TIGHTENING WELFARE BELTS AGAIN?

FEPS POLICY STUDY
April 2024

ASSESSING SOCIAL CONSOLIDATION RISKS AMID TWEAKED EU FISCAL RULES

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To what extent do EU fiscal rules constrain governments' social and labour market spending? As fiscal consolidation demands are currently re-emerging, this study shows why social and labour market protections are at risk. To place ourselves in possible scenarios, we look at the past. In a mixed-method design, we gather evidence from two decades of interactions between national welfare priorities and EU fiscal rules. Our findings notably provide evidence that countries under the excessive deficit procedure (EDP) between the Great Financial Crisis and the pandemic saw, on average, greater social investment spending reduction than those not embraced by the EDP. Social protection spending and employment protection legislation also saw a significant decline. Exploring the critical cases of France and Italy, our country case comparison sheds further light on the mechanisms underlying recent recalibrations. These findings have implications for the well-documented revival of Social Europe: while the Resilience and Recovery Facility (RRF) clearly promoted a social investment (SI) recovery, our analysis of recent crisis dynamics shows that SI spending is particularly impacted in those countries facing heighten fiscal consolidation pressures. Meanwhile, with some exceptions, social and labour market protection have received lower support from RRF initiatives. As the appetite to reduce deficits by stealth re-emerges, EU institutions should consider how to secure the institutional resilience of these programmes to ensure that the Social Piller actually serves as a safety net for social citizenship rights.

1. INTRODUCTION

1. INTRODUCTION

The advent of the European "polycrisis" (Juncker, 2016; Tooze, 2022) has exacerbated the prevailing sense of social and economic uncertainty within the EU. As global warming progresses and fears of job losses heighten, Europe needs new investment capacities to support social cohesion infrastructure and manage the transition towards a decarbonised world (Cicchi et al., 2020; Abou-Chadi et al., 2024). Yet, as countries faced the end of the low interest rates era, calls for austerity have gradually resurfaced in mainstream political discourse. In a joint letter published in June 2023, German Finance Minister Christian Lindner and 11 other finance ministers famously warned that the EU could not allow debt levels "to rise indefinitely from crisis to crisis" (Bundesfinanzministerium, 2023). Meanwhile, in France, Finance Minister Bruno Le Maire expressed his intension, in March 2024, to take back over control of the tripartite uninsurance regime to conduct a new wave of reforms reducing unemployed coverage (Le Maire 2024).

The revival of the social consolidation discourse conflicts with another major trend in EU policy development, best coined as the "revival of Social Europe" (Keune and Pochet, 2023). Paradoxically, this revival owes much to previous phases of austerity policymaking. Faced with strong political backlash, improving the social standing of the EU became a political priority for the Juncker presidency (Copeland, 2022). Underscored by a flexibilisation of the Stability and Growth Pact (SGP), a socialised European Semester (Zeitlin and Vanhercke, 2018), and revised social cohesion assessment mechanisms (Vesan et al., 2019), this trend peaked with the adoption of the European Pillar of Social Rights (EPSR) in 2017. The EPSR sets out the principles and rights for the functioning of the European labour markets and welfare states. Translated into political action, a revival of social legislation ensued, which was not only marked by the provision of new social citizenship rights for EU citizens, but also took a "distributive turn" in who, within EU countries, may benefit from such legislation (Huguenot-Noël and Corti, 2023).

Advancing social citizenship rights requires appropriate means. As the pandemic hit, the vision of the Economic and Monetary Union as a "holding environment for national welfare states" emerged (Hemerijck and Huguenot-Noël, 2022). The SURE programme and wider ECB interventions embodied a move towards a re-insurance union (Corti and Huguenot-Noël, 2024), while the Resilience and Recovery Facility (RRF) helped propel social investment measures in national governments' recovery plans (Bokhorst and Schreurs, 2023). But this turn is increasingly under stress. The first reason to explain the recent tightening is structural. The Russian invasion of Ukraine and the resulting energy crisis, rising inflation and interest rates, combined with the economic slowdown of China, led to the deterioration of macroeconomic conditions, making financing conditions more and more difficult for European governments.

The second reason has more institutional grounds. The revival of the outdated architecture of the bloc's fiscal framework indeed pointed to the temporary nature of such change. While touted as a flagship initiative of the von der Leyen administration, the EU's economic governance review has fallen short of delivering substantial change and establishing a more favourable and inclusive fiscal framework. In light of current challenges, appetite for the kind of social consolidation observed during the eurozone crisis presents new risks for European welfare states.

To gain a granular understanding of how the framework impacts social and labour market protection and investment policies is therefore crucial. This study accordingly focuses on the following questions: what can we learn from past interactions between EU fiscal rules and domestic welfare priorities? In particular, what trends can we confidently expose for countries that once saw their social priorities constrained as they saw EU fiscal surveillance heighten under the excessive deficit procedure (EDP)?

This analysis is built as follows: in **Section 2**, we briefly present the existing literature on the "EDP-social policy nexus" and highlight the motivations underlying this study. In **Section 3**, we present our empirical strategy. To draw lessons for present times, we build on past evidence, looking first at the period of 2009-2019. Specifically, we combine the analysis of spending and reform trajectories across the eurozone with an in-depth analysis of two cases. This mixed research design allows us to convoke, yet also go beyond, national-level aggregate indicators generally leveraged in studies conducted by international organisations. Our findings are presented in **Section 4**. Our analysis shows that countries under the EDP between the Great Financial Crisis and the pandemic saw, on average, greater social investment spending reduction than those not embraced by the EDP. Social protection spending and employment protection legislation also saw significant decline. Exploring the critical cases of France and Italy, our country case comparison sheds light on the mechanisms underlying recent recalibrations. To conclude, we reflect, in **Section 5**, on the implications of our findings for the EU's well-documented social revival. Indeed, while the RRF allowed most member states to revert the consolidation of social investment spending observed in the Great Financial Crisis, social and labour market protection were less supported. Meanwhile, since social investment policy cuts are the first "go-to" instrument when governments face heightened fiscal consolidation pressures, preserving this momentum will require additional institutional protection. As appetite to reduce deficit by stealth re-emerges, new initiatives should consider how to boost the institutional resilience of these programmes.

2. THE SOCIAL COST OF FISCAL DISCIPLINE

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The EU fiscal framework has been a subject of controversy since the inception of the Economic and Monetary Union (Eichengreen and von Hagen, 1995, Kopits, 1997). The principal point of contention lies in the rules enshrined in the SGP, which have been blamed as insufficiently flexible, excessively restraining, growth hampering or even plain unnecessary (Eichengreen et al., 1998). Following the sovereign debt crisis in the eurozone, the introduction of the European Semester in 2010 aimed to change the rules to enhance macroeconomic surveillance beyond purely disciplinary fiscal oversight. Subsequently, the trend across member states has seen the progressive implementation of fiscal rules. Such a pattern can be partially attributed to the EU fiscal framework, especially with the mandate imposed by the Fiscal Compact for national balanced-budget rules, preferably at the constitutional level. In this context, the fiscal framework – internalised domestically through fiscal rules – establishes the boundaries of national budgetary policies. Specifically, countries displaying profligate fiscal policies are subject to oversight by the EDP, which for eurozone countries may result in monetary sanctions. As this has never been formally applied, the credibility of the sanctioning mechanism may be questioned. But EDP surveillance itself comes with increased pressure on national policymakers, possibly leading these policymakers to retrench on welfare.

To begin with, the EDP surveillance implies an assessment of the fiscal sustainability of a national budget, a signal that may be costly in the domestic political and economic arena. In addition to the national realm, where political opponents and financial markets actors will be attentive to assessments of national debt sustainability, surveillance is not only intrusive procedurally, but may also engender political pressure across member states. From such a perspective, albeit the widespread non-compliance with the SGP and extended tenures of several countries under EDP surveillance, one may expect member states to respond by consolidating spending.

Social spending is likely to be particularly strongly affected (Sanz, 2011; Castro, 2017). One reason is the sheer size of government spending devoted to the welfare state (Armingeon et al., 2016). Steinbach and Knill (2018) explain that crisis responses in Europe have generally resulted in austerity in the social arena. Moreover, evidence shows that (domestic) fiscal rules affect the composition of spending, generally to the detriment of consumption budget lines (e.g. Dahan and Strawczynski, 2013; Hauptmeier et al., 2015). In that sense, the effect of supranational fiscal rules goes beyond technocratic debates: the asymmetric nature of fiscal governance often puts fiscal sustainability at odds with competing objectives in the social domain (Barr and Diamond, 2006). As shown by the austerity period and the mismanagement of the eurozone crisis in 2009 and 2010, stringent fiscal rules can lead to the increased salience and public contestation of the EU economic governance as a whole (Jones et al., 2016; Terzi, 2020).

The recent "socialisation" of the European Semester (Zeitlin and Vanhercke, 2018) is a product of this public contestation. As mentioned above, following the austerity backlash, a social investment-centred approach has, over time, largely crowded out calls for fiscal consolidation within the Commission's country-specific recommendations (CSRs), coupled with the growing political clout of social partners. Notwithstanding this, the current fiscal framework still largely overlooks the need to differentiate between or nuance of various types of social expenditure (Corti et al., 2022). While several proposals have been put forward to address this issue, such as the social taxonomy or replacing the social imbalances procedure with the Social Convergence Framework, political resistance from key stakeholders remained high, even after the pandemic. In this context, it is critical to verify if historical patterns confirm the existence of a relationship between the "European fiscal rules in action" and changes in the patterns of social investment spending.

3. EMPIRICAL STRATEGY

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3.1 Analytical framework

To minimise noise from the global financial crisis and the European sovereign debt crisis, as well as various reforms to the fiscal framework in the early 2010s, we focus on the period from 2009 to 2019. Looking at this period will notably allow us to consider the impact of both the adoption of the Social Pillar in 2017 and the external shock of the COVID-19 pandemic's influence on welfare spending priorities.

Welfare recalibration in the last decade has been famously coined to follow a "double movement" of social protection retrenchment and social investment expansion (Ferragina, 2022), see Table 1. Adapting a framework elaborated for labour market policies (see Huguenot-Noël et al., 2023), this study seeks to distinguish between these two kinds of recalibration.

3.2 Quantitative study

Firstly, we build on Ceron's (2021) analysis on the impact of the EDP, focusing on social spending and public expenditures related to labour market policy. We assess whether countries under EDP surveillance display greater consolidation of social spending and regulation, especially within the domains more closely related to labour market policies. We disaggregate to the most granular level of public spending within the Classification of the Functions of Government (COFOG), considering the most relevant category: unemployment. The impact of EDP surveillance has been shown to concentrate within eurozone countries, which share the greatest interdependencies and where sanctions are foreseen for non-compliance (Ceron, 2021). We analyse spending trajectories across all eurozone countries (for which data is available) in our period of interest (2015-2019), testing whether:

Table 1. Welfare recalibration in a double movement: social protection retrenchment versus social investment expansion.

	Social protection retrenchment		Social investment expansion
Policy objective	Increasing the employment orientation and cost containment of social security buffers	Easing flows for labour market mobility and incentivising the entry of outsiders	Enhancing human capital stocks Strengthened workers' bargaining positions via new social rights
Active Labour Market Policy (ALMP) tools	Reinforcement of individual labour search incentives Income support increasingly conditional on job searches	Reforms deregulating employment protection laws Subsidised job creation Phasing out of occupational schemes	Boosted capacity of public employment services (PES) Strengthened employment assistance Upskilling policies

Countries under EDP surveillance exhibit greater consolidation of social spending, extending to the domain of unemployment expenditures.

Trends in social and unemployment spending under the constraint of EDP surveillance mean that countries' social and labour market policies are affected by EU economic governance. However, even at the most granular disaggregation such a classification does not allow us to distinguish between reform trajectories. For this purpose, we leverage OECD data on labour market policies (LMP) expenditure and employment protection legislation. Spending is also classified across active and passive programmes, allowing us to test whether:

Countries under EDP surveillance exhibit greater consolidation of social investment expenditures.

We consider the same timeframe of 2015-2019 and the sample of all eurozone countries for which data is available. This classification considers whether the constraints and consolidation associated with EDP surveillance extend to our proxy for social investment, namely, ALMP spending.

Finally, we expand the analysis to employment protection legislation. This allows us to study reforms that do not necessarily affect the expenditure components of the welfare state mechanically, but still feature in reform packages. Therefore, the third hypothesis is as follows:

Countries under EDP surveillance experience a reduction in employment protection legislation.

As illustrated above, the granularity offered by existing data does not enable a straightforward classification of the two kinds of welfare recalibrations exposed above. Hence, we zoom in on the reform trajectory of two crucial case studies: France and Italy.

3.3 Case study analysis

For our case selection, we focus on Italy and France. These are two major European economies. While the selection is characterised by different initial conditions in terms of the room for fiscal manoeuvre, they also represent different models of welfare state capitalism (Esping-Andersen, 1990) and span both country groups known as core and peripheral (Stockhammer, 2015). Covering a diverse set of countries is vital, not least since results established on the impact of fiscal rules on national-level outcomes point towards heterogeneous effects of the fiscal framework on national-level outcomes (Ceron, 2021). In terms of fiscal performance, the case selection covers a wide range of spending levels, both in terms of total spending and in terms of social expenditure.

Relative to GDP, total social spending in France is the second highest after Finland over the entire period between 2015 and 2020, with an average of 24% of GDP. Italy follows with an average of nearly 21%. As shown in Table 2, the two countries are also among those exhibiting extensive EDP and IMP spells. While the second may only have indirect implications for public social spending, it arguably is of clear relevance for labour market policy reforms.

Table 2. Country status within the EU's NEG policy enforcement regime.

	France		Italy	
	SGP	**MIP**	**SGP**	**MIP**
2009	EDP		EDP	
2010	EDP		EDP	
2011	EDP		EDP	
2012	EDP	IMB	EDP	IMB
2013	EDP	IMB		IMB
2014	EDP	IMB		Ex-IMB
2015	EDP	Ex-IMB		Ex-IMB
2016	EDP	Ex-IMB		Ex-IMB
2017	EDP	Ex-IMB		Ex-IMB
2018	EDP	IMB		Ex-IMB
2019		IMB		Ex-IMB
2020		IMB		Ex-IMB
2021		IMB		Ex-IMB
2022		IMB		Ex-IMB
2023		IMB		Ex-IMB

Note: MIP, macroeconomic imbalance procedure; Ex-IMB, excessive imbalance; IMB, imbalance

4. FINDINGS

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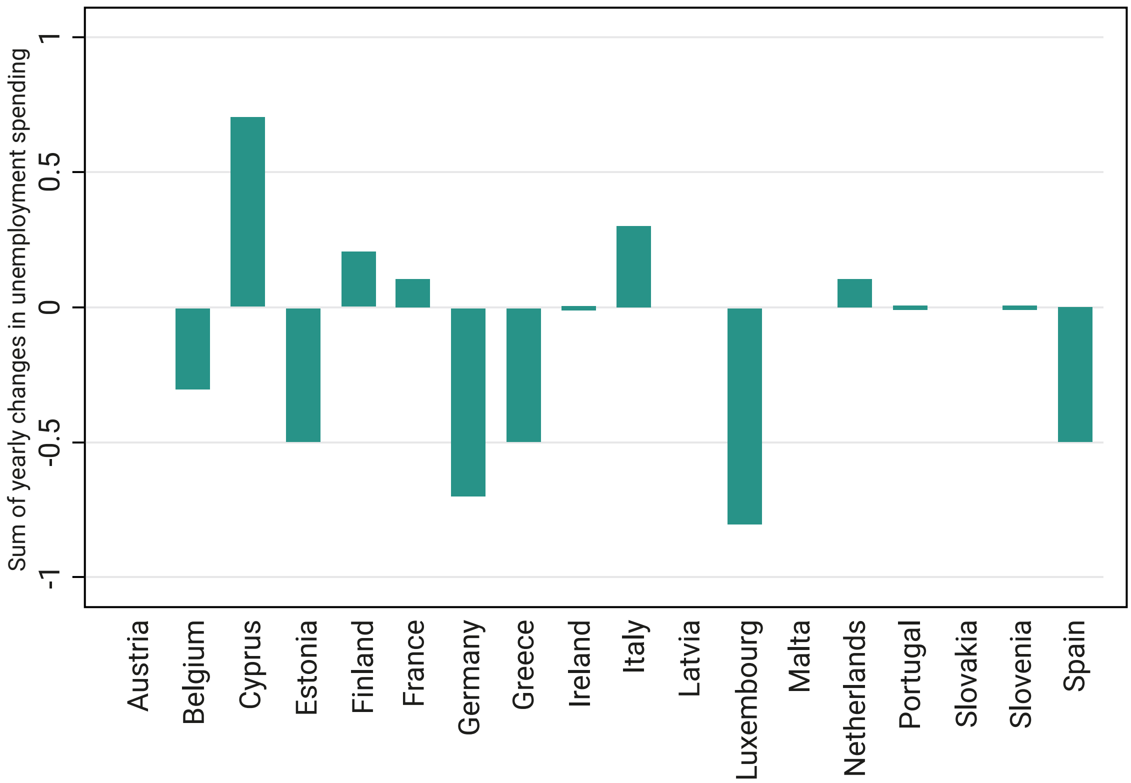
4.1 Fiscal rules and social spending

Summary statistics related to our cases of interest indicate relevant trends. Firstly, EU and eurozone countries exhibit different ranges on levels of social spending, with averages in 2009 ranging from 9.4% in Ireland to 24.6% in Finland (see Figure A1 in the Appendix). Trends also vary. Some countries, most notably Ireland, extensively consolidated spending over this period. Others maintained a somewhat stable trajectory or even, such as Lithuania, showed expansion. Besides, exhibiting different levels of spending overall, countries also vary in terms of trajectories. Figure A2 shows annual changes in spending on social protection. Overall, we can see a generalised expansionary trend in 2009 as the Great Recession hit Europe. Yet this trend was reversed; in some instances, shortly thereafter.

Finally, Figure A3 focuses on yearly changes in spending for the subcategory of social spending, more closely related to labour market policies:

Figure 1. Changes in social protection spending across EDP surveillance.



Note: Sum of yearly changes in unemployment spending across eurozone countries between 2011 and 2014. As shown in Figure A3, nearly all countries considered are under EDP surveillance for nearly the whole period considered. Cyprus and Italy, the countries with highest aggregate positive changes, display the highest consolidation of spending in 2015 (−0.4 and −0.7, respectively).

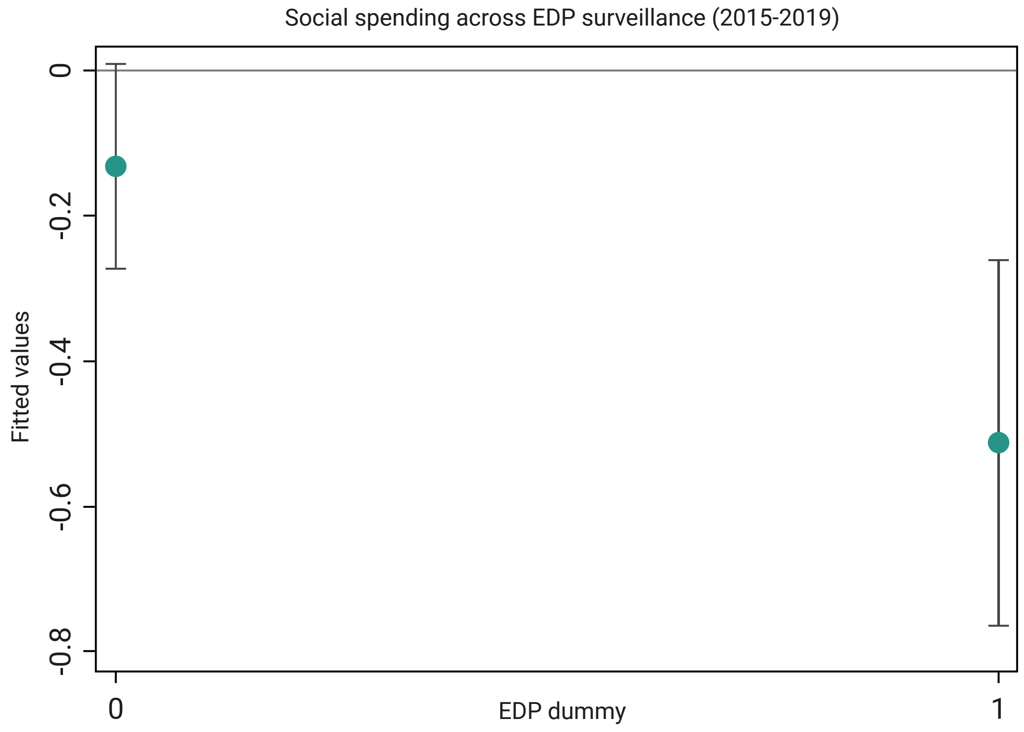
unemployment. Also in this case, we can see an increase in spending in 2009, in line with the economic cycle. In several countries, similarly, this trend is quickly reversed with consolidation of one of the core countercyclical components of national budgets taking place, even during the eurozone crisis. Once again, patterns vary across countries, leaving the question open as to the extent to which EU economic governance constrains social spending toward consolidation.

To assess how countries under the EDP saw their social spending composition evolve, we first look at the years in which a majority of EU countries were under surveillance. Accordingly, Figure 1 shows aggregate yearly changes in unemployment spending during the crisis between 2011 and 2014, that is, the timeframe in which the countries considered were nearly fully under EDP surveillance.

Even in the near aftermath of the Great Recession and in the peak of the eurozone crisis, the majority of countries do not increase or even reduce spending. Such a pattern would be especially unexpected during a recession, raising the question of the extent to which the pressure of the EU fiscal framework may play a role, as further assessed below in comparing the pattern of social and unemployment spending across eurozone countries, whether under EDP surveillance or not.

We consider whether such consolidation spells are associated with EU economic governance and specifically surveillance under the EDP. The EDP

Figure 2. Changes in social protection spending across EDP surveillance.



Note: Marginal effect of EDP surveillance on yearly changes in social spending across eurozone countries. The EDP dummy takes the value "1" for countries under the EDP and "0" otherwise. Controls include political (ideology, range, alternation and number of parties in government), institutional (decentralisation) and economic (unemployment and old-age dependency rates) drivers of social spending. For more information, see Ceron (2021).

Source: Own calculations on the basis of Ceron (2021).

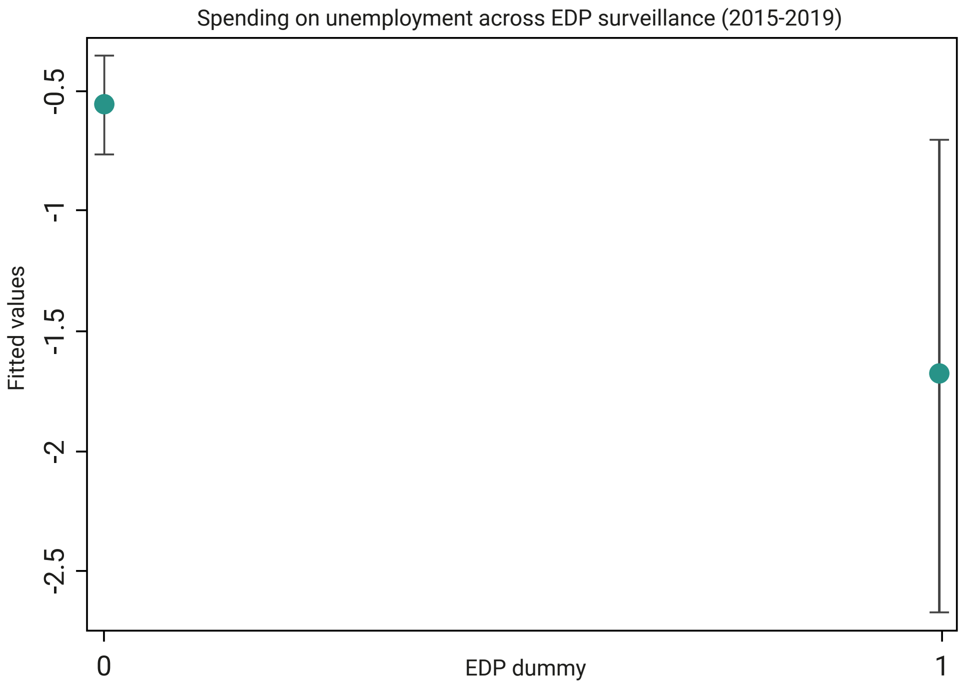
dummy takes the value "one" for countries under the EDP and "zero" otherwise. Figure 2 shows that countries under EDP surveillance exhibit larger contractions of social protection spending as a share of GDP. As shown in Figure A2, in the considered timeframe, countries with the most extensive EDP spells are France and Spain, with substantial ones for Cyprus, Greece, Ireland and Portugal. The same is not the case for countries that are not under EDP surveillance in the post-crisis period.

Figure 3 repeats the analysis for spending on unemployment, the group-level COFOG most closely related to labour market policies. In this case, all countries show an overall contractionary trend in spending, yet significantly more marked for countries under EDP surveillance.

As discussed in the context of our empirical strategy, assessing the impact of EU economic governance on social spending and specifically unemployment spending indicates a substantial constraining effect of EDP surveillance for social policies, which potentially extends to those relating to the labour market.

Budgetary data do not granularly distinguish across specific sub-policy areas in line with our proposed classification of spending and reform trajectory. However, we can extend our understanding of patterns of consolidation within this domain by leveraging OECD data on labour market policy related expenditures. This data makes a further distinction between social protection and social investment

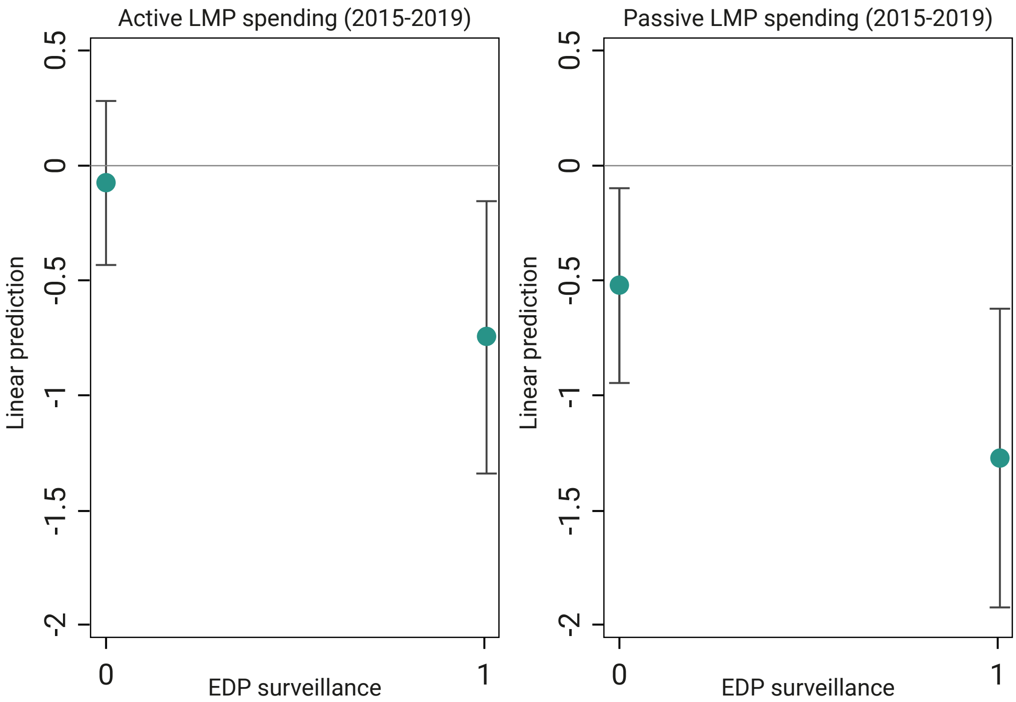
Figure 3. Changes in unemployment spending across EDP surveillance.



Note: Marginal effect of EDP surveillance on yearly changes in unemployment spending across eurozone countries. The EDP dummy takes the value 1 for countries under the EDP and 0 otherwise. Controls include political (ideology, range, alternation and number of parties in government), institutional (decentralisation) and economic (unemployment and old-age dependency rates) drivers of social spending. For more information, see Ceron (2021).

Source: Own calculations on the basis of Ceron (2021).

Figure 4. LMP spending across EDP surveillance.



Note: Marginal effect of EDP surveillance on yearly changes in active (left) and passive (right) labour marked spending in all eurozone countries for which data is available. The EDP dummy takes the value 1 for countries under the EDP and 0 otherwise.

Source: OECD LMP dataset.

policies by using a common proxy for this exercise, namely, active and passive policies.

Accordingly, Figure 4 extends the previous approach to spending in these domains, showing greater consolidation for countries under EDP surveillance for both spending related to active and passive labour market programmes. In line with findings on social protection and unemployment spending, we can distinguish two different patterns. In the case of unemployment and passive labour market policies, all countries contract spending, but more so those under EDP surveillance. Similar to social spending overall, however, *only* countries under EDP surveillance consolidate spending on ALMPs, with a contraction corresponding to over half of a standard deviation. In short, our results show that the additional pressure to cut spending is especially impacting social investment types of policies.

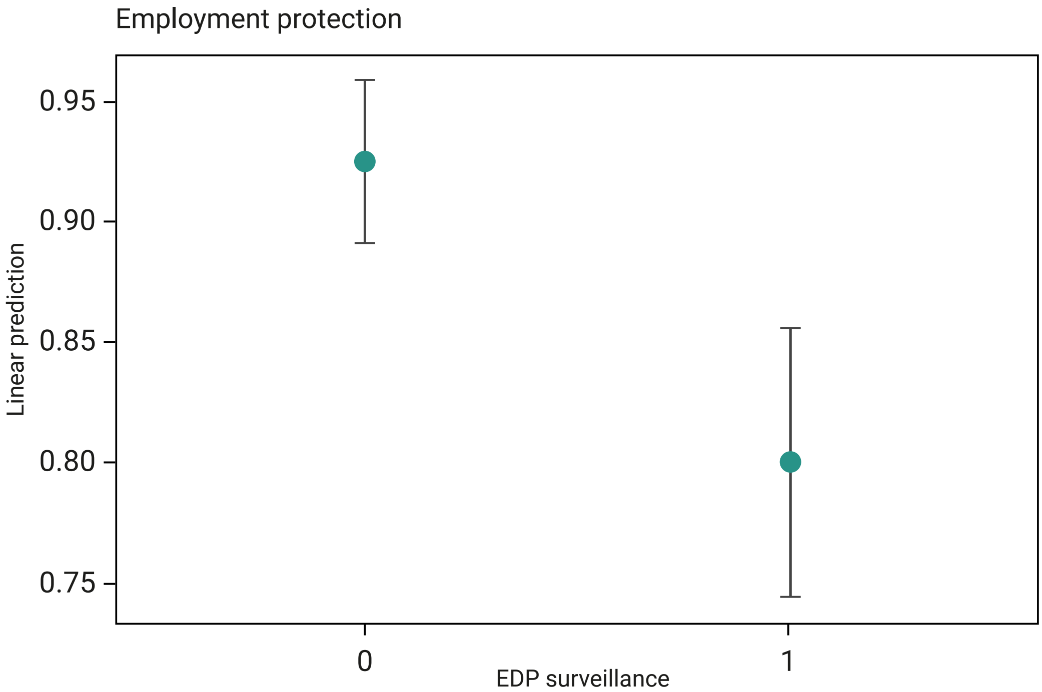
4.2 Fiscal rules and labour market reforms – Employment Protection Legislation under EDP surveillance

In addition to the observed impacts on social spending, our analysis extends to the realm of labour market policies, specifically focusing on the degree of employment protection. We draw on data published by the OECD to measure the degree of employment protection, provided in their employment outlook (OECD 2020). The indicator measures the rules that govern the process of giving notice, notice periods and severance pay, legislation on unfair dismissals and the enforcement of such laws. Higher values of the indicator signify greater employment protection.

Figure 5 provides a visual representation of the changes in employment protection across countries under EDP surveillance compared to those not subject to such oversight. Zero on the x axis refers to countries not subject to EDP surveillance, and one is the group of all other countries. The graph underscores a notable decline in employment protection for countries within the EDP, emphasising the extent to which economic governance measures impact labour market regulations. Indeed, the average predicted level of protection is lower in countries under EDP surveillance. A strong decline during EDP surveillance periods is to be observed in the mediterranean countries (Portugal, Spain, Greece and Italy to a lesser extent), but also Slovakia and Slovenia (Figure A4).

The observed patterns in both social spending (as depicted in Figure 4) and employment protection collectively indicate a multifaceted influence of the EDP on economic policies, extending beyond fiscal considerations to encompass broader regulatory dimensions. This additional analysis enriches our understanding of the comprehensive impact of EU economic governance, highlighting that the consequences of EDP surveillance extend beyond fiscal consolidation. The correlation between decreased employment protection and EDP involvement underscores the intricate interplay between economic governance measures and labour market policies.

Figure 5. Employment protection under EDP surveillance.



Note: Marginal effect of EDP OECD indicator of employment protection (2015-2019). Controls include political (ideology, range, alternation and number of parties in government) and economic (unemployment, old-age dependency rates and GDP growth) drivers of reform. The x axis distinguishes countries under EDP surveillance (1) from those that are not surveilled (0). On the y axis is the predicted (log) level of the employment protection indicator.

Source: Own calculations.

4.3 Fiscal rules and labour market reforms – case study comparison

Our country case comparison triangulates the above-mentioned findings with an in-depth study of labour market reforms trends under the SGP. For this, we first look at the extent to which labour market reforms adopted in France and Italy corroborate prescriptions issued in the CSRs in those years where governments were under EDP surveillance, that is, where pressure was supposed to be at its peak. To go beyond this matching of prescriptions and reforms, our analysis further builds on the study of national reform programmes (NRPs) and stability programmes (SPs) submitted to the Commission between 2014 and 2017.

4.3.1 France: "Progressive retrenchment" and labour market deregulation

Known for relying on a generous welfare state, France has also long faced the issue of having a highly dualising labour market. The country buffered the Great Recession relatively well, but its recovery proved slower than most other EU countries, with dualisation remaining largely unaddressed. To tackle this, EU prescriptions long targeted the generosity of the country's welfare regime. CSRs issued to the country from 2012 to 2015 highlighted, in particular, its higher-than-average labour costs, its minimum wage and rigid employment protection legislation (see Table A1 and Table A2 in the Appendix). Increasingly, however, CSRs also stressed the need to combat segmentation and to improve lifelong learning. In addition, while EU institutions had long advised that unemployment benefits should be increasingly linked to job-search requirements, these tended to shift to promote the need for both policy and institutional reforms of the ALMP and VET systems.

How much did France engage with these prescriptions? Labour market reforms in the last decade in France (Table 3) occurred largely in line with EU recommendations, increasingly pursuing a path of retrenchment in social protection and unemployment benefits, while lowering employment protection legislation. Up until the Great Recession, unemployment benefits remained more generous in France than in comparable countries, such as the UK or Germany.

As the crisis hit, the Hollande government started to tighten eligibility conditions in 2013, before introducing the *Prime d'Activité* (PA, Activity Premium). Alongside these incentive-based instruments, a new strategy for the French PES aimed to provide "comprehensive support" via more individualised and multidimensional services.

France's recalibration efforts accelerated in 2013 when France found itself under growing EU scrutiny, as it fell under both the EDP and the MIP. While France's economic activity returned to its pre-crisis level at the end of 2013, fiscal consolidation was considered as one of the three pillars of all NRPs and SPs submitted between 2014 and 2017. Cuts in social protection expenditures, including in the pension and family policy area, were set to contribute to €11 billion of savings (Ministère de l'économie des finances et de la souveraineté industrielle et numérique, 2014: 25). In both of these areas, cuts aimed to pursue a "progressive retrenchment" strategy, making the costs be born primarily by high-earning households, capping, for example, family cash allowances, to support access to care facilities for single-parent households.

Reforms of the labour market were another tenet. An important dimension of this strategy relied on the creation of new "contracts", providing subsidies for companies to hire long-term unemployed and low-wage workers, as was agreed in the *Crédits d'Impôts pour la Competitivité et l'Emploi* (CICE), a 2013 flagship reform of the Hollande presidency, which granted relief for the hiring of workers earning up to 2.5 times the minimum wage for a total cost estimated at €20 billion per year. After initial efforts to find compromises with reformist trade unions under the El Khomri law, the second half of the term notably saw the Macron prescriptions help deregulate working time, ease (collective) firing processes and cap redundancy payments. After his election, Macron adopted the first reform of unemployment benefits by tightening the eligibility conditions of workers on temporary contracts. On the eve of the pandemic, tensions with trade unions thus not only concerned the governance of welfare systems – a long-standing feature of French welfare politics – but also the nature of envisaged "employment-oriented reforms".

Overall, if France was long considered to be a country having resisted liberalisation, this trend clearly stopped by 2015, when deregulatory reforms and tax relief by stealth – for example, via different shades of *contrats aidés ciblés* (targeted aided contracts) – supplemented the historical French commitment to favour "insertion" over "activation" strategies. At the same time, the accumulation and competition of provisions not only failed to address, but also contributed to, the low take-up rate of well-designed "welfare-to-work" schemes, partly eaten up by the proliferation of tax relief. If the French government started embracing a more expansionary logic – for the youth in particular – before the pandemic, these efforts had received clearly less attention than the "recentralisation for retrenchment" mix in motion under the reform of unemployment (and pension) benefits having occurred as France faced stronger fiscal constraints.

Overall, labour market reforms adopted under the EDP in France largely coincided with prescriptions issued by the Council. The consolidation of social spending in France under Hollande appears to be a largely domestically driven exercise, attempting to pursue a path of "progressive retrenchment", trying to spare the lowest-earning households from the consequences of the shock. Now, this trend also continued even after the socialisation of the European Semester. Since Macron's election, the expansion of some employment-oriented measures, such as the strengthening of PES and youth employment support programmes, indeed occurred in an underlying retrenchment environment targeting unemployment benefits in particular, even in France's national recovery plan (see Huguenot-Noël and Hemerijck, 2023).

Table 3. Main labour market reforms in France (2000-2020).

Double movement	Social protection retrenchment	Social investment expansion
Main policy changes	CICE (Tax credits for competitiveness and employment) (2012) Macron Act (2015) El Khomri Law (2016) Macron prescriptions (2017) *Loi pour la liberté de choisir son avenir professionnel* – tightening of eligibility conditions for unemployed (2019-2022)	Youth Guarantee (2013) “Comprehensive support” (*Accompagnement global*) PES strategy (2014) National plan for investment in skills (PIC) (2019)

4.3.2 Italy: Labour market deregulation against social protection at the margins

Between 2005 and 2014, the long-term unemployment rate in Italy increased from 3.8% to 7.8%, with about a quarter of people aged 15 to 25 facing unemployment. After Italy entered the MIP, a major phase of deregulation of the labour market ensued, occurring, for example, via the introduction of new, fixed-term contracts and a multitude of hiring incentives provided to firms (such as the so-called "placement contracts"). Building on reforms adopted under the short leadership of Letta, the most comprehensive labour market reform of the last decade came under the Renzi government, which, with the Jobs Act (2014-2016), combined elements of liberalisation, commodification and capacitation. Instead of the existing ASpI regime (*Assicurazione Sociale Per l'Impiego*), the Jobs Act introduced both a new unemployment insurance (*Nuova Assicurazione Sociale per l'Impiego*, NASpI) and a new social assistance vehicle (*Assegno sociale di disoccupazione*, ASdI), which would later be replaced by the Support for Inclusion Income (REI).

As for previous reforms, the widening in scope of the regime was combined with provisions aimed at further "commodifying" the Italian social security system. Unemployment benefits were relatively generous by EU standards, yet public spending was highly skewed towards "passive" measures, and ALMP expenditures were relatively low. Brokerage services, such as job mediation and placement, received less attention in contrast. EU recommendations since 2012 accordingly stressed the need for Italy to tackle the fragmentation of its unemployment benefit system and to strengthen the link between active and passive policies (see the Appendix). And while calls to reform employment protection legislation were made in a similar fashion as in France, since 2015 a stronger focus was set on the need to reinforce the coordination and performance of the PES, ensuring equal access to effective job assistance and training across all regions.

Looking at changes in Italian legislation since its entry into the MIP shows that while social spending consolidation was less pro-actively pursued than in the French case, labour rights proved particularly under stress. The Fornero law, adopted under the Monti government, introduced the ASpI to cover all employees, apprentices and people working in cooperatives – and a mini-ASpI covering more atypical workers – but also strengthened sanctions for those refusing to accept an "adequate job offer" or participate in professional training. The reform receiving the most controversial assessment to date is the Jobs Act (see Table 4). Documents exchanged as part of the European Semester show how this measure participated in a wider agreement trading structural reforms against additional fiscal space: in the 2015 NRP, the Jobs Act is estimated to have a macroeconomic impact amounting to 0.6% of GDP, help increase consumption and employment levels, and stabilise the work force (Ministero dell'Economia e delle Finanze, 2015: 126-127). Meanwhile, the Italian government used the 2017 SP to call for a "reformed investment clause", granting new exceptions to the SGP that would notably account for projects targeted at social cohesion (Ministero dell'Economia e delle Finanze, 2017: 57-58), among other calls to revise the methodology used by the Commission to assess the output gap. The arrival to power of a new Eurosceptic coalition was expected to lead to a more conflictual relationship with the Commission. Now, the replacement of the Jobs Act by the "Dignity Degree" – portrayed by Luigi di Maio as an overturn of the Jobs Act – failed to fully reverse the segmentation of the labour market facilitated by the Fornero law (Ferragina and Arrigoni, 2021).

Overall, ALMP recalibration in Italy can rightly be qualified as a strategy of "embedded flexibilisation" (Picot and Tassinari, 2015), combining destratification of social provisions at the core and more inclusive provisions for those at the margin. In the context of the widening and stronger commodification of unemployment benefits provisions, the quality of the support granted to the unemployed appeared, on the eve of the pandemic, at the heart of the matter. Interestingly, however, while the NRP also put a clear focus on improving Italy's PES and ALMP institutions (Huguenot-Noël and Hemerijck, 2023), this did not aim to tackle either wage stagnation or labour market segmentation issues.

Table 4. Main ALMP reforms in Italy (2000-2020).

Double movement	Social protection retrenchment	Social investment expansion
Main policy changes	Fornero Law (2012)	Youth guarantee (2013)
	Sostegno per l'Inclusione Activa (SIA, Active Inclusion Support) (2015)	Jobs Act (2015) – DIS-COL single open-ended labour contract
	Jobs Act – hiring & firing flexibility, administrative simplification, business creation support (2015)	Decree Dignity (2018), including REI
	Jobs Act (2015) – NASpI replaces ASpI: smoother eligibility criteria, shorter duration, more stringent search requirement	Reform of the National Agency for Active Labour Policies (ANPAL) – delegation, upward regionalisation (2018)
		Citizens' income (2019)

5. CONCLUSION

5. CONCLUSION

Our findings confirm the picture of an accelerated retrenchment from social protection in countries subjected to the EDP. While the period under analysis depicts a general trend of reductions in social protection spending across the eurozone, in line with the austerity argument, this analysis first provides robust evidence showing that the move was more pronounced in those countries that remained under the special scrutiny of EU fiscal rules.

Going into a more granular analysis of labour market expenditures, our findings also revealed a meaningful difference in spending contraction. On one hand, so-called "passive" labour market policies, including unemployment insurance benefits, proved negatively affected by the austerity period *across the entire eurozone*. On the other hand, findings differ for "active" labour market policies, otherwise known as ALMPs: for these programmes, *only* the countries under EDP surveillance exhibit statistically significant spending contraction. This result highlights the strong link between social investment initiatives and fiscal capacities. While old-fashioned passive social spending appears to be the go-to response for policymakers looking for fiscal consolidation, the proportionally more modest funds allocated to ALMPs turned out to be a sufficiently attractive source of savings only for those who felt Brussels' "breath on their backs". Putting these findings in light of the trends observed in the RRF, where both Italy and France focused precisely on reinvigorating their ALMP capacities, highlights an important conclusion: a silver lining is that decisions to cut ALMPs do not appear to be driven by an utter rejection of a social investment paradigm, investing in social infrastructure and human capital. Worryingly though, our findings also highlight that the future expansion of social investment may be jeopardised by dwindling fiscal capacities and international pressure, particularly in those countries needing it the most.

Further to these quantitative trends, our case study of reform trajectories focused on two Mediterranean countries of critical standing for the eurozone, namely, France and Italy. This analysis helped us show *how* the fiscal consolidation process could unravel where reforms followed the tone set by the CSRs. Whereas countries' willingness to engage in social spending consolidation differed, labour market policy took a common stance in both countries mainly in the form of labour market deregulation and a tightening of eligibility criteria to receive unemployment benefits.

Two main trends emerge from contrasting our quantitative and qualitative inquiries: firstly, distinct patterns across countries that do and do not fall under EDP surveillance provides evidence of the role of the EU fiscal framework in incentivising an overall trend of social consolidation. Our case studies now also clearly highlight the importance of domestic factors in making use of this framework, and accordingly show that the design of such recalibrations ultimately constituted a decision of national policymakers.

Our analysis also shows that ensuring the institutional resilience of social protection and social investment policies, in particular, should be accounted for in discussions on the future of the EU's fiscal framework. As we showed, in the existing predicament, both are likely to fall prey to consolidation. The EU response to the COVID-19 pandemic, marked by the adoption of the RRF and the SURE programme, monetary easing by the ECB provided evidence that the EU could project another image than that of the austerity headmaster it was once accused of. As an alternative vision for the EU emerged after decades of "TINA" doctrine, marked by the supposedly untouchable supremacy of neoliberal policymaking, returning to its old demons would risk jeopardising years of hard-fought collective learning. In a polycrisis reality, where social risks and concerns over job losses induced by automation mount, initiatives that safeguard the European population against these adversities and improve economic security should instead be given the necessary political gravitas they deserve.

APPENDIX

APPENDIX

Figure A1. Spending on social protection in the eurozone as a percentage of GDP.

Source: Eurostat.

Figure A2. Changes in spending on social protection.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Austria	1,6	0,2	-0,7	0,2	0,4	0,2	-0,3	-0,2	-0,5	-0,4	0
Belgium	1,7	-0,3	0,2	0,5	0,5	-0,3	-0,4	0	-0,1	0	0
Cyprus	1,3	0,6	0,5	0,4	0,5	0,4	-0,3	-0,3	-0,5	-0,3	-0,2
Estonia			-1,7	-0,2	-0,4	-0,1	0,9	0,5	-0,2	0,1	0,3
Finland	3,2	0,1	-0,1	1,1	1	0,6	0,1	0,2	-0,9	-0,5	-0,2
France	1,9	0	0	0,5	0,3	0	-0,2	0,1	-0,2	-0,3	-0,1
Germany	1,9	-0,6	-1,2	0	0,1	-0,2	0,3	0,4	0,1	-0,2	0,3
Greece	1,6	0,2	1,4	0,8	-1,4	0,6	0,1	0,1	-0,9	-0,5	0
Ireland	2,6	-0,3	-1,5	-0,3	-0,8	-1,4	-3,4	-0,3	-0,6	-0,5	-0,1
Italy	1,7	0	-0,2	0,8	0,6	0,2	0,2	-0,4	-0,2	0,1	0,4
Latvia						-0,1	0,4	0,2	-0,2	-0,2	0,4
Lithuania							-0,3	0	0	0,9	0,3
Luxembourg	2,4	-0,7	-0,6	0,8	-0,1	-0,5	0,1	-0,6	0,5	-0,1	0,3
Malta	0,9	-0,5	0,1	0,2	-0,2	-0,8	-1,1	-0,3	-0,3	-0,4	-0,1
Netherlands	1,7	0,3	0	0,2	0,2	-0,1	-0,5	-0,1	-0,5	-0,4	0
Portugal	2	0,2	0,6	0,5	0,9	-0,4	-0,5	-0,4	-0,9	-0,1	0
Slovakia	2,7	0	-0,5	0,2	0,4	-0,2	-0,3	0,2	-0,3	-0,3	-0,1
Slovenia	1,9	0,8	0,4	-0,1	0,1	-0,8	-0,5	-0,6	-0,6	-0,4	-0,1
Spain	2,3	0,6	0,3	0,8	0,4	-0,3	-0,7	-0,2	-0,3	0,2	0,5

Note: Change in social spending from *t*−1 to *t* in percentage of GDP. Years with lined backgrounds reflect EDP spells.
Source: Own calculations based on Eurostat data.

Figure A3. Changes in unemployment spending.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	0,3	0	-0,1	0	0,1	0	0	0	-0,1	-0,1
Belgium	0,4	-0,1	-0,1	0	0	-0,2	-0,2	-0,2	-0,2	-0,1
Cyprus	0	0,1	0,1	0,3	0,4	-0,1	-0,4	-0,1	-0,2	-0,1
Estonia			-0,4	0	-0,1	0	0,1	0	0,1	0
Finland	0,5	-0,1	-0,3	0	0,2	0,3	0,1	-0,1	-0,3	-0,3
France	0,3	0,1	0	0	0,1	0	-0,1	0,1	-0,1	0
Germany	0,4	-0,2	-0,5	-0,1	0	-0,1	0	-0,1	0	-0,1
Greece	0,2	0	0,1	-0,3	0	-0,3	0	0	0	0
Ireland	0,5	0	0,7	-0,1	-0,2	-0,4	-0,7	-0,2	-0,3	-0,2
Italy	0,3	0,1	0	0,1	0,2	0	0	-0,1	0	0
Latvia						0	0,1	0	0	0
Lithuania							0,2	-0,1	0	0,1
Luxembourg	0,5	-0,1	-0,1	0,2	-0,9	0	-0,1	-0,1	0	0
Malta	0	0	0	0	0,1	-0,1	-0,1	-0,1	0	-0,1
Netherlands	0,3	0,3	-0,1	0	0,2	0	-0,1	0	-0,1	-0,3
Portugal	0,3	0,1	-0,1	0,4	0	-0,3	-0,3	-0,2	-0,1	0
Slovakia	0,2	-0,1	0	0	0	0	0	0	0	0
Slovenia	0,3	0,1	0,3	-0,1	0	-0,2	-0,1	0	-0,1	-0,1
Spain	1,1	0,1	-0,1	0,3	-0,2	-0,5	-0,6	-0,3	-0,2	0

Note: Change in social spending from *t*−1 to *t* in percentage of GDP. Years with lined backgrounds reflect EDP spells.
Source: Own calculations based on Eurostat data.

Figure A4. Change in labour market protection indicators for selected countries.

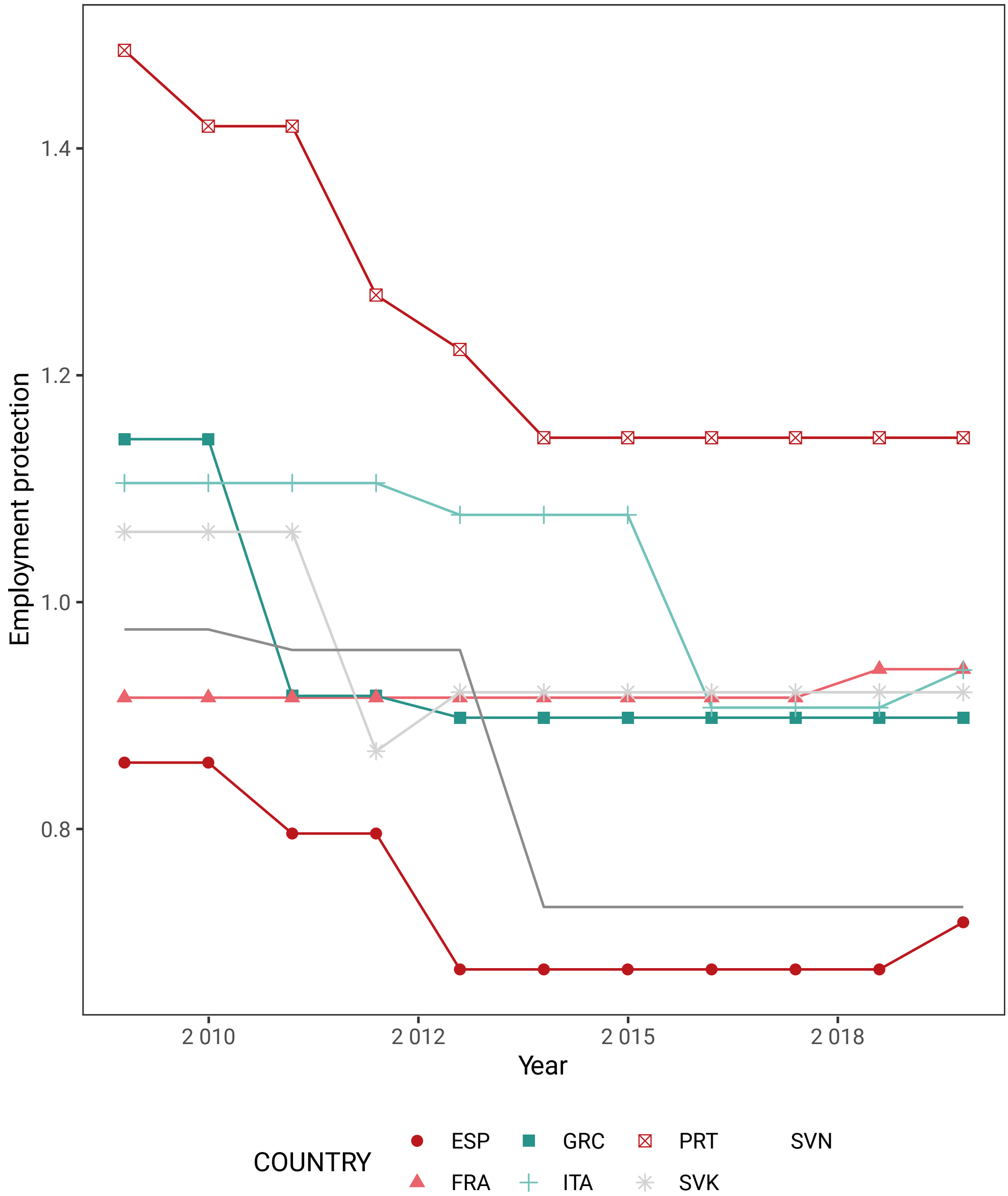


Table A1. Labour market related CSRs for France.

Year	#	CSR text
2011	CSR2	Undertake renewed efforts, in accordance with national practices of consultation with the social partners, to combat labour market segmentation by reviewing selected aspects of employment protection legislation while improving human capital and upward transitions; ensure that any development in the minimum wage is supportive of job creation.
2011	CSR3	Encourage access to lifelong learning in order to help maintain older workers in employment and enhance measures to support return to employment. Step up active labour market policies and introduce measures to improve the organisation,decision-making and procedures of the public employment service to strengthen services and individualised support provided to those at risk of long-term unemployment.
2012	CSR2	Introduce further reforms to combat labour market segmentation by reviewing selected aspects of employment protection legislation, in consultation with social partners in accordance with national practices, in particular related to dismissals; continue to ensure that any development in the minimum wage is supportive of job creation and competitiveness; take actions to increase adult participation in lifelong learning.
2012	CSR3	Adopt labour market measures to ensure that older workers stay in employment longer; improve youth employability, especially for those most at risk of unemployment, by providing, for example, more and better apprenticeship schemes which effectively address their needs; step up active labour market policies and ensure that public employment services are more effective at delivering individualised support.
2013	CSR2	Ensure that the reduction in the labour cost resulting from the "*credit d'impôt compétitivité et emploi*" yields the planned amount and that no other measure will offset its effect. Take further action to lower the cost of labour, in particular through further measures to reduce employers' social security contributions, in association with social partners. Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social contribution exemptions.
2013	CSR6	Implement fully and without delay the January 2013 inter-professional agreement, in consultation with social partners. Take further action to combat labour market segmentation, in particular to address the situation of interim agency workers. Launch urgently a reform of the unemployment benefit system in association with social partners and in accordance with national practices to ensure sustainability of the system while ensuring that it provides adequate incentives to return to work. Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people, in particular through specific counselling and training. Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed. Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. Take further measures to improve the transition from school to work through, for example, a Youth Guarantee and promotion of apprenticeship.
2014	CSR2	Ensure that the labour cost reduction resulting from the "*crédit d'impôt compétitivité emploi*" is sustained. Take action to further lower employer social security contributions in line with commitments under the responsibility and solidarity pact, making sure that no other measures offset its effect and that the targeting currently envisaged is maintained. Further evaluate the economic impact of social security contribution exemptions, putting the emphasis on employment, wage developments and competitiveness and take appropriate measures if necessary. Further reduce the cost of labour in a budget-neutral way, namely, at the lower end of the wage scale in particular, through targeted reductions in employer social security contributions taking into account the various wage support schemes.
2014	CSR6	Take further action to combat labour market rigidity, in particular take measures to reform the conditions of the "*accords de maintien de l'emploi*" to increase their take up by companies facing difficulties. Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work. Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market.
2014	CSR7	Pursue the modernisation of vocational education and training, implement the reform of compulsory education, and take further actions to reduce educational inequalities, in particular by strengthening measures on early school leaving. Ensure that active labour market policies effectively support the most vulnerable groups. Improve the transition from school to work, in particular by stepping up measures to further develop apprenticeship with a specific emphasis on the low skilled.
2015	CSR2	Step up efforts to make the spending review effective and identify savings opportunities across all sub-sectors of general government, including on social security and local government. Take steps to limit the rise in local authorities' administrative expenditure. Take additional measures by March 2016 to bring the pension system into balance, in particular ensuring that the financial situation of complementary pension schemes is sustainable over the long term.
2015	CSR3	Ensure that the labour cost reductions stemming from the tax credit for competitiveness and employment and from the responsibility and solidarity pact are sustained, in particular by implementing them as planned in 2016. Evaluate the effectiveness of these schemes in light of labour and product market rigidities. Reform, in consultation with social partners and in accordance with national practices, the wage-setting system to ensure that wages evolve in line with productivity. Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.

Table A2. Labour market related CSRs for Italy.

Year	#	CSR text
2011	CSR2	Reinforce measures to combat segmentation in the labour market, also by reviewing selected aspects of employment protection legislation, including dismissal rules and procedures, and reviewing the currently fragmented unemployment benefit system, taking into account budgetary constraints. Step up efforts to fight undeclared work. In addition, take steps to promote greater participation of women in the labour market, by increasing the availability of care facilities throughout the country and providing financial incentives to second earners to take up work in a budgetary-neutral way.
2011	CSR3	Take further steps, based on the 2009 agreement reforming the collective bargaining framework and in consultation with social partners in accordance with national practices, to ensure that wage growth better reflects productivity developments as well as local and firm conditions, including clauses that could allow firm-level bargaining to proceed in this direction.
2012	CSR3	Take further action to address youth unemployment, including by improving the labour market relevance of education and facilitating the transition to work, also through incentives for business start-ups and for hiring employees. Enforce nation-wide recognition of skills and qualifications to promote labour mobility. Take measures to reduce tertiary education dropout rates and fight early school leaving.
2012	CSR4	Adopt labour market reform as a priority to tackle the segmentation of the labour market and establish an integrated unemployment benefit scheme. Take further action to incentivise labour market participation of women, in particular through the provision of childcare and elderly care. Monitor and, if needed, reinforce the implementation of the new wage-setting framework in order to contribute to the alignment of wage growth and productivity at sector and company levels.
2013	CSR4	Ensure the effective implementation of the labour market and wage-setting reforms to allow better alignment of wages to productivity. Take further action to foster labour market participation, especially of women and young people, for example, through a Youth Guarantee. Strengthen vocational education and training, ensure more efficient public employment services, and improve career and counselling services for tertiary students. Reduce financial disincentives for second earners to work and improve the provision of care, especially child- and long-term care and out-of-school services. Step up efforts to prevent early school leaving. Improve school quality and outcomes, also by enhancing teachers' professional development and diversifying career development. Ensure effectiveness of social transfers, notably through better targeting of benefits, especially for low-income households with children.
2014	CSR5	Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals' procedures, labour market duality and cost competitiveness, and assess the need for additional action. Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation. Strengthen the link between active and passive labour market policies, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country. Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by March 2015 and providing adequate care services. Provide adequate services across the country to non-registered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a Youth Guarantee. To address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children.
2015	CSR5	Adopt the legislative decrees on the use of wage-supplementation schemes, the revision of contractual arrangements, work-life balance and the strengthening of active labour market policies. Establish, in consultation with social partners and in accordance with national practices, an effective framework for second-level contractual bargaining. As part of efforts to tackle youth unemployment, adopt and implement the planned school reform and expand vocationally oriented tertiary education.
2016	CSR4	Implement the reform of active labour market policies, in particular by strengthening the effectiveness of employment services. Facilitate the take up of work for second earners. Adopt and implement the national antipoverty strategy and review and rationalise social spending.
2017	CSR4	With the involvement of social partners, strengthen the collective bargaining framework to allow collective agreements to better take into account local conditions. Ensure effective active labour market policies. Facilitate the take up of work for second earners. Rationalise social spending and improve its composition.
2018	CSR4	Step up implementation of the reform of active labour market policies to ensure equal access to effective job-search assistance and training. Encourage labour market participation of women through a comprehensive strategy, rationalising family-support policies and increasing the coverage of childcare facilities. Foster research, innovation, digital skills and infrastructure through better-targeted investment and increase participation in vocational-oriented tertiary education.
2019	CSR2	Step-up efforts to tackle undeclared work. Ensure that active labour market and social policies are effectively integrated and reach out in particular to young people and vulnerable groups. Support women's participation in the labour market through a comprehensive strategy, including through access to quality childcare and long-term care. Improve educational outcomes, also through adequate and targeted investment, and foster upskilling, including by strengthening digital skills.

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ABOUT THE FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES (FEPS)

The Foundation for European Progressive Studies (FEPS) is the think tank of the progressive political family at EU level. Its mission is to develop innovative research, policy advice, training and debates to inspire and inform progressive politics and policies across Europe.

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The Karl Renner Institute is the political academy of the Austrian Social Democratic movement. It is a forum for political discourse, a centre for education and training, and a think tank on the future of social democracy.

In this capacity, it aims at

- establishing a discourse between experts from various fields and the Austrian Social Democratic Party in order to develop and realize new political positions;

- generating a forum for political discussion and thus helping to introduce social democratic positions into the public discussion;

- training representatives of the Austrian Social Democratic Party so that they are optimally prepared for their present and future tasks;

- fostering the organizational development of the Austrian Social Democratic Party in order to open up and modernize party structures.

To this end, the Karl Renner Institute and its nine regional offices (one in each of Austria's federal provinces) organise a broad range of activities: Publications, debate evenings, seminars and lectures, appealing at a politically interested public; special conventions and seminars, targeted at experts, teachers and educators; workshops and consultations for officers, parliamentary representatives and employees of the Austrian Social Democratic Party.

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ABOUT FEPS YAN

The FEPS Young Academics Network was established in March 2010 with an aim to gather promising progressive PhD candidates and young PhD researchers ready to use their academic experience in a debate about the Next, Progressive Europe. Realised with the support of Renner Institut in the framework of the FEPS "Next Left" Research Programme, the project has gathered throughout the years more than 250 members – many of whom are today Professors of Renown Universities, Prominent Experts in their respective fields and Front Bench Politicians. Their exchanges and interdisciplinary research at the time of their involvement have resulted in a number of stimulating studies, providing a relevant contribution to the European progressive movement.

To what extent do EU fiscal rules constrain governments' social and labour market spending? As fiscal consolidation demands are currently re-emerging, this study shows why social and labour market protections are at risk. To place ourselves in possible scenarios, we look at the past. In a mixed-method design, we gather evidence from two decades of interactions between national welfare priorities and EU fiscal rules. Our findings notably provide evidence that countries under the excessive deficit procedure (EDP) between the Great Financial Crisis and the pandemic saw, on average, greater social investment spending reduction than those not embraced by the EDP. Social protection spending and employment protection legislation also saw a significant decline. Exploring the critical cases of France and Italy, our country case comparison sheds further light on the mechanisms underlying recent recalibrations. These findings have implications for the well-documented revival of Social Europe: while the Resilience and Recovery Facility (RRF) clearly promoted a social investment (SI) recovery, our analysis of recent crisis dynamics shows that SI spending is particularly impacted in those countries facing heighten fiscal consolidation pressures. Meanwhile, with some exceptions, social and labour market protection have received lower support from RRF initiatives. As the appetite to reduce deficits by stealth re-emerges, EU institutions should consider how to secure the institutional resilience of these programmes to ensure that the Social Piller actually serves as a safety net for social citizenship rights.

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