater resources, expressed as gross abstractions in % of total available renewable freshwater resources (including inflows from neighbouring countries), or in % of internal resources (i.e. precipitations-evapotranspiration" (OECD, *Towards Green Growth: Monitoring Progress*, 80).

[18] 'Active ageing' is a multi-dimensional concept including most of the dimensions listed in Table 1. For this reason, instead of adding specific indicators referring to active ageing for each of the constitutive dimensions of SQG identified above, we have decided to consider it as a dimension per se and to use for its measurement the recently developed Active Ageing Index (European Centre Vienna, *Active Ageing Index 2012. Concept, Methodology and Final Results* (Vienna, March 2013); European Commission and United Nations, *Introducing the Active Ageing Index*, Policy Brief (10 December 2012)).

[19] Some of these policies are presented below and a list of indicators for assessing their development is provided in Table 2.

[20] As P. Jonckeer ('The "Green New Deal": Proposals for a Sustainable Economy', in A. Watt and A. Botsch (eds.), *After the Crisis: Towards a Sustainable Growth Model* (Brussels: European Trade Union Institute, 2010), 185) pragmatically claims, 'it is more useful to address the problem in terms of the content of growth: certain activities must diminish while others grow, depending on their environmental performance but also on a collective, democratic acknowledgement of real needs.' Importantly, this is not only the case for resource intensive or highly polluting sectors but also for other sectors that, at a first glance, would appear to be promising for promoting virtuous synergies. For example, as a service sector, finance would appear to be particularly promising for combining economic performance with environmental sustainability. However, as observed by Feigl et al, if not properly managed, the financial sector can endanger macroeconomic stability, while it should not be taken for granted that financial markets will be successful in incorporating long-term ecological risks into business and policy valuations (G. Feigl, S. Hergovich and M. Rehm, 'Beyond GDP: Can We Refocus the Debate?', in D. Natali and B. Vanhercke (eds.), *Social Developments in the EU*, 2012 (Brussels, ETUI/OSE, 2013), 70).

This is the case for expenditure on social policies, which has often been seen as a threat to the sustainability of public finances and a constraint on growth and competitiveness. On the contrary, these policies contribute to the improvement of human capital and, consequently, to GDP growth and competitiveness. Indeed, from a 'social investment' perspective,[21] social policy can be considered as a precondition for growth and competitiveness. As Vandenbroucke et al. point out:

> Central to the social investment perspective is the attempt to reconcile social and economic goals. In policy terms, the focus is on public policies that 'prepare' individuals, families and societies to adapt to various transformations, such as changing career patterns and working conditions, the emergence of new social risks, population ageing and climate change, rather than on simply generating responses aimed at 'repairing' any damage caused by market failure, social misfortune, poor health or prevailing policy inadequacies. By addressing problems in their infancy, the social investment paradigm stands to reduce human suffering, economic instability and environmental degradation, while enhancing social resilience.[22]

This holds particularly true for policies aimed at the development of human capital: early childhood education and care, education and training, lifelong learning and active ageing strategies. A concrete example being that quality childcare programmes can not only contribute to the cognitive development of children (thus enhancing their future life-chances) and enhance employment opportunities for parents, but can also represent

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[21] See F. Vandenbroucke, A. Hemerijk and B. Palier, *The EU Needs a Social Investment Pact*, OSE Opinion Paper no. 5 (Brussels, May 2011); and N. Morel, B. Palier and J. Palme (eds.), *Towards a Social Investment Welfare State? Ideas, Policies and Challenges* (Bristol: The Policy Press, 2012).

[22] Vandenbroucke et al., *The EU Needs a Social Investment Pact*, 5.

employment opportunities in themselves, insofar as more staff for childhood education and care facilities would be needed.[23]

In the environmental domain, 'green growth' strategies can be an example of such a win–win relationship. 'Green growth' involves a set of policies aimed at dealing with challenges such as climate change and the depletion of natural resources.[24] This notion presents many similarities with what we have defined as SQG and, at the same time, it helps to highlight some of the possible tensions arising from the transition towards a new growth model. The 'green growth' framework implies the adoption of a long-term horizon when considering the relationship between the economy and the environment, and underlines the need to 'reframe' the notion of growth.[25] It stresses the fact that while a growth pattern based on the liquidation of natural assets may increase GDP growth in the short term, it will undermine future growth possibilities[26] by reducing the availability of natural capital (which is considered a factor of production). Consequently, it is necessary to invest in 'green innovation' and to promote those activities and sectors which are more promising in terms of reducing the pressure on the environment while ensuring growth and competitiveness (e.g. transportation, construction and energy production). In sum, green growth aims to reconcile quantitative (GDP growth and competitiveness) and qualitative aspects of growth (environmental protection and health).

However, from an SQG perspective, it is important to consider the potential consequences of the transition towards a green

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[23] K. J. Morgan, 'Promoting Social Investment Through Work–Family Policies: Which Nations Do It and Why?', in N. Morel, B. Palier and J. Palme (eds.), *Towards a Social Investment Welfare State? Ideas, Policies and Challenges* (Bristol: The Policy Press, 2012).

[24] According to the OECD (*Towards Green Growth* (Paris: OECD Publishing, 2011), 114), 'green growth is about fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies. It is also about fostering investment and innovation which will underpin sustained growth and give rise to new economic opportunities.'

[25] OECD, *Towards Green Growth*, 20.

[26] Ibid.

growth model for other dimensions which we have recognised as relevant for assessing the quality and sustainability of growth. This is especially the case with regard to the implications for employment and social equity.[27] Regarding employment, for example, many observers highlight the potential of green growth in terms of job creation.[28] However, the exact net effect on employment due to the green transition is not clear. What can be said is that the transition will entail a redistribution of jobs between regions, branches and sectors of the labour market, with the creation of new jobs, the transformation of some existing jobs and the loss of others.[29] In this context, the role of social policies in both preparing and managing the transition appears critical, as is the need to take a longer-term view. Indeed, investments in human capital (education and training, lifelong learning) will be fundamental, both for providing the labour force with the new skills needed and for retraining workers affected by restructuring.[30] Table 2 below presents a list of indicators particularly relevant for assessing the development of green growth and social (investment) policies.

[27] In this respect, it is possible to talk about the 'socio-ecological transition' (see I. Begg, *Socio-Ecological Transition in a Period of Crisis: How Well is the EU Coping?*, NEUJOBS Policy Report no. 1 (June 2013)).

[28] See E. B. Barbier, *Rethinking the Economic Recovery: A Global Green New Deal*, report prepared for the United Nations Environment Programme Economics and Trade Branch, Division of Technology, Industry and Economics (April 2009); OECD, *Towards Green Growth.*

[29] B. Galgóczi, 'Low-Carbon Economy and Industrial Jobs: Can We have the Best of Both Worlds?', in B. Galgóczi (ed.), *Greening Industries and Creating Jobs* (Brussels: European Trade Union Institute, 2012), 24.

[30] See L. Sommestad, 'Climate Policy and Social Investment Approach: Towards a European Model for Sustainable Development?', in N. Morel, B. Palier and J. Palmer (eds.) *Towards a Social Investment Welfare State? Ideas, Policies and Challenges* (Bristol: The Policy Press, 2012). As mentioned above, such an investment strategy requires a long-term vision. As highlighted by the OECD (*Towards Green Growth*, 89), '[w]hile synergies with short-run macro-stabilisation policy are welcome, the fundamental rationale for developing green activities and jobs is to contribute to sustainable growth in the long-run. It follows that policy packages that are intended to further both environmental and employment objectives need to be considered over a longer time horizon.'

Table 2 List of policies particularly in line with an SQG pattern and respective indicators

POLICIES	INDICATORS
Green growth	- R&D expenditure of importance to green growth - Patents of importance to green growth - Environmentally related innovation in all sectors - Employment in the environmental goods and services sector - Enterprises in the environmental goods and services sector - Energy consumption of transport relative to GDP
Social investment policies (childcare, life-long learning and active ageing)	- Participation in early childhood education and care - Formal childcare by duration and age group - Adult participation in lifelong learning (aged 25–64) - Lifelong learning among older persons (aged 55–74) - Employment rate among older workers - Educational attainments of older persons (aged 55–74)

Sources: Data from Eurostat, 'Social Protection and Social Inclusion Indicators'; Eurostat, 'Education and Training Indicators'; European Centre Vienna, *Active Ageing Index 2012; OECD, Towards Green Growth: Monitoring Progress; OECD, How's Life? Measuring Well-being.*

EU institutions and the EU's economic and social policy

In the previous section we have described what a sustainable and qualitative growth strategy is (and should be). This section focuses on the European Union and its current economic and social governance. The aim is to evaluate to what extent EU strategies are consistent with our definition of SQG.

The EU governance toolkit is primarily based on two pillars: Europe 2020 (i.e. the broad 'growth' strategy proposed by the EU with economic and employment guidelines) and the SGP, which provides tools for the surveillance of budgetary policy.[31] Both are coordinated through the European Semester, a cycle of economic and fiscal policy coordination within the EU. We then examine their legal bases and the role of the European institutions in them. The latter issues are of extreme importance in addressing the balance between the different elements of the EU's strategy in this area and its overall legitimacy.

The EU governance toolkit

The European Semester

The beginning of 2011 marked the start of the first 'European Semester': a six-month period during which the European Union would try out the new arrangements for economic governance.

[31] According to art. 3(1) of the Treaty on European Union, 'The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.' This is the legal framework for EU action in this area. The legal context within which EU institutions are asked to promote SQG has also been set out in the most recent treaty revision.

The objective is to harmonise the timetable for the presentation and evaluation of the stability and convergence programmes (SCPs) set out in the SGP as well as the national reform programmes (NRPs) required under the Europe 2020 strategy.[32] The European Semester begins in March each year, when the European Council identifies the main economic challenges and gives strategic advice on the basis of a European Commission report entitled the Annual Growth Survey (AGS). Member states take this advice into account when reviewing their medium-term budgetary strategies in April and when drawing up their NRPs, setting out the actions they will undertake in areas such as employment and social inclusion.[33]

Based on the experience of the first two European Semesters, the AGS for 2013 lists the various measures which the Commission regards as essential to strengthening recovery in the short term.[34] Five priority areas were identified as key elements of the 2013 European Semester: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness; tackling unemployment and the social impacts of the crisis; and modernising public administration.

While the European Semester aims to coordinate Europe 2020 and the SGP, it is also complemented by two other important initiatives. The Euro Plus Pact was adopted at the European Council of 24–5 March 2011[35] and thereafter signed by 23 member states. The intention of the signatories was to adopt, on a voluntary basis, measures falling within national competences,

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[32] C. Barbier, 'Semestre européen ou pacte de compétitivité: bonnet blanc et blanc bonnet?', OSE Working Paper Series no. 4/11 (Brussels, 2011).

[33] B. Vanhercke, 'Is the "Social Dimension of Europe 2020" an Oxymoron?', in C. Degryse and D. Natali (eds.), *Social Developments in the European Union 2010* (Brussels: ETUI/OSE, 2011).

[34] European Commission, *Annual Growth Survey 2013*, Communication, COM (2012) 750 (28 November 2012).

[35] European Council, 'Conclusions', 24–5 March 2011.

with the aim of enhancing the competitiveness of the euro area and the European Union. In the context of the European Semester, these choices are also indicated in the above-mentioned SCPs and NRPs (which also contain reforms that aim to achieve the objectives of the SGP and Europe 2020).[36]

In 2012, in preparation for the 2013 European Semester, the AGS was supplemented with the first edition of a *Report on the State of the Single Market Integration.*[37] This is a second method of integrating the functioning of the single market within the European Semester process.[38] As far as sustainable development is concerned, the European Commission considers that it is sufficiently included in economic and social governance through Europe 2020, the reform of the Common Agricultural and the Common Fisheries Policies, the forthcoming 7th Environmental Action Programme, the Innovation Union, Horizon 2020 and the Social Investment Package.[39] In the view of the European Commission, the internal market is not only 'the cornerstone of European integration' but also of 'sustainable growth'.[40] Section 2 of the Monti Report positioned green growth in the internal market strategy with a particular emphasis on energy, climate change and environmental issues.[41] Within that framework, the notion of green growth has clearly replaced the concept of sustainable development.

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[36] The Euro Plus Pact and the inclusion of the commitments made by individual member states could eventually be part of the Macroeconomic Imbalance Procedure, introduced by the 'Six Pack'. This is how core elements of national social policies—over which the EU has no competence—could be included in the disciplinary fiscal framework.

[37] European Commission, *State of the Single Market Integration 2013—Contribution to the Annual Growth Survey 2013*, COM (2012) 752 (28 November 2012).

[38] Ibid.

[39] European Commission, *A Decent Life for All: Ending Poverty and Giving the World a Sustainable Future*, Communication, COM (2013) 92 (27 February 2013); and European Commission, Towards Social Investment for Growth and Cohesion—Including Implementing the European Social Fund 2014–2020, Communication, COM (2013) 83 final (20 February 2013).

[40] M. Monti, *A New Strategy for the Single Market. At the Service of Europe's Economy and Society*, report to the President of the European Commission José Manuel Barroso, 9 May 2010.

[41] Ibid.

Europe 2020

According to the European Commission, ‘Europe 2020 sets out a vision of Europe’s social market economy for the 21st century.’ Europe 2020, which replaces the Lisbon strategy launched in 2000, has the objective of fostering smart (i.e. ‘strengthening knowledge and innovation as drivers of our future growth’), sustainable (i.e. ‘promoting a more resource-efficient, greener and competitive economy’) and inclusive growth (i.e. ‘fostering a high-employment economy delivering social and territorial cohesion’).

In Europe 2020 a diverse range of headline targets was agreed:

- 75% of adults between the ages of 20 and 64 should be employed, compared to 69% today.
- The equivalent of 3% of the EU’s GDP should be invested in R&D, compared to less than 2% at present, in order to move closer to the current levels in the US (2.6%) and Japan (3.4%).
- The energy and climate targets laid down by the ‘20/20/20’ strategy (EU SDS) should be met, that is, a reduction in greenhouse gas emissions by at least 20% compared to 1990 levels, a 20% share of renewable energy sources in final energy consumption and a 20% increase in energy efficiency compared to 2007 forecasts.
- The proportion of early school leavers should be under 10% (currently 15%) and at least 40% of adults aged between 30 and 34 should have a third level qualification (currently 31%).
- The number of Europeans living in or at risk of poverty or social exclusion should be reduced by 25%, which means a decline of almost 20 million people.

It is important here to stress that some of the structural reforms suggested in the framework of Europe 2020 concern policy areas that fall outside the competency of the EU: 'Fiscal consolidation and long-term financial sustainability will need to go hand in hand with important structural reforms, in particular of pension, health care, social protection and education systems. Public administration should use the situation as an opportunity to enhance efficiency and the quality of service'.[42]

As stressed above, the internal market was added as an integral part of Europe 2020 in the framework of the 2013 European Semester, and a Communication issued in February 2013 entitled *A Decent Life for All: Ending Poverty and Giving the World a Sustainable Future* confirmed Europe 2020 as the main tool to be used to pursue the objectives of sustainable development as agreed at Rio+20.[43]

The Stability and Growth Pact

Throughout the crisis, the SGP has been revised and substantially reinforced. The introductions of the 'Six Pack', the 'Two Pack' and the Fiscal Compact have been the main steps in this process. The Six Pack, which has been in force since mid-December 2011, consists of five Regulations and one Directive designed to strengthen the mechanisms for budgetary surveillance and sanctions, and to monitor the debt as well as the deficit situation. It introduced a new institutional procedure—'reverse majority voting'—for the imposition of sanctions.

[42] Education as well as social inclusion, pensions, health care and long-term care are at the core of the open methods of coordination (Education and Training, ET 2020; and the Social Open method of coordination, OMC) European Commission, *Europe 2020. A Strategy for Smart, Sustainable and Inclusive Growth*, Communication, COM (2010) 2020 (3 March 2010), 28.

[43] European Commission, *A Decent Life for All: Ending Poverty and Giving the World a Sustainable Future*, Communication, COM (2013) 92 (27 February 2013).

In fact, this procedure has made potential sanctions designed by the European Commission almost automatic. For the sanctions to be avoided, a qualified majority of the Council must vote against the Commission's proposal. As a result, the member state potentially concerned will adopt reforms in anticipation of avoiding a reverse majority vote. It is important here to stress that while sanctions are possible for the member states of the eurozone subject to the Macroeconomic Imbalance Procedure (MIP, under the procedures of the Six Pack), non-achievement of the targets proposed under Europe 2020 is not subject to any sanctions mechanism.[44] With the convergence between the macroeconomic dimension of the NRP and the SCP, the new MIP will put further constraints on the national social dimensions included in the SCP.

Proposals for a further Two Pack were presented by the Commission in November 2011 within the framework of the European Semester. The Two Pack consists of 'a regulation on enhanced monitoring and assessment of draft budgetary plans of euro area member states, with closer monitoring for those in an excessive deficit procedure'[45] and 'a regulation on enhanced surveillance of euro area member states that are experiencing or threatened with serious difficulties with respect to their financial stability', or that request financial assistance.[46] The Two Pack is based on Article 136 of the Treaty on the Functioning of the European Union (TFEU), an article that enables euro area

[44] In a statement endorsed on the occasion of the adoption of the Six Pack, Austria considered that the codification of the European Semester in the regulation amending regulation 1466/97 and the regulation on the prevention of macroeconomic imbalances did not create new legal obligations. The Austrian Declaration recalled that '[N]otably there is no possibility for sanctions in case of non-achievement of targets and measures under the Europe 2020 strategy laid down in National Reform Programs under the proposed articles' (Austrian Government, 'Economic Governance Package: Declaration of Austria', Doc. 16001/11 (7 November 2011)).

[45] European Parliament and Council Regulation (EU) no. 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area, OJ L140 (27 May 2013), 11.

[46] European Parliament and Council Regulation (EU) no. 472/2013 on the strengthening of economic and budgetary surveillance of member states in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L140 (27 May 2013), 1.

member states to strengthen the coordination and surveillance of budgetary policies in order to ensure the necessary budgetary discipline in the Economic and Monetary Union (EMU). The new legislation therefore only applies to the euro area. For member states receiving financial assistance, the Two Pack includes in EU secondary legislation the procedure developed under the Troïka and the Memorandum of Understanding.[47]

The Fiscal Compact (the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, TSCG) is a further step towards more stringent surveillance of national budgetary policy. For the record, the TSCG is an international treaty signed between 25 of the 27 EU member states due to the inability to revise the European treaties. The Fiscal Compact—which entered into force on 1 January 2013—is built on the budgetary rules of the SGP (in March 2012, when the TSCG was signed, the Six Pack was already in force and the Two Pack was due to be adopted). It comprises the agreement of the signatories to implement a 'balanced budget rule' in their national legislation through permanent, binding provisions—preferably at a constitutional level—before the end of 2013, and also enshrines

[47] On 13 May 2013, the Council unanimously adopted the Two Pack, confirming the overwhelming consensus between member states (see Council of the European Union, 'Voting Result – Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of member states in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (first reading)', 9537/13, Brussels, 14 May 2013; Council of the European Union, 'Voting Result – Regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and assuring the correction of excessive deficit of the member states in the euro area (first reading)', 9539/13, Brussels, 14 May 2013). In a memo, the European Commission said of the relationship between the Two Pack and the European Stability Mechanism/European Financial Stability Facility that 'What the Two-Pack does is to embed in the EU legal framework the working practices established under these intergovernmental instruments' (European Commission, '"Two-Pack" Enters into Force, Completing Budgetary Surveillance Cycle and Further Improving Economic Governance for the Euro Area', Press Release, MEMO/13/457 (27 May 2013)).

in secondary EU law a form of the reverse majority rule introduced by the Six Pack.[48]

The Fiscal Compact was also a condition explicitly set by Mario Draghi for a greater role for the European Central Bank (ECB). It was only after the commitments made in this regard that the ECB carried out two Long-Term Refinancing Operations (LTRO), in December 2011 and February 2012, for three-year periods for the respective amounts of 489 and 530 billion euros. The LTRO are measures designed to alleviate severe credit conditions among eurozone countries by providing additional liquidity to the banking sector. Outright Monetary Transactions (OMTs) are another example of conditionality in secondary sovereign bond markets.[49] This intervention confirms the view of the ECB that 'internal devaluation', that is, the lowering of wages and public spending and the privatisation of public assets, is the only way to regain competitiveness.

Eventually, in response to the request of the European Council of December 2012, the European Commission proposed new governance tools, calling for *ex ante* coordination of economic reforms in the member states.[50] The Commission also proposed a 'Convergence and Competitiveness Instrument' (CCI) for direct contractual agreements between individual member states and the EU in order to realise structural reforms.[51]

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[48] According to the European Commission, 'Decisions on most sanctions under the Excessive Deficit Procedure are taken by Reverse Qualified Majority Voting (RQMV), which means that fines are deemed to be approved by the Council unless a qualified majority of Member States overturns them. This was not possible before the Six Pack entered into force. In addition, the 25 Member States that have signed the Treaty on Stability, Coordination and Governance have agreed to replicate the Reverse QMV mechanism even earlier in the process, for example, when deciding whether to place a Member State in the Excessive Deficit Procedure' (European Commission, 'The EU's Economic Governance Explained', Press Release, MEMO 13/979 (12 November 2013)).

[49] The Outright Monetary Transaction (OMT) is a monetary programme that provides money or funds to eurozone nations that are currently struggling with their debts. OMT is an open-ended programme without restrictions or limits. It involves the ECB purchasing government bonds on the secondary markets.

[50] European Commission, *Towards a Deep and Genuine Economic and Monetary Union*. Ex Ante Coordination of Plans for Major Economic Policy Reforms, Communication, COM (2013) 166 (20 March 2013).

[51] European Commission, *Towards a Deep and Genuine Economic and Monetary Union. The Introduction of a Convergence and Competitiveness Instrument*, Communication, COM (2013) 165 (20 March 2013).

The Multiannual Financial Framework

On the financing side, in 2011 the European Commission considered that its cohesion proposals were designed 'to reinforce the strategic dimension of the policy and to ensure that EU investment is targeted on Europe's long-term goals for growth and jobs ("Europe 2020").' Following the political agreement between the European Parliament, the Council Presidency and the European Commission on the Multiannual Financial Framework (MFF) for 2014–20 on 27 June 2013, the allocation of cohesion policy funds for this period will be €325.1 billion (with €164.3bn for less developed regions, €31.7bn for transition regions, €8.9bn for territorial cooperation, and €66.3bn for the cohesion fund). A top-up allocation has also been set aside for the Youth Employment initiative.

Following the entry into force of the Two Pack, Olli Rehn, the European Commissioner for Economic and Monetary Affairs, sent indications to the finance ministers as to how he was prioritising 'spending in investments which support sustainable growth, as stressed also under the 2013 European Semester, within a broader strategy aimed at enhancing the quality (i.e. growth-friendliness and efficiency) of public expenditures'.[52] According to this 'investment clause', under specific conditions the Commission will take public investment plans for productive investment related to the co-financing of European projects into account when it assesses member states' draft budget plans for 2014. These conditions are: first, that the economic growth of the member state remains negative or well below its potential; second, that such a deviation does not lead to a breach of the 3% GDP ceiling, and the public debt rule is respected; and third, that the deviation is linked to national expenditure on projects co-funded by the EU under the Structural and Cohesion Policy, the

[52] European Commission, 'Letter to the Members of the Ecofin Council, 3 July 2013', ref. Ares (2013)2568015 (3 July 2013).

Trans-European Network or the Connecting Europe Facility with positive, direct and verifiable long-term budgetary effects.

Europe 2020 as a proxy for a sustainable and qualitative growth strategy?

Having summarised the main pillars of the EU growth strategy, in this sub-section, we examine the balance between the different priorities of the EU strategy (and the EU institutions involved in it). We also assess its implementation (based on key targets and indicators in Europe 2020 and the broad economic trends in EU countries), and then set out three main sources of risks/challenges to address in the future.

Some preliminary remarks on the balance between EU priorities

To assess the EU's economic and social strategy, we first study the equilibrium between the three priorities of the EU (the smart, sustainable and inclusive growth dimensions set by Europe 2020). While the Commission has affirmed the balance between the different objectives of the Semester, some commentators have stressed the actual dominance of the budgetary stability goals. This seems to be evident when we look at the interaction between the SCPs and the NRPs mentioned above, which has consisted of a pre-eminence of the former over the latter. It was clear from the evaluation by the Economic Policy Committee of the first NRP in the framework of the first European Semester that, 'The full NRPs should include the same macroeconomic scenarios presented in the SCPs for the period 2011–2014'.[53]

[53] Economic Policy Committee, 'EPC Status Report on the Preparation of the National Reform Programmes', report to the Ecofin Council, ECFIN/EPC (2010)/Ares/960067 (21 December 2010).

According to the Ecofin Council of 7 September 2010, 'the implementation of [the European Semester] will improve economic policy coordination and help strengthen budgetary discipline, macroeconomic stability and growth, in line with the EU's 2020 strategy for jobs and growth'.[54] However, economic governance clearly predominates in Europe 2020, which is particularly evident when one looks at the indicators used in the framework of the European Semester. The indicators monitoring member states' economies are predominant, including indicators for fiscal surveillance, macroeconomic surveillance and for monitoring structural reforms under Europe 2020, as well as those used by the European Commission for country assessments. In particular, with the establishment of the MIP, structural and financial sector indicators have been added to the core indicators of the SGP. The current 'alert system' for monitoring macroeconomic balances is now based on a comprehensive scoreboard composed of 11 headline indicators (an alert threshold for detecting potential imbalances has been established for each of them) and 18 second-tier indicators.[55] Considering the fact that nothing similar exists for monitoring the social situation in member states, the European Council recently proposed the identification and use of 'appropriate social and employment indicators within the European Semester', as a first step towards strengthening the social dimension of the EMU.[56]

Following an invitation from the Council, the European Commission thus put forward two main proposals for improving the relevance of social indicators in the governance framework.[57]

[54] Council of the European Union, '3030th Council Meeting: Economic and Financial Affairs', Press Release 13161/10 (7 September 2010), 2.

[55] They include: 1) current account balance, 2) net international investment position, 3) export market share, 4) nominal unit labour cost, 5) real effective exchange rates, 6) private sector debt, 7) private sector credit flow, 8) house prices indicator, 9) general government sector debt, 10) unemployment rate, and 11) growth rate of financial liabilities.

[56] European Council, 'Conclusions', EUCO 104/2/13 REV 2 (27–8 June 2013), point 14c.

[57] European Commission, *Strengthening the Social Dimension of the Economic and Monetary Union*, Communication, COM (2013) 690 provisional (2 October 2013), 5–6.

The first is to reinforce the current framework for the surveillance of macroeconomic imbalances by complementing existing indicators with indicators capturing the social implications of those imbalances. According to the Commission, indicators that should be integrated into the Alert Mechanism reports are: participation rate, long-term unemployment ratio, youth unemployment rate (including the rate for those not in education, employment or training (NEET)), and the 'at risk of poverty and social exclusion' rate.[58] The second proposal concerns the development of a 'scoreboard of key employment and social indicators' to be used in the draft Joint Employment reports in order to allow a better and earlier identification of employment and social problems. According to the Commission, the following indicators could be considered as headline indicators for such a scoreboard: unemployment level and change, NEET rate and youth unemployment rate, real gross disposable income of households, at-risk-of-poverty rate in the working-age population, and inequalities (S80/S20 ratio).

While the above-mentioned disequilibrium between the main economic and social (and environmental) dimensions has been explained as a consequence of the crisis, it also has a more long-lasting legal source. If we look at economic, education, environmental and social policies, it is evident that they have different treaty bases. We have already stressed the increased role of the EU in budgetary and economic policies through the renewed set of governance processes (the European Semester, the renewed SGP, the Euro Plus Pact, etc.). The EU now has the capacity to carry out effective surveillance of national budgetary and economic policies with the possibility, among others, of applying quasi-automatic sanctions.

[58] Member states' situations concerning some of these indicators are briefly mentioned in the last *Alert Mechanism Report* released on 13 November 2013 (European Commission, *Alert Mechanism Report 2014*, COM (2013) 790 final (13 November 2013)).

As far as education is concerned, the EU has a very limited role to play. Article 6 of the TFEU mentions ‘education, vocational training, youth and sport’ as a field in which the EU can only carry out actions to support, coordinate or supplement the actions of the member states. As a consequence, the initiatives that focus on education (e.g. ‘Youth on the move’) consist primarily of non-binding recommendations to member states.

This is also the case for social policies, which fall primarily under Article 5 of the TFEU. The EU can coordinate member states’ employment and social policies, but it cannot adopt legislation. As stressed by Scharpf, the Union has little grip on member states’ social policies.[59] Although social policy in the TFEU is based on the broad objective of harmonising ‘living and working conditions’, the need to ‘take into account the diverse forms of national practices’ and to ‘maintain the competitiveness of the Union’ are serious limitations.[60] The EU can only adopt Directives when the minimum requirements are necessary to the functioning of the Single Market.[61] As regards employment, the EU’s current competences are limited to incentive measures designed to encourage cooperation between member states and to support their action, excluding any harmonisation.[62]

The situation with regard to environmental policy shows more stringent prerogatives for the EU: in this area, the EU has had the capacity to pass legislation since the Single European Act was adopted. According to Articles 191 to 194 of the TFEU, with the exception of fiscal matters, matters concerning the environment and energy are subject to the ordinary legislative procedure.

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[59] F. W. Scharpf, ‘Introduction: The Problem-Solving Capacity of Multi-Level Governance’, *Journal of European Public Policy* 4/4 (1997).

[60] Art. 151 TFEU.

[61] Arts. 4 and 152 TFEU. See also, R. Thillaye, *Gearing EU Governance Towards Future Growth*, Policy Network Paper (London, 2013).

[62] Art. 149 TFEU.

Such a varied legal base proves that the EU's capacity to coordinate individual policy areas of extreme importance for SQG is uneven. As a consequence, a balanced approach is extremely difficult to pursue.

The role of institutions

The role of EU institutions in economic and social governance is the second issue that must be addressed to see if the EU strategy is balanced and legitimised. We identify that recent trends in the role of EU institutions confirm the risks related to the (limited) legitimacy of the governance process. The limited role of the directly elected European Parliament and the increased role of the ECB have been stressed in the literature as a challenge to the participation of European citizens in the process.[63]

The coordination of economic and employment policies takes place by means of recommendations and guidelines laid down at the European level, leaving the main responsibility to the individual member states. Thus, in these fields, the role of the European Parliament (EP) in adopting the Integrated Guidelines at the core of Europe 2020 is weak. However, within the framework of Europe 2020, in 2010 a resolution of the EP called for the full activation of the new possibilities offered by the TFEU, in particular with regard to the articles on economic and monetary policy[64] 'in order to coordinate the member states' economic reforms and action plans'.[65] Also in 2010, the EP asked for the conclusion of an inter-institutional agreement in order to be better involved in

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[63] B. Coeuré, 'Towards a Consistent, Coherent and Complete Economic and Monetary Union', speech at the conference 'Financial Stability and the Single Market—the Keys to Growth in Europe', Brussels, 19 November 2012.

[64] Arts. 121, 122 and 136 TFEU.

[65] Cf. European Parliament Resolution of 10 March 2010 on EU 2020 (P7-TA (2010) 0053).

what was then called the EU 2020 Strategy.[66] After the adoption of the final strategy, the EP tried unsuccessfully to be involved in the European Semester by calling for the AGS to be subject to a co-decision procedure.[67] Following the entry into force of the Six Pack in December 2011, the European Semester was legally codified, along with the Economic Dialogue with the other EU institutions and with member states. Another development is the European Parliamentary Week, which enables representatives both of national parliaments and the European Parliament to discuss the main priorities for the next Semester cycle; this has been met with mixed feelings from national parliaments.[68] To sum up, the EP is becoming a forum where interparliamentay dialogue is organised at the European level on the main issues of the European Semester. An economic governance support unit has been set up in order to provide syntheses to the economic and employment committees of the EP. Economic dialogues and exchanges of views on the AGS 2013 and the country-specific recommendations also took place between Vice-President Rehn, Commissioner Andor and the members of the economic and employment committees. It should be added that country-specific recommendations are not proposed for countries subject to a macroeconomic adjustment programme (Portugal, Ireland, Greece and Cyprus) in accordance with Regulation no. 472/2013, that is, countries operating under the procedures of the Two Pack.[69]

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[66] The EP 'urges the Council and the Commission to acknowledge Parliament's key role in implementing a 2020 strategy; takes the view that an interinstitutional agreement needs to be drawn up in order to set down and formalise a democratic, effective way forward, which should include a commitment by the Council not to agree on changes to the strategy in coming years without formally consulting Parliament first' (European Parliament Resolution of 10 March 2010, point 15).

[67] European Parliament Report on the European Semester for Economic Policy Coordination (2011/2071(INI)) A7-0384/2011 and point 41 of the European Parliament Resolution of 1 December 2011 on the European Semester for Economic Policy Coordination (2011/2071(INI)).

[68] 'COSAC (Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union), Nineteenth Bi-annual Report Developments in European Union Procedures and Practices Relevant to Parliamentary Scrutiny, Brussels, , 17 May 2013, Chapters 1-4 and Annex.

[69] European Parliament and Council Regulation (EU) no. 472/2013 on the strengthening of economic and budgetary surveillance of member states in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L140 (27 May 2013), 1.

Economic and monetary policy are given impetus by the European Council, with the Commission having played a very important role in designing the proposals for revising the SGP, which in its turn gave more power to the Commission to assess the economic performance of member states. A key example of this is the 'promotion' of the then Commissioner for Economic and Financial Affairs, Olli Rehn, to the post of vice-president. This decision, taken on 23 and 26 October 2011, was justified by the European Council as reinforcing 'the central role of the Commission in economic surveillance and governance across the euro area and European Union'.

At the European level, different formations of the Council assess the implementation of the European Semester and the impact of specific recommendations on member states on the basis of the AGS. With a view to enhancing fiscal discipline, the role of the Ecofin Council, which meets once a month, has become crucial, as its internal structures were involved in designing the initial version of the European Stability Mechanism Treaty and the TSCG.

The ECB has retained its original specificities under the Lisbon Treaty, the foremost being its independence, but has been transformed into an EU institution. Since the multiple eurozone crises, the ECB has been taking unconventional measures to indirectly sustain those member states suffering from financial speculation in the debt market.[70] A few examples provided above (e.g. the LTRO and the announcement of the OMT) demonstrate this increased role at the margin of the European treaties.

[70] According to the ECB website, 'Under this Programme, the ECB and the national central banks of the euro area could, within the scope determined by the Governing Council, intervene in certain debt securities markets, mostly government bond markets. Purchases could only be made in the secondary market (at market prices), in accordance with the Treaty, which forbids purchases directly from governments' (ECB, 'Monetary Policy Facts', slide 13, last updated 1 January 2013).

Limited achievements so far

Now we come to the assessment of the EU strategy after its first years of implementation. The first worrying evidence regarding the state of the EU and the economic performance in member states is related to GDP trends. As stressed in Section 1, this is just one of the many indicators which must be considered in an assessment of SQG. But it is still a good starting point for our analysis. Due to the huge economic problems which many member states have experienced since 2009, economic growth trends have been modest. In the last three years (2010–12), average GDP growth in the EU27 was 2.0% in 2010, 1.7% in 2011 and 0.4% in 2012. This means that the EU has experienced a so-called double dip: after the major downturn of 2009 (-4.5% growth in the EU27), there has been a repeat of negative GDP growth after an initial recovery.[71] This has been accompanied by greater divergence between Northern, Southern and Central-Eastern Europe (see below).

In such a difficult context, looking at the most recent data available, it is uncertain whether the targets established in Europe 2020 will be met in many of the areas covered. Table 3, below, shows EU27 data for the years 2005 to 2012 (or the last year for which data is available).

TABLE 3:

Source: elaborated from Eurostat, ‘Europe 2020. Headline Indicators’.

Note: s = Eurostat estimate; p = provisional; e = estimated. Red rows, limited progress if any and achievement of target remains distant. Yellow rows, evident progress even if the target is difficult to reach. Green rows, important progress and the target could be reached.

[71] Eurostat, ‘Real GDP Growth Rate – Volume. Percentage Change on Previous Years’, 17 October 2013.

Table 3 Europe 2020, headline indicators and targets (EU27, 2005–12)

Indicator (unit) /time	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Target**
Employment rate pop. aged 20–64 (%)	68.0	69.0	69.9	70.3	69.0	68.5	68.6	68.5	75%
Gross domestic expenditure on R&D (% of GDP)	1.82	1.84	1.84	1.91[e]	2.01[e]	2.01[s]	2.05[s]	2.06[e]	3%
Greenhouse gas emissions (index 1990=100)	93.22	93.11	92.16	90.29	83.74	85.72	83.03	n.a.	80
Share of renewable energy in gross final energy consumption (%)	8.5	9.0	9.7	10.4	11.6	12.5	13.0	n.a.	20%
Primary energy consumption (million tonnes of oil equivalent)	1702.8	1705.7	1684.1	1681.8	1592.4	1644.6	1583.0	n.a.	1474
Early leavers from education and training (% pop. aged 18–24)	15.8	15.5	15.0	14.8	14.3	14.0	13.5	12.8	Under 10%
Tertiary educational attainment (% pop. aged 30–34)	28.0	28.9	30.0	31.0	32.2	33.5	34.6	35.8	At least 40%
People at risk of poverty or social exclusion (%)	25.7[e]	25.3[e]	24.4	23.7	23.2	23.7	24.3	24.8[e]	Lift at least 20 million people out of the risk of poverty or social exclusion

While in some areas it is possible to detect a constant (although slow) positive trend towards the fixed objective (this is the case, for example, for the share of renewable energy, early school leavers and tertiary education attainment), in other areas, progress has been more uncertain (gross domestic expenditure in R&D, greenhouse gas emissions, primary energy consumption). That said, even in the areas in which constant progress is visible, a closer look at the situation and the trends in individual member states reveals a more varied situation. While it is clearly not possible to provide a more in-depth analysis here, we will present some details relating to the most problematic areas: employment rates and people at risk of poverty or social exclusion (the red rows in the table).

As far as the employment rate is concerned, the European Commission, referring to 2011 data, noted that 'As only marginal increases are expected for 2012 and 2013, a considerable effort will be required to reach the Europe 2020 target: some 16.7 million jobs should still be created by 2020 in the EU (compared to 2011 levels), meaning that the overall EU employment figure should increase on average by 0.9% per year'.[72] The same report highlights the varied (and divergent) situation in member states: 'In only one year, comparing the 2011 achievements with the situation in 2010, the gap to the 2020 targets increased in eleven member states, decreased in fourteen and remained unchanged in two'.[73] Indeed, as foreseen, the employment situation in 2012 had not improved. On the contrary, the 2012 employment rate for the EU27 (68.5%) was slightly lower than that recorded in 2011 (68.6%), and significantly below the pre-crisis level of 70.3%

[72] European Commission, Directorate-General for Employment, Social Affairs and Inclusion, Directorate A, 'Employment and Social Developments in Europe 2012', November 2012, 45.

[73] Ibid. The most significant drops in employment rates in 2011 (more than 1 percentage point) were noted in Greece (4.1 percentage points), Slovenia, Cyprus, Bulgaria and Portugal, while the most significant rises were seen in the Baltic States (2.2 to 3.7 percentage points), Germany, Sweden and Malta (1.3 to 1.4 percentage points).

(2008). This means that, in order to reach the goal of 75% of persons employed by 2020, the employment rate will have to increase by over six percentage points. Here again, a closer look at the distance of individual member states from their national targets illustrates a differentiated pattern.[74]

A similar situation can be detected for data concerning people at risk of poverty or social exclusion (AROPE). In the first phase (2005–9), the percentage of people AROPE in the EU showed a decreasing trend: from 25.7% in 2005 (corresponding to 124,329,000 individuals) to 23.2% (114,353,000 individuals) in 2009. However, since 2010, the AROPE figure has been increasing, and in 2012, according to Eurostat estimates, 24.8% of the population within the EU (123,118,000 individuals) were at risk of poverty or social exclusion, a value close to 2005 levels. Here again, if one looks at individual member states, a varied situation emerges (in 2012, the AROPE percentage ranged from almost 50% of the population in Bulgaria, to around 15%–16% in the Czech Republic and the Netherlands). When it comes to analysing the trends over the last few years, a worsening of the situation can be seen in many countries. However, the extent and the duration of the deterioration vary according to the country. Indeed, taking data for 2011 as a reference point (and comparing those numbers with the situation in 2010, 2008 and 2005), huge variations between countries can be detected, with a number of countries experiencing a significant and continuous worsening (Estonia, Ireland, Greece, Spain, Italy, Latvia, Hungary, Malta, the Netherlands and Sweden).[75]

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[74] In some countries, the targets do not seem ambitious enough (this is the case for Germany and Malta). In other countries, the targets are feasible (Austria, Czech Republic, Denmark, Estonia, Finland, France, Latvia, Lithuania, Luxembourg, the Netherlands, Slovenia and Sweden). In a third group of countries (Belgium, Cyprus, Poland), the targets are deemed as ambitious but still feasible. Finally, in nine countries, the targets do not appear feasible (Bulgaria, Greece, Hungary, Ireland, Italy, Portugal, Romania, Slovakia and Spain) (see European Commission, *Employment Rate Target*, Thematic summary, 2).

[75] Cf. C. Agostini, S. Sabato and M. Jessoula, ‘Europe 2020 and the Fight Against Poverty: Searching for Coherence and Effectiveness in Multilevel Policy Arenas’, Einaudi Centre, Department of Comparative Politics and Public Philsophy, Working Paper LPF 3/13 (Turin, 2013).

Three sources of challenges/risks for the EU

Such mixed achievements seem to be related to three main sources of risks/challenges to be addressed in the future. The first problem concerns the persistent lack of an all-encompassing growth strategy at the EU level. The second challenge is related to the need for consistency over time: that is, the right balance between short- and longer-term goals. The third challenge is the risk of a growing ‘territorial’ divide between EU member states.

The lack of an all-encompassing growth strategy

One major challenge is related to the way in which the strategy has framed the three pillars of European growth (smart, sustainable and inclusive). As stressed in Section 1, the identified indicators and targets are just some of those that should characterise SQG. Some key dimensions referred to in the previous pages are not fully addressed by the strategy. For example, in the environmental domain, indicators related to important aspects such as biodiversity preservation or urban pollution are lacking. In employment, the focus is on the quantity of employment (employment rate), while its quality is neglected. Indicators related to poverty and social exclusion do not sufficiently emphasise the relevant aspects of these phenomena, such as in-work poverty or child poverty. Furthermore, targets and indicators concerning health status are completely lacking. The same applies to indicators able to give a better account of real living standards (e.g. households’ net adjusted disposable income) or able to highlight inequalities.

The varied legal bases for EU action in these three main dimensions constitute a related challenge: as shown above, EU competences in the areas of education, research and especially social policy are limited, and this reduces the capacity of the EU to effectively enforce the guidelines.[76] The economic crisis and the impact it has had on implementation constitutes a third source of challenges. Data on R&D investment, education and training trends show that while targeted investments can be considered the way to put Europe on a path to SQG, investments require financial resources that, in the current economic and fiscal context, are not available, especially in those countries which have been most impacted by the crises since 2008.

Inconsistency over time

On many occasions, international organisations (i.e. the International Labour Organization (ILO) and the International Monetary Fund (IMF)) have accused the EU of taking the wrong approach. Three main problems have been diagnosed: the recessive effects of fiscal consolidation, the limited action taken to improve the regulation of financial markets, and the risk of growing imbalances between the member states. In the text 'The Youth Employment Crisis', the ILO stresses that the EU approach, which is based primarily on fiscal stabilisation, has a negative effect on employment while also failing to significantly cut fiscal deficits.[77] The IMF recently stressed that huge budgetary cutbacks are expected to depress economic outlooks and contribute to a vicious cycle of austerity:

> [I]t is imperative to lower public debt over time. However, in the short-run, front-loaded fiscal adjustment is likely to hurt growth prospects, which would delay improvements in fiscal

[76] F. W. Scharpf, 'Introduction: The Problem-Solving Capacity'.

[77] ILO, 'The Youth Employment Crisis: A Call for Action', Resolution and conclusions of the 101st session of the International Labour Conference, Geneva, 2012.

indicators, including deficits, debt and financing costs. A measured . . . pace of adjustment, based on a clear medium-term plan, is therefore preferable, if market conditions allow it. The recognition that, other conditions being the same, fiscal adjustment will slow down growth, makes it important to ensure that other policies (monetary, financial and structural policies) are used to support growth when fiscal policy is tightened.[78]

Evidence of a territorial divide

The evidence put forward above shows the increased divergence between countries. What we identify are growing gaps between three European regions: Northern and Continental Europe, Central-Eastern Europe, and Southern Europe. A recent extensive report from the World Bank provides an interesting picture.[79] As the authors explain, the EU economy can be viewed as three lanes of traffic, a slow-speed lane in Western Europe, a high-speed lane in Eastern Europe and a third lane, the South—‘where cars are going in reverse’.[80]

It is interesting to consider the most recent publications by the Commission on the state of EU economic, social and employment conditions.[81] Looking at GDP growth in the period 2007–12, many of the Central and Eastern European member states showed healthy economic trends. Among the western member states, the clearest divergence is between the north and the south and the periphery: Greece, Italy and Portugal (and also Ireland) all

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[78] C. Cottarelli and L. Jamarillo, *Walking Hand in Hand: Fiscal Policy and Growth in Advanced Economies*, IMF Working Paper no. 137 (2012), 3–4.

[79] I. Gill and M. Raiser, *Golden Growth. Restoring the Lustre of the European Economic Model* (Washington, DC: The World Bank, 2012).

[80] D. Natali, ‘Future Prospects. *Vademecum* to Address EU Policy and Political Challenges’, in D. Natali and B. Vanhercke (eds.), *Social Developments in the EU, 2012* (Brussels: ETUI/OSE, 2013), 221.

[81] European Commission, Directorate-General for Employment, Social Affairs and Inclusion, ‘Employment and Social Developments’.

experienced falls in output in 2008–9 and have almost continually followed negative trends since then.[82] In pursuing the objective of fiscal consolidation, those countries most hit by the crisis have been undertaking 'linear cuts' precisely in most of those policy sectors that are crucial for SQG.[83] Against this backdrop, it is evident that many member states will not be able to reorient their economic and social systems towards the requirements of an SQG strategy.

How to make sustainable and qualitative growth a reality

This section addresses the three main risks/challenges facing the EU strategy for growth as discussed above, and provides some proposals as to how it could be revised. We start with a proposal for a more all-encompassing strategy, with a greater focus on the sustainability and qualitative aspects of future economic growth. We then focus on the need for a more flexible fiscal and budgetary policy and on the opportunity to invest more in an SQG pattern by mobilising national and EU resources (e.g. through more effective use of structural funds). Third, we propose the introduction of a pan-European automatic stabiliser consisting of a common unemployment insurance scheme.

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[82] Natali, 'Future Prospects'.

[83] For education and training, see C. Agostini and G. Capano, 'Education Policy: Comparing EU Developments and National Policies', in D. Natali and B. Vanhercke (eds.), *Social Developments in the EU, 2012* (Brussels: ETUI/OSE, 2013).

A more all-encompassing strategy for multi-dimensional growth

We stated in Section 1 that a model of sustainable and qualitative growth should strike a balance between the need for more growth and competitiveness, the quality of growth (that is, its capacity to improve people's standard of living and quality of life, ensuring—*inter alia*—social equity) and its long-term sustainability (including environmental sustainability). Relying on the analysis in Section 2, we claim that a more balanced approach, which puts the right emphasis on the ensemble of dimensions characterising SQG, should underlie EU policies and strategies. According to Feigl et al.,[84] issues concerning 'social sustainability', 'material prosperity and economic sustainability', 'ecological sustainability', and the 'sustainability of public activities and finances' should be included (with equal value) in the AGS, thus broadening the economic debate in the European Semester. According to those authors, 'an important precondition for such a report would be timely data, comparable time series and at least rough projections for the near future'.[85] Indeed, as stressed in Section 1, it is fundamental to provide a more all-encompassing set of indicators through which the sustainability and quality of growth can be more explicitly monitored.

As is evident from our analysis, for different reasons, the social dimension is particularly weak in EU policies and strategies, especially in the framework of the EMU. For this reason, many analysts and stakeholders have advanced proposals for strengthening it. Some have proposed a 'Social Compact for Europe', which would be based on three main elements, 1) collective bargaining and social dialogue, 2) economic governance for growth and employment and 3) economic and social justice.

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[84] Feigl et al., 'Beyond GDP', 68–9.

[85] Ibid., 69.

Other proposals put forward to emphasise the role of social policies in the EMU include[86] a regular meeting of the eurozone ministries of employment and social affairs to enhance their role in the governance of the eurozone; the creation of specific structures for the eurozone within the EP and an increased role for social partners, who should be consulted prior to EMCO meetings. Further proposals include the establishment of a 'Social Pact' for the eurozone, identifying common ambitions in the social policy sphere, and the elaboration of a social scoreboard, in addition to the macroeconomic policies scoreboard, thus allowing for better monitoring of social conditions in member states.

Following this logic, in February 2013 the European Commission issued a 'Social Investment Package' identifying key social protection areas towards which member states should redirect their resources and reform efforts. Among these areas are education and training, quality childcare and health care, active social and employment policies, social innovation and the fight against homelessness.[87] As is evident, the Social Investment Package addresses most of the dimensions/policies for SQG we identified in Section 1 and its effective implementation would be a major step towards such a growth pattern.

Two other recently advanced proposals appear particularly in line with our definition of SQG. The first concerns education and lifelong learning, a key domain for SQG. Some stakeholders have proposed an EU framework for dual education based on best practices in some member states. The second proposal is related to the need to ensure minimum standards for the youth guarantees (offered in the context of the Youth Guarantee policy) through a legal framework to improve the quality of apprenticeships and access to employment services.[88]

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[86] M. Billotte and S. Fernandes, 'Vers une Europe sociale renforcée?', Notre Europe, Institut Jacques Delors, Summary, 11 July 2013, 6–7.

[87] European Commission, *Towards Social Investment.*

[88] See the Belgian Government's contribution to an improved social dimension in EMU (Belgian Government, 'Belgian Contribution: The Social Dimension of the Economic and Monetary Union (EMU)', 2013).

A symmetric and 'time-consistent' macroeconomic strategy: more investments through national budgets and the full mobilisation of EU resources

As far as short-term measures are concerned, many observers suggest that priority should be given to stabilising the economy through measures aimed at increasing aggregate demand in the system and coping with the growing divergences within the eurozone.[89] As shown in Section 2, this is true of international organisations, which have emphasised the need for a strategy which is more consistent over time. The ILO has stressed that, 'There is growing awareness that an approach based narrowly on fiscal austerity will affect employment, while also failing to cut fiscal deficits significantly. Economies with a more growth-oriented policy strategy show better performance in terms of jobs, investment and financial stability.'[90]

In order to stabilise the economy and implement a strategy which is more consistent over time, symmetric macroeconomic policies in the eurozone are needed. Countries that have stabilised their debt ratios (notably, northern European countries) should be allowed to spend more, thus enhancing the growth potential of the whole EU.[91] As stressed by the ILO, 'addressing competitiveness problems without provoking a deep and long recession will require measures that boost productivity and achieve price moderation in deficit countries, and a recovery in wages in surplus countries after a number of years in which wage rises lagged behind productivity'.[92]

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[89] P. De Grauwe, 'From Financial to Social and Political Risks in the Eurozone', in D. Natali and B. Vanhercke (eds.), *Social Developments in the EU, 2012* (Brussels: ETUI/OSE 2013).

[90] ILO, *Eurozone Job Crisis. Trends and Policy Responses*, Studies of Growth with Equity series (Geneva, 2012), 12–13.

[91] Ibid.

[92] Ibid.

However, while growth packages for stimulating demand in the short run appear necessary, their quality and their long-term impact should be carefully assessed. Recalling the words of Kuznets, ‘goals for more growth should specify more growth of what and for what.’[93] If the objective is to put Europe on a path towards sustainable and qualitative growth, growth-enhancing investments should target those areas which have the highest potentialities in this respect, since—besides improving material living standards and contributing to the increase of economic competitiveness—they also contribute to improving social cohesion, environmental quality and other dimensions considered relevant for citizens’ well-being. From this perspective, education and training, R&D, technological innovation, environmentally sustainable modes of production and consumption, active ageing and lifelong learning strategies, care services (in particular, childcare), and other services aimed at improving people’s quality of life are all key areas on which resources should be concentrated if the EU is to make the transition to an SQG model. In this framework, social protection systems should play a pivotal role in ensuring the ‘inclusiveness’ of the new growth model. Social policy investments should be prioritised, aimed at helping European citizens to acquire the skills and competences necessary for coping with economic and social transformations and providing adequate protection against the social repercussions of the transition, while safeguarding the financial sustainability of social protection systems.

In this respect, the EU can strengthen its influence by revising its budgetary policy and developing greater fiscal capacity. Mobilising new resources for SQG at the EU level means, first of all, a better and more efficient use of what is already available in the EU budget. As we have seen in Section 2, the MFF 2014–20 does not move towards more resources in the EU budget. By

[93] S. Kuznets, ‘How to Judge Quality’, *The New Republic*, 20 October 1962, 29.

contrast, negotiations between the European Commission, the European Parliament and the member states on the MFF for 2014–20 have identified a set of wide-ranging changes in the way policy programmes are managed for maximum impact.[94] The new approach focuses most EU investments on key areas for growth and jobs. It calls for targets to measure results and sets new conditions for funding. It sets out the rules that will shape the main objectives and funding priorities to be fixed in the 'partnership agreements' between each member state and the European Commission. These are the starting points for the more detailed national and regional programmes. In some member states, draft partnership agreements have been prepared and are ready. The Commission expects all of these to be finalised by the end of this year with agreement reached on all funds in early 2014. The key elements of the reform are:

- Focusing investment on the key areas for growth outlined by Europe 2020 through a common set of rules which apply to all five European Structural and Investment Funds (the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund);

- Concentrating the majority of the budget on a few priorities linked to the Europe 2020 growth strategy: between 50% and 80% of the European Regional Development Fund budget concentrated on measures to support innovation and R&D, the digital agenda, the competitiveness of small to medium-sized enterprises, and the shift towards a low-carbon economy. For the low-carbon economy, this includes a further obligation to allocate between 12% and 20% to energy efficiency and renewable energy.

[94] In July 2013, the European Parliament's Regional Development Committee adopted a series of reports that, in principle, agree a radical reform of Regional Policy. The reports reflect the outcome of negotiations (European Parliament, Directorate-General Internal Policies, Directorate for Economic and Scientific Policies, 'Overview of Progress Made by Member States to Reach Their EU2020 Objectives Based on Commission Assessment of May 2013', Economic Governance Support Unit, May 2013).

- Establishing clear and measurable targets for member states and regions on the impact of the investments. Progress is to be measured and communicated.
- Simplifying rules governing the use of EU funds: more common rules applying to all funds, more targeted but fewer reporting demands, greater use of digital technology ('e-cohesion').[95]

To improve the efficacy of the funds, proposals have been focused on the need for more efficient governance and a more focused strategy to maximise the impact on some specific issues and fields.[96] Under the new MFF, much of the focus is on conditionality (a widely debated issue) and rewards for a minimum of effectiveness in using the funds. The objective of the performance reserve is to reward good performance in the implementation of programmes. In the future, priorities which achieve milestones set for 2018 will benefit from the performance reserve subject to a performance review to be undertaken in 2019. Where there is a serious failure to achieve milestones (i.e. serious underperformance compared to what was initially planned), the respective programmes and priorities will not benefit from an allocation from the performance reserve.

[95] Cf. European Commission, 'Member States and Regions Must Lose No Time in Preparing the Next Generation of EU Programmes for Growth, Says Commissioner Hahn After MEPs' Vote on Radical Reform of EU Regional Policy', Press Release (10 July 2013).

[96] Besides mobilising and better targeting existing EU financial resources, other proposals concern the possibility of increasing the EU's budget—for example through the implementation of a Financial Transactions Tax at EMU level or the implementation of an EU VAT system (see, K. Aiginger et al. 'Reconciling the Short and the Long Run: Governance Reforms to Solve the Crisis and Beyond', European Policy Brief no. 1 (September 2012); and M. Billotte and N. Chambon, 'Budget européen 2014-2020: Sept ans de malheur?', Notre Europe, Institut Jacques Delors, Summary, 18 March 2013)) and the creation of new EU-level solidarity tools. As for the former, the Van Rompuy document (H. Van Rompuy et al., *Towards a Genuine Economic and Monetary Union*, Consilium press data, 5 December 2012) provides the example of improving the EMU's sustainability through more effective shock absorption at the central level. The fiscal capacity will be a supplement to austerity measures, and this integrated approach should motivate eurozone member states to pursue sound fiscal and structural policies.

A different (partly complementary) strategy proposed consists of the allocation of outstanding and/or uncommitted Structural and Cohesion Fund resources.[97] In some cases, the direct involvement of the European Commission through the management of certain types of projects is expected to be a good way of improving absorption rates (percentage of funds allocated per member state paid by the Commission), especially in those countries which have experienced difficulties in this respect.[98] In the past, analysts have proposed the setting up of a European Fund for Economic Revival: the Commission could be empowered with the direct management of projects (for instance, in the field of energy and transport infrastructures). The latter could be carried out by task forces involving the Directorate General (DG) for Economic and Financial Affairs and other DGs (those most affected by the projects and their objectives). The Commission could use these funds through an executive agency (such as the Trans-European Transport Networks Executive Agency).[99]

Finally, some discussions are also required on the need for greater differentiation in the euro area, including the setting up of a separate budget on the basis of the enhanced cooperation mechanism outlined in Articles 326 to 328 of the TFEU. This solution would also open the way to further institutional differentiation in the EP, which could necessitate a revision of the treaties or the negotiation of a treaty specific to the eurozone countries.

[97] Of the total allocation for the 2007–13 MFF of around 350 billion euros, around 270 billion euros are still outstanding and 134 billion euros uncommitted. To give an example, the outstanding funds for Greece were about 7% of GDP over the programme period, for Portugal 9.3% and for Spain 2.5% (B. Marzinotto, 'A European Fund for Economic Revival in Crisis Countries', Bruegel Policy Contribution 2011/01 (Brussels, 2011)).

[98] Natali, 'Future Prospects'.

[99] We refer here to the seminal work of B. Marzinotto, 'A European Fund', 1–10.

EU automatic stabilisers: the case for a common unemployment insurance scheme

So far we have stressed how the lack of an EU fiscal capacity has been a major problem in the construction of the EMU.[100] The Maastricht Treaty gave full responsibility for stabilisation to national budgets, but, especially since the 'Great Recession', member states' budgets have proved to be very vulnerable. In other words, until debt levels are reduced, only a limited degree of stabilisation can be achieved through national budgets.

Among the options proposed in the literature, we support the setting up of a common EU unemployment insurance system, a tool whose adoption appears particularly urgent for the euro area.[101] The scheme would transfer funds directly to member states' citizens without any major political interference. The scheme would be financed by employees and employers through social contributions. Employees would pay part of their wages into a European unemployment insurance scheme and would receive compensation payments from this fund in the case of unemployment. Protection would be basic (below the level provided by current national insurance programmes) and limited to a particular time period. Member states would be able to top up such basic protection through their own social security schemes (and in line with their own social standards). European workers would thus receive protection based on a mix of a basic EU system plus national top-ups. Projections have shown that such a scheme would mobilise about 55 billion euros per year (0.75% of the annual euro area's GDP), which could be funded through social contributions of about 1.7% of gross wages.[102]

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[100] See also, J. Pisani-Ferry, E. Vihriala and G. Wolff, *Options for a Euro-Area Fiscal Capacity*, Bruegel Policy Contribution 1/13 (Brussels, 2013).

[101] In the following we refer to the proposal launched by S. Dullien and F. Fichtner, 'A Common Unemployment Insurance System for the Euro Area', *DIW Economic Bulletin* 1/13 (2013), 9–14.

[102] Ibid., 10.

The system would have significant advantages:

- The scheme would be an automatic stabiliser with direct effects on the countries most affected by economic recession and unemployment (countries with an economic downturn would receive net payments).
- The transfer would have a direct impact on domestic demand. Payments would be made directly to private households (rather than to the member states) with limited risk of political manipulation.
- At the same time, the scheme would be potentially consistent with the principle of distributional neutrality, in that it would benefit different countries in different periods.[103] Simulations have shown that using this scheme after the launch of the EMU would have benefited Germany, which suffered economic difficulties in the first years of the EMU, and southern European countries (like Spain), which have experienced difficulties since the onset of the Great Recession in 2009.
- The scheme would not result either in additional labour costs or additional resources being provided to the EU budget, but would be financed through social contributions: additional resources for the European scheme would be offset by a parallel and equivalent reduction in the resources for national unemployment schemes.
- Administrative costs would be limited, in that European unemployment insurance would be processed by national social security bodies.

[103] G. Wolff, 'A Budget for Europe's Monetary Union', Bruegel Policy Contribution no. 2012/22 (Brussels, 2012).

At the same time, the literature has also stressed some potential drawbacks. First, the scheme would address cyclical crises but not the structural deficiencies of the member states in economic difficulties. Second, institutional differences in the design of social security schemes and labour markets at the national level could limit its impact. A more important question is related to the legal foundation of such a scheme. A recent document from the Commission has stressed the need for treaty revision to implement such a tool.[104] Yet the IMF has recently published a report in which it is stressed that an intergovernmental treaty (like the Fiscal Compact) among euro area countries 'could be considered along with the creation of a euro area entity to manage the scheme'.[105]

Conclusions

This contribution is intended to illustrate how SQG is the most promising plan for the future of Europe. This paper has been organised into three main sections. In Section 1, we looked at the long-term debate concerning the concepts and indicators for defining progress beyond GDP growth. On this basis, we have defined SQG as a growth model in which the achievement of quantitative objectives (such as GDP growth and competitiveness) is compatible with a wider set of qualitative dimensions. Among the objectives/dimensions which should be taken into account in an SQG pattern are environmental protection, employment promotion, the fight against poverty and social exclusion, the promotion of a fairer standard of living and income distribution, attention to R&D

[104] European Commission, *Strengthening the Social Dimension*, 690.

[105] C. Allard et al., 'Towards a Fiscal Union for the Euro Area', IMF Staff Discussion Note, SDN/13/09 (2013).

policies, the attainment of higher standards in education and health, the promotion of fairer work/life balances and support for active ageing paths. Consequently, pursuing a strategy of SQG means 'looking inside GDP', that is, looking at modes of production and consumption, as well as at the goods and services produced by our economies. It also involves assessing what their implications are in terms of standards of living and quality of life both for current and future generations. It futher involves investing in those goods and services which represent added value. Having provided a definition of SQG, we then identified the main policy domains that are of interest and the indicators to be used for monitoring and assessing these policies.

As stressed in Section 2, the EU has attempted to move towards a broad strategy for 'smart, sustainable and inclusive' growth through a structured but increasingly coherent system of governance. These priorities are set out in the Europe 2020 strategy and implemented through a system of governance based on the SGP, the European Semester, and the Euro Plus Pact—all parts of the EU toolkit that have shaped reforms in the member states. Originally EU economic and social governance was based on a multi-dimensional approach (partly consistent with an SQG strategy): however its implementation has been influenced by the economic and fiscal crisis.

We then assessed the initial years of implementation of Europe 2020 and the broader EU toolkit. In line with the analysis proposed in contemporary literature, our assessment of initial progress under the EU strategy is largely disappointing. The EU in general—and its member states in particular—are far from achieving the expected targets both in terms of output (investment in R&D) and outcomes (reduction of poverty, increase of employment rates, etc.). The scant progress made has been characterised by significant delays in introducing reforms and in creating the level of investment envisaged by the strategy. European growth strategies that are smart, sustainable and inclusive have not been fully implemented.

The mixed and limited achievements of EU economic and social governance (in terms of headline targets) have been analysed, together with three major sources of challenges and risk: the limited emphasis placed by the EU on an all-encompassing growth strategy to exit the crisis; the 'inconsistency over time' of the strategy and its implementation; and the growing divergence between the performance levels of member states. As stressed by international organisations (i.e. the ILO and the IMF), there is a need to take a more pragmatic and balanced approach to stability. Data and indicators reveal divergent trends in the three main priorities set by Europe 2020 across the member states. The most worrying point here is that countries most in need of investment in SQG are often those most impacted by wider economic and financial crises.

To conclude, we have proposed three main paths for promoting a true SQG strategy in the EU:

- the first path suggests a more balanced strategy, where policy priorities and governance instruments are more balanced and consistent with a multi-dimensional and all-encompassing definition of growth;
- the second path involves the use of national resources (while respecting the current budgetary constraints and rules set by the EU): member states with few budgetary tensions (creditor countries) should be allowed to pursue a more expansionist fiscal policy in order to boost internal demand. Moreover, we suggest that EU resources for investment in SQG should be activated, among other options, through a more effective use of structural funds; and
- the third path consists of the launching of pan-European automatic stabilisers (e.g. EU unemployment insurance), that is, pragmatic ideas for a more growth-oriented approach.

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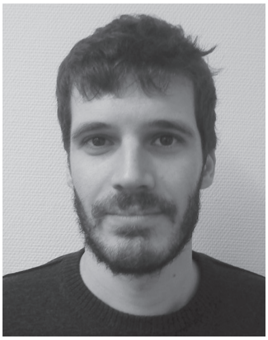

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The period since the outbreak of the financial, economic and social crises in Europe has witnessed a renewed focus on the need to develop a more sustainable and qualitative growth model. A model where the traditional focus on economic growth (i.e. GDP growth) is complemented by an adherence to a wider range of qualitative indicators. Indicators which more broadly characterise the well-being of society as a whole. This paper defines a model for Sustainable and Qualitative Growth (SQG) in the EU and questions if existing EU economic and social governance arrangements are consistent with this wider approach to building a sustainable growth model.

This paper identifies a number of key recommendations. First, a more encompassing, balanced and multi-dimensional EU strategy for growth should be adopted. This refined strategy should take into account the broader indicators underpinning the SQG model and should be addressed in key EU documents such as the Annual Growth Survey. Second, a symmetric and 'time consistent' macroeconomic strategy, allowing for investments in SQG related domains, should be pursued. These growth-enhancing investments should primarily target relevant policy areas such as education and training, technological innovation and lifelong learning strategies. Third, a common automatic stabiliser in the EU should be set up in order to provide a minimum level of EU investment across all member states.

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