

Thillaye, Renaud

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Improving the legitimacy of EU economic governance: why and how?

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Author: Renaud Thillaye (policy network)

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Author: Renaud Thillaye (policy network)
Contributions by: Andreas Sachs (ZEW)
Reviewed by: Uwe Puetter (Central European University)

Improving the legitimacy of EU economic governance: why and how?

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Improving the legitimacy of EU economic governance: why and how?

Renaud Thillaye (policy network)

Contribution to the Project

The paper asks whether EU economic governance, which plays a key role in EU member states socio-ecological transition, is sustainable from a legitimacy point of view.

Keywords:

EU integration, European governance, European Monetary Union, Good governance, Institutional reforms, Welfare reform

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Improving the legitimacy of EU economic governance: why and how?

Renaud Thillaye*

Abstract:

The sustainability of European economic and monetary union (EMU) has been questioned over the last few years. Criticism has focused on the missing democratic dimension behind recent governance reforms, and the lack of compensating output legitimacy. The paper considers the seriousness of this legitimacy problem. It starts by revisiting the classic division between 'input' and 'output' legitimacy in the context of EMU and finds that, given a lack of will to commit to deeper integration, governance needs to accommodate the diversity of expectations and situations of euro countries. The paper then assesses the way governance works in practice by analysing the interaction between the EU and national democracies on three similar cases: the 2011 labour market reform in Italy, the 2013 pension reform in France, and the 2014 minimum wage decision in Germany. Each of these cases is reflective of a reform related (directly or not) to a recommendation by the EU and conducted under its supervision. The analysis tends to confirm the existence of patterns of legitimation specific to EU economic governance. It suggests that the 'legitimacy problem' is manageable as long as national governments and parliaments are resolute in dealing collectively with their differences. This implies that deepening the 'transnational' attributes of economic governance could be envisaged as a serious alternative to the remote prospect of a federal Eurozone.

*Renaud Thillaye is deputy director at Policy Network in London.

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Introduction

Should we concern ourselves with the way the European Union (EU) economic governance is tightening its grip on national socioeconomic policies? Over the last few years, numerous decisions were taken urgently to stop instability on financial markets and to prevent the surge of new budgetary and economic imbalances. Those decisions have affected the social contracts and the democratic lives of European societies, in particular those participating in the euro area. By giving the EU greater means to interfere in national policymaking, leaders seem to have followed a road that was rejected by French and Dutch voters in 2005, and that still triggers a lot of opposition in public opinion, namely one of greater European integration. The new architecture is accused of lacking democratic legitimacy and moving Europe in a more technocratic direction.

Governance reforms face another type of criticism: their outcomes are poor. Some commentators have argued that responses to the debt and economic crises were ‘too little, too late’. For them, fiscal consolidation and structural reforms will not help Europe find a new balance unless much bolder demand-side measures are taken and more generous financial assistance is provided to struggling countries. Price and financial markets stability has become the cornerstone of EU decision-making, whereas more ambitious objectives (such as those enshrined in the Europe 2020 Strategy) are overlooked. Other narratives, by contrast, argue that the EU is making matters worse by doing too much. They call for a return to the original EMU design, based on a clear separation of responsibilities and a ban on financial assistance. In both views, the status quo is deeply unsatisfactory.

This paper revisits the debate on the EU’s legitimacy in light of recent changes in economic governance. Well before the crisis, the EU’s democratic deficit (‘input legitimacy’) and its inability to bring about concrete benefits to the public (‘output legitimacy’) were under the spotlight. In many respects, the debate has resurfaced, but on slightly different territory: the euro rather than the single market (although the latter’s achievements remain fragile and disputed). If legitimacy is to be understood, in a Weberian sense, as the ability of a sovereign, or an authority, to be respected and obeyed, the question one might ask is whether EMU is a sustainable project, underpinned by sufficient popular adherence. Certainly, beyond input and output factors, there are other sources of legitimacy, not least tradition and a sense of common identity. Nonetheless, the paper starts from the assumption that Europe’s diversity in terms of culture and informal norms will remain a long-lasting feature.

The paper begins by outlining the main characteristics of the new economic governance and by mapping out its legitimacy challenges. The second part discusses the concept of legitimacy and how

its traditional use in EU studies might apply to EMU. The third section illustrates how economic governance works in practice by reviewing how EU recommendations to Italy, France and Germany have recently been implemented. The case studies look at how national policy-makers and public opinions frame the debate around EU recommendations and the extent to which they accept the EU's authority.

The paper argues that the EU must be very careful at managing perceptions of unequal participation and unfairness in a context where legitimacy primarily rests with national political systems and social contracts. If majoritarian processes are not accepted as a way to settle disagreements on ends and means, this suggests that every single member state needs to be 'bought into' economic governance.

1. The legitimacy challenge of new EU economic governance

A more intrusive governance

EU economic governance has been recently discussed as becoming more prescriptive and intrusive, especially for Eurozone countries and would-be Eurozone members. Broadly speaking, 'economic governance' refers to the rules, processes and tools of fiscal and macroeconomic supervision and monitoring carried out by the EU as a way to prevent divergences and correct imbalances. The rationale behind this decentralised but disciplinary framework is that the European Central Bank's (ECB) single monetary policy can only work if there is sufficient fiscal and macroeconomic convergence among its members. Strict rules are meant to prevent one country from derailing collective stability.

From the 'Broad Economic Policy Guidelines' and Maastricht convergence criteria of the 1990s, EU economic governance has developed into a far more complex set-up, especially in the wake of the 2010-11 sovereign debt crises. Instruments of the new economic governance include:¹

- Rules, thresholds and assorted sanctions via the Stability and Growth Pact, the Macroeconomic Imbalance Procedure and the Treaty on Stability, Coordination and Governance;
- Policy prescriptions via the Country-Specific Recommendations;
- 'Ex-ante' coordination and monitoring via the European Semester, as set up by the 'Two-Pack' and 'Six-Pack' regulations;
- Conditional financial assistance from the European Stability Mechanism (ESM) and from the ECB;

¹ For a detailed presentation and discussion of the new tools, see Aiginger et al. (2012)

- Informal tools, such as peer pressure in the European Council and political statements by European institutions such as the European Commission and the ECB.

A 'differentiating' governance

On top of its generally intrusive character, a major feature of the revamped economic governance is the distinction between 'preventive', 'corrective', and 'assistance' stages. The underlying philosophy behind various degrees of intrusion is that a country threatening to destabilise the euro area has to be supervised more closely, if not taken over, by EU institutions. In that sense, it is right to describe EU economic governance as "federalism by exception" (Trichet 2012): direct interference from the EU level into national policy-making is justified only when the situation poses a systemic threat to the collective.

On paper, this approach based on rules, preventive coordination and gradual intervention makes sense. A commonly heard phrase is that member states "have to put their house in order" or "to do their homework". Some form of supervision from the centre is necessary to make sure they abide by the rules and take preventive measures. Those countries that behave badly can only blame themselves for Brussels forcing them to take specific measures.

Governance and its critiques

Yet, the last few years have seen a lot of discontent and anger against this disciplinarian regime. A first range of criticism denounces its institutions and procedures as non-democratic. Technocratic bodies such as the European Commission and the European Central Bank (ECB), although wielding very significant regulatory power, are not elected. Moreover, the European Council is said to be geared towards the interests of large countries. As Majone puts it: "the EU is supposed to be a free association of sovereign states enjoying the same rights and duties, and united by the principle of loyal cooperation. However, the concentration of decision-making powers in very few hands has reached a level never attained before." (2012, p.20). 'Emergency' is becoming the 'new normal' and justifies cutting short the time usually taken for parliamentary deliberation (White, 2013). For Habermas, "there remains a gulf at the European level between the citizens' opinion and will formation, on the one hand, and the policies actually adopted to solve the pressing problems, on the other." (2013).

A second criticism targets the implications and outcomes of EU economic governance. The EU has assigned itself social objectives such as improving living conditions and lifting convergence across nations and regions. The Europe 2020 Strategy reflects the EU's ambition to move towards

innovation-based and equitable growth. Its social policy objectives (as epitomised by its employment and poverty targets) are supposed to feed into the European Semester's country-based recommendations. Yet, while trying to resolve the crisis in the Eurozone, the EU has been increasingly engaging in redistributive politics "through the backdoor of economic governance", away from its claimed social objectives.² The 'hard law' underpinning the Macroeconomic Imbalance Procedure systematically beats the 'soft law' of social recommendations. In both creditor and debtor states, the divergence in economic and social fortunes over the last five years is seen as evidence of a dysfunctional currency union, though from different points of view. For the former, the EU is too lax and too generous with the latter, who, in turn, blame their egoism and intransigence.

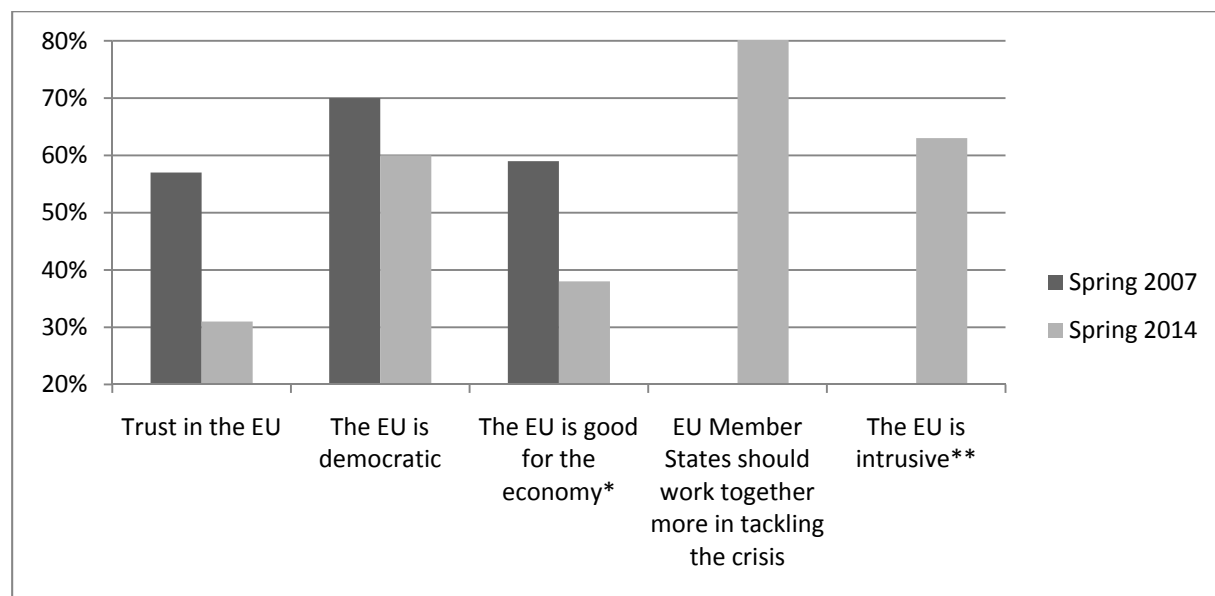
Frustrated public opinion

Opinion surveys reflect this picture of democratic and economic frustration, but also of contradictory and diverging expectations. As Chart 1 shows, trust in the EU has sharply declined since 2007 (Eurobarometer Standard 2007, 2014). While 60 per cent of Europeans still use the word 'democratic' to describe the EU, responses range from 41 per cent in Greece and 46 per cent in the UK to 68 per cent in Germany and 77 per cent in Romania. Moreover, according to the Pew Research Center (2014), 81 per cent of Italians, 71 per cent of Germans and 56 per cent of the French think that their voice "does not count in the EU". Both surveys also emphasise the widespread feeling that the EU is too bureaucratic and intrusive.

On the impact of EU policies, Europeans are equally sceptical, although there is still majority support for the single currency in EMU countries (with the recent exception of Italy). Only 38 per cent of Europeans think that "integration has strengthened the economy" in seven flagship countries (Pew Research Center 2014). When asked whether the EU is responsible for austerity measures, 61 per cent answer yes, with all EU member states above 50 per cent except in Estonia and the UK (Eurobarometer 2014). Paradoxically, Europeans still expect more from the EU than from their national government when it comes to tackling the financial and economic crisis, and more than 80 per cent of them support the idea of greater cooperation between their governments. Nevertheless, opinion splits over greater supervisory powers for Brussels over national budgets.

² See the argument developed in Armstrong (2012), Thillaye (2013), Bekker and Palinkas (2013)

Chart 1: Attitudes towards the EU (2007-2014)



Own adaptation from Eurobarometer (2007, 2014) and Pew Research Center (2014)

*2007: “Our country benefits on balance from being a member of the EU” (Eurobarometer 2007); 2014: “Integration has strengthened the national economy” (average from seven countries: Greece, Italy, France, Spain, UK, Germany, Poland - Pew Research Center 2014)

**average from seven countries, Pew Research Center 2014

In these conditions, it is normal to question the rationale behind the recent economic governance reforms. As a majority of EU citizens do not trust the EU and tend to associate it with more constraints than benefits, the increasingly complex web of rules, procedures and actors faced by national democracies risks alienating further the public, all the more in the absence of results.

Is the diagnosis such that the measures taken to solve Europe’s debt crisis risk leading to a “democratic default” (Majone 2012, p.21)? How serious is the EU’s legitimacy problem? Before turning to study three concrete cases of how economic governance works and the impacts it has, the next section reflects on the meaning of legitimacy and argues that one should be especially cautious when using traditional and normative approaches.

2. Legitimacy: how traditional approaches apply to EMU

There are two broad approaches towards legitimacy in academic literature (see Banchoff and Smith 1999; Severes and Mattelaer 2014). The first approach, as suggested by Max Weber, is descriptive and rooted in social practice: the rule or ruler which people are willing to obey is legitimate. Whether the basis of that acceptance is habit (tradition), the fear of force (sanction) or as a result of tangible benefits does not particularly matter. The second approach is more normative and tends to associate legitimacy with democratic accountability and responsive, representative institutions.

These two strands can be said to have reappeared under different guises in the debate about the EU's legitimacy. A commonly used categorisation is the difference between 'input' and 'output' legitimacy (Scharpf 1999). The former refers precisely to the type of democratic processes supposed to guarantee the responsiveness and accountability of institutions. The latter is associated with the concrete benefits that the EU brings about and their distribution. Some authors have argued that a European 'demos', or legitimacy based on a sense of common identity, was perhaps the dimension that is most found wanting in the EU. Fligstein (2008) shows, for instance, that Europeans' national identities have remained strong since the 1980s and that American popular culture is likely the greatest commonality amongst Europeans.³ The potential of identity-building should not be discarded in the long term, but the level of dissatisfaction with the euro and its governance needs to be tackled with more concrete measures in the short and mid-term. Therefore the focus here is on 'input' and 'output' factors of legitimacy.

Input legitimacy: two routes to one destination

The debate around the EU's democratic features has traditionally pitted those who think it should adopt state-like institutions against those who show greater caution given the EU's confederal attributes. This debate has spectacularly re-emerged in the ongoing discussions about the Eurozone's future. Simon Hix (2006, 2008) has argued that the EU should offer more majoritarian politics through an extension of the European Parliament's prerogatives and a more responsive and accountable European Commission. What the EU needs is greater "contestation for political leadership and over policy". His analysis, which predates the eurozone crisis, was based on the fact that EU policies were becoming less 'pareto-optimal' and more redistributive. Arguably, post-crisis reforms of economic governance have reinforced this pattern and justify profound democratic reform. If consensus-based decisions cannot accommodate everyone any longer, formal procedures have to be introduced to arbitrate fairly between winners and losers. As a result, some thinkers have called for a Eurozone 'political union' in which a genuine economic government would be accountable to a Eurozone assembly (Habermas 2013; Glienicker Gruppe 2013; Groupe Eiffel 2014).

However, a second stream of thinkers has been criticising the idea that the EU should take the route of majority-based politics and supranational controls. It might be wrong for the EU, and for the Eurozone, to take the nation-state as a model. An alternative to building a supranational democracy is to enhance the role of national democracies within the EU polity. This view starts from the

³ Ironically, a shared difficult experience such as the financial and economic crisis may have strengthened the sense of European identity. Post-2010 Eurobarometer surveys have seen an upsurge of people seeing themselves as both '[nationality] and European'. From an average of 40 per cent in the 1990s and 2000s, this proportion has reached around 50 per cent this year.

assumption that the EU lacks a single '*pouvoir constituant*' and that plural 'national demoi' are here to stay (Nicolaidis 2012). The diversity of European identities and peoples imposes a "particular style of consensual politics [...] and an institutional architecture designed to ensure (through power fragmentation and checks and balances) the preservation of the vital interests of the composing segments". (Magnette and Papandopoulos 2008, p.5).

'Demoicratic' thinking was certainly influential among the drafters of the EU's Constitutional Treaty and the Lisbon Treaty. It seems to have also prevailed among Eurozone policy makers so far. The rise of 'deliberative intergovernmentalism' through the European Council (Puetter 2012), testifies to the densification of coordination and cooperation between national capitals without giving any additional resources and discretionary powers to Community-based institutions. On paper, sanctions have become more automatic and only reverse-majority voting can stop them hitting misbehaving member states. In practice, however, national governments and parliaments have the upper hand, especially the largest ones. They remain judges and juries. The fact that Spain and Italy, though facing similar market pressures as Ireland and Portugal in 2011, could not be forced to sign up to an assistance programme under ESM supervision shows the scope for negotiation and deliberation in economic governance.

The Roadmap "Towards a genuine Economic and Monetary Union presented by Herman Van Rompuy in December 2012 seems to embrace this logic, but not wholeheartedly. National parliaments and social dialogue procedures are central to the section on "democratic legitimacy and accountability". Certainly, the Roadmap recognises that "one of the guiding principles is that democratic control and accountability should occur at the level at which the decisions are taken [...]" This implies the involvement of the European Parliament as regards accountability for decisions taken at the European level, while maintaining the pivotal role of national parliaments, as appropriate." (Van Rompuy, p.16-17). Nevertheless, the document falls short of making any specific prescription except the setting-up of the inter-parliamentary conference foreseen by Article 13 of the Treaty on Stability. Strangely enough, this idea contradicts the very principle of two separate levels of responsibility.

If one assumes that national democracy has to be more clearly embedded into economic governance, it is logical to seek the formal involvement of national parliaments. Individually, their role is to endorse the commitments made by their government at EU level and to scrutinise implementation. The last few years have seen most parliaments adjusting their procedures to catch-up with changes in governance such as the European Semester and more frequent European Council summits (Marzinotto et al. 2011; Heffler et al. 2013). Building on the 'Nordic model' of parliamentary scrutiny, they require their ministers and heads of governments to appear before the relevant committee or in

plenary ahead of Council or European Council meetings. However, more can be done to enhance the level of scrutiny. Chairs of EU affairs committees could, for instance, be allowed to attend the European Council's sessions. There might also be a case for an assembly bringing together national parliamentarians (and involving some MEPs, as is the case with the Article 13 Inter-parliamentary conference) to actually vote, alongside the Council, on decisions taken in the name of the 'common interest', such as sanctions and financial assistance. This leaves the hypothetical picture of a bi-cameral Eurozone, whereby an upper chamber would represent the states and a lower chamber the people. Indeed, as Van Middelaar suggests, both national governments and parliaments wear two hats: as representatives of their electorates and as members of a European collective (2012, p. 451).

There are therefore two main routes to the destination of a more democratic Eurozone. Consolidating the existing 'transnational' governance would require treating all countries on an equal footing, and giving national parliaments a more important role in discussing EU orientations and national implementation. Shifting towards a federal Eurozone would necessitate the setting-up of a Eurozone chamber (possibly made of MEPs) that would have the power to approve and scrutinise a budget. Away from the current hybrid governance the EU and member states would constitute two separate entities.

Output legitimacy: which objectives for the euro?

While the desirability of greater democratic controls is not seriously contested, very few would argue today that the EU does not need to deliver better outcomes. Well before the debt and economic crises, the idea that the EU should demonstrate its 'added value' was central to many studies, especially in the wake of the 2005 Dutch and French referendums (see overview by Rubio 2011). Indeed, as Innerarity puts it:

for the nation states, the balance between effectiveness and democratic acceptance can generally be resolved in favour of the latter; for transnational institutions, effectiveness is decisive even if only because of the fact that those institutions have been configured precisely to resolve problems that are not within the reach of the nation states and to correct their ineffectiveness (2014, p.10).⁴

For that reason, a recurring pro-EU argument is that pooling sovereignty and mutualising resources strengthens rather than undermines national sovereignty by giving member states the possibility of achieving better results (Giddens 2013; Milward 1992).

⁴ Or, to quote Seymour Martin Lipset (Majone 2012, p.6): legitimacy "involves the capacity of a political system to engender and maintain the belief that its institutions are capable of resolving the major problems facing society".

Yet, assessing EU economic governance and establishing a shared diagnosis behind very diverse performances proves a highly political matter. We have seen that there is no single and univocal European public opinion on the question of whether the euro is beneficial or not for national economies. In very few countries is ‘economic integration’ said to have had a positive impact on the national economy. But when asked about the euro, Europeans are overwhelmingly positive and there is a majority in almost all countries to keep the common currency.

Any more scientific assessment of the common currency’s impact has to start from a specific viewpoint and to use a particular benchmark. One can for instance distinguish what are traditionally seen as German or northern European assumptions – which dominated the policy-making sphere at the inception of EMU (McNamara 1999) – from French and southern European ones. The former group argues that the euro’s paramount objective is price stability, and that this should be the single responsibility of EU institutions. The latter defends the idea of common growth and employment targets alongside stability. It is therefore no surprise that the European Commission’s report on 10 years of EMU (EU 2008) gave a mixed picture of monetary “successes” but remaining growth “challenges”.

Broader notions of ‘stability’ could also be used to assess the success of EMU, for instance financial stability and political stability. There is now a widespread enough consensus to agree that EMU was lacking sufficient supervision and resolution capacity to address the systemic risks caused by financial integration. Whether new tools of economic governance and the Banking Union are sufficient remedies remains disputed. Political stability is also increasingly seen as a key benchmark of success, as the European Commission’s president, Jose Manuel Barroso, himself acknowledged (Spiegel 2013). Some authors see serious political risks in the fact that EMU pits export-based, surplus economies against less competitive ones forced to cut wages and social protection (Leonard 2012).

Finally, the EU has assigned itself ambitious objectives for a more sustainable growth model under the Europe 2020 Strategy. The Lisbon Strategy, its predecessor, was initiated as a way to combine the Broad Guidelines of Economic Policy and the more social Employment Guidelines, both of which were conceived primarily as coordination and convergence tools for EMU countries. Country-specific recommendations are supposed to take Europe 2020 objectives into account, which include a reduction in the poverty rate, a higher employment rate, improved educational results and the 20-20-20 climate-energy targets.

Beyond the choice of a benchmark, establishing shared diagnoses on actual performances proves equally divisive. Like in the left-right debate over inequality, some will primarily attribute the responsibility of poor growth records to individual member states, while others will point at the lack

of adequate collective support. In the past few years, low growth rates, high unemployment and poor social outcomes in southern European countries have often been attributed to the cumulative effect of restrictive EU ‘austerity’ policies. However, it is very difficult to disentangle the impact of EU rules and guidelines from domestic factors such as the quality of the education and training system, a tax and spending system that favours rent against capital, levels of trust and the quality of institutions.

Stemming from this, it is tempting to conclude that a clarification on the objectives of EU economic governance is necessary to improve the debate on the EU’s efficacy and, by extension, legitimacy. Indeed, as Majone writes, “neither the monetary crisis nor the broader legitimacy crisis of the European project can be resolved as long as the goals of this project remain indeterminate.” (2012, p. 18). Yet, if expectations and narratives remain too divergent among member states, and if majoritarian processes are not accepted as legitimate ways to settle these disagreements, practical ways have to be found to accommodate different views of the world. As well as formally involving national parliaments and stakeholders, tackling perceptions of unfairness or inequity between member states within EU economic governance is therefore paramount.

EU legitimization in practice

There is a limit to establishing a single normative model of EU legitimacy. Several authors suggest that policy-makers should focus on the concrete dynamics of ‘legitimation’. Severs and Mattelaer observe that the concept of legitimacy refers too much to “past habits and accomplished rights and obligations” and that “political legitimacy is never fully given but requires constant legitimation.” (2014, p.7). They observe that there is a significant discrepancy between people’s expectations and perceptions in a complex environment of eroded sovereignty, and the normative benchmarks still referenced by politicians and policy-makers. In the same vein, Innerarity stresses the distinction between ‘acceptance’ based on empirical public support, and ‘acceptability’ based on the quality of decisions and respect for democratic institutions: “there is no legitimate democracy without the possibility of governing outside popular will.” (2014, p.16). Legitimation “should be based on a combination of different criteria of legitimacy [...] in some areas competence will be more important than participation; in others, public opinion should correct the unilaterality of experts. Therefore the legitimacy of the EU can only consist of a combination of different strategies.” (2014, p. 26).

Understanding how the EU operates and crafts legitimate decisions (i.e. decisions which are respected and enforced by member states despite some domestic opposition) can also gain from the insights of Putnam’s ‘two-level game theory’ (1988). Putnam highlights the concrete ways and conditions in which domestic politics and international relations impact each other. International pressures to enforce specific measures, and possible side-payments, often present national leaders with the

opportunity to overcome domestic reluctance by specific groups. At the same time, domestic institutional and political factors (i.e. the existence of veto players) can increase a leader's bargaining power in international negotiations. These findings are strongly echoed by Moravcsik's liberal intergovernmentalist theory of European integration (1993, 1998). Studying the outcome of EU treaty negotiations, Moravcsik finds that national interests and the relative strength of domestic preferences play a more important role than, for instance, ideas put forward by supranational entrepreneurs. These theories can help shed a new light on the ebb and flow of today's economic governance in the EU, especially the dynamic interaction between national democracies and EU institutions. They may explain why the EU manages to exert influence despite vocal reluctance or opposition.

To test the validity of these arguments, the next section provides three case studies to highlight possible 'legitimation' patterns specific to EU economic governance. Studying the making and implementation of three recent country-specific recommendations to Italy, France and Germany aims at highlighting how EU processes and targets are embedded in national political institutions and accepted by the wider public. 'Input' and 'output' factors are taken into account as part of a dynamic process of negotiation and justification. Based on the alternative views on legitimacy and on the two-level games insights, the following hypotheses on possible factors of legitimation are tested:

- EU interference requires a strong justification in terms of the collective interest of member states, but must also be seen as being in the national interest;
- There must be some leeway for national democracy, especially on the means to achieve specific objectives (obligation of *results*, but not of *means*);
- Recommended reforms or actions must be seen as 'fair', not only effective. However, when the stability of the Eurozone is at threat, and when the national position is weak, financial stability tends to become the primary objective;
- Incentives or rewards for reforms can act as a sweetening pill, e.g. more flexibility on applying fiscal rules and targeted support.

3. Governance in practice: Country-specific recommendations in Italy, France and Germany

Italy's labour market reform in 2012

Concerns with Italy's labour market dualism date back to the late 1990s. A series of reforms introduced in the early 2000s made fixed-term contracts both more attractive and legally secure, but they left the rigidities of open-ended contracts untouched. In July 2011, the EU urged Italy to "reinforce measures to combat segmentation in the labour market, also by reviewing selected aspects of employment protection legislation including the dismissal rules and procedures and reviewing the

currently fragmented unemployment benefit system”. (EU 2011a). The labour market reform adopted in June 2012 was one of Mario Monti’s main achievements after he replaced Silvio Berlusconi as head of the Italian government at the end of 2011. That period was marked by a rapid loss in the confidence of financial markets as to the capacity of Italy to meet her commitments. One hypothesis is that this context made the EU’s strong interference in Italian domestic affairs look all the more legitimate.

Timing of the reform

Sacchi (2013) gives a detailed account of how events unfolded between summer 2011 and summer 2012. The financial and economic crisis left Italy’s growth and competitiveness in tatters. After Greece, Portugal and Ireland, Italy and Spain slid quickly into the radar of panicking financial markets. In July 2011, the spread between German and Italian bond yields reached four percentage points. This prompted the ECB to buy Italian bonds on the secondary markets. However, in early August, a letter by ECB president Jean-Claude Trichet and his designated successor, Mario Draghi, urged Berlusconi to act on both fronts: urgent fiscal consolidation steps and growth-enhancing reforms in the longer term (Corriere della Serra 2011). The second item included detailed prescriptions for a “thorough review of the rules regulating the hiring and dismissal of employees” and “a set of active labour market policies capable of easing the reallocation of resources towards the more competitive firms and sectors”.

When Monti came into office in November, he featured labour market reforms as one of the main objectives of his government. Negotiations with the social partners started in January 2012. The government’s draft, released at the end of March, attracted criticism from Italy’s main trade union, the CGIL, and from the centre-left opposition. The European Commission jumped in at this stage, warning against any ‘watering down’ of the text during parliamentary discussions. This is nevertheless what happened in April, when the three main political parties supporting the governmental coalition decided to reintroduce the opportunity for the courts to order the reinstatement of workers dismissed for economic reasons in companies of more than 15 employees. This ‘compromise’ triggered vehement attacks by the Italian employer’s union, the Confindustria, and parliamentary adoption proved lengthy. But the bill was eventually approved on 27 June, thanks to a vote of confidence. This was just one day before a European Council summit at which Monti obtained, with the support of the Spanish prime minister, Mariano Rajoy, an easing of access conditions to the European Stability Mechanism’s resources.

Justification of the reform

Looking at how Italian politicians justified the reform, Monti’s inaugural speech in November 2011 reveals two interesting aspects. First, the prime minister made clear that the reforms he was setting out

should not be seen as ‘imposed’ by Brussels and clearly reflected the national interest: “It is a problem that lies within the Italian system to decide then enact what we Italians know well in order for us to grow. We don’t see European constraints as being imposed on us. There is no ‘us’ and ‘them’. We are Europe.” (The Guardian 2012). Second, Monti made the same distinction as the ECB between “a series of measures to confront the emergency, ensure the sustainability of public finances, restore confidence” on the one hand and “a project to modernise economic and social structures” on the other. On the reform itself, Monti did not refer explicitly to the EU’s recommendation, but the objectives are formulated in the same way: “With the consent of the social partners (unions and employers) the institutions of the labour market will have to be reformed to get away from a dual labour market where some are too protected while others are totally without protection or insurance in the case of unemployment.” The mention of social partners showed his concern to respect national democratic procedures.

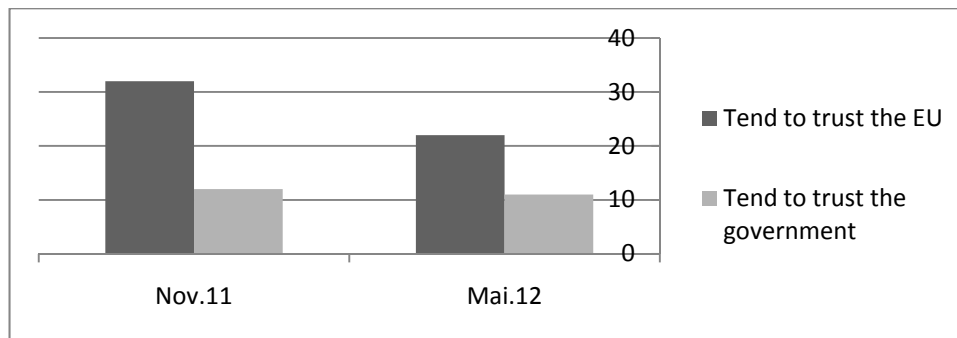
Another key moment was the 1 May celebration in 2012, at which both the Italian president, Giorgio Napolitano, and the minister for labour, Elsa Fornero, delivered speeches. The word “Europe” or “European” were used 26 times in Napolitano’s speech, which touched upon the reform in the context of the wider economic environment. The speech clearly recognised the need for Italy to change: “There is no alternative to reforms such as those introduced in the last six months, and which are defined in European language as ‘structural’ - removing distortions rooted in obstacles and barriers - to raise Italy’s growth potential.” (Napolitano 2012). The speech also underlined the need for greater EU solidarity and stressed that progress had been made (like the ESM and a streamlining of structural funds to crisis-ridden regions). Fornero insisted on the need for a reform, both for efficacy and social justice reasons: “With the labour market reform, we intend precisely to restore the dignity and centrality of work, to make a market more inclusive, but also more dynamic, to increase employment and reduce effectively these dichotomies [...] The labour market reform is [...] a decisive factor for growth.” (Fornero 2012).

Italian public opinion and the reform

In March, shortly after the release of the government’s project, 67 per cent of Italians opposed the reform, against 29 per cent who were supportive (Reuters 2012). Polls among businesses revealed deep-seated antipathy to the reform, too. The reform is likely to have had a negative impact on the government’s ratings. According to IPR Marketing, trust in Monti plummeted from 62 per cent in December 2011 to a mere 40 per cent in June 2012. However, his ratings bounced back over the summer to reach around 50 per cent by September. Fornero saw her rating drop even more sharply, from 58 per cent in January 2012 to 42 per cent in April 2012 (Le Repubblica 2012).

As Chart 2 shows, Eurobarometer (2011, 2012) reveal a spectacular fall of Italians' trust in the EU between November 2011 and May 2012. Meanwhile, trust in government stagnated. Certainly, it is impossible to attribute the fall in EU trust to a particular cause. The same surveys reveal a decline in Italians' overall confidence about their economic future. Nevertheless, these figures challenge the government's narrative which suggested the EU should not be held accountable for the reform.

Chart 2: Italians' attitudes towards the EU and the national government (2011-2012)



Source: Eurobarometer (2011, 2012)

Financial support in exchange for reform?

There was no direct appeal to EU institutions to give Italy specific resources to implement the labour market reform. The government made it very clear that it was acting in the country's interest. However, the reform was openly part of the implicit 'conditionality package' laid down by the ECB when it started to buy Italian bonds. Napolitano's speech shows that the 'solidarity vs. reform' deal was in Italian leaders' minds. In many respect, the inception of the Banking Union in June 2012 and further action taken by the ECB in summer 2012 can be seen as recognition and a reward for the efforts made by Italy and other governments, and a formalisation of the logic of conditional solidarity. Draghi linked the 'Outright Monetary Transactions' programme to strict conditionality under ESM supervision.

In conclusion

The idea of a labour market reform has been floating around for several years in Italy, and EU institutions seized the opportunity of dramatic circumstances to push it forward. However the reform was unpopular and the government and the EU did not get any credit for it, against a background of economic recession and unemployment. An open question for future policy developments is whether this would have been different had the implicit 'reform vs. financial support' between the EU and Italy been more substantial and visible.

France's pension reform in 2013

From 2011 EU recommendations to France mention the pension system equilibrium as a key element of the country's fiscal sustainability. On 29 May 2013, the Commission's recommendation was particularly explicit: France should "take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, further increasing the statutory retirement age and full-pension contribution period and reviewing special schemes, while avoiding an increase in employers' social contributions." (EU 2013a) In December 2013, the French parliament adopted a new pension reform. It came only three years after the Sarkozy-Fillon government increased the minimum retirement age from 60 to 62. Does this suggest that France blindly implemented the European 'dictate'? Evidence shows, on the contrary, that there was significant national ownership of the reform.

The timing of the reform

The objective of the Sarkozy reform was to balance the public pension fund by 2018. However, this was based on an average GDP growth rate assumption of 2.5 per cent. By late 2012, the *Conseil d'orientation des retraites* – an independent advisory body – published particularly pessimistic forecasts. Shortly afterwards, finance minister Pierre Moscovici announced a reform in 2013. President François Hollande reiterated the announcement in April (Le Monde 2013) and the reform was featured prominently in the National Reform Programme sent to the European Commission in April 2013 (France 2013).

In the summer, shortly after the recommendation was put to France, the governments started to consult with social partners. Jean-Marc Ayrault, the prime minister, presented the government's project at the end of August. Out of five trade unions involved in the consultation, four of them acknowledged the need for reform, although not all were satisfied with the government's proposal.⁵ The debate in parliament started on 7 October and ended with a final vote in the National Assembly on 18 December.

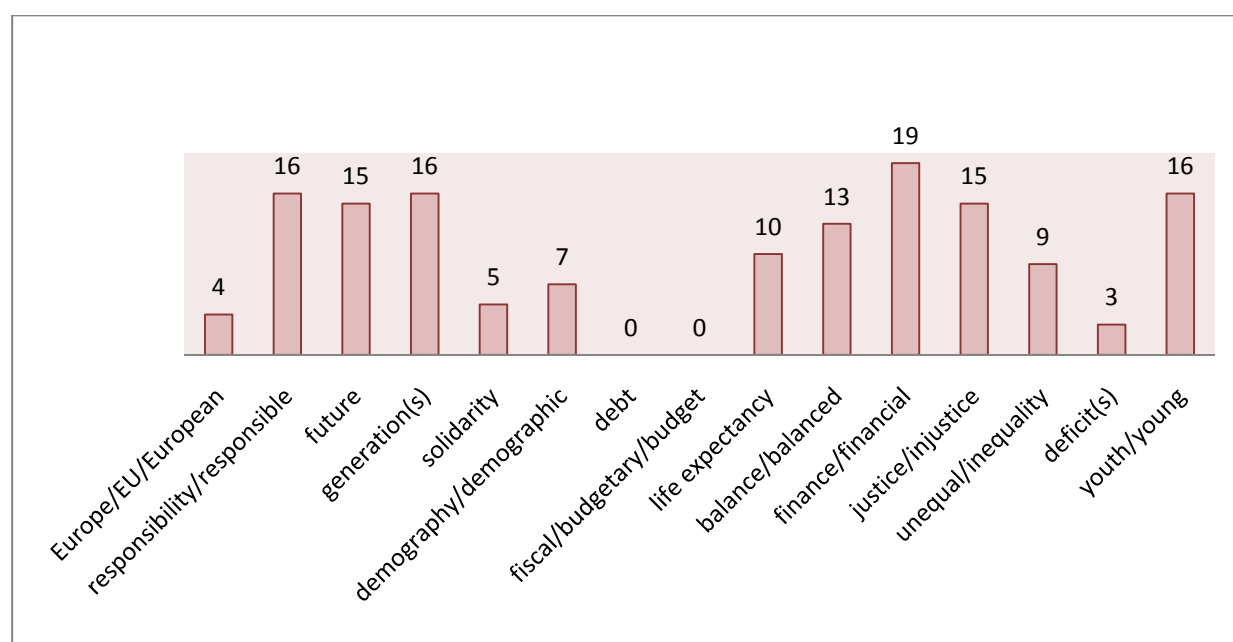
The justification of the reform and the Commission's role

French governmental figures insisted that the reform was a domestic matter. Reacting to the publication of the Commission's recommendation in May, Hollande said: "On pensions, the reform was a proposal I had made to the French people. We will do it in a spirit of consultation, justice and responsibility." (Les Echos 2013). A few weeks later, in an address to social partners, he drew a distinction between what it was legitimate for the EU to demand – balanced public finances – and the

⁵ Source: trade unions websites (CGT, CFDT, FO, CFE-CGC, CFTC) and press articles

choice over specific way to achieve them (Hollande 2013a). In the same vein, Marisol Touraine, the social affairs minister, stated in September: “France does not do this reform to satisfy Brussels but to safeguard the sustainability of the pay-as-you-go system.” (Capital 2013). Chart 3 confirms that Europe was barely mentioned in the three speeches which prominently featured the pension reform, which was rather framed as a matter of fiscal responsibility and social justice.

Chart 3: Words frequency in three major governmental speeches on the French pension reform



Sources: Hollande (2013b, extract focused on the pension reform), Ayrault (2013) Touraine (2013)

Furthermore, the Commission’s very detailed prescriptions triggered angry reactions from the French government. In May, both Hollande and French parliamentarians criticised the Commission for giving France an ‘obligation of means’ rather than an ‘obligation of results’ (Assemblée Nationale 2013a). At a hearing at the National Assembly in June, the head of the European affairs committee, Elisabeth Guigou, observed that “*recommander n’est pas commander*” and that France was no “programme country”. In response, European commissioner Olli Rehn remarked that the Commission only made “suggestions for recommendations” and fully respected France’s democratic processes (Assemblée Nationale 2013b). The charge had a clear impact: the recommendation eventually signed off by the Council in July did not mention the minimum retirement age any longer. The government opted instead to extend the contributory period required for a full-rate pension from 41.5 to 43 years (until 2035), a solution deemed less penalising for those who started to work early.

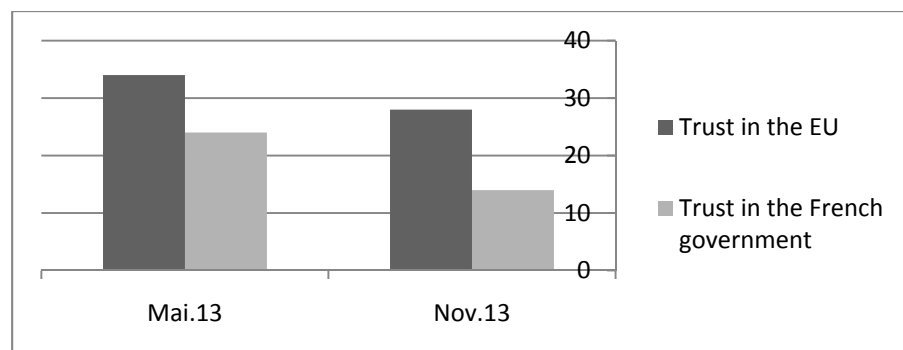
French public opinion and the pension reform

The French seemed to disapprove of the government’s reform. In September, two polling institutes came up with similar findings: about two-thirds of people found the reform “unfair” and “going in the

wrong direction” (BVA 2013, CSA 2013). Yet, the principle of reform was not rejected. In May and in November 2013, 90 per cent of French people agreed that “our country needs reform to face the future” (Eurobarometer 2013). Around 80 per cent of them suggested that “measures to reduce debt and deficit cannot be delayed”. Second, when asked what measures should be taken to tackle the financing gap, there was no preference for raising the minimum retirement age over the government’s proposed solution (IFOP 2013). Third, the protest called by two leading trade unions against the reform attracted the support of 42 per cent of people, well below the average support for social protests of 64 per cent since 1995 (CSA 2013).

Did the reform impact on the French government’s popularity and trust in the EU? According to Eurobarometer, the proportion of French people trusting the EU dropped between May and November 2013, but not as much as trust in the government did. As in the Italian case, it is difficult to single out the specific factors behind these trends. Both the EU and the national governments are nevertheless held accountable for a poor economic and social situation. And, as too with the experience of Italian labour market reform, this finding challenges the government’s narrative which presented reforms as purely domestic.

Chart 4: French attitudes towards the EU and the national government (2013)



Source: Eurobarometer (2013)

Financial assistance in exchange for reform?

The strong formulation of the Commission’s recommendation can be related to an implicit deal with France, as with other countries such as Spain, the Netherlands, Slovenia, Italy and Belgium. In 2013, all were given more time to meet their deficit targets. As Rehn acknowledged: “For France, we propose a two-year extension to 2015 so from this year 2013 to 2015 (...) In return, it is very important that France use this additional time to tackle its underlying problems of economic competitiveness.” (Rehn 2013). Such a tacit deal echoes the logic of ‘reform contracts’ suggested by the German government later in 2013: national governments would be given extra money to implement reforms. In practice, an extension of the fiscal ‘medium-term objectives’ equates to extra

money. There is another possible interpretation, however, which is that the Commission strictly applied the Stability and Growth Pact rules. Indeed, Rehn stressed that France's efforts to reduce its "structural deficit" in an "adverse economic context" – wording used in the Pact - had to be recognised.

In conclusion

The French case is similar to the Italian one: an unpopular reform deemed necessary was implemented under EU scrutiny. National officials carefully avoided giving the impression that they were taking orders abroad and they made sure national stakeholders had a role to play. France did not explicitly seek fiscal leniency from the EU in return, although the reform pledge was instrumental in getting a new deadline for reducing the public deficit. Public opinion blamed both the EU and the national government for the poor economic and social context.

Germany's decision to introduce a minimum wage in 2014

With the *Bundesrat*'s recent approval, Germany will introduce a national minimum wage at a level of €8.50 per hour in 2015. The idea of a lower wage floor in Germany is not entirely new. In 1996, a law was introduced securing minimum standards for working conditions including minimum wage payments for the construction sector (Rotte and Zimmermann 1996). Since then, this agreement has been extended to other sectors like the waste industry, commercial cleaning, and the care industry.

International pressure and the EU

The EU's role appears to be ambivalent. For a couple of years, Germany has been facing mounting pressure from abroad to boost domestic demand in order to sustain the EU's aggregate output and help rebalance competitiveness in Europe. Many analyses of pre-crisis divergences in competitiveness across Europe have found that Germany's politics of wage restraint played a significant role (Thillaye 2014), and this explanation has been echoed by a vast number of political actors in the rest of Europe. Nevertheless, although the European Commission acknowledged that the disposable income, especially for low- and medium-income workers, should be raised, it did not mention, nor even recommend, the introduction of a national minimum wage in Germany. Its recommendations focused mainly on reducing the tax burden on lower incomes and on raising education levels (EU 2011b, 2012, 2013b). In its assessment of the 2012 German stability and reform programme, the Commission pointed out that "it is important that any mechanism for determining the level and scope of a minimum wage takes into account its potential impact on employment and the existing differences in labour market and economic conditions across regions." (EU 2012). In 2013 and 2014, the Commission emphasised again the necessity of a tax wedge reduction as well as improvements in education to boost the employability of workers (EU 2013c, 2014). The introduction of a minimum

wage, therefore, may have been a way for the German government to address foreign criticism about the lack of demand-side measures, but it was not a direct response to the EU's recommendations.

The timing of the reform

There is evidence that the minimum wage reform came after a shift in the political balance of power in Germany. With the rise of low-wage employment, the German Federation of trade unions voted for a national minimum wage in 2006 to help prevent unskilled and low-skilled people from falling into poverty (Bosch and Weinkopf 2006). While others did not support the view that a national minimum wage could counter the negative consequences of low-wage employment (SVR 2007, Müller and Steiner 2008), the idea remained on the agenda, especially for employee organisations (Bosch et al. 2009, Bispinck and Schulten 2008). In the political sphere, the left-wing socialist party *Die Linke* and, later on, the Social Democrats repeatedly proposed the implementation of a nationwide minimum wage, whereas the 2009 Coalition agreement between Liberals and Christian Democrats explicitly rejected it (Coalition agreement 2009, p. 21). Amid growing low-wage sector and rising poverty (Verdi, 2012), the disagreement between employee organisations and left-wing parties on the one side, and coalition partners and employer organisations continued (CDU 2011, FDP 2012, IW 2011). After September 2013, the Christian Democrats eventually gave up their previously steadfast opposition and the new SPD-CDU coalition brought the national minimum wage onto the government's agenda. (Coalition agreement 2013, p.48-49).

The justification of the reform

Erosion of collective pay commitments convinced the new government that a compulsory lower wage floor is required to protect low-skilled workers against wage exploitation due to a lack bargaining power. The legislative text states that "especially in the field of low-skilled work unions are not able to protect workers against inadequately low wages". In an official statement in 2013, the German chancellor, Angela Merkel, put it in the following way: "Those who work in full-time jobs shall receive an income above the social security level. This can be best achieved through minimum wages." Similarly, the minister for labour and social affairs, Andrea Nahles, highlighted the shrinking coverage of collective bargaining agreements and emphasized that without a minimum wage people would not be able to leave the low-pay labour market.

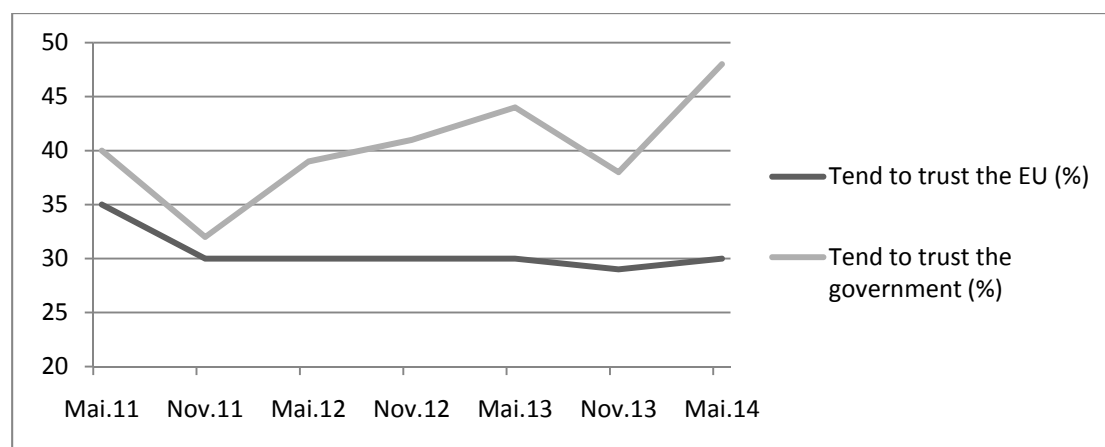
No reference is made to the EU as a potential trigger or as a way of justifying the minimum wage reform, either in official documents and speeches, or in national reform programmes delivered to the EU. Calls from the European Commission to boost domestic demand through, for instance, payroll tax reductions or investment in education met little interest in Germany. The 2011 National Reform Programme emphasised that "in 2010, domestic demand in Germany already accounted for roughly two thirds of overall economic growth. This trend will intensify this year, indicating that the

foundation for the economic upswing is strong” (Federal Ministry 2011, p. 18). “More buoyant domestic investment, and lowering regulatory barriers for the service and craft sectors” are mentioned as potential means to further promote domestic demand. Hence, the minimum wage reform was, in terms of its presentation, implemented independently of any EU recommendations. The 2014 National Reform Programme suggested that the minimum wage reform will above all “secure adequate minimum protection across Germany” but is not designed to address the current account surplus (Federal Ministry 2014, p. 13).

German public opinion and the reform

Logically, the decision to implement a minimum wage was driven by strong public support. In a 2008 survey, 56 per cent of respondents were in favour of a comprehensive minimum wage while an additional 28 per cent supported at least sector-specific wage floors (Infratest 2008). By 2010, the number of supporters of a comprehensive minimum wage had risen to 70 per cent (Bieräugel et al. 2010), probably driven by the resilience of the German labour market during the financial and economic crisis. The acceptance of a national minimum wage reached 86 per cent in 2013.⁶ In January 2014, 79 per cent of respondents still favoured a national minimum wage.

Chart 5: German attitudes towards the EU and the national government (2011-2014)



Source: Eurobarometer (2011, 2012, 2013)

Regarding general trust in the national government and in the EU, Chart 5 reveals a sharp increase in trust in the national government in early 2014, after a decline in the first few months of the new coalition. The minimum wage reform does not seem to have had a negative impact, which corroborates the aforementioned figures. On the other hand, trust in the national government has been on the rise since the end 2011, while trust in the EU has remained flat and low. In contrast to Italy and France, it is far lower than trust in the national government. It is difficult to identify a single causality

⁶ The survey questions are not identical in the different surveys. Hence, slight differences in the responses might be caused by, for instance, the comprehensibility of the questions.

behind this divergence. Nevertheless, the conditional bail-outs of countries such as Greece and Portugal has probably played a larger role in the Germans' frustration with the EU than pressures and EU recommendations to raise domestic demand.

In conclusion

The German government successfully pursued a domestic agenda which the September 2013 elections gave momentum to, while, at the same time, tactically giving the impression of giving in international pressure. Yet it did not implement the EU's recommendation to the letter, and the European context was utterly absent in the way German politicians justified the reform. This raises the question of the EU's ability to promote reforms in a country which is perceived (and perceives itself) as the 'good pupil' of Europe.

Main findings

To come back to the hypotheses listed at the end of part 2, the three cases reveal that:

- In a narrow sense, the timing of reforms appears to be dictated by domestic agendas. However, EU recommendations reflect a context of mounting pressures, either by other governments or by financial markets. They do not come 'out of the blue'.
- Although there are different degrees of interference depending on the extent of the emergency, there is no such thing as an inflexible injunction from 'Brussels'. Recommendations can be amended in the Council in the sense desired by national governments and parliaments. The EU also generally takes into account both the EU and the national interest in its reasoning and wording.
- There is significant space left for national democracy. In the three cases, social partners and national parliaments had time to discuss and amend governments' projects.
- The three governments tried to present their proposal as both a matter of distributive justice or fairness, and as a question of national economic or fiscal responsibility. By contrast, justification in the name of the EU's collective interest was absent.
- Establishing a direct link between EU recommendations and the EU's approval ratings would require further research. In France and Italy – two countries facing difficult economic and social situations – the government was more unpopular than the EU but this did not prevent reforms from being enforced.
- In the French and Italian cases, governments used reform as leverage for obtaining either financial support from the ESM or the ECB, or greater fiscal flexibility.

These findings tend to confirm the existence of patterns of legitimation specific to EU economic governance. The EU is respected and obeyed – though not liked - when its recommendations are seen

as part of a wider debate, either domestically or under international and market pressures. It also benefits from presenting its requests for reform as a condition for financial support or fiscal leniency. However, it is resisted when the details of its prescriptions are deemed inadequate to the urgency of the situation and the role that national democracies have to play.

The broader validity of these conclusive remarks may of course be disputed. A first observation is that a lot of reforms recommended by the EU are not implemented at all. France, for instance, has never tackled labour-market segmentation despite repeated calls by the EU, and a structurally high unemployment rate seen as the most important issue by French people for several years (Eurobarometer 2007, 2013). Arguably, the absence of a genuine public and political debate on possible moves towards a ‘flexicurity’ model explains the EU’s difficulty to steer the process.

Second, countries under the troika’s financial assistance and supervision are much more constrained in their implementation of the EU’s detailed prescriptions. There does not seem to be space for building up legitimacy under extreme technocratic pressure. Yet, it is important to note that the Greek, Portuguese and Irish parliaments have always had to discuss and vote on assistance programmes. Even in these instances of ‘federalism by exception’, national players held up a formal veto right. They chose to accept the terms imposed on them and, despite a sharp increase in anti-EU feelings, public opinions still support the euro.

Conclusion

The paper asked the question: “how serious is the legitimacy problem of EU economic governance?” The intellectual controversies and political turmoil that have accompanied the recent years of crisis resolution have seen a lot of authors and leaders questioning the sustainability of the euro project. ‘Disintegration’ has started to be envisaged as a possible outcome given rising anger and frustration with the EU.

This paper reflected on the relevance of applying the widely used categories of ‘input’ and ‘output’ legitimacy to EU economic governance. It was found that traditional debates on the democratic quality of the EU have a lot of resonance in the current dilemmas faced by Eurozone leaders. The reluctance to embrace the logic of majoritarian and supranational democracy explains the reliance on ‘deliberative’ or ‘transnational’ processes that accommodate national democracies. Moreover, the absence of consensus on economic governance objectives taints judgements over the EU’s performance with national subjectivity.

Three case studies of the implementation of EU recommendations in Italy, France and Germany highlighted possible patterns of legitimation as a dynamic, interactive process between the EU and national levels. Italy, France and Germany were responsive to EU recommendations over the last few years, but this happened either in a context of emergency, international pressure or of an advanced domestic debate. The EU was resisted when it became too prescriptive, but it may have gained authority when it provided the country with extra financial support or room for manoeuvre.

These findings are limited to three large and 'core' EU member states. They should, therefore, be handled with caution. More systematic research is needed on the perception of the EU as an agent of economic change. Nevertheless, they imply that the search for improved EU legitimacy in the field of economic governance does not necessarily call for a radical institutional shake-up. If member states learn to further coordinate closely and to manage their differences collectively, with a sense of equal rights and duties, the current equilibrium could remain for a long time. Nevertheless, this requires continued communication efforts by EU institutions and national governments on why reforms are needed, both from an EU and a national point of view. A mechanism providing for burden-sharing and giving visibility to the EU's support would help tackle the perception of unbalanced governance. Finally, national parliaments and stakeholders should systematically avail themselves of the role they have to play when it comes to translating EU broad prescriptions objectives into specific measures.

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Project Information

Welfare, Wealth and Work for Europe

A European research consortium is working on the analytical foundations for a socio-ecological transition

Abstract

Europe needs change. The financial crisis has exposed long-neglected deficiencies in the present growth path, most visibly in the areas of unemployment and public debt. At the same time, Europe has to cope with new challenges, ranging from globalisation and demographic shifts to new technologies and ecological challenges. Under the title of Welfare, Wealth and Work for Europe – WWWforEurope – a European research consortium is laying the analytical foundation for a new development strategy that will enable a socio-ecological transition to high levels of employment, social inclusion, gender equity and environmental sustainability. The four-year research project within the 7th Framework Programme funded by the European Commission was launched in April 2012. The consortium brings together researchers from 34 scientific institutions in 12 European countries and is coordinated by the Austrian Institute of Economic Research (WIFO). The project coordinator is Karl Aiginger, director of WIFO.

For details on WWWforEurope see: www.foreurope.eu

Contact for information

Kristin Smeral

WWWforEurope – Project Management Office
WIFO – Austrian Institute of Economic Research
Arsenal, Objekt 20
1030 Vienna
wwwforeurope-office@wifo.ac.at
T: +43 1 7982601 332

Domenico Rossetti di Valdalbero

DG Research and Innovation
European Commission
Domenico.Rossetti-di-Valdalbero@ec.europa.eu

Partners

	Austrian Institute of Economic Research	WIFO	Austria
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