

# social Europe and the single market – where next?

Edited by Dr Robert Taylor



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It is 20 years since former EU president Jacque Delors introduced the European Social Charter, which laid the foundations for the EU's future social and employment policies. Dubbed by Margaret Thatcher at the time "a socialist charter", it was regarded by trade unionists as a counterweight to the creation of a single market. The arguments surrounding the so-called "social dimension" have remained for most progressives at the centre of the debate about the future of the EU.

Today, against the backdrop of a global financial crisis and a Europe-wide recession, the issue of social protection and employment rights is at the top of the political agenda. The authors in this timely publication offer a range of ideas on what the social dimension means for Europe in today's globalised, but more uncertain world. How successful has EU social policy been, and is a "renewed social agenda" the way ahead? How adaptable is the EU's social model to the economic and social challenges we now face, and is there a shared vision and an emerging consensus for change? The essays address these and related questions about social Europe from a UK, French, German and EU perspective.

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## Foreword

Rt Hon Caroline Flint, Minister for Europe

Now, more than ever, is a good time to reflect on Europe's social dimension. Twenty years after the European Social Charter was first conceived, and following a period of sustained growth, we now face the most serious economic recession in a generation. It is important that we are able to demonstrate to citizens the difference that being part of the EU makes to them – in terms of facilitating a sustainable recovery to the recession, creating new and better jobs, and taking action to support disadvantaged groups and tackle social exclusion.

This Labour government recognises the value of a strong EU social dimension, and that is why we signed up to the Social Chapter in 1997. There is much we can be proud of. Through legislation and co-ordinated action by national governments, we have helped to dismantle the barriers to labour market mobility, enabling people and companies to work and move freely through the EU. We have put in place the minimum workplace standards that are necessary to ensure decent working conditions and fair treatment across the EU, including outlawing workplace discrimination at work. The Lisbon Strategy for Jobs and Growth has helped to boost employment, particularly among women and older workers. And work is progressing on the package of social measures proposed by the Commission last summer, which are built around the themes of opportunity and solidarity and are designed to help ensure that, as Europe moves forward, no one is left behind.

But despite these achievements, we cannot afford to be complacent. Today's job losses must not become tomorrow's scars on our communities; and Europe must not lose its relevance to citizens, as many of them face difficult times. So, what next? This collection of essays presents a series of different perspectives on what a social Europe could look like. While people's views may differ, we are all agreed that this debate is an important one.

As we look ahead, we need to increase the pace of reform in Europe: offering people support in difficult times, but matched with the expectation that they should not fall out of touch with the world of work. Rather than a system built on outdated notions about insulating workers and companies from competition, we need a modern, effective social dimension, which combines fairness with flexibility and equips people to access the skills and opportunities they need, in order to compete in the global economy. We must also be clear about where action at EU level on social initiatives can add value. Pockets of unemployment and deprivation are often most effectively identified and targeted at local level. To tackle these problems, Europe needs modern and strategic forms of social partnership that include working with local authorities, the private sector and the third sector.

Too often this debate is framed as an "either/or" question. But what is clear to me is that there doesn't have to be a choice between the single market and social Europe – that we don't need to decide between putting people or the economy first. By focusing on people, we can help give Europe the skills it needs to prosper. By focusing on jobs and growth, we can help give people the opportunities they need to come out of poverty. Strong societies are important for addressing all the challenges we face today, and this debate must not lose sight of this.

## **Introduction: The social model in a time of recession**

Dr Robert Taylor, Associate Member of Nuffield College, Oxford

The era of neo-liberal capitalism in the Western world, of lightly regulated financial markets, privatisation of the public interest, free trade, low taxes and an enabling democratic state that first began almost 30 years ago, has come to an abrupt end. But that economic system's extraordinary collapse in just a few months from the autumn of 2008 threatens to precipitate a crisis as severe as the inter-war Great Depression. Recent cataclysmic events across the globe suggests that the recklessness and amorality of the "masters of the universe" in high finance have driven the neo-liberal variant of capitalism over the cliff.

Anyone on the democratic left must, however, have mixed feelings about what has happened. The frailty of an economic system based alarmingly too much on hubris, greed and egotism have been cruelly exposed, but its real victims are the hundreds of millions of workers in the world who are enduring the nightmare of growing poverty, mass unemployment, social strife and political turbulence with a dangerous upsurge in ethnic conflicts, international terrorism and a malignant return of economic nationalism.

### **The challenges facing the future of a social Europe**

It would be a delusion to think people will turn away from the self-evident failure of markets to some rational and orderly form of social democracy. The current crisis presents a formidable challenge to the future of the democratic left in Europe. The Continent's social market model – established in the golden age of the post-war years – of social dialogue, tripartite bargaining, decent work, solidarity and the pursuit of equality – is, like the neo-liberal capitalism of the US and the UK, also facing the threat of extinction.

The world credit crunch has not been confined to open market economies such as the UK and Ireland. It has spread to many other European countries that have developed and practised an alternative form of capitalism based partly on collectivist and humanistic values, most notably in France and Germany. Even the much-admired Swedish model has been brought into serious question as it struggles to survive in the face of global forces beyond its control. Bewilderingly, the crisis has hit every European country, irrespective of the particular form of capitalism they believe in and practise.

In the increasingly desperate search for ways out of the crisis, the social market model cannot be assured of a future. The malignant forces of nationalism, protectionism and racism are growing stronger again after half a century, in the darkening gloom of a continent that seems to have lost its way and where echoes of the past are, once again,

to be heard on its streets. So far, the democratic left response in Europe to the crisis has been hesitant, fragmented and overwhelmingly defensive. There has been a clear lack of vision and clarity about what can and needs to be done.

The purpose of this short monograph is to examine the condition of Europe's social model in these hardening times and to encourage a public debate about its future. This comes at a propitious moment, around the 20th anniversary of the Charter of Fundamental Rights. It was in 1989 that the social model – before then a rather weak and fragile concept – was first developed in a coherent and substantial way. The charter, complete with a social action programme, was presented as an idealistic but credible dimension to the agreed common commitment to the creation of a single market that was to stretch across the countries of the EU as national state barriers were lowered and abolished to release the forces of competition.

### **The roots of a socially responsible Europe**

The social model was very much the creation of Jacques Delors, the most dynamic and visionary of EU presidents – except perhaps for the EU's principal founder, Jean Monnet. Delors was a French Socialist, who drew much of his intellectual inspiration from the moral teachings of social Catholicism. He believed that, in order to succeed, the EU would need to form and develop a strong social dimension to complement and legitimise its market activities that was founded on more than grandiloquent rhetoric. Delors argued that the social model was of the utmost importance in ensuring there would be a popular commitment over time among workers to the emergence of a regulated but free market and socially responsible Europe.

Open borders was what both finance and industrial capital wanted in order to grow and thrive. But a liberalising economic and trading strategy had to be matched by the development of a social dimension that emphasised solidarity, trade union and worker protections and new democratic rights for employees. In advanced social market economies such as France and Germany but not the UK, such a commitment was easy to make. It was extending to EU level what was already in existence in those countries. But for the UK, under both the Conservatives and the new Labour project, the creation of a social dimension has always faced endless prevarication and delay, if not often downright hostility.

Newly appointed foreign secretary Robin Cook rushed off to Brussels in May 1997 after new Labour's election triumph to sign the Social Chapter of the Maastricht Treaty from which the previous Conservative government of John Major had signed an opt-out. It was a move that caught prime minister Tony Blair napping – to the chagrin of Britain's

employers. For a fleeting moment it seemed that the UK had accepted the social model in its entirety. But, in practice, the UK's self-inclusion in the Social Chapter turned out to be far more a means to slow down or block the further development of the model, rather than a way to co-operate in its advance.

Until recently new Labour ministers insisted, although with little evidence to support their arguments, that the neo-liberal UK model was eminently superior to the more socially sensitive models of Continental Western Europe. They claimed uncritically that the UK enjoyed more worker and employer flexibility as a result through support for minimal regulation for the UK labour market, although this country's comparative productivity performance, levels of investment in science, research and development, skills and training continued to lag far behind European competitor countries. Even in 2009, business secretary and former EU trade commissioner Lord Mandelson and prime minister Gordon Brown continued to argue for fewer or weaker labour protections for workers and their families as they faced the growing threat of redundancies and mass unemployment.

It has been the bankers and not the workers who benefited from the dramatic growth in state borrowing in the UK. Sir Fred Goodwin, 50-year-old chief executive of RBS (Royal Bank of Scotland) has become the icon of the age with his £703,000-a-year pension for the rest of his life as an apparent reward for chronic failure. Most of his fellow bankers have also emerged relatively unscathed from the wreckage of their own making, to huge pensions, bonuses and pay-offs. For them, the "age of irresponsibility" continues but increasingly at the expense of the taxpayer. It is instructive to compare the government's relative tenderness towards the bankers and others who were responsible for the profligacy with its tough attitude to those who are unemployed, especially single mothers, the disabled and young people.

### **Rebuilding the social model**

Most of the wide range of contributors to this monograph argue that we need to modernise or reinvent the social model in Europe. The current crisis provides an added urgency for this to be done. Their central argument is that the concept of the social model continues to provide a credible alternative to neo-liberal or Anglo-American capitalism and that it needs to be strengthened and supported, not dismantled. This is not going to be easy to achieve.

It is true that the Brussels-based institutions that underpin the social model remain in place. Social dialogue, policy co-ordination and a swathe of legally enforceable regulations continue to exist. But the social model approach has been under serious threat for some time. Too often in the "age of irresponsibility" it was marginalised or simply ignored.



As many of the contributors to this symposium point out, the malaise over social Europe predated the arrival of the credit crunch.

Over recent years, the social model has found it hard to be heard. It has lost momentum and dynamic. Too much time has been wasted on trying to defend existing tentative gains. John Monks, general secretary of the European Trade Union Confederation, argues in this volume that a number of recent judgments made by the European Court of Justice (ECJ) in Luxembourg are threatening the very legitimacy of free trade unionism and voluntary collective bargaining. Under Delors' concept of the model, there was an implicit social bargain between labour and capital that sought to reconcile the freedom of the economic market to develop across the borders of EU states with nationally accepted legal protections for workers and trade unions, mainly through collective action. Now it appears that the unregulated freedom for employers to hire and fire and lay down employment standards unilaterally takes precedence over nationally or locally bargained wage and benefit levels.

The ECJ judgments point to the real danger of a vicious drive to the bottom across the EU that would undermine organised labour's ability to defend and advance worker interests. The Luxembourg court decisions have come at a particularly harsh moment as Europe has entered its severest economic downturn since the inter-years. As a result, the social and political unrest that could be triggered by any undermining of welfare states and existing worker rights has already begun to concern many on the democratic left.

In addition, growing numbers of workers in Europe are worried about the negative impact of globalisation on their jobs and living standards. The cause of protectionism is gathering force as a result. The pressures of economic hard times are more likely to accelerate internal divisions and social disintegration rather than ensure greater cohesion and solidarity between workers and trade unions.

### **A Europe for people and not just for capital**

So, what can be done? Contributors to this monograph propose a number of interesting and positive ways forward that could help the social model to modernise without caving in to national state solutions. They see today's crisis as a catalyst for change and not an excuse for inaction or a reason to lapse into pessimism and despair. More importantly, what they propose is neither utopian nor irresponsible. In fact, thinkers on the democratic left do not seem to have lost all hope on how to respond to the grim prospects for the continent that seem to lie ahead. Mainstream social democracy is by no means bereft of ideas and hopes.

There are calls in this monograph for "binding targets" on agreed social rights and "legally

enforceable common social objectives". John Monks calls for the introduction of "social progress" clauses in collective and national agreements that would seek to balance the rights of capital with those of labour. There is a demand for a social stability pact in the EU as well as the "standardisation of rules" covering flows of labour migration. Action is called for to create a right to a minimum citizen's income as well as a national minimum wage that could cover the whole of the EU.

The commitment to a comprehensive pro-active employment strategy for the whole of a working life is demanded, with a greater EU level priority being given to training and education as well as the creation of environmentally friendly jobs in green technologies. Universal and comprehensive childcare is also called for at a price that people can afford. The development of a social equality agenda at EU level is also demanded. The end of employment discrimination on grounds of gender, race, age and ethnicity is seen as vital. The public interest and public provision of basic services is underlined. Above all, the vision is of a Europe for people and not just for capital.

There is a clear need, however, to draw all these proposals into a coherent programme. What we want is a revived social model, perhaps with new specific treaty obligations that can restore the concept of social citizenship to the core of the EU's shared values. The current crisis in Europe provides us with the opportunity to argue for such an advance. A co-ordinated financial and economic approach in the EU's problems in the credit crunch will not be enough in itself to defeat the forces of social disintegration that are growing stronger by the day.

The time is pressing for a new agenda for social Europe. This should not be an add-on to existing programmes, with greater resources. Nor should it be seen as a defensive backward-looking attempt to restore Delors' dream in difficult times. We cannot go back to the future. But for too long the concept of social Europe was attacked or scorned by the neo-liberals who wanted to Americanise the EU. The dangers of such a strategy, born out of the now discredited Washington Consensus, may have eased but they have not gone away. There is no consensus yet on the democratic left on how a modernised social model should develop and be reshaped.

Time is running out, and the stakes are growing perilously high. The future of the EU – the most successful and ambitious confederation in the continent's history – is by no means assured. In the so-called golden age of post-war Europe the EU project provided both the idealistic inspiration and the hardheaded realism to enrich millions and create prosperous, peaceful and stable societies.

We are rapidly approaching the centenary of the outbreak of the First World War and the onset of what turned out to be a 30-year catastrophe in Europe. The social settlement built up in Western Europe after 1945 proved to be an inspiring and sensible response to those terrible events. Now we need to hold our nerve and rebuild the social model, not as it was 30 years ago but to reflect the complex realities of our own times. It will be a hard, upward struggle, and ultimate success is by no means certain. This monograph is a modest contribution to what should become an urgent and vital debate about the future of our democratic politics.

### **No room for complacency**

The alternative to a modernised social model is clear enough: the return of economic nationalism and with it the advance of right-wing parties that are hostile not only to neo-liberal capitalism but to the moral values and practices of social democracy that have always been at the heart of the EU project. A resurgent right may not necessarily bring about a revival of the dangerous politics of racism and division, as happened in the 1930s, but there is no room for complacency. The next few years will involve a fundamental battle of political ideologies. The victory of social Europe over its enemies is by no means assured.

The former German foreign minister Joschka Fischer warned recently: "The global economic crisis is relentlessly laying bare the EU's flaws and limitations. Without common financial and economic policies, co-ordinated at a minimum among eurozone member states, the cohesion of European monetary union and the EU – indeed, their very existence – will be in unprecedented danger."

This is why it is so vital that we establish a more substantial social model. In recent times the EU has not established itself as a world leader in areas that will be important in any wider economic recovery – business innovation, labour productivity and skills and education. The downfall of neo-liberal capitalism and a revival in the importance of the role of the state in the political economy provide us with the opportunity to remedy these deficiencies. Critics of the social model have often argued wrongly in the past that it has been an obstacle to the creation of a prosperous and competitive European economy. In fact, the opposite is true. A strong social model is a precondition for the future success of the EU project.

## Chapter 1

# Social Europe and the trade union response

John Monks, General Secretary of the European Trade Union Confederation

## Social Europe and the trade union response

At a time of deep recession, caused by market failure unprecedented in the post-Second World War era, people are turning (like the banks) to their governments for rescue. The year 2009 is already likely to join 1931, 1945 and 1989 as a historic turning point. After 2009, the world will never be quite the same, despite the evident desire of financial institutions to return to "business as usual". For them, and many others, there cannot be a return to the excesses of speculation, greed, incompetence and frankly even looting, whereby top executives enriched themselves at the expense of shareholders, customers and now the taxpayers.

I will spare you a full list of trade union warnings about the disaster we all face because of the out-of-control activities of a range of financial institutions. In 2006 and 2007, we were concerned at the hedge fund and private equity booms and the mind-blowing rewards available to the stars of these industries. The standard response from political leaders was that it would all come out painlessly, risk was widely spread, and these firms were a great wealth-creating asset. In a phrase: I was fussing about nothing.

This Candide-like optimism has led us to the present crisis, the reasons for which are clearer than the routes to recovery. One point stands out above the others – we are a long, long way from having created the political and regulatory institutions to help contain the risks of globalisation.

We – and most of the world – may well have been beneficiaries of the open global economy. But these benefits will be quickly forgotten as millions in Europe and elsewhere face unemployment. The free movement of capital, goods and services will not survive if there is not a European and international response to deal with global risks – and if the alternative, a retreat into national fortresses, is not to become inevitable. The EU's single market is in the front line of this struggle.

All political leaders agree, rightly, that protectionism is a very bad thing, and we remember what it did to stoke national tensions in the 1930s. But the pressures on national leaders are immense, as we can see from Obama's "Buy America" policy, the various rescue schemes for car companies in the EU, and currency devaluations. The slide in the value of sterling against the euro is seen widely on the Continent as a "beggar thy neighbour" move, even if no one accuses the UK government of having deliberately engineered the fall.

### A new foreign climate

The UK debate looks odd to an overseas observer. Some 50% of British people who now

work for public limited companies work for foreign-owned firms, a large increase in the past 20 years. Our nationalists worry furiously about marginal changes in the UK's relations with the EU as expressed in the Lisbon Treaty, but when it comes to foreign takeovers of key companies, they are absolutely indifferent. Do they not worry about the "commanding heights" being owned in France, Germany, the US, the Netherlands, the Middle East, or in Russia and China? They are indifferent to this real challenge to national sovereignty, preferring instead to tilt at the windmills of Brussels.

In other countries, it is a different story. Germany has recently put down some tight limits on which foreign takeovers would be permitted. In France, it would be unthinkable for some French companies to be allowed to fall out of French hands. Italy and Spain, and of course the US, have their systems, formal and informal, to protect their key industries. Even a relatively benign sovereign wealth fund, such as that of Dubai, had trouble in the US with its purchase of P&O and its American ports.

A German senior businessman was asked for his view on British openness to foreign ownership. He said: "I'll tell you in 20 years if this unique experiment has worked. It is a hell of a risk."

There are clear signs in the recession of rising concerns about migrant workers, and there are some new restrictions to come on workers from outside the EU. But the toleration of migration has generally, so far, been admirable and the TUC and its unions maintain a generous policy. The recent strikes in engineering construction had a "British jobs for British workers" dimension but ended on a correct note of recognition that overseas workers were welcome provided there were opportunities for UK workers.

A further consequence of what is termed globalisation is a wide sense of unease. Despite, until recently, a growth in prosperity, despite unparalleled, though unevenly distributed, affluence, all the polls tend to show that there were high levels of insecurity and dissatisfaction prior to the recession. There has certainly been a rise in inequality. Moreover, workers and citizens are increasingly concerned that they face increased risks and that neither employers, with their increasingly short-term orientation, nor national governments, increasingly focused on "national competitiveness", will provide the needed security.

In fact, we have made recent progress on social Europe in other fields. At the end of 2008, we established a new directive on equality for agency workers. We also secured a directive on European works councils; and we stopped, for the present, a weakening of the Working Time Directive. So the changed economic climate is pushing events our way,

at least to a degree.

The recent recognition by the government of the need to look at the law on posted workers is a signal of change. The dominant UK message has long been that Europe needs more flexible labour markets to bring unemployment down, that the emphasis must be on deregulation and competitiveness rather than on any new social regulation, and that clearing obstacles to the single market is, and must remain, Europe's central task.

It is illuminating – and from my viewpoint, dispiriting – how little difference the change of government in 1997 made in this particular area of policy. Of course, Labour ended the opt-out from the Social Chapter in 1997. But, de facto, the opt-out was replaced by a commitment to the Confederation of British Industry not to support specific measures to which that body was hostile. With one exception – information and consultation – that commitment has been kept, although the government is showing rather more flexibility than has been the case. In particular, it pushed the CBI to sign up to the Temporary Agency Workers Directive.

### **European integration**

Equally, it is interesting to note the continuity in the French government position, regardless of who is in power. They are always the most active supporters of the European Trade Union Confederation and a "more" social Europe.

Jacques Delors is from that French school. He "sold" a pro-Europe line to the British labour movement in 1988, following his speech to the TUC, on the grounds that a single market needed to be complemented by social measures to prevent a race to the bottom. This meant that there should not be free competition across the single market on the basis of health and safety standards, including working hours; that there should be robust anti-discrimination measures on a range of issues; that what were then regarded as atypical workers (much more typical today should receive equal treatment to regular workers as far as possible); and that there should be a Europe-wide commitment to information and consultation, with workers' representation before major changes and European works councils established in multinational companies. Those messages were enthusiastically embraced by Labour in order to dump anti-Europeanism. But, in truth, they were dumped when that was achieved.

For me, a personal low point was when a UK government-instructed barrister turned up, uninvited, in the Laval case at the European Court of Justice to argue that the right to strike is not a fundamental right. I cheered up a little when that point was lost before the court. That traditional UK government view has contributed to the fact that social

progress in the EU has not kept pace with the developing single market. The objective of social upward harmonisation, enshrined in the Treaty of Rome, has not been accomplished. As the EU has pushed forward the single market – striving to remove barriers to competition, pressing to promote the free movement of goods, services, capital and labour – so it risks becoming seen as more of a threat than a force for progress. The result of the failure to ensure that social progress keeps up is a discernible loss of support for the European project in some countries and a rise in protectionism, nationalism and xenophobia.

European social, political and economic integration has never been a straightforward process. This is not the first difficult period, nor will it be the last. But there is growing doubt about the desire and ability of member states and the commission to take the needed next step in pursuing European integration. Enlargement is a great success, but moves to deepen European integration are not making the same progress as the moves to widen the EU.

Yet Europe retains many strengths from a trade union viewpoint. Europe remains the region of the world with the highest proportion of the workforce in trade unions and the strongest welfare states and public services; it has put universal democracy and the social well-being and fundamental rights of its people at the centre of its political, social and economic life. The EU is also an integrated area made up of 27 countries and 493 million inhabitants with a single market. This gives Europe huge economic and trade potential.

Unemployment remained far too high before the current recession; many of the new jobs created were precarious, without any security; economic growth was too low on average and in many, though not all, countries, the average age of populations is rising as a result of improved longevity, combined with low birth rates; there is lack of equality between men and women; and the lack of work-life balance, social exclusion, and inequalities in distribution of income and wealth are all increasing. Many Europeans are bewildered by globalisation and are concerned that jobs are emigrating to countries where costs are lower.

And the challenges go wider. Many in the worlds of business and politics are questioning whether Europe has a distinctive social model of its own or whether it is just a collection of separate models. This is despite the 2002 Barcelona Council defining the concept of "social Europe" as including social dialogue, access to public services, social cohesion and poverty reduction.

The view that there is no social model in Europe is used to try to contain social policy in



member states and to justify the claim that there is far less appetite in the EU for Europe-wide social and employment regulation than there was 10 years ago. The emphasis, instead, has been on deregulation, cutting red tape, and removing barriers to the single market.

These carry the risk that employment standards could be threatened by measures designed to promote the free movement of labour; and there have been important cases in the European Court of Justice where this principle is at stake.

### **An accident waiting to happen**

A British trade union lawyer colleague of mine termed the recent quartet of legal judgments in the European Court of Justice "an accident waiting to happen".

The accident waiting to happen is the way the free movement of the single market interacts with both the national industrial relations systems and fundamental social rights. The single market is a European competence, industrial relations a national one; they clash when free movement's terms are established, especially over which terms apply.

The score at the moment is ECJ 4, European trade unions 0; and I do not exaggerate when I say that we are reeling at the score.

For ETUC and its members, the outcome of these cases represents a major challenge: how to establish and defend labour standards in an era of globalisation. In ETUC's view, the ECJ does not sufficiently recognise that trade unions must defend their members and workers in general against unfair competition on wages and working conditions, fight for equal treatment between migrant and local workers, and take action to improve living and working conditions of workers across Europe. This is an interest and concern that all trade unions share in Europe, be it in the "old" or the "new" member states.

In addition, the ECJ is limiting the possibilities for member states to safeguard the role of collective bargaining and their own labour legislation in dealing with the effects of increased cross-border mobility of workers and companies.

ETUC considers that the EU institutions must also take the concerns about the way the ECJ is interpreting the Posting of Workers Directive seriously, and must discuss whether this interpretation sufficiently reflects and accommodates the original objective of this directive, as stated in its preamble: "(5) whereas ... promotion of the transnational provision of services requires a climate of fair competition and measures guaranteeing respect for the rights of workers".

Insofar as this is not the case, a review must be envisaged. This is one point. But there is another. To help correct the balance between the freedoms of the single market and fundamental rights, ETUC is proposing that a "social progress clause" be added to the European treaties. (The idea of such a clause was originally considered by Angela Merkel and Jean-Claude Juncker in the wake of the "no" votes in France and the Netherlands on the old constitutional treaty.)

### **The importance of a strong social Europe**

In ETUC's view, the restrictive interpretations by the ECJ are not the only possible interpretation of the European treaties, which have a clear social dimension that will be reinforced by the Lisbon Treaty. A social progress clause should unambiguously clarify and establish the relations between fundamental social rights and economic market freedoms. Such a clause must be legally binding at the highest level, to ensure that it influences the decisions of the ECJ. Only a protocol, attached to the treaties, can give sufficient guarantees in this regard.

By these means, we can establish trade union freedoms that are appropriate. We are not protectionist. We do not want to keep migrant workers or companies out but to establish in industrial relations the old principle of "when in Rome do as the Romans do".

We need measures such as these to combat the ugly side of developments in the world economy. Larry Summers, now back in the White House, wrote recently in the *Financial Times*: "Companies come to have less of a stake in the quality of their workforce and infrastructure of their home country when they can produce anywhere." He went on to say that "businesses can use the threat of relocating as a lever to extract concessions regarding tax policy, regulations and specific subsidies. Inevitably the cost of these concessions is borne by labour." This is why a strong social Europe is needed fundamentally.

Yet our objectives are threatened by the ever more short-term pressures being applied by financial investors, of which hedge funds and private equity operators are the most visibly rapacious. They have been using traditional companies as vehicles for speculation rather than promoting growth through investment in new technologies. This new "casino" or "locust" capitalism is a threat to secure employment, to sustainable development, to innovation and to the trade unions' ability to negotiate. Casino capitalists have no interest in social dialogue and social partnership, or in tackling the adverse consequences that arise from the excessive remuneration levels of top managers. In the current recession, we are seeing the emergence of "vulture" funds, buying debts at a discount, closing companies to sell assets, and escaping pension commitments. This practice is totally unacceptable. The EU must ensure that it sets genuine regulation of the financial markets as a priority.

More globally, whatever the nature and origin of the capital financing economic activity, there is an urgent need for regulation based on European and international regulations on the one hand, and on the capacity for trade union involvement in companies on the other hand. The point of these regulations is to redress the balance between the interests of employees, companies and investors. Companies' sense of social responsibility and the necessity to take sustainable development on board on their strategy must lead to a new corporate governance at European level.

All this underlines the importance of a strong social dimension in Europe and beyond Europe.

## Chapter 2

# Social Europe and labour rights

Brendan Barber, General Secretary of the Trades Union Congress

## Social Europe and labour rights

*And what rough beast, its hour come round at last,  
Slouches towards Bethlehem to be born?*

WB Yeats, *The Second Coming*, January 1919

The global financial and economic crisis, which began in the US with sub-prime mortgages, the difficulties facing Fannie Mae and Freddie Mac and the collapse of Lehman Brothers and Bear Stearns, has now reached Europe with a vengeance.

Hundreds of thousands of workers in Britain have lost their jobs in high-profile cases, from retailers such as Woolworths (over 30,000 jobs lost) to manufacturers such as BMW in Cowley (850 temporary agency workers put out of work) and BP (5,000 jobs cut globally). People working at the sharp end of the financial sector, such as at RBS (2,300 staff cuts in the UK alone) have also suffered: unlike the banker bosses, who seem to have escaped largely untouched so far. Many more ordinary people are on short-time working or lower wages, or in fear of losing their jobs and their homes.

Ordinary people did not cause the crisis, but they are paying for it, and they are rightly angry and outraged.

Everything has changed, and yet many things seem to stay the same.

We do not yet know what the outcome of this crisis will be – what the shape of the beast in Yeats' poem will be. But trade unions and others in the Put People First coalition lobbying for a fair, sustainable route out of recession – including development charities, environment campaigners and faith groups – are arguing for a radical change, and a system that emphasises people's needs over those of the market.

In response to the crisis, governments of left and right in Europe have crunched the gears and changed direction. Banks have been brought into state ownership by politicians who, moments before, were advocating privatisation. Taxes are being raised on high earners by administrations elected on the basis of being supremely relaxed about people becoming obscenely wealthy. State expenditure on job creation has replaced balanced budgets and fiscal prudence.

Trade unions have seen the policies they have advocated for years shift from being unrealistic posturing to the economic and political mainstream. Friedman and Hayek are now dead, but Keynes has been resurrected.

Political debate, as has been said by new US president Barack Obama – the electoral personification of change – is now not about how large or how small government should be, but whether it is doing the right things. In practice, everyone knows that government needs to become bigger to tackle the current crisis.

Internationally, regulation of the financial markets, of hedge funds, and of tax havens is being seriously debated, where previously it was rejected.

This is all positive. Working people here and around the world need urgent and large-scale action to restart the global economy, and provide jobs. The bank bail-outs, although galling in many respects, are vital to prevent a worse economic outcome. Regulation needs to come back into fashion because the so-called "masters of the universe", who ran the deregulated financial markets, do not seem to have even fully understood the complex financial arrangements they were being paid so well to manipulate.

Everything has changed. And yet ...

### **Resistance to change**

Not much has changed at all. The British government is still, at the time of writing, proceeding with the part-privatisation of the Post Office. Key figures in the European Central Bank are still resisting countercyclical deficit budgeting. And the International Monetary Fund, despite apparently reading the last rites over the Washington Consensus, continues to demand pro-cyclical cuts in public sectors as a condition of bail-outs. The language is countercyclical, but many of the actions have not yet caught up.

Labour rights are a case in point.

The European Trade Union Confederation continues to campaign for a social protocol to overturn a rash of pro-free-market European Court of Justice judgments, as well as a better directive on working time, ending the opt-out from the maximum working week and dealing with difficult problems over the definition of on-call working. John Monks has addressed these issues in his essay.

Here in Britain, the government has toyed with delaying planned extensions to the right to request flexible working and to paid maternity leave arrangements, and the siren voices of the Conservative Party and parts of the business community seem to be arguing that less, not more, regulation is needed.

Around the world, governments are not adopting the same attitude as the new

Democratic US president, who has said that trade unions are part of the solution, not part of the problem. Trade union rights continue to be restricted, and excluded from trade negotiations except as high-minded aspirations (rather than the binding language applied in such deals to intellectual property rights, for example).

Actions designed to protect working people are lambasted as protectionism, or likely to slow down the economy, or a luxury that can be dispensed with in a recession. Many are still discounted as being unrealistic, just like bank nationalisations, increased government deficits, and reform of the international financial institutions used to be.

Recent discussion on further equality measures has certainly been tinged with the suggestion that now is not the time to give everyone an equal chance – which is not only offensive, but also economically unwise. More flexible working will enable families to cope with the vicissitudes of the recession, and will enable people to invest more in their children's futures.

That sort of thinking – the idea that the middle of a crisis is the wrong time to be thinking ahead – is superficially understandable, but it is something we need to abandon. During the Second World War, while John Maynard Keynes was discussing the original Bretton Woods agreement on global financial architecture, William Beveridge was planning the welfare state. They showed that the middle of a crisis is precisely the time to start planning for the future.

### **Strong labour rights needed now more than ever**

A better approach to labour rights is needed now more than ever. Politicians and commentators need to understand that there is a difference between protectionism and protecting those who lose out from globalisation. Globalisation has winners and losers. The losers, and those who fear becoming losers too, tend to be less than persuaded of its benefits. By protecting them from the worst impacts of globalisation, we can make it easier for societies to embrace change – managing global markets so that, at the very least, the losers are compensated.

Developments in the UK's system of labour rights, such as the national minimum wage, demonstrate how important rights can be in tackling some of the downsides of globalisation and resisting the drift towards protectionism. In particular, the minimum wage prevents undercutting and exploitation, and therefore helps make it easier to manage migration.

Concern about the effects of migration is one of the major undercurrents in British political life at the moment. Much of the debate is not at a particularly edifying level –

some of it is thinly veiled racism, and some of it is not even that. Responses to fairly recent increases in migration, and changes in its pattern, could well be Yeats' rough beast.

Unions have called for equal treatment for migrant workers and the existing workforce, and a liberal approach to immigration policy – for instance, defending the rights as European citizens of Bulgarian and Romanian workers to come to the UK when government (without in any way succumbing to protectionism) has insisted on restricting their freedom of movement.

Our call for equal treatment is not just another aspect of our generally positive approach to migrant workers' rights, though. It is a key element in any attempt to keep our borders relatively open. Should it become a general view that existing workers' wages are being undercut significantly by migrant workers, then we would see far more opposition to migration than we already do.

The national minimum wage has provided a floor at the lower end of the labour market below which undercutting is illegal (although not impossible – better enforcement is still needed to address that problem). It has played a major part in preventing wholesale exploitation and undercutting, which has allowed unions and others the scope to defend immigration. The EU Posting of Workers Directive was also intended to have that effect, but at the higher levels of wages delivered by collective bargaining and industry arrangements in engineering construction.

As the Lindsey oil refinery dispute showed, workers who think that they are being denied jobs so that other workers can be brought in at lower wage levels (regardless of national origin: Poles based in Plymouth joined the sympathy disputes that followed Lindsey) become very angry indeed.

As Derek Simpson, joint general secretary of Unite, said of the causes of the dispute: "No European worker should be barred from applying for a British job and absolutely no British worker should be barred from applying for a British job."

The ACAS report into the incident showed that there were justified concerns about the way the directive had been implemented in the UK because of the loopholes that made undercutting of industry rates (if not undercutting of the national minimum wage) possible. Despite the impression that was given at the time, the UK implementation of the directive only requires that employers of posted labour pay the national minimum wage, not, as the directive was intended to require, the rate for the job.

It is still not entirely clear, at the time of writing, that there was no undercutting at



Lindsey. Unions were reflecting the views of workers at the site, and workers are often better informed than coverage of such disputes makes out.

These are areas where employment laws can make it easier to address the challenges that globalisation poses – not through protectionism where one or more countries is discriminated against, but by pragmatic protection of all workers equally.

New labour rights – a better work-life balance, more support for collective bargaining, the use of procurement policies to encourage better wages and higher skills – are popular. US vice-president Joe Biden's Middle Class Task Force is mapping out how new labour rights would improve the functioning of the economy by enabling a fairer distribution of resources, and removing one of the causes of the current crisis by giving working families the sort of wages that would prevent the loans they take out to buy their homes from becoming subprime.

There is also evidence that countries with stronger workers' rights will fare better in the recession than those without, especially if combined with generous safety nets for the unemployed. Flexibility may allow more low-wage, low-skill jobs to be created in booms, but those jobs are easily disposed of in a recession, as so many workers in the UK and the US have found. As unions have been arguing for years, making it easier to hire and fire simply makes it easier to fire workers in Britain when the going gets tough.

But beyond these arguments about the effectiveness of labour rights, what is needed is for politicians to show the political will to recognise in practice what is clear in rhetoric: that everything has changed. That includes the idea that labour laws are a brake on development and growth, when what they actually are is a stimulus for more investment, a safety net for working families so that they can risk spending to restart the global economy, and a motor for greater equality in society, which means that wealth is spread around so that it can power growing demand.

Restricting labour rights has meant lower wages, lower levels of skill, and the pursuit of lower prices rather than higher productivity. To escape the recession and build a better tomorrow, we need more rights for workers and markets that are better managed in the interests of the people.

We need to abandon the idea that lax labour laws are good for business, but we need to do more than recalibrate our assumptions about what the impact on the bottom line will be. As Yeats' beast slouches towards a new Jerusalem, we need to ask what restoring growth and prosperity is *for*, if it isn't to make ordinary working families' lives better.

## Chapter 3

# Employment rights, labour markets and migration

David Coats, Associate Director - Policy at the Work Foundation

## Employment rights, labour markets and migration

That the British left has been ambivalent about "Europe" is a truth almost universally acknowledged. During the 1975 referendum on EEC membership, the most passionate, committed and persuasive anti-Europeans were to be found among the trade unions and the Tribune Group of Labour MPs. The party itself adopted a hostile stance for much of the 1980s, and the trade unions only embraced the European project with enthusiasm following the visit to the TUC by Jacques Delors in 1988. Yet even this Damascene conversion was partial rather than complete and proved to be temporary rather than permanent.

Labour's ambivalence to EU social policy is visible in the government's record since 1997 – hostility to the Information Et Consultation Directive and the Temporary Agency Workers Directive. And today the trade unions have reverted to the 1970s stereotype, viewing "Europe" either as a capitalist club or as another instrument of neo-liberal deregulation – opposition to the Bolkestein directive on trade in services is, perhaps, the best example, and waning enthusiasm for the euro is another manifestation of the phenomenon.

At the root of the change in the trade union position in the 1980s was the belief that Europe offered a viable social and political alternative to Thatcherism. When Delors addressed the TUC, he described the balancing of free markets with a new social bargain, combining worker protection and effective competition policy, marrying Schumpeterian creative destruction to the demand for security. Not surprisingly, this was an appealing vista to unions that had been bruised by hostile public policy, the retreat from corporatism and a robust reassertion of managerial prerogatives.

For many on the centre-left, having Jacques Delors at the Berlaymont in Brussels was almost as good as having a Labour prime minister in Downing Street. But what many of the Delors enthusiasts missed in 1988 was the commitment to unleash the power of markets. Social protection was needed because the removal of tariffs and other barriers would unleash a wave of structural change. Companies would inevitably shed labour as they rationalised surplus capacity and sought economies of scale. This process, which would eventually make Europe more prosperous, could only be legitimate if organised labour had a stake in the outcome and a seat at the table. Without the support of the trade unions it would be difficult, if not impossible, to sustain popular support for what could easily be described as a banker's Europe.

This vision of open markets and deliberative governance could be characterised as an early effort to describe a third way – neither the Thatcher/Reagan-style market fundamentalism,

nor the *dirigisme* of the early Mitterrand – and to a degree it prefigured new Labour's commitment to economic dynamism and social justice. But, contrary to both the rhetoric and practice of the Blair and Brown governments, the Delors model attached great importance to vibrant and effective workplace institutions reinforced by national dialogue between the social partners (employers' organisations and trades unions). These similarities and differences help to explain a great deal of what has happened since in London and Brussels.

The main question today is: how should Europe respond to the recession? The persuasiveness of the answer will depend on whether the grand social bargain of the Delors commission is revived and updated or consigned to the dustbin of history. If the latter, then the prospects for the further development of the European project look bleak.

### **How much European social policy do we need?**

The implication of my argument so far is that any step back from the present level of labour market regulation at European level would be both a political and an economic mistake. Deregulation would delegitimise the single market at just the moment when workers are under the greatest pressure – and when European economic recovery is the best route to national economic recovery. Moreover, it is wrong to believe that regulation at the *European* level is in any sense responsible for rising unemployment. By national standards the corpus of labour law established at EU level is modest and, for most of the EU-15, less rigorous than national legislation (the UK is an exception to this rule of thumb). Far from being "burdens on business", the most important instruments create information and consultation rights for workers that are designed to *facilitate* difficult processes of change rather than inhibit necessary restructuring.

Take, for example, the Collective Redundancies Directive and the Acquired Rights Directive. Both are rooted in the notion that change is inevitable; one cannot imagine a model of capitalism where jobs are not lost or businesses not bought and sold. Both directives compel organisations to be reflective about the management of change. They require employers to listen and respond respectfully to workers' concerns. It is explicit that effective information and consultation might even persuade employers to change their minds – certainly as far as reducing the number of job losses is concerned. Taking the right decision using a transparent method, even if that seems more time consuming, is better than making a rapid decision leading to a catastrophic error. Act in haste and repent at leisure is the syndrome that these instruments are designed to avoid.

Moreover, deliberation and justification are at the heart of these measures. They give effect to the principles of industrial citizenship, recognise that economic democracy is an

indispensable feature of a democratic society and, while understanding that the interests of capital and labour may diverge, promote compromise rather than conflict. The same might be said of the directives establishing European works councils and national information and consultation machinery. All of these measures exemplify the characteristic social Europe balance between fairness and flexibility; they are a living embodiment of the equilibrium that Delors expounded so eloquently in his speech to the TUC.

Some deregulators on the political right may be unconvinced by these arguments. They may say that fairness, as defined here, comes at the expense of efficiency, makes us poorer, and is therefore not fair at all. Fortunately, this hypothesis has been tested and found wanting by the OECD. In its view, the strength of employment protection legislation has no negative impact on employment over the course of the economic cycle. Indeed, the review of the 1994 OECD Jobs Study, completed in 2005, shows that countries with similar levels of employment performance have developed very different approaches to labour market policy. Denmark and the US are as different as one could imagine, but they both have employment rates of around 74% of the working-age population (although these numbers will fall as the recession begins to bite).

Such robust evidence clinches the argument that high employment is just as achievable with moderately strict employment laws, strong welfare states and strong trade unions as it is with feeble employment laws, low taxes and weak trade unions – although social outcomes look rather better in the Nordic countries than in the US. The only elements common to these economies are liberal product market regulation (with easy market entry and exit) and strong competition policy. Moreover, it is the Nordic countries that are most open to international trade and therefore most exposed to the chill winds of creative destruction. Fairness, far from being inconsistent with strong performance, has proved to be an indispensable element in the policy mix.

Looking beyond these instruments, it is important to understand that the single market is about the movement of people as well as trade in goods and services. Free movement of labour is a foundational principle of the EU treaties. A basic set of employment standards across the EU is essential for the same reasons as a common approach to environmental standards, product market regulation and corporate governance. Most importantly perhaps, the absence of a common floor of rights could lead to either social dumping (the preoccupation of the Delors commission) or de facto restrictions on free movement.

If European citizens are to have a real choice of where to live and work, then they need to be confident that fundamental rights are respected – that, for example, employers are subject to similar health and safety obligations and working time rules across the EU. The

same might be said for the rights of part-time workers and agency workers. Without a common floor of rights, free movement of labour is a chimera and European citizenship will be reduced to nothing more than the words in our passports.

Even if this argument is accepted, there is still ample room for disagreement over how much regulation one needs. Conventionally, a British Conservative would say less and a Social Democrat would say more. Yet that description obscures the importance of recognising the limits of state action. Remember that an important role for the social partners is at the core of the European social model. Far from being founded on the creation of a federal super-state, EU social policy accepts that the social partners can act effectively beyond the scope of legislative intervention. *Voluntary* joint regulation can be more flexible and adaptable than the blunt instrument of state intervention – although this depends critically on the willingness of unions and employers to work together *and* on unions being seen as legitimate institutions.

It is too easy for the centre-left to fall into the trap of believing that social progress is predicated on the development of a comprehensive framework of EU-wide employment protection. This is as much of a mistake as the market fundamentalist belief that no regulation is good regulation. In particular, the European trade unions have sometimes given the impression that they measure their success by the number of social policy directives that they have squeezed out of the European Commission. Employers' organisations, to the contrary, measure their success by the number of new measures that have been blocked. Social dialogue has descended into a series of unrewarding exchanges, a vicious circle that none of the parties has had the power to break.

This situation must change if the European project is to remain on course. For Europe to be stronger the unions must be stronger, social dialogue must be reinforced and the agenda must be widened beyond a narrow conversation about labour market regulation. There are challenges here for unions and employers. The unions must demonstrate their relevance to unorganised groups of workers, recognise the power of soft as well as hard regulation and offer evidence-based arguments that sceptics find persuasive.

Employers will find that their position must change too. They must understand that the success of the single market depends on the support of EU citizens, that a legitimate role for the unions is an essential ingredient in the process and that the deployment of employer prerogatives is legitimate only if it has been justified through deliberative processes. This may sound radical, but it does no more than build on the strong foundations of the Delors model, even if that model has been weakened by union decline.

Yet this line of thought does not lead to the conclusion that the EU employment directorate should be producing a perpetual cascade of new directives. There is no case for permanent revolution in employment legislation and a compelling argument for the establishment of a durable settlement. A period of consolidation may be required.

### **Where next?**

Of course, consolidation alone is insufficient and there is no reason why the social policy river should run dry just because the flow of directives has been reduced. One possibility suggested by Roger Liddle, former adviser to European Commission president Jose Manuel Barroso, is that the EU should adopt social policy targets, for example the reduction of child poverty, and pursue them through a stronger version of the "open method of co-ordination". This is essentially a system of peer review among member states – better information exchange and the power of public embarrassment are supposed to generate improvements in performance.

Reasoning by analogy, a similar approach might be adopted to the elimination of low pay, with member states committing themselves to reducing the number of workers paid less than half (or even 60%) of median earnings. A framework programme could be agreed by the social partners at European level, with the expectation that this would be implemented through dialogue at national level. The same approach could be adopted to training and skills and to improving the opportunities for progression at the bottom of the labour market (perhaps through an EU-wide social mobility or inequality target).

No doubt a sceptic would say that this is little different from the Val Duchesse social dialogue (again instituted by Delors), where the social partners come together to agree joint opinions on social and economic questions. But the difference here is that member states will be committing themselves to specific social policy objectives and enlisting the support of the social partners in making progress. In other words, these targets must be credible, practical and, to some extent, enforceable.

It will be difficult to make progress unless employers and unions are jointly willing to address such questions as productivity, investment (in both physical and human capital), organisational performance and wage differentials between high and low earners. And the most progress is likely to be made at sectoral level. How, for example, can there be improvements in quality of work available to the lowest paid? In which member states have the social partners made the most progress? How has this been achieved? How can other member states learn from these experiences?

A programme of this kind is self-evidently *European*; it will have a significant impact on

national conversations and could establish a dynamic that Europe is committed to both rising prosperity and fair distribution. Far from requiring a programme of labour law harmonisation, this approach leaves the details to national practices (although in the UK it would require the development of stronger relationships between unions and employers, and more explicit support from government for social dialogue).

There is also a link to the principle of free movement. Workers across the EU will be able to see that member states are adopting a common agenda – albeit that the details of implementation may differ. Migrants from one country to another can be confident not just that they enjoy a common floor of rights, but also that *Europe* is committed to building the capacities of individuals, to the promotion of opportunity and to the elimination of low pay. These are the outlines of a new social bargain, which build on what has been achieved so far, but recognise the limitations of exclusive reliance on regulatory instruments for social advance.

### **Conclusion**

Europe desperately needs a positive prospectus. Those of us committed to the project need to explain why an effective EU offers the best route to rising prosperity and economic security. It means that we must renew the social agenda and reject the pessimistic belief that the Social Charter and the Maastricht Treaty represented the high-water mark of social policy achievement. Most importantly, the approach outlined here demands a new approach from government, unions and employers, especially in the UK. Government must embrace this flexible approach to social policy with enthusiasm, employers must accept the necessity of deliberation and justification, and the unions must recognise that market liberalisation is the corollary of a new social agenda.

The opportunity exists to make a compelling case for Europe at a time when the Conservative Party remains overwhelmingly eurosceptic. Both Labour and the unions have ridden the pro-Europe tide to victory before and can do so again. Now is the time for boldness. This is a political risk worth taking.





## Chapter 4

# The coming social crisis in Europe – will “social Europe” prove up to the test?

Roger Liddle, Vice Chair for Policy at Policy Network

## **The coming social crisis in Europe – will “social Europe” prove up to the test?**

This paper is about the coming social crisis in Europe and whether the ideals of “social Europe” will prove up to the test.<sup>1</sup> It first of all discusses the impact of the economic crisis and how this is leading to a profound social crisis. It argues that the immediate crisis reflects deeper, longer-term trends resulting in underlying social discontents, which, in recent years, the EU has chosen to ignore. It then discusses possible European responses to this crisis and what role the EU might play. It argues that, while the EU’s response to the economic crisis has so far been ragged and some believe (and eurosceptics hope) this will lead to break-up, the more likely eventual outcome is a reassertion of integrationist momentum. However, the form this will take – and the degree to which it will have an explicitly social element – is, at this stage, difficult to predict.

There will be pressures in some quarters for social policies that work against the grain of the single market, particularly to restrict labour migration: these should be resisted. But some of the key predictable components of any European recovery plan – fiscal stimulus, the promotion of the transition to a low-carbon economy, better-regulated financial markets, conditionality on member states receiving assistance that they implement tough structural reforms – would be more effective and acceptable if set in a new ambitious social framework for the EU.

Every day the economic and social crisis in the EU is becoming worse. At present, most attention has been focused on the threat of protectionism, some directed by individual member states against the European single market, and how unco-ordinated rescue operations by the state in national economies in crisis could easily prove self-defeating while also helping to undo regional and global economic ties. These developments are, however, symptoms of an underlying social crisis, which is gathering force and speed.

The European Commission is forecasting a large increase in unemployment across the EU as a whole. Averages disguise where there is severe pain. In Spain, for example, unemployment is expected to rise back to 20%, with perhaps 30% of young people out of work. In Ireland, unemployment is spiralling upwards at terrifying speed. Then there are the new member states that find themselves in deep crisis.

At the time of writing, rescue packages have been negotiated for Hungary, Latvia and Romania through the International Monetary Fund, European Investment Bank and

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<sup>1</sup> I would like to thank Simon Latham, policy researcher at Policy Network, for his assistance in producing this paper.

European Commission. IMF involvement is necessary because the EU itself has no budget that can finance such interventions. These countries grew strongly in recent years, but are faced with currency collapse because they can no longer finance their public sector and external deficits. In addition, their banking system is largely foreign-owned, and domestic lending to business has dried up as the global financial crisis has forced these banks to retrench. Many citizens have taken out foreign currency loans that, with the depreciation of their own currency, they can no longer afford to service.

The social consequences of these rescues are little talked about but, for ordinary people, the whole situation looks very grim. These are still poor countries with many citizens on the edge of subsistence: average incomes in north-eastern parts of Romania are the lowest in the EU, at about 27% of the EU average, whereas in London (before the crisis in the City, at least) incomes were almost three times the EU average.

Already the EU has seen riots in Athens, demonstrations in Riga, violence in Paris, and strikes in Britain on the issue of "British jobs for British workers". Is this the harbinger of much larger social discontent?

### **The underlying tensions**

The social crisis now gathering strength reflects a growing social malaise that has been apparent for some years but, in policy terms, largely ignored at EU level. These underlying social discontents within member states played a key part in the "no" votes on the draft constitutional treaty in France and the Netherlands in the summer of 2005. Before the crisis broke, there was already a striking mood of pessimism about the social trends in our societies, according to Eurobarometer polling. What have been the underlying economic and social dynamics?

Big unsettling developments have taken place in all European labour markets. One is an occupational shift away from traditional, semi-skilled jobs in mass manufacturing towards higher-skilled work, jobs that demand IT literacy and service occupations – a shift that widens opportunities for both better-paid and more fulfilling jobs but, at the same time, polarises labour market outcomes between the educated and the unskilled. The labour market position of the low skilled is deteriorating: the jobs they can find increasingly tend to be low paid and insecure. During the last decade, European labour markets have become more "Anglo Saxon": labour market flexibility is no longer unique to Britain and Ireland. In the past five years, there has been a huge growth on the Continent in insecure work with workers on temporary fixed contracts, and for some groups wages have fallen in nominal terms.

The social consequences of these occupational shifts translate into widespread fears of globalisation. Over 60% of the citizens of the EU's largest member states expect people to earn less as a result of competition from newly rising economies. Significantly, it is only in the richer European countries which have invested heavily in active labour market policies and various forms of "flexicurity", such as Denmark, that fears of globalisation are significantly lower.

As Europe becomes increasingly a knowledge and service economy, education is widely seen as the path to economic opportunity. But the message of "education, education, education" is threatening to families that have never succeeded in formal education. In previous generations people were offered routes, admittedly limited, from the shop floor into foreman and management positions. For young people today, obtaining educational qualifications is a necessary stepping-stone for social mobility. We live in a world rich in educational opportunity, but the realisation that this is not one in which they are likely to succeed, hits many young teenagers at secondary school – a fifth of whom, across Europe, leave school with no or very low qualifications.

The workings of educational meritocracy, the erosion of decent, working-class jobs and the perceived threats from globalisation contribute to a widespread expectation that the gap between rich and poor will grow. This perception is overwhelming throughout the EU. Broadly speaking, societies that are more equal today have less fear of a growth of inequality in future: and, again, it is the more equal societies that appear to fear the impact of globalisation least.

There has been equally transformative change in the family and demography. These changes are in part due to value shifts that, on the whole, individuals welcome, but which also paradoxically make people feel less optimistic about the future. The family model of today – and the future – is the dual-earner couple. But social policy has been slow to recognise this explicitly, except in the Nordic countries. As a result, childcare provision is patchy – though improving – and provisions to enable the dual-earner couple to balance the responsibilities of work and family are underdeveloped, adding to social strain.

Progress to gender equality has also been accompanied by a sharp fall in European birth rates. Women are having their first child later – and more women, especially the better educated, are choosing to have no children at all. Whether these trends reflect genuine "freedom of choice" is a matter for debate. Some would argue that they reflect an "individualisation" of values that, in the long term, threatens social sustainability. This consciousness of lack of sustainability is heightened by increases in life expectancy and the growing challenge of caring for the very old. Some 70% of EU citizens think that, in

future, in their country many people will be unable to afford the medical treatment they need.

The increasing polarisation that characterises trends in the economy and labour market also penetrates family life. Contrast the investment that dual-earner couples make in the human development of their children (where increasingly middle-class fathers struggle with "time poverty" in order to play the active role that is expected of them in modern relationships) with the blighted life chances of children brought up in poverty. The data suggests child poverty is increasing in many European countries: despite the progress made since 1997 in reducing child poverty, Britain remains a European record holder when it comes to one-parent families, children brought up in workless households and teenage pregnancy.

Generational inequalities are growing. Although about a fifth of the elderly still live in poverty (mainly older single women), generous pensions systems have enabled the rest to do relatively well. By contrast, young people face greater pressures – of relative marginalisation in two-tier or highly flexible labour markets, in meeting the costs of extended education, in entering the housing market for the first time and in building the resources to form a family.

Another profound change in our societies is the growth of ethnic and cultural diversity. Strong arguments can be made that this is a positive development, not least Europe's need for inward migration in order to sustain its ageing welfare states, as well as the benefits of diversity itself. But the evidence is that increased diversity is making some Europeans feel more pessimistic about their future.

### **Early reactions to the immediate crisis**

The global crisis caught the EU largely unawares. Recent years had seen a relative upturn in economic performance, with the remarkably smooth transition to the euro. By the summer of 2008, unemployment had fallen rapidly to the lowest level seen in the EU as a whole since German unification, with jobs growing at a faster rate than in the US. This reflected in part the success of piecemeal labour market reforms in member states and the embedding of a policy shift from work sharing, early retirement and limitations on working time (that had held sway in the 1980s and 1990s) towards employment activation, "flexicurity" and greater flexibility.

Structural reforms had less apparent impact on productivity. In manufacturing, some sectors, such as clothing and footwear, were forced to restructure and downsize radically in the face of new global competition, with a particularly severe impact on the southern

tier of the EU. However, the success of Germany in re-establishing itself as the world's leading exporting nation demonstrated the pay-off, at least for some, from difficult structural reforms at company level. On the other hand, the wage share in national income declined in most of the old member states, while measures of inequality and child poverty registered an upward trend, but Europe saw nothing compared with the increase in inequality that occurred in the US.

Alongside this improved economic performance, however, the momentum for further political integration at EU level stalled, as witnessed most notably by the demise of the constitutional treaty and the problematic ratification of its Lisbon replacement. The dominant spirit of the times was anti-regulatory. "Social Europe" remained largely a rhetorical construct. Debate was polarised between those who interpreted anything labelled "social" as a burden on business and those who advocated a traditional "social agenda" centred on labour market regulation.

### **The crisis as a catalyst for change**

Until the crisis broke out in the autumn of 2008, the prospects for radical policy change were poor. This reflected an intellectual consensus that the single market in legislative terms was near complete; the euro had become quickly embedded in its early years, without a degree of turbulence that fundamentally called into question its governance; and social and budgetary questions were in the classically "all too difficult" redistributive category that member states had no appetite to grapple with. Given the dominance of that view, it was generally assumed that the internal development of the EU would more or less proceed benignly as a result of market dynamics, the full exercise of the Commission's powers of implementation and European Court of Justice jurisprudence.

Perhaps the prevalence of this mood explains why Europe's initial reaction to the global financial crisis was somewhat complacent and its impact seen as containable. However, this complacency did not last long. The seizing up of the world financial system shook the banking system to its foundations in Europe as much as the US. The spread of the crisis from Wall Street to Main Street triggered a sudden collapse in consumer confidence and world trade, to which Germany, as the world's leading exporter, has been particularly exposed.

For Europe, the banking crisis posed a classic problem of co-ordination similar in nature to the need for complementary structural reforms at EU and national level that the Lisbon Strategy was intended to facilitate but, in this case, with a need for sudden urgency to find a resolution. The October 2008 European Council more or less managed to adopt a broadly pitched framework for national financial rescues that followed the UK model.

This implied recognition that unco-ordinated individual national responses, such as the Irish bank guarantee, could pose huge problems for other member states. At the same time, there was a recognition that the sudden demand shock created by the crisis could only be countered by government fiscal stimulus, but that would be far more effective if member states acted together. The commission produced a fiscal stimulus plan – the implementation of which has been imperfect and uneven – but nevertheless counts as a significant new move in economic policy co-ordination.

Other responses to the crisis, however, have largely been national, and the consequences of national actions for the EU have been treated as second-order issues. Governments have sought legitimately and properly to protect their citizens against the impact of the crisis: the unprecedented risks of loss of savings due to potential bank collapse; more mortgage defaults and housing repossessions; and business bankruptcies. Emergency measures have been taken to mitigate the impact of the crisis on particularly vulnerable sectors, for example the motor industry, where orders have collapsed, as new car purchases have been deferred.

Regrettably, but in truth unsurprisingly, the crisis appears to be encouraging politicians to take nationalistic, "my citizens first" positions. This poses large risks, not only to the single market, but also to the internal unity of the EU – particularly solidarity with the new member states. Calls for firms receiving public aid to repatriate investment, banks being under pressure to concentrate their lending on domestic customers, and increased resentment about foreigners (from other European countries) stealing "our jobs" are prime examples of tendencies that could easily become out of control, thus undermining the very foundations of the European edifice.

### **Scenarios for future action**

Gradual disintegration is a possible outcome of the economic crisis, but not the only one. However, crises in the past have led to a stronger and more integrated EU; it can happen again. There are already significant signs in that direction. European leaders have committed themselves to a programme of reinforced financial regulation to buttress a "more responsible capitalism", and also there is growing consensus for a stronger co-ordinating role of EU institutions in trying to close the gap between objectives and delivery. German ministers have indicated that the eurozone should be prepared to take steps to prevent any member country from defaulting on its national debt, thus undermining the stability of the European single currency. Furthermore, there is growing readiness to recognise the deepening economic crisis in Central and Eastern Europe as a European problem.

The continuing economic crisis may eventually lead to more integration, accompanied by



a paradigm shift in the political economy of the EU. Ideological preferences will surely make a difference. At a first level, this difference will take the shape of a reversion to a familiar pro- versus anti-European debate. On one side are those who feel that the EU offers a shield against the disruptive forces of global capitalism, potentially far wider and thicker than the diminished role that the nation state can now offer. Ranged against that view are those at the right and left ends of the political spectrum, those who see European integration as part of the problem, not the solution. They will want to see a stronger nation state as a consequence of the crisis, whether in protecting jobs at home, controlling migrant labour, or supporting national businesses in trouble.

The lessons of the crisis may be interpreted quite differently even among those who see an important role for the EU between the national and the global. There will be a divide between those who support EU action to restore a market liberal Europe and those who want a stronger EU to be more interventionist. There will also be “better market orderers”, who, in the classic German social market tradition, place heavy emphasis on closer, social regulation of how financial markets operate and how business conducts its affairs and exercises its wider social responsibilities. This view gives priority to getting frameworks right and frowns on day-to-day public interventionism: it is fundamentally about shaping behaviours in the marketplace, not altering market outcomes.

The fundamental concern that will unite (virtually) all strands of pro-European thinking is the survival of the single currency. This is not to say that the future of the euro will be without crisis or fierce political rows. The Germans (with the support of the French and Dutch) may be prepared, as a last resort, to bail out other countries, if necessary – but it will not be for free. For example, the Irish could come under pressure to phase out the tax rules that are seen to give them an unfairly favourable advantage in attracting US investment. The Central and Eastern Europeans could be forced to follow a disciplined path to euro membership and curb “unfair tax competition” or “social dumping”.

None the less, one should hope that the Germans and others would have the sense to recognise that all this would have to be done within the limits of political acceptability for the other member states concerned. The pressure to deal more effectively with tax havens is likely to grow further, while the rhetoric of tax competition is gradually fading away. But there will be inevitable rows and tensions between the “market liberal” and “market ordering” views of how all this should be carried out, laced with vested national interest.

### **What might the “social dimension” of a renewed integrationist impetus be?**

In the measures under discussion or already proposed, there is a significant social element. Member states are desperate to preserve jobs under threat, if necessary through state aid.

They want the Commission to be flexible in enabling companies to weather the storm. At the same time, the test of "fairness" has become much stronger. Regulation is sought to deal with the perceived injustices of bankers' pay and bonuses and to close down tax loopholes and tax havens.

What is less clear is how bold the EU is prepared to be in terms of further fiscal stimulus to address the collapse in demand, despite what is bound to become increasingly public pressure from the Obama administration. Much here will depend on the complexities of German politics in a tricky election year. While the German finance minister has hinted that the markets will not be allowed to succeed in breaking up the euro, there is no sense, as yet, of a plan to rescue the EU 10 from the diverse difficulties in which they find themselves, still less of a bold move to extend the euro area at a stroke in order to offer new stability.

However, as the months unfold, plans are likely to emerge to create new demand in the European economy, especially through support for the low-carbon transition, which fits both the EU's domestic needs and international commitments.

### **A new industrial activism to create better-quality jobs**

In many member states, a new industrial activism will be pivotal to national responses to the global financial crisis. The truth is that we are not just dealing with a recession that at this stage seems to be getting deeper and deeper, but at a longer-term need to rebalance, in some cases radically, domestic economies. This involves not only revisiting some of John Maynard Keynes' ideas about how to stimulate demand in deep recession, but also how to promote private investment when markets, left to themselves, will not deliver economically efficient and socially optimal results.

For Europe, the political challenge is to devise a new activism that strengthens domestic capabilities and drives new sources of renewed growth, without sacrificing the benefits that European integration and globalisation have brought in terms of economic openness and competitive markets. The challenge is to prevent this new industrial activism from descending into economic nationalism and protectionism. There are red lines that activism must not cross.

However, politics as well as economics demands a more activist approach. At stake is the political acceptability of European economic integration as well as globalisation. Populist parties on both right and left have done well in national elections. That populism finds an echo in the poses struck by European leaders such as Berlusconi of Italy and even, at times, Sarkozy of France.

The classic response of the "progressive redistributionist" is to say: "Okay – let free markets do their work, but we need stronger social protection and more redistribution to make this politically acceptable." But this is no longer sufficient. The political purpose of the new activism is about ensuring "new jobs that will be good jobs as well". It is about creating the policy frameworks, developing the right conditions and supporting the growth of businesses that will deliver these outcomes.

The "new activism" will not work without improving the effectiveness of state action. It has to be market-based and business-friendly. A new industrial activism will not attract support if it does not learn the lessons of past failures. Government cannot "pick winners". But European governments have a long record of support for skills development, infrastructure improvement, investment in research and innovation, and financial help with loans (and sometimes equity) for small and medium-sized enterprises. During a recession, these policies become more challenging, yet more important.

Both to sustain growth and for social and employment reasons, European governments must ensure that businesses retain access to a wide range of finance, through generous and accessible loan and credit guarantee schemes, and prevent the withdrawal of venture capital from domestic markets, where necessary by setting up new public-backed financial institutions. They should incentivise the maintenance of employer investment in skills, with the offer of targeted subsidies, while ensuring that, as far as possible, the skills training on offer relates to specific future business needs. They must break down the barriers to innovation and offset heightened risks, by maintaining public investment in research and increasing financial support for closer-to-market innovation. Funds, however, should be allocated through agencies independent of politics on the basis of commercial and scientific judgment.

But the role of government should become deeper. A broader, market-based approach towards specific sectors is necessary for domestic industries to exploit fully emerging opportunities: for example, a comprehensive approach to the low-carbon transition, which involves questions of skills, innovation, as well as infrastructure and planning. It is difficult to envisage a successful energy policy for the future without some return to long-term state planning. Significant long-term investment will be required in new infrastructure for a low-carbon transition to become firmly entrenched.

However, the new industrial activism should be about enhancing the capabilities of domestically based firms, not discriminating in favour of nationally owned companies. For Europeans, the importance of a strong EU is paramount in this respect. Rules over state aid levels must be enforced, while the regulatory parameters of the single market

must be zealously guarded and its principles of free and open competition buttressed. The EU must also do its utmost to persuade the US not to entrench the worrying resurgence in protectionist rhetoric in congress, exemplified most notably by the inclusion of a "Buy American" clause in the Obama stimulus package. That is why a commitment to complete the Doha round of international trade talks would be of huge symbolic and practical importance.

### **Intervention in labour markets**

Much of Europe's impressive employment growth during the past few years has been in the second-tier labour market of insecure jobs with inadequate protections and employment rights. The privileged position of the labour market "inner core" is likely to seem even more indefensible. This should sharpen the debate in favour of more balanced "flexicurity", although it is impossible to foretell whether this will result in new EU labour market legislation or budget programmes.

One looming issue is how member states choose to manage domestic opposition to full internal labour mobility, which is supposed to come about in 2011. There will be pressure from the left for a revision of the Posted Workers Directive, for example, in order to limit the potential for wage undercutting and "social dumping": it would be a very divisive issue with those that have recently joined.

On the trade union side, there is much anxiety about a series of ECJ judgments that give precedence to the founding economic freedoms of the European treaties over nationally based collective institutions that are judged to compromise them. The European Trade Union Confederation is naturally exercised by the recent court judgments where trade union collective action has been judged illegal that attempted to force contractors from the new member states to abide by collectively agreed terms in the old member states – so preventing them from gaining an advantage by using cheaper labour from their own countries.

There is clearly a balance to be struck case by case on these questions. On the one hand, the new member states have legitimate expectations that they can use their cost advantage to develop their economies. This principle the Founding Six accepted, for all its difficulties, when the Treaty of Rome ushered in the Common Market. It is fundamental to the processes that make globalisation highly beneficial to poor people in emerging economies. On the other hand, at stake is the right of trade unions under national laws and practices to take collective industrial action to enforce the "going rate" in their own jurisdiction. This right appeals to ordinary people's feelings of fairness and justice. Yet there is clearly illogicality in permitting competition on the basis of lower labour costs in

the export of manufactures, as is the basis of the single market, but using workforce muscle to snuff it out at source in the provision of services by firms from the new member states.

The purpose of the Posted Workers Directive was to resolve this tension. Clearly, if the ECJ's legal judgments are not thought to represent a fair balance between opposing and ultimately irreconcilable positions, then the first question to consider is how that directive's provisions could, in principle, be strengthened under EU legislative procedures, and how the necessary qualified majority for such a step might be won. This might require a package of wider political trade-offs with the new member states with which all students of EU affairs are familiar.

The "European social model" was built in the post-war era on the ability of national welfare states to shape capitalism in their own distinctive national way. But globalisation has shifted the balance of industrial power from labour to capital. The ability of EU nation states to take countervailing action against these trends has arguably been constrained by the neo-liberal legal order of the EU. However, this argument ignores what nation states have gained as a result of the creation of an EU legal order, gains that are of crucial importance for working people. The economic benefits of the single market have significantly added to EU GDP and, as a result of the growth dividend, national welfare states are better funded as a consequence. Unlike the US, this dividend has been more broadly shared in Europe.

The single market would not be the economic powerhouse it has become without action by the European Commission and ECJ to ensure its rules are enforced and constrain national discretion on questions such as state aid. This may, at times, be uncomfortable. But the political choice of member states has been to surrender sovereignty in order to subject themselves to this external discipline in the belief that the greater good of their citizens, including trade unionists, is better served by this in the long run.

The existence of the single market has not resulted in member states having to dismantle their social models. True: social models that have not been well attuned to job creation have been forced to reform, as in the case of Germany with Agenda 2010. During the past decade, the EU countries with consistently the highest rates of productivity growth have been the Nordic countries, which also have the most generous social provision. Social justice and competitiveness march hand in hand where member states have well-designed social models. In the EU as a whole, there has not been a "race to the bottom", rather in countries such as Spain, Portugal, Ireland and some new member states a "race to the top".

In addition, core EU legislation and enforcement action to create the single market has been accompanied by much "progressive" flanking legislation and court action in fields such as the environment, consumer rights, health and safety rules and anti-discrimination as well as the achievements of the European social agenda itself.

From a British perspective, objections to the ECJ sound more like a right-wing national sovereigntist than a progressive defender of European social values. In Britain, the ECJ is seen as a progressive force where its rulings have made a significant contribution to equal treatment for women and other disadvantaged groups. Indeed, so terrified was the British government of the ECJ's perceived progressive bent that it insisted on all manner of legal clarifications and so-called opt-outs before it would agree to the incorporation of the Charter of Fundamental Rights in the Lisbon Treaty.

Neo-liberalism has shaped an ideological consensus that has governed the EU for more than two decades, but could now be on the verge of being modified. Jacques Delors promoted the idea of the single market because he recognised that, in the early 1980s, this was the only means to reconcile his ambition to redynamise European integration with the prevailing neo-liberal consensus. With the global financial crisis of October 2008, this consensus is, at the very least, about to be recalibrated. It might be more productive to concentrate on how, in this dramatic new conjuncture, EU integration might take a different road forward, instead of advocating actions that would undermine the very institutions at European level that we now need to strengthen.

### **A more comprehensive social agenda**

A social crisis – combined with populist opposition to labour migration – may lead to a new look at EU social policy. European funds could be used to realise some form of minimum income or anti-child poverty guarantee across the EU: a possible "side-payment" for other liberal market-opening or market-defending measures. The crisis also strengthens the case for wider EU budget reform; some rebalancing between instruments of economic and social cohesion could be part of it.

The EU needs an overarching internal policy framework to replace Lisbon. This should embrace structural reforms to open up markets and strengthen competition; the sustainability and low-carbon dimension; a new approach to regional policy and re-distribution; and a modern social policy. This framework should also acknowledge the need for differentiated national approaches toward common goals given Europe's increased diversity.

Those of us who believe in the benefits of economic openness have a fight on our hands.

The way to win that battle is to modernise the so-called "European social model" not dismantle it, in that the member states least opposed to globalisation are those that are most egalitarian and have the strongest active labour market policies.

It is clear from the analysis of the social challenges facing Europe that EU member states as a whole need to invest more in their social future. Priority must be given to policies that improve life chances for children and young people to tackle emerging problems of generational inequity. New "social bridges" need to be constructed to create access to new ladders of opportunity at different stages of the life cycle. The potential risks of polarisation between "winners" and "losers" from economic change and globalisation need to be narrowed: a new focus is called for on better labour market transitions, particularly for the low skilled.

Emerging social problems, such as the social exclusion of disadvantaged and child poverty, can only be tackled through sustained social investment. In particular, there are clear policy areas where welfare and labour market systems within member states have not sufficiently adjusted to changing social conditions:

- investment in young mothers and babies to overcome embedded disadvantage (pre-mainstream childcare services);
- how best to reduce early school leaving, make up the ground for young people whose schools have failed to teach them the basic skills and lessen the risks of delinquency;
- lifelong learning policies for the low skilled, especially in private sector work, to offer second chances and opportunities for social progression;
- support for the "dual-earner" family to enable couples to better combine children and earning a living; and
- better integration of migrants through targeted action to overcome language and cultural barriers and raise levels of educational achievement and labour market participation.

Member states have the main responsibility for the social policy changes that are necessary. But this does not preclude a framework of objectives, targets, incentives and mutual learning that could be set at EU level. A common vision adopted by the European Council could be backed by the following instruments at EU level:

- *Common social objectives* could be set at European level, for example, in areas such as childcare provision, the achievement of basic standards of numeracy and literacy and reductions in early school leaving.

- *Flexible common principles of policy* should be developed on crucial issues (as on "flexicurity"), with independent expert panel(s) to assess evidence and make policy recommendations on the basis of best practice.
- Common objectives could be reinforced by *a limited number of "binding targets"*, such as those that the EU has recently agreed for renewable energy. A target might, for instance, be set for child poverty as a relative measure according to national median income in each member state.
- The process of *"learning from each other"* needs to be revitalised so that it enters the political bloodstream of national and European debate, rather than being locked away in the present processes of the "open method of co-ordination". Its focus should be broadened to include vital but neglected questions, such as the most successful strategies for integrating migrants and ethnic minorities. Benchmarking of best practice should be strengthened with greater involvement of national parliaments, social partners and NGOs.
- As part of a wider EU budget reform, *a new social programme could be developed at EU level to tackle social disadvantage through the life cycle*. This could include initiatives to prioritise early intervention for disadvantaged children, tackle early school leaving, overcome declining social mobility in access to higher education, provide new entitlements to learning through life, and manage better, more frequent labour market transitions for the low skilled. It is right to use the EU budget as a laboratory for experimental social policy initiatives in tackling the newly emerging social risks of today where there are existing gaps in member state provision. The offer of matched funding should be conditional on rigorous peer review of member state initiatives to establish best practice. The EU budget should become a catalyst for member state's own reforms.

The EU budget is only 1% of European GDP and therefore not of massive significance in the battle against the recession. None the less, it is depressing that the horse trade on the new financial perspectives reflected a lack of radical ambition for budget reform. More than 70% of the funds are still devoted to the Common Agricultural Policy and the "structural funds", despite the emergence of major new EU priorities such as: climate change and the need to facilitate the transition to a low-carbon economy; strengthening controls on migration at the common EU border; research and higher education in the light of Europe clearly falling behind the US; and a more active and effective EU neighbourhood and external policy.



True in agriculture, subsidies have largely been decoupled from production and more funds switched to rural economic development. And structural funds are now supposed to be aligned with "Lisbon" policy objectives, although the Commission has little ability to direct spending towards its agreed policy priorities, and instead its accountability is centred on bureaucratic processes and financial procedures rather than better policy outcomes.

The crisis is the opportunity both to reform the distribution of spending towards more up-to-date and relevant social objectives – and also to make its process of distribution conditional on member states achieving domestic reforms.

## Chapter 5

# The European economic and social model – future prospects

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## The European economic and social model – future prospects

### Different varieties and common ground

Despite their differences, European societies as a group stand apart in terms of the interaction of structural features of the economy, society and politics, compared, for example, with the so-called US business model or developments in Japan. Their specific features include:

- an interventionist state;
- a tax- or contribution-based social security system;
- public awareness of the importance of social justice for the maintenance of social cohesion;
- active and capable trade unions that aim to shape both politics and society;
- a political culture in which social democratic parties have a place;
- a legal system embedding fundamental social rights and the elements of industrial democracy;
- a tradition of company management oriented towards the longer term and owners' social responsibility.

Common to European societies, therefore, is a fully functional welfare state that guarantees citizens' social security and corrects market failures. Despite this common ground, however, a unified European economic and social model has not yet emerged from the social systems of the EU member states.

### Cornerstones for the further development of the model

The organisation and financing of social policy in the EU remains the sole competence of the member states.<sup>1</sup> Therefore, the creation of a unified social security system in the EU is widely seen as neither realistic nor desirable. Social policy co-operation among the member states, such as there is, occurs solely by way of the non-binding "open method of co-ordination" or OCM. At the European level – in contrast to the burgeoning economic policy competences related to the single market – there is no social policy in the classical sense. However, EU legislation in a whole series of communitised policy areas – for example, EU competition and monetary policy – has had a discernible effect on people's social circumstances and is progressively diminishing member states' leeway in social and economic policy.<sup>2</sup>

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<sup>1</sup> See also: Stuchlik, A and Kellermann, C "Europe on the Way to a Social Union?" in *Internationale Politikanalyse*, January 2009

<sup>2</sup> See: Leibfried, S "Europäische Sozialpolitik – Richtern und Märkten überlassen?" in *WSI Mitteilungen*, October 2006

EU social policy faces some major challenges. On the one hand, it has to cope with the resistance of national governments to any loss of autonomy, and on the other, it has to deal as productively as possible with conflicts of interest between rich and poor regions or between employers and employees. In the 1990s in particular the EU acquired extensive social policy competences, and more recently it has attempted to acquire additional competences in such areas as anti-discrimination. But this does not constitute a simple transfer from one level to another: member state governments have lost more control over national social policy as a result of single market integration than the EU has gained. The multi-level structure that has emerged from this is still largely determined by judicial decisions. Its basic features are political immobility and “negative” market integration. This imposes fundamental restrictions on national social policy, jeopardising the achievements of democratic welfare states.

If EU policy – underpinned by European Court rulings – continues to come down on the side of competition at the expense of social considerations, social cohesion will be jeopardised and so will public assent to European integration. Despite the prevailing differences, even between Europe’s social democratic parties,<sup>3</sup> recent developments strike a positive note. However, public awareness of the long-term importance of the social dimension could give rise at EU level to social policy regulations and social standards comparable to the provisions of the single market. Only then could some sort of certainty about the future be achieved, of the kind advocated by British historian Tony Judt. He regards the European welfare states as a prerequisite of conserving prosperity, security and democracy in an increasingly unstable world. For him, Europe stands alone as a feasible model for the future.<sup>4</sup>

We believe that there are three crucial elements for a European welfare union:

1. Given that global and European developments affect national economies, social systems and societies in ways that the nation state is no longer able to cope with, in future what we might call *European calibrations* will also be necessary. This comes down to a new division of labour between the EU and the member states that would concede more regulatory competences to a democratically legitimised European parliament and its commission.

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3 Busemeyer, M, Kellermann, C, Petring, A and Stuchlik, A “Politische Positionen zum Europäischen Wirtschafts- und Sozialmodell: Eine Landkarte der Interessen” in *Internationale Politikanalyse*, August 2006

4 Judt, T *Postwar: A History of Europe since 1945* (Penguin, 2007); a similar argument may be found in: Rifkin, J *The European Dream: How Europe’s Vision of the Future Is Quietly Eclipsing the American Dream* (Polity, 2004), or: Hutton, W *The World We’re In* (Little, Brown, 2003)

2. Such calibrations, however, could ultimately lead to safeguarding national (above all social policy) leeway and achievements.<sup>5</sup>
3. It is particularly important from the social democratic standpoint to emphasise and establish the primacy of politics over the European Court of Justice. As a result, political belief in social cohesion would gain ground and, as a next step, acquire legal underpinning so that it could stand alongside competition law. As far as enshrining the welfare state in a treaty is concerned, the positive experiences that resulted from the positioning of the Federal Republic of Germany in its constitution (basic law) as a social state based on the rule of law for the development of the social market economy should be taken into consideration.<sup>6</sup>

A European welfare union requires, above all, a recasting of the Lisbon Agenda initiating extensive changes in a range of interlocking policy areas.

The Lisbon Agenda, as the central strategy for growth and employment in Europe, is reliant upon the knowledge society and increasing productivity. So far, the agenda has fallen short of its aims, particularly that of increasing productivity. Employee participation and codetermination, higher investment in training and education, as well as greater capital intensity are of fundamental importance in this respect. The socioeconomic environment must promote productive capital accumulation by striking a balance between increasing demand and optimising supply conditions.

In the eurozone in particular, national economic and social policy leeway is restricted by various framework agreements. The current regulations, consisting of the Maastricht Criteria and the European Central Bank's monetary and interest rate policy, should be supplemented by the co-ordination of fiscal and wage policy. Full employment in Europe depends decisively on stronger macroeconomic and wage policy co-ordination, as well as on a stabilising monetary policy.

All European economic and social policies must take due account of their effects on each of the different national welfare state models. In particular, they have to consider the different stages of development of the old and the new member states and respect national growth and employment policies, in so far as they correspond to fair competition in Europe. Economic convergence, full employment and Europe-wide solidarity should be

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5 "The only way is not to follow the European Court," declared Fritz Scharpf in an interview with the magazine *Mitbestimmung*, July/August 2008

6 According to article 20, paragraph 1 of the constitution, the Federal Republic of Germany is a democratic and social federal state. In article 28, paragraph 1, it says that "the constitutional order of the states must correspond to the principles of the republican, democratic and social state based on the rule of law within the meaning of this constitution".

the aims of a socially just EU. A future European economic and social model will preserve particular features of individual welfare states and safeguard them by means of a minimum welfare state. Moreover, job security, social protection or democratic participation are not ends in themselves; rather it is the task of politics, society and the economy to contribute to people's satisfaction with life, self-realisation and happiness.<sup>7</sup>

Due to pressures resulting from integration into the single market, EU member states have lost more control over national social policy than the EU has gained. In the EU's multi-level structure, social policy has so far played a subordinate role. Member states should be allowed more room to manoeuvre in the area of social policy; and parts of it, such as education policy, should be integrated. The shaping of social Europe should not aim at the standardisation of national social policy institutions, however. European framework directives should serve to protect national social policy achievements, such as public services of general interest.

The tax competition that we are witnessing in Europe today has shifted the tax burden on to earned income and consumption taxes. In order to respond to this development, adjustments to welfare state financing are needed: the financial basis for national social policy should be organised fairly and safeguarded. At the same time, tax policy should be harmonised to a greater extent. Harmonisation is not in conflict with national and fair formation of tax policy; on the contrary, it is one of its conditions. In the medium term, the EU should acquire its own financial resources, based on a European corporation tax. This would allow for the establishment of a growth fund to promote technological and industrial progress.

As the current crisis has revealed, financial market actors in Europe are not regulated sufficiently. European financial markets need to become a stabilising factor in a productivity-oriented European economy. Three factors are of particular importance: a capital requirement that reflects risk, increased transparency in the investment behaviour of financial market actors, and the efficient exchange of information between national supervisory authorities for financial services through the creation of a cross-sector European supervisory institution. A one-sided orientation towards shareholder value hinders investment and the formation of real capital, thereby hampering growth and employment.

The increasing one-sidedness of the drive to complete the single market threatens the

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<sup>7</sup> Australia can help lead the way towards the monitoring of well-being in Europe; it takes into account a whole range of individual, economic, social, political and environmental categories. See: Australian Unity Wellbeing Index Survey, 16 October 2006

European integration project as a whole. Every further step towards integration should therefore be taken in accordance with the notion of a "social Europe" and be subject to binding social monitoring. This monitoring should consist of three elements: the laying down of minimum social and environmental standards, the introduction of social acceptability checks that evaluate EU policies and laws in terms of their social consequences, and development of the non-binding Open Method of Co-ordination through the introduction of binding indicators, including sanctions and incentive structures.

Economic democracy should be strengthened in the European economic and social model by means of the institutional strengthening of the social dialogue. Furthermore, a European law on industrial relations (following up the Directive on European Works Councils) and reinforcement of the hitherto merely advisory competences of the European Economic and Social Committee are necessary.

Solidarity between the member states is of decisive significance for shaping a European economic and social model. To that extent, regional policy should be used more coherently as a means of redistribution. The best approach would be to overcome regional differences in productivity and capital intensity instead of creating dependencies on fund transfers. The Cohesion Fund should therefore be developed to fulfil its task of promoting the catch-up growth of low-income regions. The Globalisation Fund must be developed in a similar way to alleviate the consequences of social change and job relocations.

Finally, the creation of a European economic and social model requires the intensification and standardisation of European migration and integration policy. Immigration on economic grounds should take into account future demographic challenges and the need for a highly qualified workforce. A horizontal approach to immigration control through a points-based system would be more sensible than sectoral or occupational solutions. A sustainable immigration policy also requires a sustainable integration policy. A European refugee policy must meet the requirements of our humanitarian obligations. Integrated European policy approaches must do much more to eliminate the causes of emigration.

### **A European social stability pact**

At the heart of the European economic and social model there should be a "European social stability pact".

The correlation between the levels of economic and social development in the EU needs to be strengthened. As a general rule, member states with high income levels per capita provide more funding for welfare policies than countries with lower economic development. In an enlarged EU, this correlation between economic performance and social spending is

decreasing, while economic and social heterogeneity are increasing. With a European social stability pact, the EU and its member states would create a common framework within which to maintain general social standards by linking them to national economic performance. The social stability pact would consist of the following three elements:

### Minimum wages

Minimum wages should be introduced in every member state. They would be set either by law or through collective bargaining. Minimum wages should be linked to national economic productivity and calculated as a certain percentage of the national average wage. In accordance with the idea of decent work, wages should at least secure a minimum standard of living in the country concerned. This means that decent minimum wages should not be allowed to fall below 60% of the national average wage (the poverty line, as defined by the EU, stands at 60% of the median income). Under this regulation, member states would be free to set higher minimum wages. National wage regulations would apply both to citizens and to migrant workers.

### Social spending

Social spending of each member state ought to be related to its income per capita. According to the European System of Accounts (ESA), the overall rate of social spending is composed of monetary and non-monetary social benefits, including public and private, tax- and contribution-based provisions. Pension and healthcare provisions account for the bulk of social spending, at 70-80% overall in each state. Other transfers include unemployment support, social assistance schemes and family benefits. Four groups of economically differently developed countries can be identified within the EU, so four corridors of social spending levels should be established. As countries attain a higher income per capita, they would move to a higher corridor. Within the corridors, levels of social spending could vary. While member states would continue to decide how to distribute social spending, the aggregate level of social spending would be regulated.

### Spending on education

Spending on education needs to be better co-ordinated in the EU. It could serve as a key instrument in strengthening economic competitiveness, establishing equal opportunities and enabling the social advancement of individual needs. Taking into account different levels of economic development, the medium-term objective for education spending in EU member states is 7% of GDP. This ambitious target would be in line with the logic of the Lisbon Strategy.

With this pact, the EU would live up to its citizens' expectations concerning a social dimension of the economic integration process. Member states should pledge themselves



to overcoming the economic and social heterogeneity that characterises the EU today. To implement the "social stability pact", the Open Method of Co-ordination could be used as an instrument to pursue common objectives in employment, social security and education policy. By agreeing on targets, formulas and corridors as outlined above, member states would create a framework for common social standards that would reflect the various levels of economic development within the EU. What we need for such a wide-ranging agreement is a common commitment to the value and contents of the EU's social dimension, as well as a willingness to put these values into practice.

### **Final remarks**

The current global financial and economic crisis underlines the need for an adequate account of globalisation and, in accordance with that, the increasingly important role of the EU as a welfare and security union.<sup>8</sup> Some believe that only the nation state can address current problems. But it seems obvious that nation states are no longer capable of solving the huge problems of a world characterised by new international power structures.

Faced with the current crisis, the need for the Europeanisation of spheres of activity and regulation becomes ever more apparent. National politics must have an eye to the European horizon in everything it does. National politicians require "European courage" in search of answers to the challenges of globalisation in general, and the current financial and economic crisis in particular. If the crisis shows us anything, it is that in future a social response to globalisation can be organised only by an active European Union.

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<sup>8</sup> Katsioulis, C and Maass, G "European Integration: Prospects for the Future as a Security and Welfare Union" in *FES Kompass 2020*, March 2007

## Chapter 6

# The EU's renewed social agenda – the right way forward?

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## The EU's renewed social agenda – the right way forward?

In 1989 the approval of the Charter of Fundamental Rights for Workers and the related social action programme paved the way to the establishment of a set of binding social rights at the EU level. Those were the golden years of social Europe, when a combination of factors – a socially committed and skilful commission, the political momentum generated by the internal market project – led to a significant expansion of EU action in the social domain.

Some 20 years later, the situation is markedly different. The enlargement of the EU to 27 members as well as the shift towards right-wing majorities at the national level have translated into difficulties and a lack of political will to expand and renew the social "acquis". The "soft" methods of governance, which were supposed to take the lead in the advancement of social Europe, have not produced the expected results. Last but not least, social issues have clearly taken second place in the EU agenda, as evidenced by some recent developments – such as the 2005 decision to refocus the Lisbon Strategy on growth and jobs or the watered-down council agreement on the Working Time Directive. Thus, there is a growing impression that social Europe has come to a standstill, or even that it is in retreat.

In this context, it does not come as a surprise that the recent approval of a new EU social agenda – the so-called "renewed social agenda for the 21st-century Europe"<sup>1</sup> – has raised high expectations among those voicing the need for a more social Europe. Yet one might wonder whether this new social package is the right way forward to put social Europe back on track.

At first sight, there are two reasons for doubting on this. The first is that the new social agenda has been received coldly by the EU social partners (employers' organisations and trades unions). The business federation Eurochambers has dismissed the package as a "confusing patchwork with questionable added value" and the European Trade Union Confederation, ETUC, has defined it as a "modest step" that "falls short to win the hearts and minds of European citizens and to meet their needs"<sup>2</sup>.

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1 European Commission *Communication from the Commission to the European Parliament, the Council, the European Economic & Social Committee & the Committee of the Regions: Renewed Social Agenda: Opportunities, Access & Solidarity in 21st Century Europe* (2008)

2 Eurochambers "EU Renewed Social Agenda: A Confusing Patchwork with Questionable Added Value" (July 2008) (<http://www.eubusiness.com/Social/eurochambres.08-07-02>); European Trade Union Confederation "Social Agenda: Modest Step Forward" (July 2008) (<http://www.etuc.org/a/5185>)

The second worrying element is that the new EU social agenda appeared in early July, just before the start of the crisis and at a moment when EU economic forecasts were moderately optimistic. In a context of relative prosperity, a choice was made for an EU social agenda largely committed to social promotion (providing opportunities and access) and long-term social investment (in youth, human capital, healthcare). Yet the situation has dramatically changed in the last few months, with the onset of the economic crisis.

While it is difficult to predict the evolution of this crisis, one thing seems certain: it will trigger major social consequences. We are already witnessing a dramatic increase of the number of unemployed in some EU countries, and if the crisis lasts for long – which is probable – this will translate into problems of social unrest, poverty and social exclusion. This change of circumstances raises serious doubts about the appropriateness and political opportunity of maintaining a long-term-oriented EU social agenda.

### **The 2008 social agenda: much ado about nothing**

Apart from these two factors, there is another worrying fact concerning the 2008 EU social agenda: its ambiguity and vagueness. In contrast with the social action programmes of the 1970s and 1980s, which were action plans with clear objectives and a defined timetable, the new EU social agenda stands at a midpoint between a community action plan and a position paper.

The vagueness is also evident with respect to the agenda's timetable. Unlike the two previous social agendas, which covered a period of five years each (2000-05 and 2005-10 respectively), this agenda does not have an explicit calendar of implementation. It is presented as the social agenda "for the 21st-century Europe" but the proposals it contains are all scheduled for 2008/09. While the document does not give an explicit timetable it announces a revision "together with the Lisbon Strategy, for the post-2010 period". Yet it is unclear whether this revision will lead to the elaboration of a new social agenda or to an updating of the existing one.

The new social agenda is also unclear with respect to its rationale. The 1989 social action programme was conceptually linked to the single market. It aimed at counterbalancing the completion of the single market with "market-correcting" measures (the establishment of EU minimum social and labour standards). The 2000 and 2005 social agendas were linked to the Lisbon Strategy. They were intended to support and complement member states' efforts to attain the social and employment Lisbon objectives – raising unemployment rates, modernising the social protection systems, promoting social inclusion.

The renewed EU social agenda is not conceived as the social component of the Lisbon

Strategy, and neither does it aim to counterbalance further economic integration with "market-correcting" measures. It builds on the results of a broad-based consultation launched by the Commission in 2007 to take account of Europe's changing social reality. This consultation formed part of the Commission's effort to promote a "Europe of results" – that is, to deliver concrete results with a direct impact on citizens' lives.

Being linked neither to Lisbon nor to recent advances in economic integration, the aim of the new EU social agenda is rather vague: "to enhance European citizens' well-being and quality of life, by helping them cope with changing social realities". In coherence with this, the new agenda is wider in scope than the previous ones: it does not confine itself to the traditional EU social domains – employment, social protection – but rather covers a wide range of policy areas, including education and youth, health, immigration and intercultural dialogue.

Concerns about bringing the EU project closer to its citizens are commendable. There seems to be a consensus that citizens' weak support for the European project is partly explained by the fact that many of them perceive it only as an agent of market liberalisation. If we want to change this perception, we need to convince people that the EU is not only a market project but also a societal project. That it is about promoting economic growth and social progress. That it provides not only concrete benefits for business, but also solid and effective responses to citizens' social concerns.

Yet one might wonder whether we are going to convince citizens on all these points by formulating a broad EU social agenda. At a time when citizens are severely affected by economic crisis, an EU social agenda which claims vaguely to improve citizens' well-being by packaging variegated initiatives in diverse policy areas might give the impression that the EU has lost touch with reality. It might, indeed, reinforce the popular image of EU bureaucrats coddled in their offices far from the man on the street and his concerns.

The EU needs to give a more tangible response to citizens' social problems. This is truer than ever today, as citizens' social problems have become more concrete, more acute and more homogeneous in the context of the crisis. But giving a concrete and effective EU response to these problems requires, first of all, recognising the limits of EU action in the social domain. It implies using EU leverage in a smart way, focusing action on those areas in which greater EU engagement is not only justifiable but also advisable. It implies a return to a real EU social policy agenda, with a clear rationale and clear objectives.

### **Back to basics: a well-focused social agenda with a clear rationale**

In fact, the ambiguities of the current social agenda partly reflect the confusion that

reigns today concerning the rationale of EU social action. Over the past decade or so, we have witnessed a shift away from the 1980s rationale of providing a social dimension to the single market and towards a new rationale, that of preserving and modernising the European social model (European countries' commitment to high social standards, relative income equality and social dialogue) by providing a common template for national welfare reforms and ensuring its application through non-binding policy co-ordination.

Originally, these two logics were conceived as complementary. Thus, for instance, the launch of the European Employment Strategy in 1994 was not intended to replace efforts to establish minimum EU labour standards, and indeed various EU directives were passed just after its inception. Yet, in recent times, there has been a tendency to conceive these two logics as alternative rather than complementary approaches. As "soft" social governance has been extended to a number of policy fields (social inclusion, health and pensions, education and training), "hard" law has been increasingly portrayed as outdated and unnecessary. In a Europe at 27, it has been argued, "one-fits-all" directives are not the way forward to promote social progress.

In parallel to this, the logic of preserving the European social model has been denatured with the 2005 decision to refocus Lisbon on growth and jobs. The original Lisbon Strategy placed economic and social development on equal footing and struggled to ensure an adequate synergy between these two components. The need to co-ordinate social and employment policies was hence justified on both functional and political grounds. Policy co-ordination was to help member states promote financially sustainable and productivity-oriented welfare reforms. These were deemed necessary for growth (the functional rationale) but also, and more importantly, to anchor member states' commitment to high social standards, thus making the promotion of economic competitiveness and growth conditional upon the preservation of social entitlements and action against social exclusion (the political rationale).

With the 2005 refocusing of Lisbon on jobs and growth, the political case for social policy co-ordination has been weakened. Lisbon is now founded on a refined version of the old "trickle-down" argument, in which levels of living standards are expected to rise automatically with the move towards a highly skilled, knowledge-based economy. Thus, in the post-2005 Lisbon architecture, only member states' social reforms in pursuit of employment promotion or financial sustainability are subject to close co-ordination and surveillance within the core Lisbon process. The remaining national welfare reforms are co-ordinated through a much weaker process (the "open method of co-ordination" on social protection and social inclusion), which is increasingly justified less in terms of common EU social values and political spillovers and more for the benefits arising from

information exchanges and mutual learning.

The current stalemate in social Europe is partly explained by the weakening of these two logics of intervention. If we want a more effective EU social agenda for the years to come, we need to return to basics. The EU social agenda cannot provide responses to all citizens' social problems, but it can be effective if concentrated on achieving the two main goals that have traditionally inspired EU action in the social domain – that is, to ensure that the single market does not have negative effects on national welfare systems, and to shore up member states' commitment to high welfare standards by helping them modernise their social protection and employment structures. As seen before, both logics have been either de-legitimated or weakened over the past few years. Yet recent events have demonstrated that the two are as relevant now as they were during the 1980s and 1990s.

On the one hand, the controversy generated by the recent European Court of Justice (ECJ) rulings on *Viking*, *Laval* and *Rüffert* has demonstrated that the relationship between the single market and national welfare systems is far from harmonious. They have also demonstrated that the tensions between these two spheres (EU economic integration and national welfare systems) are more complex than the question of obvious "social dumping" practices. In fact, these rulings are the latest episodes in a long history of ECJ rulings expanding the internal market logic into core spheres of national welfare systems – social services, healthcare, industrial relation systems.

So far, EU political actors have limited themselves to codifying the advances made by the ECJ in the process of European liberalisation, but there has been hardly any response in terms of EU "market-correcting" measures. Redressing this imbalance between negative and positive integration processes should be one of the priorities of the EU social agenda for the coming years. This is not only a matter of morality or ideology. As economic crisis deepens it will be no surprise to hear voices contesting the single market "acquis" – the recent English strike against "foreign workers" is a warning. Making the single market socially friendly is therefore vital to assure its long-term viability.

On the other hand, the "trickle-down" effect inspiring the 2005 Lisbon Strategy has not worked as announced. As shown by a recent Commission report monitoring the progress in social protection and social inclusion,<sup>3</sup> the economic recovery of the latest five years has led to a significant improvement in unemployment rates. However, the overall poverty rate in Europe has not improved, and child and old-age poverty rates have increased in some EU countries. In other words, economic growth has had positive social effects but it has

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3 "Monitoring Progress towards the Objectives of the European Strategy for Social Protection and Social Inclusion", Commission staff working document (October 2008)

not automatically provided social cohesion, nor has it improved the situation of the most marginalised in society.

If the trickle-down effect has been limited in good times, it will be totally absent in bad times. Faced with the crisis, the EU should rethink its strategy to preserve the European social model. Rather than promoting a positive synergy between growth and social policies, the priority in the near future will be to prevent a lack of growth translating into extensive poverty and social exclusion. This will imply a change of priority, from social prevention and social investment towards "old-style" passive-oriented social protection.

Providing a common template for this shift should be one of the main tasks of the EU social agenda in the coming years. In particular, the EU should ensure that this shift takes place in an orderly and co-ordinated manner so as to prevent negative spillovers from one country to another; that the measures implemented by national governments are timely and effective in mitigating the social effects of the crisis; that they are financially sustainable in the long term; and that they are provisional, so that member states return to the long-term social investment approach once the economy recovers.

### **2009: time to write a new EU social agenda**

The coming years will be critical for social Europe. As the crisis deepens, citizens' demands for social protection will increase. If the EU does not respond to this demand in one way or another, if citizens do not have the conviction that part of the protection they demand is ensured by the EU, there is a real danger that these demands for protection will translate into protectionism. Can we prevent this scenario?

There is no doubt that the EU cannot provide a direct response to those who are losing jobs, homes and pensions, but it can be very effective on two fronts: first, by assuring citizens that the single market does not endanger their national social protection systems, and, second, by co-ordinating and supporting member states' efforts to mitigate the social effects of the crisis. The EU social agenda for the coming years should be explicitly focused on achieving these two goals.

It is time to write a new social agenda for Europe. We should do it as soon as possible, before the crisis becomes worse. The forthcoming European elections and the appointment of a new Commission in the coming months provide an excellent opportunity to review the goals of EU social action from scratch. We should not miss this opportunity: not only the chances for a more social Europe, but also the union's continuity, depend on it.







## How does business view the social agenda?

Any discussion about social Europe must start with economics and specifically the global economic unease. The financial crisis and the resulting economic downturn are having a dramatic effect on Europe and the rest of the global economy. World growth is projected to fall to just 0.5% in 2009, the "worst for 60 years" (according to an International Monetary Fund report published in January 2009). Trade is expected to slip into reverse in 2009 for the first time since 1982, and globally unemployment is increasing.

The damaging consequences of the slump are not confined to certain regions or economies at a particular stage of their development. Even the most advanced and developed economies have not been insulated from the winds of the slump. The eurozone economy dipped into recession in the third quarter of 2008, after a drop of 0.2% (following a fall of 0.2% in the second quarter of 2008); it was the first time that the eurozone had entered a recession since the single currency was launched in 1999.

This year, the world faces its most serious financial and economic crisis in decades. The year 2009 also happens to mark the 20th anniversary of the European Social Charter, which followed the infamous speech delivered by the then European Commission president, Jacques Delors, to the TUC in September 1988. It is instructive to remind ourselves what Delors said at the time:

*It is impossible to build Europe on only deregulation ... 1992 is much more than the creation of an internal market abolishing barriers to the free movement of goods, services and investment ... The internal market should be designed to benefit each and every citizen of the Community. It is therefore necessary to improve workers' living and working conditions, and to provide better protection for their health and safety at work ... Europe needs you.*

Delors' message was that the EU had a social as well as an economic dimension, as he was later quoted saying: "No one ever fell in love with an internal market." On the other side of the debate, Margaret Thatcher, prime minister between 1979 and 1990, was worried about the development and growth of the social aspect of the EU. While she had reluctantly accepted the "social dimension" of the single market, she protested against the European Social Charter. Later, in her memoirs *The Downing Street Years*, she stated:

*The Social Charter was quite simply a socialist charter – devised by socialists in the Commission and favoured predominantly by socialist member states.<sup>1</sup>*

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<sup>1</sup> Thatcher, M *The Downing Street Years* (HarperCollins, 1993)

For some time, the debate about the social dimension has been polarised between these two views. On the one hand, there is the Delors view, which saw the EU as a means of guaranteeing common social standards and pursuing a trade union-friendly agenda. On the other hand, there is the view personified by Thatcher that the EU was merely a market, and that social rights had no place in an economic union.

Clearly, a great deal has changed in the past 20 years. The EU has expanded from 12 member states in the late 1980s to 27 member states today. Moreover, there has been a general trend of increasing trade and cross-border activity within the EU and beyond. The intensification in trade and capital flows has been part of an accelerating globalisation. Several emerging economies – such as Brazil, Russia, India and China (or the BRICs, as termed by the Goldman Sachs economist Jim O'Neill) have seen their share of world output increasing while the share of established economies, such as the US and the EU, diminishes. Between 2003 and 2015, the share of global output belonging to the EU is expected to fall from 22% to 17%, while for the US the drop will be from 21% to 19%. In contrast, China's share is expected to rise from 13% to 19%.

However, notwithstanding its diminishing share of the global pie, the EU has grown steadily in recent years, largely stimulated by the single market. This economic prosperity has benefited people throughout the EU, enabling them to raise living standards. The government has estimated that while the real direct cost of EU membership to the UK is about £50 per head per year, the benefits are worth about £300 per head per year (through increased trade, lower cross-border costs and so on). In addition, a recent study commissioned by the American Chamber of Commerce concluded that economic openness had benefited Europe and had the potential to boost annual household income by a further €5,000 per family within a few years.<sup>2</sup>

From a business perspective, the polarised conception of social Europe is outdated and highlights three key areas that strike at the heart of the relationship between business and social Europe.

### **Social consequences of the recession**

First, the severe economic recession, in Europe and beyond, has profound social implications. The contraction in the European economy has led to increasing unemployment. The EU economy is expected to see 3.5 million job losses this year, and the unemployment rate is predicted to reach almost 9% in the EU in 2009 (slightly above 9% in the eurozone), with a further increase in 2010.

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<sup>2</sup> Hamilton, D and Quinlan, J *Globalization & Europe: Prospering in the New Whirled Order* (Executive Council of the American Chamber of Commerce to the EU, 2008)

Already, we have seen protests in the UK, most notably in February 2009 at the Lindsey oil refinery in Lincolnshire, as a result of the employment of Portuguese and Italian workers. While all indications suggest that this was perfectly legal, it caused an outcry among local workers, who campaigned with the slogan "British jobs for British workers". The site's owner, Total, was taking advantage of the Posted Workers Directive, enabling the deployment of EU workers across member states. Ironically, there are three times as many British "posted" workers across the EU as there are EU workers in Britain. However, the Lindsey dispute encapsulated the link between economic contraction and social instability. As Robert Zoellick, the president of the World Bank, said recently: "What started as a financial crisis, became an economic crisis, is now becoming an unemployment crisis – and to what degree does it become a human and social crisis?"

Elsewhere the social impacts of the economic downturn are still unravelling. The early weeks of 2009 saw social disturbances across many European states, including Greece, Latvia, Lithuania, Hungary and Bulgaria. The larger member states have also been affected. A general strike in France in January 2009 saw at least 1 million people (2.5 million according to trade unions) take to the streets of Paris. Similar scenes were replicated in Spain, where the unemployment rate had reached 14.4% by December 2008. Furthermore, the credit crunch is having an extremely detrimental effect on the economies of Eastern Europe as their export markets shrink. Already, Hungary, Latvia and the Ukraine have secured emergency loans from the International Monetary Fund, and there is great concern about the social stability of the new member states.

Clearly, socially responsible businesses should be concerned not only about the economics of the recession but also the social dimension. This places an onus on businesses to take a long-term view when deciding on headcounts. There may be ways of retaining full-time staff on a part-time basis during the course of the recession. Governments must be judicious in investing in future growth industries (such as environmental technologies) and also in helping workers who have been laid off to retrain. For instance, according to one forecast, the expansion of environmental industries could lead to 1 million people being employed in this sector in Britain over the next two decades. There may also be a strong case for the European Commission turning a blind eye to cases of alleged state aid (which may infringe the single market and infringements of competition rules) because of the prevailing exceptional economic circumstances.

At this time, open labour markets across the EU give people the opportunity to pursue opportunities in other member states. Relocating to another country may not be a practical option for everyone, but the possibility brings net benefits for the economy as a whole. The UK and the other EU member states (Sweden and Ireland) that opened their

labour markets to the A8 states after they joined the EU in 2004 have benefited economically. Other member states have followed their example, most notably France in May 2008.

As well as improving the flow of people and capital, the European economy requires deep-seated structural reforms. The Lisbon Agenda of 2000 aimed to create "the most competitive and dynamic knowledge-based economy", but progress on this has been stuttering. Some member states have struggled to implement some of the budgetary and structural reforms for fear of the upheaval it may generate. Certainly, a wholesale embrace of the Lisbon Agenda would stimulate innovation and economic growth, but it appears that too many in Europe fear shaking up the system. As the prime minister of Luxembourg, Jean-Claude Juncker, has said, "We all know what to do, we just don't know how to get re-elected once we have done it."

One indication of Europe's need for deep-seated reform is a comparison of the growth trajectory of European business against their US counterparts. A survey conducted by Global Entrepreneurship Monitor found that between 2000 and 2004 only 11.4% of Europe's start-ups planned to hire at least 20 people in the next five years (compared with 17% in the US).

### **Free movement**

In a second and related area, the "four freedoms" of the EU have economic benefits and social consequences. The free movement of people, capital, goods and services is a foundational pillar of the EU. Once again, the economic and the social cannot be divorced from one another.

Free movement of people has led to more cross-border travel, as well as people living and working in other member states. In particular, the extensive migration that followed the enlargement of 2004 has had social consequences, particularly in the UK. It is estimated that over 1 million people from the A8 member states have come to this country since 2004, although approximately half of these have returned home.<sup>3</sup> In the opposite direction, 1.6 million British people have capitalised on free movement to live in other member states in the EU.

While the economic benefits of this intra-European migration have been considerable, there have been social impacts that cannot be ignored, whether they are increased demand for public services or tensions between different groups in some areas. Clearly,

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<sup>3</sup> Pollard, N, Latorre, M and Sriskandarajah, D *Floodgates or Turnstiles: Post-EU Enlargement Migration Flows to (Et from) the UK* (Institute for Public Policy Research, 2008)

the government must address these, but the surfacing of problematic social issues should not be an excuse to retreat from the principle of free movement.

Another example of a clash between those who wish to strengthen the "four freedoms" and the single market, and those who fear "social dumping" occurred over the proposed Services Directive. The directive was watered down after strong opposition from some member states. It is estimated that 50,000 people demonstrated against it on Strasbourg's streets in February 2006 before a crucial vote in the European parliament. The directive was seen by some as a factor in the rejection of the European constitution in the French referendum of May 2005.

Despite the softening of the directive and the removal of the "country of origin" principle – whereby a service provider active in another member state without a permanent presence there need comply only with the administrative and legal requirements of its country of origin – it is still thought that liberalising services in this way will generate up to £6 billion a year for the UK economy, and create as many as 81,000 jobs. The row over the directive was motivated by those who feared the consequences of social dumping, yet the EU's services sector, accounting for 70% of economic activity, is in urgent need of a shake-up; the compromise struck may be the best means of moving ahead at the present time.

### **Environment**

Third, business has been supportive of taking aggressive action to tackle climate change. A survey published by Clifford Chance in 2007 showed 81% of businesses support more climate change regulation. At the same time, it is important not to overstate the case and this does not mean that business is willing to sign up to any proposed regulation. However, business has generally been supportive of the robust action taken by the EU.

This has included the target to cut emissions by 20% by 2020, reaffirmed at the December 2008 European Council. The EU has also proposed targets for renewable energy and for an emissions trading scheme that is the most ambitious project of its kind in the world and (despite initial teething problems) is becoming the global gold standard.

The EU played a key role in global talks at Bali in 2007 and Poznan in 2008 and looks set to do the same at the crucial Copenhagen talks in 2009, where a successor to the Kyoto Treaty will be discussed. As the threat of global warming is highlighted by high-profile reports from Stern<sup>4</sup> and similar findings from the UN, there can be few areas of the EU's

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<sup>4</sup> Stern, N *The Economics of Climate Change* (Cabinet Office/HM Treasury, 2007)

policy agenda that are more important. The degradation of the environment is key to the EU's social agenda, and business broadly supports EU action in this area (as long as the EU's lead is matched by other developed economies in particular).

### **Areas of conflict**

These three areas highlight a positive agenda for business on social Europe. However, it would be disingenuous not to mention some areas where the two run into opposition. In broad terms, business is nervous about any social regulations that unreasonably, and at times unnecessarily, infringe the flexibility of labour. Periodically, there are public disagreements between business lobbies and those championing more labour market regulation.

Specific directives on working time, proscribing a 48-hour working week, have elicited fierce opposition, and more recently the Temporary Agency Workers Directive aroused some concern (the directive would give agency workers the same pay and conditions as permanent staff after being employed for 12 weeks). That said, since the Social Chapter was adopted by the incoming Labour government in 1997 there has been no corporate mass movement against it; nor has the Conservative Party's pledge to renegotiate it aroused overwhelming enthusiasm from business leaders.

The most important thing for business is access to as skilled a pool of labour as possible and relative flexibility in the marketplace; the ease with which one can hire contributes to the dynamism of the market. Overprotected labour markets invariably inhibit growth, but business generally recognises that some regulations may be necessary to uphold the employer-employee relationship. A number of business leaders have been advocating the concept of protecting the worker, not the job, which has its roots in Denmark.

Clearly, flexibility must have some limits – hence the term “flexicurity” – yet the EU, which has the benefit of free movement, must be wary of not derailing this advantage through excessively burdensome labour market regulations. In summary, the regulation of labour markets should be kept at a minimum, to preserve people's dignity at work but not unnecessarily inhibit flexibility. Business may in fact be comfortable with some of the social legislation that has been introduced by the EU, such as anti-discrimination measures (like the equal pay for women established after an European Court of Justice ruling in 1976).

### **Conclusion**

When it comes to business, there are obviously different views in particular sectors and among various business leaders. The ideas in this essay are entirely my own thoughts and



do not purport to speak for a wider constituency. However, there is a prevailing, if not unanimous, view in the business community that sees the EU, first and foremost, as a single market. That does not mean that it is seen solely as a market, but it means that the stress and priority of the business community are on the free movement of goods, services, capital and labour.

While there will, undoubtedly, continue to be areas of conflict between business and certain conceptions of social Europe, the current circumstances demand a different approach. The social consequences of the recession, free movement and environmental policy are all areas that business must be aware of and actively address. While business will continue to oppose some elements of social Europe, it can also engage constructively with others.

## Chapter 8

# The future of the European social model – the welfare dimensions

Professor Peter Taylor-Gooby, Professor of Social Policy at the University of Kent

## **The future of the European social model – the welfare dimensions**

Europe is justly proud of its achievements in developing a social model that reconciles social justice and the needs of a competitive capitalist economy. EU member countries have excellent social provision and relatively high levels of social spending compared with the rest of the world. Yet here is a paradox. Although it consists of high welfare-spending countries, and arguably the social welfare state is one of the most significant gifts of Europe to the world, the EU has found great difficulty in developing common social policies, particularly in areas that require a positive commitment to spending.

The first phase of European social policy thinking, centred on the model of direct provision of services to a common standard and contained in the 1993 social protection green paper, the associated poverty programmes and the concept of social harmonisation, had little practical impact. It was replaced by the workplace and employment-led social strategies of the Maastricht Social Chapter, the European Employment Strategy and other “open method of co-ordination” policies, and the renewed social agenda of 2008. Such approaches have enjoyed partial success. Real advances have been made in equality of opportunity in employment and education, especially for women. Progress in improving the quality of work or in advancing social inclusion has been less obvious.

Europe faced many pressures from economic globalisation, population ageing and recession, and also in threats to social cohesion at the national level and in support for EU institutions at a broader level. The new work-centred approach was, in part, a response to these challenges. Now a precipitate banking crisis and the onset of the most profound recession since the pre-war period impose additional and insistent pressures. Social policies must meet the needs of unemployed people and other vulnerable groups, do so in ways that support economic objectives and also nurture the social solidarity that enables such policies. How the European social model will respond and whether different member countries will succeed in maintaining a common approach is unclear.

### **The context of policy making**

Differences in national economies and in the political coalitions and pressures that shape policy making limit opportunities to develop a common EU direction. The original members perhaps differed more sharply in social provisions than in the level and nature of economic development. Expansion west, south and east has increased the variety of industrial and post-industrial economies and introduced a new diversity of pensions, healthcare arrangements and social provisions.

These considerations lead to the argument that progress can be made only through loose

agreements that allow national governments to fashion social provision in accordance with their distinct needs, fitting the demands of their various political and economic arrangements. Some EU members are keen to sustain a loosely regulated informal sector while others wish to nourish an equally loosely regulated financial sector. Some are more committed to support for established industrial workers, while others give a much more prominent role to maintaining work incentives for a flexible labour force.

These differences across the EU have imposed constraints on collective regulation of health and safety, working time, banking, insurance and industrial democracy, let alone agreement on welfare to work, benefit levels and poverty lines or taxation of business. These differences emerge in responses to the current crisis. Countries with stronger manufacturing sectors commit more resources to enhancing demand for industrial products and to state investment in infrastructure to promote recovery.

External factors are also significant. Globalisation imposes fiscal constraints on what governments can spend and the demand to ensure that economies retain advantage in an increasingly competitive world directs the ways in which they spend it. Added to this, current projections indicate that, of the established and emerging large economic blocs (the US plus North American Free Trade Agreement countries, China, India, Russia, Brazil plus developed South America, and the EU), the EU is distinctive in its population profile. It provides relatively generous pensions and healthcare and, by the middle of the century, it will have substantially more older people to support than its competitors.

Such developments make traditional, high-spending welfare states more difficult to sustain. They also shift the balance of political forces. In general, global competition weakens the bargaining power of less skilled and advantaged groups who face cheaper wage competition from overseas. It strengthens those with control over investment capital or with scarce and valuable skills who can compete across a broader range. Everywhere, and particularly in the most developed countries, the social formations of class that sustained the pressures for social provision and for constraints on business are becoming fragmented. In addition, citizens are increasingly demanding and critical of what government provides.

### **The new social agenda**

One answer to the problem of balancing social justice and competitiveness is to restructure the relationship between the two. The traditional Keynes-Beveridge-Bismarck model of social progress saw a strong national economy as delivering resources that were then redistributed by government through social services and benefits. More recently, government interventions have been seen as directly enhancing competitiveness through research and

development and by improving the employability of the workforce.

The Lisbon European Council of 2000 set the goal that the EU should "become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" within a decade. This objective underlies subsequent policy making although the time limit is less confident. The evolution of the social model through the European Employment Strategy and the Open Method of Co-ordination approach to social inclusion, with an embedded gender and work-life balance commitment, is a major element in the process. The Renewed Social Agenda of 2008 advances a similar virtuous coupling of social progress with policies that promote employability and "flexicurity" (labour market flexibility for employers combined with security for workers). However, success in promoting a transition towards a high-tech economy delivering good living standards for all has been partial.

Europe's progress in the promotion of research and development and its application in the economy differs among countries. Nordic countries, followed by Germany, maintain relatively high levels of research investment, but across the EU investment has not exceeded 2% in recent years, compared with over 3% in Japan and South Korea or more than 2.5% in the US. Knowledge-intensive manufacturing engages just over 5% of the workforce and the proportion has failed to increase during the last decade.

National policies to improve the quality of the workforce have included education and training schemes, welfare-to-work programmes that shift those on benefit into jobs, and work pay packages to increase the incentives to enter relatively low-paid employment. The track record on employment and training is again varied, with Nordic countries and the mainland North West European states being most successful in establishing high-quality training programmes. This is also reflected in general standards of education, and here the UK has made substantial progress in recent years.

The main changes have been in the management of benefits and labour market policies. The new policies have supported equal opportunities legislation and workplace rights that expand opportunities for women in particular and for parents and older people. Provision of childcare in Nordic countries, Germany, Spain and the UK and subsidies for childcare costs in France are also important. The stringency of employment legislation, according to the OECD's EPL Index, fell in almost all countries, apart from the loosely regulated UK, between the late 1980s and the 2000s. How easy it will be to sustain these advances during the recession is not yet clear.

Most European countries, and particularly those where labour costs are seen as obstacles to job creation, have made changes to regulation, for example, in introducing provision for part-time lower-paid jobs to which social contributions do not apply (so-called "€630 jobs") in Germany, or the "flexicurity" policies in the Netherlands. The rights of individuals to subsist on passive insurance-based benefits have been curtailed in Nordic countries and in France and Germany. Pension entitlements have been modified everywhere, as the costs of supporting an ageing population rise.

New benefit regimes link insurance and assistance benefits, put time limits on entitlement and impose increasingly stringent job-seeking, training and job-readiness regimes, for example in the recent German Hartz IV reforms and the French PARE and RMI/RMA system as well as the UK jobseeker's allowance and New Deal programmes. Minimum wage programmes are designed to make jobs at the bottom end of the labour market more attractive and to address poverty among those pursuing them. New benefits such as NPI in France and tax credits in the UK also supplement low wages.

The introduction of a 35-hour week in France in the mid 1990s is an interesting case. The initial impact appears to have been to promote agreements at plant level and to break down labour market rigidities. More recently, the provisions have been substantially diluted and seem likely to effectively disappear.

### **Assessment**

Most assessments suggest that the Lisbon strategy of a shift to a high-tech, knowledge-intensive economy with high-paying, good-quality jobs, which will enable EU countries to compete at the high-value-added end of international markets, has not yet been achieved. Indeed, progress in this direction seems limited. The Kok report,<sup>1</sup> in its evaluation of Lisbon, concluded that "a key issue has been the lack of determined political action". The 2006 evaluation of the EU "open method of co-ordination" in relation to poverty and social exclusion noted "an implementation gap between what member states commit to in common objectives and the policy effort to implement them". Governments naturally tend to follow the varying demands of their own economies and political settlements and lack the capacity to realise the kind of international transformation anticipated by EU leaders.

There have been real changes. In relation to social Europe the most important have probably been the emphasis on equal opportunities, particularly in relation to women's

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<sup>1</sup> Kok, W *Facing the Challenge: The Lisbon Strategy for Growth & Employment* (Office for Official Publications of the European Communities, 2004)

employment and education opportunities, and the shift from active to passive in management of the labour market. In this, the UK, with its substantial low-wage sector and traditional commitment to low spending, has arguably been a leader. Plans in the December 2008 white paper to introduce "a fairer welfare system where truly no-one is written off, where nearly everyone is preparing or looking for work" take this further.

In a more globalised world, the divisions between European countries in industrial set-up and in the social arrangements that support them remain influential. The constraints of competition and competitive advantage apply between European countries in the open market, just as much as they do between the EU and elsewhere. The significance of such constraints is evident in national responses to the current recession. The key axis of debate lies between Germany, with its substantial manufacturing sector and its commitment to investment in infrastructure and support for business, and the UK, with its greater emphasis on financial sector subsidies and on a consumer-led recovery.

One approach is to abandon the existing, limited proposals in favour of a social Europe based on well-paid, good-quality employment, just as the previous Delors plan for a social Europe characterised by interventions and investment in direct social provisions was abandoned in favour of an approach that centred on greater market freedom, equal opportunities and enhanced provision for the most vulnerable groups. This is, in effect, a shift from the provision of benefits and services to defined groups seen to be in need (pensioners, unemployed and disabled people, those in need of healthcare and so on) to welfare policies that centre on shifting people into paid work.

From an Anglo-Saxon perspective, this follows the logic of the Washington Consensus, with its primary commitment to market freedom as the royal road to economic development. From the viewpoint of more corporatist EU members, the approach values the position of established industrial workers. From that of Social Democrats, it at least provides a way of safeguarding the weakest in an increasingly unequal world.

It is simply unclear whether the crisis will lead to a collapse of international trade and call a halt to globalisation. One possibility is that the world returns to protectionism and national economic control, so that the logic of state welfare returns to centre on redistribution to vulnerable groups, rather than incentives and support for competitiveness in an international market, which is now offering diminishing opportunities.

### **Difficulties and solutions**

The policy shift generates further problems. Social provision has always been seen as an engine of social solidarity. European welfare settlements were originally constructed to

manage class conflicts that threatened the smooth growth of productivity in capitalist economies. They were later modified to include groups (most importantly, women, fractions of the middle class and older people) whose interests were damaged by the social changes of industrial society. Europe now faces severe problems of social cohesion, which a work-centred welfare settlement cannot address.

The class structures that maintain welfare are fragmenting. Market incomes are growing more unequal. International migration threatens the stability of the social consensus, leading to conflicts in France, the UK, Germany and the Netherlands, increasingly exacerbated by religious as well as ethnic tensions. The world recession damages trade and opportunities and may signal a resurgence of nationalism. The question of whether the EU's economic institutions are sufficiently robust to counter the diverse pressures from the various member economies is now entering debate.

Evidence from the International Social Survey project and the World Values Survey indicates that Europe has not escaped the trend in all advanced countries for trust in government to decline. It should be noted that there is no evidence of a decline in support for or trust in the basic institutions of democracy and law. The decline is focused on the executive and delivery mechanisms. In almost all European countries, the greater part of these is concerned with social provision in healthcare, education, pensions and other benefits, suggesting that social policy reforms must play a role in restoring social trust.

Many elements in the new approaches to the European social model fail to address issues of social cohesion. The European Social Survey and more detailed qualitative studies show that equality of opportunity is widely supported as a social value in quite diverse European welfare states, indicating that the workplace policies that advance such an approach can have a positive effect. However, highly targeted benefits for those of working age that contain strong and increasingly punitive welfare-to-work measures risk identifying and singling out a group with whom the mass of the population has little common feeling.

### **A possible way forward**

There is a need for welfare reforms that will foster social solidarity and address the needs of the most vulnerable. One proposal is to move away from provision linked directly either to needs or to work-readiness, in the direction envisaged by citizen's income schemes. A citizen's income approach has three characteristics:

- The whole population is covered by benefits that make up incomes to a particular level.
- Benefits are set against existing incomes from other sources, so that the existing pension and support arrangements are incorporated within the scheme.



- Schemes can be adapted to provide incentives for particular types of behaviour by, for example, tapering the income test through which benefit is withdrawn for those in work so that a proportion of wages is effectively not set against the benefit; similarly, additions to meet particular needs such as childcare or disability needs can be included.

The objective is a system that tackles poverty by establishing a level of minimum subsistence, at the same time as retaining the flexibility to adapt to meet particular needs. Details of costing and relationship to existing expenditure require careful analysis. One virtue of such a scheme is that it could be introduced in stages, incorporating existing benefits at a level that could be increased in relation to resources and demand over time. Such schemes have been discussed in a number of countries, most notably by the German SPD as an alternative to the welfare-to-work Hartz IV reforms now in train, and in the Netherlands.

The citizen's income proposal offers a way of developing a programme to provide a common basis for social citizenship within social Europe. The contrast with existing social inclusion policies is that these are highly targeted. They divide the low-paid and unemployed from those in established jobs within increasingly unequal societies and fail to offer a basis for social cohesion at a time when it is particularly needed. Thus, they are perennially vulnerable to demands for spending cuts, especially at a time of recession. The virtues of citizen's income schemes are inclusivity and adaptability, and these may be the foundations of sustainability in bitter times.

The new social Europe has made real advances in expanding opportunities for all in order to promote the interests of vulnerable groups, but does little to address the divisions between the leaders and the foot soldiers in an increasingly unequal labour market. Its capacity to generate the solidarity necessary to support redistribution will be severely tested by the recession. Moves in the direction of citizen's income could provide the foundations for an inclusive European social citizenship that is particularly needed as the era of confident globalised growth draws to a close.

## Chapter 9

# More and better jobs? Employment prospects in the social model

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## More and better jobs? Employment prospects in the social model

### Employment boom and bust

With the massive loss of jobs now occurring throughout the world, the last decade may well come to be viewed as a "golden age" of job growth in Europe. After the disappointing rates of employment growth of the 1980s and early 1990s, 1995 marked a significant turnaround in the trends of job creation in Europe. From 1975 to 1995, the overall employment rate slowly but steadily decreased in Europe, from 64% to 60% of the working-age population. During this period of European employment stagnation, the rate of employment increased in the US from 62% to 72%.

These diverging trends reversed in 1995. From 1995 to 2006, the US employment rate remained more or less stagnant, while the European employment rate initiated a sharp rebound, reaching 66% in 2006 (64% in the EU-15). The turnaround in European employment trends generated considerable satisfaction in international and EU institutions, which since the early 1990s had been defending the need to enhance the capacity of European economies to generate employment.

While employment growth in Europe has been fairly impressive, the recent recession makes it certain that the ambitious job growth objectives of the Lisbon Agenda to be achieved by 2010 will not be met. The numerical targets were the increase of the employment rate to 70% overall and to 60% for women. In addition to the 2010 Lisbon targets, the 2001 Stockholm European Council set a new target of raising the average EU employment rate for older men and women (aged 55–64) to 50% by 2010.

However, as the "more and better jobs" slogan indicates, the Lisbon Agenda also has job-quality goals. The quality goals were much less precisely phrased and it has been very difficult to monitor progress in this respect. Across Europe, the 1990s were a period of increasing de-standardisation of the employment relationship, with intense creation of part-time and fixed-term contracts. Also, the evolution of productivity in most European countries has been of some concern. Whereas in the 20 years up to 1995 the gap in productivity between Europe and the US was steadily reduced, after 1995 productivity grew faster in the US than in Europe for the first time since the Second World War.

It seems reasonable to think that the simultaneous turnarounds in employment and in productivity gaps are related. Since productivity and quality of employment also tend to go hand in hand, this raises some questions about the quality of the jobs generated in the recent expansion. This concern is heightened by the lack of reliable evidence on the

evolution of job quality. This is largely the result of the difficulties in defining and measuring job quality, especially from an international perspective. The attempts of the European Commission at evaluating progress in job quality are rich in detail but they fail to make an overall assessment of the progress of the various countries because of the large number of indicators used and the fact that they often evolve in different directions.<sup>1</sup>

Figure 1: Employment rates for population of working age (15-64), 2000 and 2007

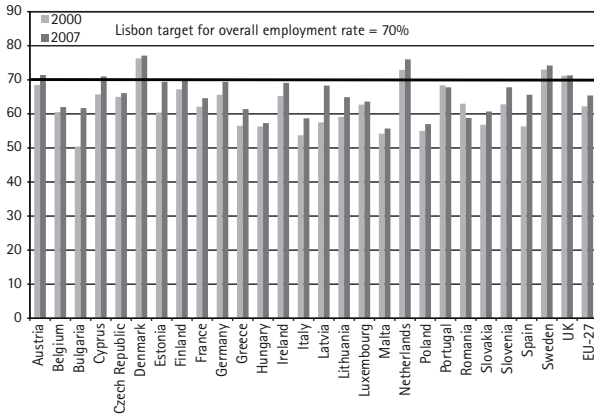
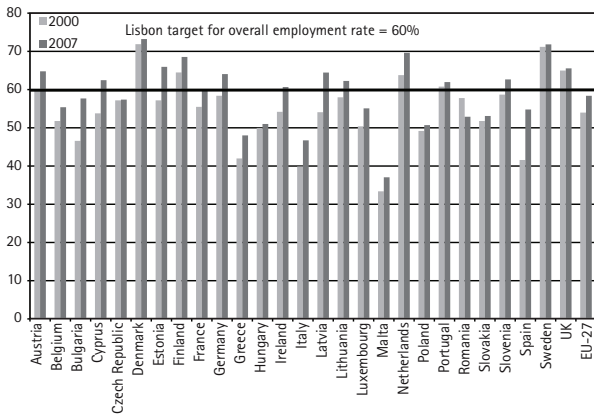
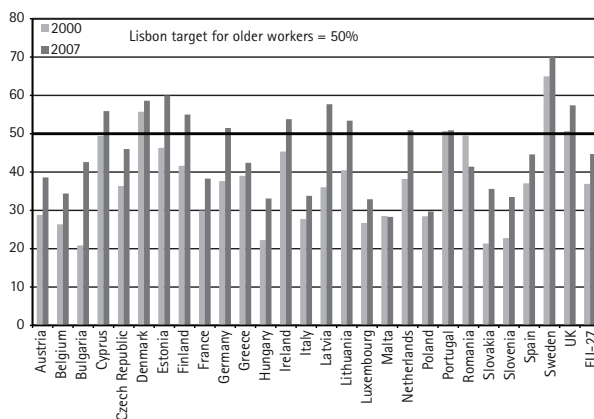


Figure 2: Employment rates for women (aged 15-64), 2000 and 2007



<sup>1</sup> See, for example: European Commission *Employment in Europe Report 2008* (2008)

Figure 3: Employment rates for older workers (aged 55–64), 2000 and 2007



### More, better jobs?

Recent research conducted at the European Foundation for the Improvement of Living and Working Conditions (Eurofound) address, to some extent, the lack of knowledge of the quality aspect of recent employment growth in Europe.<sup>2</sup> While this methodology does not examine the improvement, or otherwise, of existing jobs, it is able to provide some evidence on whether employment growth has been in good or bad jobs. The methodology was originally developed by Joseph Stiglitz when he was chief economic adviser to President Clinton<sup>3</sup> and further developed by Eric Ohlin Wright.<sup>4</sup> The purpose of the US study was concern about the quality of jobs generated in the US job boom of the 1990s.

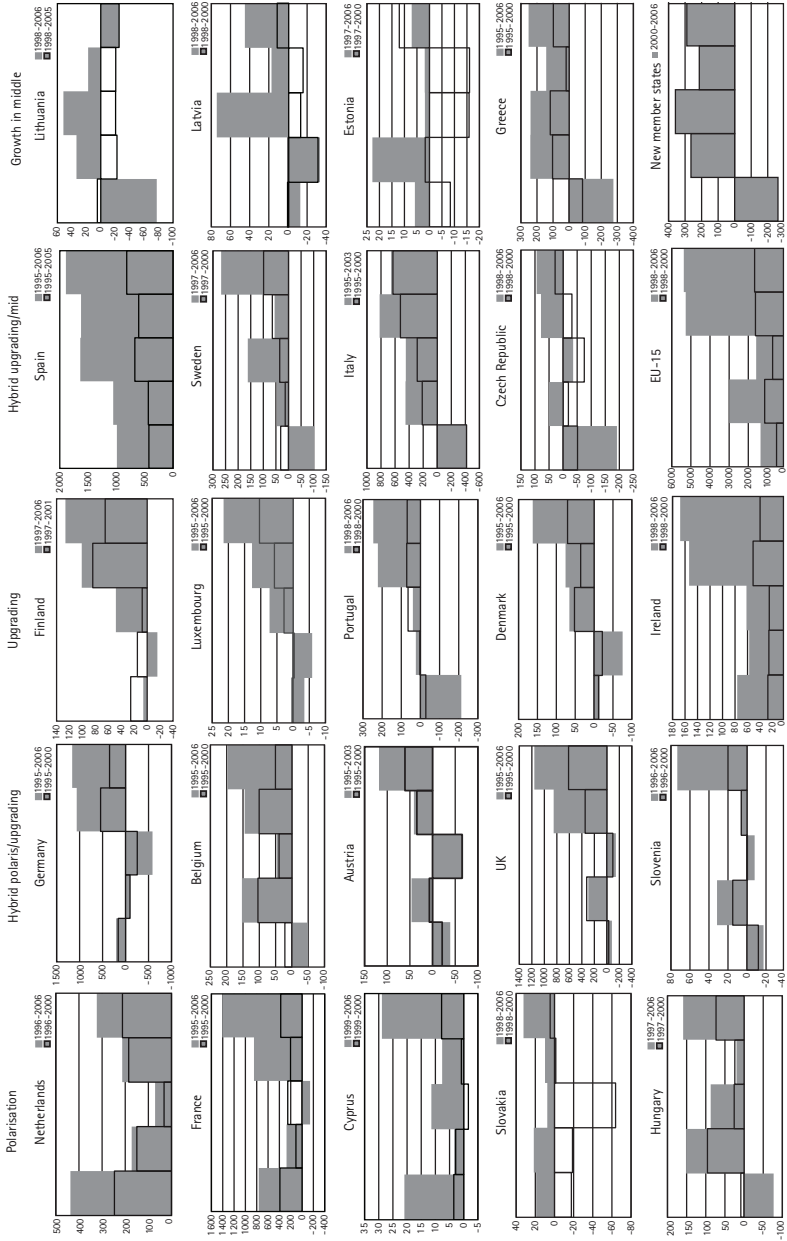
The method is based on the idea of using wages as a proxy of job quality. Wages are not only an important dimension of job quality per se, but also they are highly correlated with most dimensions of job quality, such as employment security, job autonomy, skill level and so on. While wage is far from a perfect measure of job quality, the only alternative is to create a composite index of job quality. This is an intrinsically difficult exercise even within a single country as reliable data on the many dimensions of job quality is rare, but also the decision on how to weigh the relative importance of all these factors is often

2 Details of the methodology and a full presentation of results can be found in: Fernández-Macias, E and Hurley, J *More & Better Jobs? Patterns of Employment Expansion in Europe 1995-2006* (Eurofound, 2008) (<http://www.eurofound.europa.eu/publications/htmlfiles/ef0850.htm>)

3 US Council of Economic Advisors/Office of the Chief Economist of the US *Job Creation & Employment Opportunities: the United States Labour Market, 1993-1996* (1996)

4 Wright, EO and Dwyer, RE "Patterns of Job Expansions in the USA: A Comparison of the 1960s and 1990s" in *Socio-economic Review* no 1 (2003), pp289-325

Figure 4: Employment growth by quality quintiles (various years)



quite arbitrary. At EU level, the comparability problems are compounded, particularly as regards data that is consistent over time.

With this method, jobs are defined as an occupation in a sector as defined in the European Labour Force Survey. Using various EU-wide databases, the median wage is then found for each of these jobs. The jobs are then ranked by wage. This ranking was done at the middle of the period of observation and held constant over the entire period.

Figure 4 shows the basic results for all member states for which data was available and includes EU-15 and new member states aggregates. Employment growth over the period is divided into quintiles. In each figure, the bar to the far left corresponds to the 20% of employment growth that ended up in the poorest-paid (low-quality) jobs and the far-right quintile represents job growth in the best-paid jobs. The area above the horizontal lines in the bars corresponds to job growth after 2000. Note that due to data availability problems, the starting point for job growth may differ among member states.

The figure shows that the broad conclusion of this study is positive (see, for example, the EU-15 and new member states aggregates). Overall, most EU member states did generate more and better jobs in the decade after 1995 (especially in the EU-15 area). But behind this overall picture there are many different stories, and not all of them are so positive. The figures are grouped according to the overall quality trends. For example, the first column is termed "polarisation", with growth at the two extreme job-quality quintiles, and the middle column termed "upgrading" shows most growth at the top end of the job quality spectrum.

Ireland, Denmark, Finland, Luxembourg and Sweden were the best performers in terms of employment quantity and quality and are classified as upgrading countries. These countries managed to generate large numbers of jobs and most of them were of above-average quality. Job creation in Portugal was more sluggish, but nevertheless upgraded its employment structure (shifting employment upwards) almost as much as the rest of countries in this group.

Spain and Greece experienced a major expansion in employment, but this expansion was more even in terms of quality, and more concentrated in the middle rather than in the top of the employment structure. Italy experienced a similar process, although with less vigorous job creation. The Netherlands, France and Cyprus showed a clear polarised pattern of job growth, with intense job creation in the top and bottom and a big gap in the middle. Germany, Belgium, Austria and the UK also showed a polarised pattern, although more skewed towards the top of the employment structure.

The patterns of job creation in most new member states were more diverse and difficult to classify. However, generally speaking, there was not such a clear improvement in the employment structure of these states as in EU-15, although there was no worsening either.

A breakdown by economic sector (not presented here) allows us to identify the main source of the expansion of "good jobs" across the EU-15. Most were located in knowledge-intensive services, largely in business services, health and education. Also, services generated many jobs at the bottom of the employment structure, but very few in the middle. Job creation at the bottom was relatively small in most countries, because of the intense and widespread destruction of low-paid employment in agriculture and manufacturing.

However, while the net growth of low-ranked jobs was minimal, there was an appreciable amount of low-quality job creation in the non-knowledge-intensive services sectors. Only a few very high-paid jobs were created in manufacturing in EU-15, whereas in Central European new member states there was quite intense creation of mid-paid jobs in this sector. Moreover, in many countries most employment created in low-paid jobs was part-time or fixed-term, whereas full-time permanent jobs in the low-paid segment were either destroyed or at least stagnant (whereas most high-paid jobs created were full-time and permanent).

A breakdown of these shifts in job structure by worker characteristics showed that the period covered in this study saw a clear improvement in the employment situation of EU-15 women, both in terms of quantity and quality. Even though job creation for women tended to be more skewed to the bottom of the job quality spectrum than for men, their situation unambiguously improved so much that it does not seem an exaggeration to say that women were the main beneficiaries of recent employment expansion. Migrant workers from outside the EU, in the countries where their proportion increased (most of them in the periphery of the EU-15), tended to occupy the lowest-paid jobs, to the extent that most of the net jobs created in the two bottom quintiles in Spain, Cyprus, Ireland and Greece were taken up by non-EU nationals.

The overall picture painted in this study is certainly positive, broadly in line with the objectives of the Lisbon Agenda: more and better jobs, more opportunities for women and a shift towards the knowledge economy. But these same patterns may lead to increasing difficulties for some types of workers that are still very present in European labour markets, especially low-skilled workers or workers displaced in declining industries. Stagnating employment growth in low-paid jobs means fewer employment opportunities for these



workers, and the gap of new jobs in the middle does not facilitate moving up the employment structure. Furthermore, we have seen how employment in the bottom quintiles is becoming more unstable and precarious. The trends identified in this study should also raise awareness of the need to establish policies to support those workers who are at risk of being left behind the march of economic progress.

### **Employment prospects and policy perspectives**

It is exceedingly difficult to be optimistic about a continued positive development in both the quality and quantity of jobs in Europe, at least in the short term. Since about five years ago, it was becoming unlikely that the quantitative Lisbon goals would be met. The current recession makes this doubt a certainty. The European Restructuring Monitor located at Eurofound monitors announcements of job loss at restructuring throughout Europe.<sup>5</sup> While until very recently the increase in job loss was located in particular sectors (construction, finance, automotive and retail) and in certain countries (the UK, Ireland and Spain), recent data from the first quarter of 2009 shows a very widespread pattern of sharply increasing job loss throughout Europe. While only in a few countries, for example Spain, Ireland and the UK, have the job losses been reflected in increased unemployment figures, previous experience suggests that job loss data leads unemployment data after around nine months. Thus, it is almost certain that, by the end of the Lisbon Programme period in 2010, the employment rates will be below the figures presented in figures 1-3.

Previous experience of serious recessions, for example in the 1970s and 1980s in the EU-15 and the severe recessions in Sweden and Finland in the early 1990s, suggests that the employment rate of those aged over 55 will be most severely affected. While the job displacement rates of the over-55s are not appreciably higher than for other groups, the re-employment rates are significantly lower. On the other hand, one of the implications of the current financial crisis is the erosion of pension incomes, and this may encourage older workers to stay longer in the labour force.

The impact of the recession on job quality is more difficult to predict. Generally speaking, most aspects of job quality improve when times are good. Labour shortages mean employers have to compete for workers by providing better working conditions, and funds are more readily available for costly progressive human resource practices that are beneficial to job quality. Moreover, there is some indication that the new jobs currently being created in the recession are poorer jobs.

The European Restructuring Monitor also gathers data on announced job creation. While

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<sup>5</sup> <http://www.eurofound.europa.eu/emcc/erm/index.php?template=searchfactsheets>

these figures have declined significantly, low-price fast food chains and retailers have been prominent examples of new jobs. The critical issue is probably the fate of public-sector jobs, for example in health and education, which have contributed significantly to the growth of good jobs. If the downturn is brief, these jobs may be spared. However, if it continues longer, then increasing public deficits may mean major public-sector job cutbacks and so a more significant deterioration of job quality.

The current recession will obviously result in some re-orientation of EU policy. There are several obvious and economically logical roles for the EU in this recession. Experiences from the early 1980s demonstrated very clearly the limitations of expansive macro-economic policy at the level of member states. To be effective, EU-wide co-ordination is required. While the EU policy competency is limited in this respect, the EU may be successful in encouraging a more co-ordinated macroeconomic response. Some success in this regard has already occurred in the form of the European Economic Recovery Plan.<sup>6</sup>

Given its strong competition policy mandate, the EU will have a vital role in ensuring the avoidance of a protectionist response from member states. The Great Depression was significantly deepened and prolonged by global protectionism through a massive increase in tariffs. While this is unlikely in the well-established customs union, there have already been member states initiatives to protect national industries through state aids and, in particular, the coupling of these aids to "buy national" clauses.

While the economic argument against state aid is not exactly the same as tariffs, it does distort competition and trade and worsen public-sector finances. The issue of state aids is likely to figure prominently in the forthcoming policy debate. If the recession is as deep as many fear, there may even be good arguments for at least temporary public support for crisis industries. The crucial issue is, however, that this does not disturb the functioning of the single market. This can only happen with EU-level industrial policy or co-ordination. It may be that the current recession will spark a significant development of EU industrial policy.

Even the policy implications of the current recession for the European Employment Strategy per se, depend crucially on the depth and duration of the recession. The quite probable bad-case scenario should prompt some thought towards a possible reorientation of the activation measures in the Employment Strategy. Active labour market policy (ALMP) does not really create jobs; this is primarily the role of macro and industrial policy. The role of ALMP is to ensure workers can fill the available job vacancies created by

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<sup>6</sup> Communication from the Commission to the European Council, 26 November 2008

firms. In a recession, the activating role of ALMP in general, and training in particular, may be useful in terms of mitigating the permanent scars on individuals and society that may result from long-term unemployment. These active individuals may then be able to return to work when times improve. However, with no jobs in sight, participants may experience very specific job training as meaningless or even punitive and endless rounds of training for a job that will never appear can be just as demoralising as long-term unemployment.

Some Swedish experiences may be instructive here. In the early to mid 1990s, Sweden experienced mass unemployment for the first time since the 1930s, and it became obvious that training the unemployed to fill non-existent jobs did not make sense. The biggest single individually oriented policy response was the Adult Education Initiative, which, at one point, had as many adult participants as there were schoolchildren in upper secondary school. This provided formal school education for poorly educated adults and there was not even an implicit promise of subsequent job. It was presumably interesting and meaningful for participants, or at least more so than training that obviously would not lead to a job. Evaluations of this massive programme have shown, on balance, rather positive results.<sup>7</sup>

Ideally, one would wish to ensure that measures to address the immediate problems caused by the recession are aligned with desirable long-term goals. Indeed, it might be that the only positive aspect of the recession could be to harness the necessary political will to invest in long-term objectives. The strategic goal of the Lisbon Agenda is "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". A massive education programme targeted at unemployed youth and adults will address both the major immediate problem of the recession and the strategic Lisbon goal.

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<sup>7</sup> The most recent high-quality research on this programme finds substantial increases in post-programme annual earnings. According to their estimates, the social benefits of offering these individuals comprehensive education surpass the costs within five to seven years. See: Stenberg, A and Westerlund, O "Does Comprehensive Education Work for the Long-term Unemployed?" in *Labour Economics* vol 15, no 1 (2008)

## Chapter 10

# Diversity, not uniformity – the role of local government in building a social Europe

Andy Sawford, Chief Executive of the Local Government  
Information Unit

## **Diversity, not uniformity – the role of local government in building a social Europe**

Local government has been central to the creation of a more social Europe since the early days of the union. Where the headline political dialogue in the 1950s and 1960s was often focused on economic and trade policy, local government was engaged in the much more fundamental, and social, challenge of building new relationships and a new partnership among the people of Europe, a process that was further developed following the collapse of communism and the enlargement of the union at the end of the 20th century.

The success of town twinning arrangements symbolises this. Today, there are more than 32,000 twinings in Europe. As well as bringing people together, twinings help to develop cultural and education links and economic opportunities. For politicians and those who work in local government, twinings and other partnerships help to share good practice and innovation, such as in social provision. Twinings often match communities with similar characteristics, but local authorities across Europe have varying roles and responsibilities in relation to national governments.

In theory, the structure of government across Europe should be highly devolved. Subsidiarity is a fundamental principle of EU law. It provides for the EU to act only where the action of individual countries is insufficient, with democracy and governance operating at the appropriate level closest to the people. Enshrined in the Treaty of Maastricht in 1992, the principle was promulgated by the Council of Europe's Charter of Local Self-Government, passed in 1985.

The charter commits to a framework in which local government has "the right and abilities to manage a substantial share of public affairs under its own responsibility and in the interests of the population". It further states that: "public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen". All EU countries, except the micro-states, are expected to be signatories.

The UK was a late adopter, signing the treaty in June 1997 within months of Tony Blair's Labour Party coming to power, as part of a broad front to establish a new relationship with the EU. The previous Conservative government, which had opted out of the Social Charter in the Maastricht Treaty, saw the Charter on Local Self-Governance as part of a move towards a "social Europe" that it did not support.

In the decades since the aspiration of a social Europe was declared, the role and potential of local government has not been fully recognised. There are around 100,000 different

units of subnational government across Europe with significant powers and expenditure.<sup>1</sup> Of these, around 37,000 are in France, whereas under 500 are in the UK.<sup>2</sup> It is worth noting that the UK remains the most centralised country in the EU. The average municipal size by number of inhabitants in the EU is 5,430. The UK has by far the largest number of inhabitants per local authority, at 140,050; the next highest is Denmark, at 55,170.

Local authorities across Europe spend around €1,912 billion of the total public sector expenditure, estimated at around €5,650 billion. Much of the local government expenditure is focused on social provision, ensuring the basic, everyday needs of Europe's 490 million people are met. Expenditure partly reveals the significance of local government, but also we must consider the influence of local authorities in shaping the immediate social environment. Given the proximity to people, local authorities form the basis of European democracy and society, preserving local identity and maintaining cultural diversity.

Debate too often focuses on which services local government is responsible for, as if this is the true measure of the importance and worth of local representative government. In the UK, a new conception of the role of local government to promote the well-being of communities has been developed in recent years, most notably by Sir Michael Lyons, the former Birmingham City Council chief executive. The concept has applicability across the EU, where whatever the legal arrangements for the provision of a service or function, if it impacts on local people, then local government should have a role in representing the community interest. This sees local government not just joining up resources and activities, but also playing a strong leadership and influencing role to ensure that the efforts of all agencies are focused on the outcomes of greatest importance to local people.

### **Shaping places**

According to Lyons, the key components of place shaping are:

- building and shaping local identity;
- representing the community;
- regulating harmful and disruptive behaviours;
- maintaining the cohesiveness of the community and supporting debate within it, ensuring smaller voices are heard;
- helping to resolve disagreements;

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<sup>1</sup> Figures from the Council of European Municipalities & Regions on EU subnational government key statistics, and from Eurostat

<sup>2</sup> Town and parish councils in the UK, and any equivalents in other EU countries, are not included by CEMR in the number of local authorities due to their limited powers and expenditure.

- working to make the local economy more successful while being sensitive to pressures on the environment;
- understanding local needs and preferences and making sure that the right services are provided to local people; and
- working with other bodies to respond to complex challenges, such as natural disasters and other emergencies.

In emphasising the primacy of democratic politics over markets, and the role of local government in supporting the local economy, providing social protection and promoting environmental sustainability, the "place shaping" concept has clear synergies with the social model. Other aspects of the social model, such as the provision of free education for all and creating a society where opportunity is equal, are also reflected in the current UK consensus on the role of government locally and nationally.

The leader of the Conservative Party in the UK, David Cameron, recently declared his four main aims to create: "a society that is fair ... a society where opportunity is equal ... a society that is greener ... and a safer society".<sup>3</sup> Moreover, he underpins his philosophy with a firm commitment to a new era of devolution in which the role of local government will be strengthened with new powers of "general competence".

Cameron is leading in the UK opinion polls and is widely expected to become prime minister in 2010. His remarks illustrate the change of attitudes over time. Some 20 years ago, the then Conservative-led UK government rejected the ideals of a more social Europe and our famously blunt populist press revelled in insulting its architect, Jacques Delors. Britain has not had a wholesale conversion. The centre-left government of the past decade has been cautious, to the disappointment of some, including trade unions in some respects. However, many of the components of the social model are now firmly entrenched in the mainstream of British politics, including the primacy of democratic governance, even if rhetoric has not yet been matched by reality.

Many states in the EU remain overcentralised. In the UK devolution to the very local level has been limited, although there has been considerable progress in devolving at a subnational level to the nations and regions. City-wide governance in London has been significantly restored, with a high-profile elected mayor, and the Scottish parliament and assemblies in Wales and Northern Ireland have quickly become settled and important parts of government. In each case, it could be said that these institutions have developed a social agenda and social partnership to a greater extent than in Westminster. As an

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<sup>3</sup> Speech to Demos, "Making Progressive Conservatism a Reality", on 24 January 2009

example, care services for older people have been enhanced and subsidised significantly in Scotland relative to services in England.

EU policy has played an important role in supporting Scotland, Wales and Northern Ireland. An example is the large amount of European aid that these regions have received, being among the poorer regions of the UK. One of the most visible aspects of the development of the social Europe is the way in which the EU comes together to support structurally weak regions and cities, providing them with money from "structural funds" to strengthen their economies and enhance competitiveness. Across the EU, these funds have supported projects to achieve structural change following the decline of old industrial regions, such as former mining areas in the UK, helping to create new jobs and develop skills.

### **Regional response**

Where regional policy has been successful is in responding to the unique conditions of different parts of the EU. The European Commission is rightly criticised for policies that enforce uniformity where diversity is more desirable and beneficial. This generates most attention where people in parts of the EU feel that their regional or national character is under threat. At another level, this tension between uniformity and diversity goes to the heart of the debate about the future of public services and social protection across the EU.

Care services, and broader public services, for the elderly are a clear example. Member states and local government know that services and the way they are funded must be reformed to meet the needs of an ageing population. European and national responses must allow for the maximum local flexibility and local innovation because it is at the very local level that services can be joined up to meet the needs of communities and individuals, and that public provision can combine most effectively with the social and commercial economy. This applies similarly to other key challenges such as the environment.

Europe will undoubtedly take action in these areas that impacts on local government. At present, around 70% of EU regulations influence local action, such as social and ecological standards, consumer protection, internal market rules, construction planning, water, waste and transport policy. A European dimension to these policies may be beneficial, but it should not be at the expense of local government being able to take the right course of action to meet local needs. In this sense, the "social model" should be seen as a set of broad principles, rather than a blueprint that compels local government to act in a proscribed way.



With the primacy of democratic processes underpinning the social model, the dialogue between local government and the governance of the EU has developed significantly over the past two decades. Organisations such as the Council of European Municipalities & Regions play an important role in representing the views of local government to the European Commission and the European parliament. This informal consultation is beneficial but it remains the case that, as in most member states, the opportunity for local authorities to formally contribute to the legislative process is very limited.

The Maastricht Treaty took steps to improve the position by creating the Committee of the Regions. This committee, which is indirectly elected and comprises representatives of local and regional government from each member state, has some formal rights to be consulted and does form part of the institutional architecture of the governance of the EU. The powers and status of the Committee of the Regions have grown, although they remain limited. An example is the power to hold non-binding hearings, which is welcome, but is transparently more symbolic than real in terms of its likely effect on decision making.

The Lisbon Treaty proposed a strengthening of the Committee of the Regions. The Treaty also proposed the extension of the principle of subsidiarity, which in Maastricht refers only to nation states, to now also include local government. If the Lisbon Treaty is adopted it could have a profound effect on the relationships between the institutions of the EU, member states and local government. However, we should not welcome the EU imposing itself too far into the dynamics of the relationship between member states and local government. To be successful, the balance of powers and roles must be determined within each state through a dialogue of mutual respect.

In summary, local government has had an important role in enhancing public services and social protection across Europe. In general terms, and certainly from a UK perspective, this has taken place during a period of economic growth. It remains to be seen how local government will respond to the continuing financial and economic crisis that will shape the next decade. Gramsci once said that a crisis is when the old is dead but the new not yet born. The new approach that we need is to strengthen local government across Europe so that it can lead the investment in jobs and green growth, transport, technology, education, care for the elderly, and health and other public services, which will not only contribute to economic recovery but also build a social Europe.

*Andy Sawford writes here in a personal capacity.*

## Chapter 11

# The case for tax harmonisation – a French view

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## The case for tax harmonisation – a French view

The current economic meltdown should give new momentum to the fading dream of a social Europe. Growing demand for state protection and the need to co-ordinate national responses to the crisis should bring grist to the mill of the proponents of a genuine social Europe, if the EU and EMU are to survive the current crisis. This should be sweet music to the ears of the French left, who have long believed that the only way to achieve a truly social Europe was through a more political Europe. At the launch of the euro, prime minister Lionel Jospin had hoped that the single currency could protect and promote the European social model by making it easier to "regulate global capitalism ... through common European action, in a Europe fired by social-democratic ideals".<sup>1</sup>

Many, however, expressed doubts about European countries' willingness or ability to impose a common political will on the markets, as social and Labour legislation, as well as taxation, remained under the control of national states, in the name of the subsidiarity principle. It remained to be seen whether in these fields "European governments could choose to co-operate rather than compete with a view to agreeing on a social model worth defending".<sup>2</sup> It is clear now that political and economic events put paid to that ambition. The fall from grace of most European social-democratic governments and their replacement by liberal or social-liberal administrations, in combination with EU enlargement, changed the socioeconomic aim of the European Union.

### The individualistic, national social model

Led by Tony Blair, most EU governments were no longer concerned with shaping globalisation, but with adapting their national social models to its relentless force. Their business-driven agenda sought to "modernise" national social welfare systems through a mixture of competition, benchmarking, peer pressure and guidelines set by the right-of-centre Commission under the umbrella of the Lisbon Agenda. This meant that, in order to compete with the likes of China and India, workers were told that Europe could no longer afford the luxury of strong labour legislation and good welfare benefits and that governments had to cut welfare spending and taxation and ease worker protection and business regulation.

This race to the bottom, promoting tax and social dumping, explains why citizens began to lose confidence in the European integration process and why the French, as well as the Dutch, rejected the European constitution. All surveys show that the French are the most

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1 Jospin, L *Modern Socialism* (Fabian Society, November 1999)

2 Haseler, S and Reland, J (eds) *Britain & Euroland* (Federal Trust, 2000), p135

anti-globalisation and anti-capitalist people in the OECD<sup>3</sup> and that they are deeply attached to the values of equality, solidarity, community and social cohesion. Therefore, it is not surprising that a clear majority of French socialist sympathisers felt strongly that:

*... the old social democratic or Christian-democratic vision of Europe was giving way to the British-led vision, espoused by new members and backed by a technocratic and dogmatic neo-liberal commission. They rejected a Europe intent on promoting "pure and perfect competition" as the linchpin of economy and society, which distrusts anything that is public (contrary to French tradition) and praises private business.<sup>4</sup>*

The "Bolkenstein" Services Directive, proposing that workers could work anywhere in Europe under the conditions of a firm's national tax and social legislation, had further convinced them that, far from attempting to protect its workers from the downside of financial globalisation, the EU – which took pride in having the most stringent competition policy and on being the most open economic bloc in the world – had swallowed the neo-liberal agenda hook, line and sinker.

Never one to ignore the zeitgeist, Nicolas Sarkozy often condemned in his campaign a Europe "which frightens rather than reassures". That is why, when helping to negotiate the new treaty, he had insisted on removing the words "free and undistorted competition" from the text, even if the principle remains in many of its articles, and had stressed that "the word 'protection' is no longer taboo".

Sarkozy seemed to have forgotten about the need to promote the social dimension of Europe, and had not made it part of the French presidency's four priorities, until it was hurriedly added to the mix in the week following the Irish vote. Instead, his main concern was to "modernise" the costly French social model (second-highest in EU at 33.2% of national GDP in 2006, compared with 26.4% in UK and 29.7% in Germany), mostly funded by the workforce and employers and therefore seen as an obstacle to competitiveness and higher employment, even though he knew he would face great resistance from unions and demonstrations by people still attached to their tried and tested generous model, in spite of its shortcomings and financing problems.

The global financial disintegration forced President Sarkozy to disown his previous admiration for the Anglo-American model and to limit his reforming zeal to cutting numbers in the public sector and tinkering with the French welfare system. Having

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<sup>3</sup> A January 2009 survey shows that 53% of French respondents feel that capitalism needs to be transformed in depth, compared with 31% in the rest of the EU.

<sup>4</sup> Jean-Louis Andreani, writing in *Le Monde*, 24 June 2007

realised the futility of his hope to make the French more akin to the British or the Americans, he even admitted on 19 January that, in the current difficult circumstances, the highly redistributive French system, weighing in at €550 billion, constituted a "powerful stabiliser, which should enable France to retain its social cohesion through the crisis". France's generous welfare system also contributed to the 0.8% consumer spending rise in the final quarter of 2008.

This shows how the crisis has pushed into the background all the finer points of the debate on the economic and social model. The core of the debate is no longer about which one of the Esping-Andersen<sup>5</sup> models is best; whether the Scandinavian or the Liberal Anglo-Irish ones are, as claimed by André Sapir,<sup>6</sup> the most able to reconcile social justice, opportunity and economic efficiency. While there is still a need for benchmarking and new innovative approaches to social policy with a view to making our systems more responsive to individual and collective needs, the social Europe debate will surely move away from flexibility and technical and purely social measures to a broader political level.

This crisis is indeed political as well as economic, as argued by Benoit Hamon, spokes-person for the French Parti Socialiste:

*The extreme liberalisation of the single market, the dismantlement of public services, the weakening of social models throughout Europe are not the result of the financial crisis, but of economic and political choices implemented by the right, which has had a majority in Europe for 10 years. The European level is the pertinent one to respond to such an intense and extensive crisis.*<sup>7</sup>

### **Time to commit to a social Europe and focus on its challenges**

There is now a golden opportunity to achieve the aim of the true advocates of social Europe: to converge towards a unified high standard of social protection, involving a significant level of redistribution and therefore taxation. The neo-liberal model, which parliament, the European Commission and most European governments so readily embraced, has run out of steam. We are now entering a new world, and we must abandon our utopian and counterproductive free-market dogmas and some of our free-trade tenets. Faced with a potential crisis of civilisation, we have to rethink our growth model and start focusing again on the common good.

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5 Esping-Andersen, G *Three Worlds of Welfare Capitalism* (Polity Press, 1990)

6 Sapir, A "Globalisation and the Reform of European Social Models" in *Bruegel Policy Brief*, November 2005

7 Benoit Hamon, quoted in *Le Monde*, 30 January 2009

It is time for Europeans to abandon their skewed and ideological view of competitiveness. Pascal Lamy, referring to the good economic performances of Scandinavian countries, never tires of reminding us that a high level of social protection and successful participation in free trade are not mutually exclusive.

Social Europe makes economic sense in a globalised world. Not only must we be aware of the huge fiscal and economic costs of social fragmentation and dislocation, but also we must stop viewing our social protection as a handicap for our global competitiveness, and start considering it as a comparative advantage in this highly unstable world.

Now that Obama's America has begun to look kindly and even enviously at our system, we must stop regarding our system as archaic. It provides our workforce with the right level of education and security to allow them to trust in the future and make real individual choices, as the French Keynesian economist Jean-Paul Fitoussi, now one of Sarkozy's economic advisers, argued two years ago:

*The reason why welfare state building has to be pursued and protectionism refrained from in developed countries has to do with the nature of our growth regime. Social protection is not charity, but insurance, ie, risk guaranteeing and innovation stimulating. Combined with a reactive macroeconomic policy, it protects individuals and firms by maintaining a high degree of economic activity ... That may explain why small economies, which are the most open economies, are usually more socially protected.*<sup>8</sup>

Although the social Europe ambition encompasses many important dimensions, such as social and wage minimums, labour legislation as well as employees' participation in company management, I would like the purpose of this paper to focus on the issue of taxation only, because it is the acid test of our commitment to social Europe.

### **A fairer system**

We have been told for the past 30 years by neo-liberal economists (notably Professor Art Laffer) that too much tax kills the tax (ie, as tax rates rise there would come a point where people would not regard it as worth working so hard, and that the lack of incentives would lead to a fall in income and therefore a fall in tax revenue). And it was true. Our debt-fuelled growth generated a great deal of tax revenue, which helped to finance the survival of the victims of the system, of the losers. But with deteriorating public finances all over the EU, the tax take will certainly have to rise in the near future, as demands on the public purse come from all corners. However, all governments face the same

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<sup>8</sup> Fitoussi, J-P *Globalisation & the Twin Protections*, OFCE paper 2007-21 (OFCE, July 2007)

conundrum: how to increase tax revenue, while boosting, or at least preserving, demand for goods and services.

First it means making the case for taxation and redistribution and then for broadening and rebalancing the tax base, ie, closing what *The Guardian's* recent inquest into corporate tax avoidance/evasion called the "tax gap". This two-pronged attack addresses three of the main concerns of European citizens today:

- **Fear of slipping through the safety net**

Redistribution is necessary and welcome in these troubled times. Welfare benefits are one of the reasons why the current crisis, deeper and more intense and widespread than that of the 1930s, will have less damaging social and economic consequences. It redistributes wealth to those who need it most in the short term, as we need to focus our efforts on the poorest and the most fragile so as to preserve social cohesion. It also improves the purchasing power of the lower-paid, who spend most of their disposable incomes. This helps to boost domestic demand for local services and goods at the expense of conspicuous spending on expensive status imports.

- **Fear of unemployment**

Taxation also addresses the job issue, as it helps to finance investment in useful, less profitable but labour-intensive sectors, such as education, health, transport and energy infrastructure, ecology, nature and culture. Not only would it be good for social cohesion, but also it would be good for growth and job creation.

- **Anger at growing inequalities**

Tax fairness must also be promoted, as the best and fastest response to growing inequalities. In the name of competitiveness, the tax burden became increasingly unbalanced throughout Europe, leading to lower tax on capital, on corporations and on high earners, accompanied by a higher burden on consumers and higher workers' contributions to welfare spending.

It is well documented that growing inequalities were the price to pay for the huge wealth-creation preceding the crash. In its June 2007 report, the OECD said that globalisation had increased inequality in 18 of the 20 richest nations in the world. In the US, the 1% richest households were earning \$600,000 more than in 1979, compared with just \$7,000 more for the 80% least well-off.<sup>9</sup> A change in our taxation policy would be the fastest, most effective and most appropriate way to correct such inequalities and start putting an

<sup>9</sup> OECD *Employment Outlook* (June 2007)

end to the recent and, hopefully, redundant "winner takes all" social model.

A fairer tax burden would help to correct inequalities quickly without complex legislation. Desperate times call for desperate measures. After all, the marginal US income tax rate rose from 25% in 1929 to 79% in 1936, then 91% in 1940. We do not have to go that far, but it is time to turn the tide and tax those who have profited most from the boom, rather than tax them less to retain them. Where would they go, if they faced the same rules throughout the EU?

The largest loss to state coffers is definitely the result of tax avoidance, especially on the part of corporations. Corporate tax avoidance has become so widespread and so huge that a 2005 report by Jason Furman, Jason Bordoff and Larry Summers estimated it at 16% of the US tax revenue in 2003. You can be sure that this figure has not decreased since. They pointed the finger at tax havens, but also at some EU countries, such as the Netherlands and Ireland, where US multinationals paid 5.3% and 6.1% tax on their profits artificially registered there. While all governments, including the repentant British one, are now calling for global action against tax havens, which will be at the top of the G20 London summit, European ones have not yet pointed the finger at intra-European tax competition.

### **The case for tax and social harmonisation**

European countries must stop using tax and social legislation as tools of intra-European competitiveness. They must begin to harmonise significantly their fiscal and labour laws. You cannot argue that protectionism is the greatest danger facing the global economy and the EU, while at the same time using social and fiscal forms of protectionism. This point was made in a radio programme by Raymond Soubie (principal social policy adviser to Nicolas Sarkozy and to many previous French governments of the left and right) in response to accusations of protectionism over subsidies to the French car industry:

*We know many European countries in the East or North East of Europe which have, for years, implemented tax systems with hardly any corporate taxation that are tantamount to tax dumping. They must not now accuse us of protectionism, when they have deliberately pursued protectionist policies.<sup>10</sup>*

In the same way as governments have become aware that economic co-ordination is now required, if far from achieved, we have to co-ordinate our social and tax policies as well as our economic policies and we have to do it in an intelligent and positive manner if we are to avoid a damaging competition between social systems.

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<sup>10</sup> Raymond Soubie, quoted in *Le Monde*, 17 February 2009



As far as capital and corporate taxation are concerned, it would not be wise to standardise completely, as this would be detrimental to the poorer EU countries, but it would be judicious to at least standardise our tax base and harmonise our tax rates within the EU to prevent unfair competition – a point made by many, especially in France, for quite a while:

*Basically, Europe can choose between two strategies. The first consists in maintaining the European social model, characterised by a significant level of transfers, public expenditure and thus of taxation. The system will have to be preserved from tax competition by harmonisation in Europe that will have to include the prohibition of unfair competition, the introduction of minima rates in certain cases, and by tough measures against tax havens at a worldwide scale ... The second strategy consists, on the contrary, in moving towards a more liberal model, where privatisation of welfare will allow for cuts in tax rates that are assumed to promote employment, education and vocational training, savings and investment. This strategy supposes that Europeans agree to live in a society with rising inequalities. Tax competition would then be a tool to support this trend.<sup>11</sup>*

This is the real challenge for all progressive parties. The time is ripe to think afresh and to propose a new growth model. Now is the opportunity to wave goodbye to our consumerist, individualistic, materialistic culture and give ourselves the means to build a better, more equal, ecologically and socially sustainable society. The time has come to re-empower political will over market forces. The European elections will provide the left with the opportunity to put that argument to the people. They are now so angry that they might be willing to hear it.

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11 Sterdyniak, H *Taxation in Europe: Towards More Competition or More Co-ordination*, OFCE paper 2005-19 (OFCE, December 2005)

