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More or less crisis-proof

So far, the EU has reacted to major crises in an ad hoc manner. For the future, Europe must be better prepared, especially in addressing social issues

The European elections in June 2024 will focus not only on economic governance issues in normal times, but also on EU management in times of crisis. This refers to both the development of the Common Foreign and Security Policy in the course of geopolitical crises and the provisional appraisal and future use of the latest crisis instruments. For example, are the economic recovery package NextGenerationEU (NGEU) and the short-time work programme SURE ('temporary Support to mitigate Unemployment Risks in an Emergency') suitable blueprints for a permanent set of EU crisis instruments?

Trial and error is not really a strategy in a crisis. In the recent economic crises, however, for lack of agreement and under time pressure, the EU was forced to adopt such an approach. In the 2008/09 financial and economic crisis, each Member State saved its own banking institutions and launched national economic stimulus programmes. Plans put forward by the French government for an EU bank fund did not gain a majority at the time. In the Euro crisis from 2010 to 2015, with the principle of conditional solidarity, the EU achieved a uniform response: credit lines from European recovery funds in return for a prescribed austerity course in the economic policy adaptation programmes of the countries affected. The consequences of this policy were sometimes disastrous and deepened the socio-economic divide in the EU. This was one reason why, during the pandemic, from 2020 onwards, an entirely new crisis management approach was pursued. Common debt to grant tied loans and subsidies in accordance with the economic need criteria, and without further conditions, while simultaneously easing budgetary restrictions, had never been seen before in the history of the EU.

Lessons learned

Given the experience gathered in the latest three severe crises, it would be politically negligent to simply proceed with the pre-crisis agenda after the

only temporarily effective instruments have expired. There would then be a real danger of once again taking *ad hoc* decisions accompanied by disputes among the Member States and within the EU institutions. So, what can be learned from EU crisis governance?

First, major economic crises transcending the borders of Member States call for a joint effort. Goethe's aphorism 'let everyone sweep in front of their own door, and the whole world will be clean' won't get us anywhere in a tightly knitted economic union in which a crisis in one community has impacts on the economic development of the others. This is what the financial and economic crisis has taught us.

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Secondly, applied to different economic conditions, rigid regulations can produce the opposite of the desired result. While an austerity course in public spending may be justified in some States, it can stifle economic performance in others. The crucial factor is the respective business cycle. Curtailing demand in a crisis has been known to be a bad idea since Imperial Chancellor Heinrich Brüning's austerity policy. This is the conclusion to be drawn from the Euro crisis.

Thirdly, in the pandemic crisis management, special measures were taken to address the economic problems caused by a simultaneous supply and demand shock. Today, it is clear that the short-time work programme was a success. It contributed to keeping unemployment at a low level across Europe. Meanwhile, the 750 bn programme NGEU is helping the Member States not only economically, but above all structurally to implement urgently required investments, for example in the green and digital Twin Transformation.

Strengthening the social pillar

In addition to the economic effects of SURE and the crisis recovery programme NGEU, the EU's social development is important in combating crises. In previous crises, the massive increase in youth unemployment and the risk of poverty resulted in controversial debates over the social future of the EU. In the pandemic, EU crisis management was no longer turning a blind eye to social issues. The departure from the austerity course in times of the Euro crisis is conspicuous. New crisis governance targets social goals, the achievement of which is, for the first time, not solely left up to the business cycle thanks to the provision of financially supported instruments.

With the Social Summit in Porto in May 2021, the EU stepped up its efforts to consider the social dimension during the pandemic while simultaneously drawing attention to the explicit social challenges of the ecological and digital Twin Transformation. The European Commission is using the European Pillar of Social Rights as an instrument to this end and gives high priority to the implementation of the corresponding plan of action. In Porto, the Member States agreed on quantitative targets by 2030 for three overarching social indicators in the areas of employment, further education and poverty reduction.

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By strengthening the social pillar, the Commission has raised the status of the EU crisis policy's social dimension, as the quantitative objectives complement the target values already existing in the fields of climate protection and digitalisation regarding Member State expenditure in the context of NGEU. But while SURE achieves a direct social impact through safeguarding employment, using Next GenerationEU for social investments remains erratic among the Member States.

In the Social Scoreboard, which keeps track of the social pillar, most of the indicators rated as 'critical' ultimately refer to the drop in disposable household income, the rise in the risk of child poverty and marginalisation, the sluggishness of poverty reduction via the social security systems, and the high rate of premature school and training dropouts. This shows how the crises of the last few years are aggravating inequality and challenging the welfare states.

A time comparison between the proclamation of the social pillar in November 2017 and the values published in the Social Scoreboard five years later reveals, on the one hand, that the social situation since 2017 has steadily improved in the unweighted average of the Member States – despite the severe economic crisis brought about by the pandemic. On the other hand, only six states have shown concrete improvements compared to the EU median for individual indicators. Social Europe is not making any progress.

The social pillar appears to have the greatest impact where it is accompanied by supplementary, financially supported measures. These include the short-time work instrument SURE or the provision of additional finances for social investments and reforms in the context of NGEU. In the short term, the EU ought to continue SURE as a swift instrument to support short-time work models, which has both an

economic and a social impact. By keeping it available, an important mechanism would be created to respond to future severe economic crises, whose effectiveness could be further enhanced by developing it to an automatic stabiliser in the sense of a European Unemployment Reinsurance.

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The NGEU package has also made it possible to set a positive course in some areas for the Member States. For certain European policy goals that the Member States are principally able to agree on (such as the social underpinning of the Twin Transformation), a follow-up fund or a special budget item in the next multiannual financial framework could be devised in order to finance social investments. One convincing alternative to supranational programmes is to reduce budget restrictions for the Member States in a crisis, as has been demonstrated by the temporary suspension of the Stability and Growth Pact. Such financial scope in the Member States ought to be considered when adapting the Stability and Growth Pact in the context of reforming economic policy governance. Here, investing in the future as well as the orientation towards prosperity have to be sufficiently taken into account, for example via the so-called Golden Rule.

As already started with the action plan for the social pillar, further social goals ought to be agreed upon by the Member States. The national parliaments' current unsatisfactory treatment of social problems and challenges which their own countries are facing in a European comparison could be changed by the notion of a Social Convergence Instrument, recently discussed in Brussels, which the Spanish and Belgian Council Presidencies are promoting. The new instrument would improve the EU's social monitoring, with deviations from medians being more intensively analysed and capable of triggering an early warning mechanism. The similarity to budgetary and macroeconomic monitoring in the Eurozone has been chosen on purpose. It at least promises more attentiveness *vis-à-vis* social issues, as already been discussed once regarding the related notion of a Social Stability Pact.



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