

# A NEW START FOR SOCIAL EUROPE

David Rinaldi

*Foreword by Jacques Delors*

*Preface by Nicolas Schmit*

*Contribution by Marianne Thyssen*

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## FOREWORD

*by Jacques Delors*

In recent years, European and national leaders have gone through a sort of day-to-day crisis management, with actions guided by the pursuit of survival. Indeed, efforts to prevent the euro area from falling apart are welcomed, but our Union crucially needs to progress along long-term aspirations. Aspirations that speak to social progress and prosperity for all. As I have already mentioned on certain occasions, Europe needs the hard work of firemen, but it crucially needs architects too.

Architects are essential to find that sense of common purpose that can mobilize both member states and their citizens. Passing through these years of financial, economic and political crises should have taught us a lesson: **if European policy-making jeopardises cohesion and sacrifices social standards, there is no chance for the European project to gather support from European citizens.**

This report clearly identifies the three aspirations which can fuel European integration and restore both confidence and economic recovery. First, **socio-economic convergence in the EMU and in the EU**, to be realized, for instance, by means of automatic stabilization mechanisms; second, **a real European labour market**, with increased intra-EU mobility and social rights available throughout Europe; third, **a vigorous push for social investment** to set the basis for inclusive growth and competitiveness. It is around these three pillars that we can lay the foundations of a Social Europe. Let me spend a few words on each of these aims.

In the aftermath of the crisis, the unprecedented widening and deepening of divergence in Europe has been characterized not only by macroeconomic imbalances but notably by social imbalances, which are to be regarded as *excessive imbalances* as well. **How to reconcile social and macroeconomic**

**objectives** is probably the greatest challenge which needs a definitive response. The big question is how to promote upward convergence in a framework that does not undermine fiscal consolidation.

The Institute and I have already been quite vocal on the need to reform the EMU promptly and endow it with a social dimension and stabilization mechanism<sup>1</sup>. There is overwhelming evidence supporting the creation of an automatic anti-cyclical tool, which could prevent acute and persistent disparities in economic and social outcomes across EU member states. It could make the euro area more resilient and sustainable and could also reconcile Europeans with the European project. To promote unity and give a sense of common purpose, it must be an automatic stabilizer based on a sense of solidarity and reciprocity; what is the value of being in a *Union* if there is no solidarity and reciprocity in case of negative shock to one of the members? Academics and professionals have done their work, plenty of proposals have been outlined, with temporary or permanent transfers, based on unemployment insurance or on cyclical output gap arrangements; it is now time for politicians to do their work and come up with a shared solution.

One thing I would like to add to the discussion on convergence: the reinforcement of convergence should not be restricted to the euro area solely. It is the Union that needs to be cohesive and resilient. Embracing a social dimension is essential for the survival of the euro area, but it would be desirable for the entire Union. It should not be forgotten that we all agreed that: “in defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of

1. Works of the Jacques Delors Institute, co-signed by President Jacques Delors: “After the Greek deal: why it is urgent to complete EMU”, *Tribune*, July 2015; “Endowing the EMU with a Social Dimension”, *Tribune*, October 2013; “Completing the Euro: A road map towards fiscal union in Europe”, Report of the “Tommaso Padoa-Schioppa group”, *Studies & Reports n° 92*, June 2012. And by others authors: David Rinaldi, Eulalia Rubio and Emmett Strickland, “Redesigning EMU: What agenda after the Greek negotiations?”, *Synthesis*, November 2015; Henrik Enderlein and Jörg Haas, “What would a European Finance Minister do? A proposal”, *Policy Paper n° 145*, October 2015; Yves Bertoncini, Henrik Enderlein, Sofia Fernandes, Jörg Haas and Eulalia Rubio, “Improving EMU: Our recommendations for the debate on the five Presidents report”, *Policy Paper n° 137*, June 2015; Sofia Fernandes, “Completing the Economic and Monetary Union”, *Synthesis*, January 2014; Sofia Fernandes and Kristina Maslauskaitė, “Deepening the EMU: How to maintain and develop the European social model?”, *Studies & Reports n° 101*, November 2013; Sofia Fernandes and Kristina Maslauskaitė, “A Social Dimension for the EMU: Why and How?”, *Policy Paper n° 98*, September 2013; Henrik Enderlein, Lucas Guttenberg and Jann Spiess, “Blueprint for a Cyclical Shock Insurance in the euro area”, *Studies & Reports n° 100*, September 2013.



human health<sup>2</sup>". The horizontal social clause enclosed in the Article 9 of the Treaty on the Functioning of the European Union is a core part of our acquis; it determines the need to mainstream social objectives throughout all European initiatives, including, as this report recommends, the European Semester and the Growth and Stability Pact.

The second ambition is a **truly European labour market based on stronger intra-EU mobility flows and enhanced portability of rights.**

Now, mobility is one of the very cornerstones of the European single market; it yields benefits to individuals, who can grow culturally and professionally, and to our economy, as it serves as a stabiliser and it helps fill shortages of skills. Nevertheless, serious obstacles to intra-EU mobility are still present and an alarming denigrating stance is growing in some member states. The risk of youth drain is probably the greatest worry for countries of origin, but the negative image of mobility is more tangible in host countries, which are concerned about the risk of social competition. To this end, I subscribe to the call for a European Labour Inspectorate, which is put forward in this report as one of the key recommendations of the group of experts intervening at the seminar 'A new start for Social Europe?'. The enforcement of agreed-upon regulation on posted workers is necessary to prevent the risk of social dumping.

But besides ensuring a fair application of employment law there is much more to be done. First and foremost, specific efforts must be addressed to solve the plight of youth unemployment. On the one hand, the Youth Guarantee must be strengthened and better coordinated so that member states' initiatives are scaled up by the support of EU institutions; on the other hand, we need to close the gap between schooling and the labour market by reinforcing apprenticeship schemes promoting mobility. On this respect, I already had the chance to support the call for a million young European apprentices by 2020<sup>3</sup>.

Moreover, in order to establish favourable conditions for the mobility of workers, we should aspire to a Social Union: a Union where social rights protected by

2. Art. 9, TFEU.

3. See the proposal of the Jacques Delors Institute Working Group on Youth Employment: Jacques Delors, Henrik Enderlein, Pascal Lamy, Enrico Letta, François Villeroy de Galhau, António Vitorino, Jean-Michel Baer and Sofia Fernandes, "Erasmus Pro: for a million 'young European apprentices' by 2020", *Tribune*, Jacques Delors Institute, May 2015.

member states are easily enjoyable disregarding one's domicile. Having a Social Union does not mean that we should have a single European welfare system, it does not mean interfering with domestic welfare provisions, but it does mean setting up a Union of 28 welfare states. That is essential to promote mobility and strengthen European identity and citizenship. As put forward by D. Rinaldi in this report, a real system of coordination to make effective the portability of rights, coupled with a clear narrative about "Your Rights in Europe" could boost intra-EU mobility and give some bite to Social Europe.

The third ambition is a **Union that invests in its people**. It would be a mistake to abandon completely the objectives and approach set out in the Lisbon Strategy; particularly, we should not forget about the value of social investments for the long-term goal of shared and inclusive growth. We should recognize once more the productive and economic value of social policies such as activation, early childhood care, and lifelong learning.

Nowadays, with the action plan on the Capital Markets Union and the creation of the European Fund for Strategic Investment, the European Commission is extremely active in promoting and facilitating investment opportunities. However, a narrative on investment in our human capital is missing. Maybe it is worth recalling that it is people who make the economy and it is people who innovate, create, work and run businesses. Europe's strength is its people, a strength which we must act to preserve.

To conclude, I would like to commend the Ministry of Labour, Employment, Social Economy and Economic Solidarity of Luxembourg for its efforts and dedication to bringing back the discussion on Social Europe to the European agenda.

The stakes are high. The threats of disintegration and divergence, social exclusion, long term unemployment and increasing Euroscepticism are real. A strong push on Social Europe can help on all these subjects. I wish that our European leaders could see it and convincingly revise EU architecture to ensure the achievement of shared social objectives. The cost of non-progressing towards a Social Union may be otherwise too high.

*Jacques Delors*  
*Founding President of the Jacques Delors Institute*

## PREFACE

by *Nicolas Schmit*

The European Union has been seriously hit by the financial and economic crisis that started in the United States. The slow recovery from the prolonged downturn “remains short of addressing the social challenges built up since the beginning of the crisis”<sup>4</sup>. Around nine million more people have been out of work compared with 2008. Poverty has increased and particularly child poverty.

What originally has been a financial crisis has transformed into a social crisis. But Europe’s response to this challenge has been weak. Up to now, the announced “Social triple A” has hardly materialized in EU policies. The economic and social divergences between member states have widened dramatically thus putting Europe’s political cohesion at risk. Fiscal consolidation policies have been implemented without taking any social stabilizers into consideration. The “horizontal social clause” of article 9 has completely been ignored.

The Luxembourg Presidency has put the relaunching of an active social policy as a major priority on its agenda. The stakes are very high, indeed. The European Union is losing its citizens. Therefore it is urgent to give Social Europe a new start, not just by words but by concrete political actions.

In order to foster a broad reflection and to outline policies, the Ministry of Labour, Employment and the Social and Solidarity Economy organized a high level expert seminar<sup>5</sup> ahead of the Luxembourg Presidency. I want to thank the Jacques Delors Institute for having supported us so actively in this venture. The present report gives an insight into the richness of the debate of the seminar. I also express my gratitude to all the participants for their involvement and their

4. European Commission, *Employment and Social Developments in Europe 2014*.

5. See the programme of the seminar in Annex 1.

contributions. I hope that this report published by the Jacques Delors Institute will really help to give Social Europe a new start. The seminar helped us to prepare our Presidency in this very important field.

It is certainly not so easy to bring Social Europe back on the agenda, especially in a time of big upheavals. But we have to realize that unless we do not strengthen the social dimension of the European Union as well as a whole and more specifically in the euro-zone, overcoming challenges like those posed to us by the large influx of refugees, climate change, global terrorism but also technological change, will only become more difficult. Strengthening the social fabric and trust of the citizens equips individuals as well as societies with the necessary capabilities and self-confidence to face these challenges.

A new start for Social Europe should begin by giving this policy objective a concrete meaning. It should certainly relaunch Social Dialogue in Europe as well as at the different national levels. Social Dialogue is a central element of Europe's social model with all its diversities. We have to encourage Social Partners to negotiate and agree on innovative and forward looking solutions to adapt precisely our social model to the new economic and technological constraints.

Unfortunately Social Europe is not yet considered to be such a prominent European political issue. It is largely ignored by the media considering that social policy remains above all a national competence. This is not true anymore. The idea of limiting the social dimension mainly to nation-states has at least fallen the test of the crisis. Enhancing compliance with EU-economic and financial aims affects national welfare systems. Therefore Europe needs a new governance which includes a strong social dimension equivalent to the economic and fiscal one.

Four elements represent in my view essential building blocks for a Social Europe: common social standards, a socio-economic governance, employment and skills and a social investment agenda.

## **1. Common social standards for upward convergence**

In the enlarged European Union socio-economic convergence has come to a halt. This has created strong tensions between member states. The right of free movement has been put into question although mobility is one of Europe's major acquis.

The President of the Commission has announced in his second annual work programme "a new pillar of social rights". This is certainly a quite interesting idea but it raises a lot of questions. What kind of social rights and what should be their legal value? The European Community member states adopted a Community Charter of the Fundamental Social Rights of Workers on December 9 in 1989, before the Maastricht Treaty and the Social Protocol. The Charter invited the Commission to "submit as soon as possible initiatives which fall within its powers, as provided for in the Treaties, with a view to the adoption of legal instruments for the effective implantation". This is still valid and the Commission could submit such proposals.

A more ambitious and clearer approach could be the adoption of a Social Protocol namely advocated by the European Trade Union Confederation. Such a Protocol would have a legally binding character and would be ratified at least by those member states wishing to do so. Enhanced cooperation in the social field should not be excluded but it should include all euro area members. It should first clarify the relationship between economic freedoms and fundamental social rights stating the pre-eminence of the latter. This is of utmost importance in the context of a fair mobility the Commission is referring to.

The principle that "the same work at the same place should be paid in the same manner" should also be anchored in such a protocol, putting an end to all kind of abuses in the field of posting. The obligation to introduce a minimum wage is also mentioned as an element of such a pillar. Up to now, 22 member states have a legal minimum wage, six rely on minimum wages fixed by collective bargaining. The major point is that the difference between the lowest (Bulgaria 215 €) and the highest (Luxembourg 1923 €) is considerable. The question of a minimum level defined by the median wage seems therefore more topical. The idea of a minimum income in all member states is also proposed in this context.

Since the ECCS, Europe is identified with common standards ensuring good and decent work. Fair working conditions have been central for workers' health and security but also for fair competition between companies within the single market. During the Luxembourg Presidency the EPSCO has adopted Council Conclusions on a "new Agenda for Health and Safety at Work to foster better working conditions".

Existing EU legislation has to be adapted because new risks at the workplace like carcinogenic substances, harassment or stress at work have to be tackled. A new strategy on promoting health and security taking into account the new forms of unemployment and work organization due to the digital revolution, should be worked out together with social partners.

By adopting new social standards, the diversity between member states should certainly be taken into account but the declared objective should be upward convergence. The establishment of social rights should be achieved in the context of a broad consultation process associating governments, the European Parliament as well as national Parliaments and the social partners and civil society. This would underline the shift in Europe's policy priorities and give a clear signal to citizens that economic progress is tied to social progress.

## **2. Social governance for an inclusive Europe**

European Union's prime objective is to create conditions for stronger growth, more and better jobs and higher living standards. The European Union is also a Union of national welfare states which need at a European level broad social standards and objectives and a stronger socio-economic governance.

The governance put into place in the EU and more specifically in the euro area is nearly exclusively focused on economic and fiscal objectives. It is neglected that social imbalances pose a political and economic threat to the sustainability of the euro area. There is an obvious need for rebalancing the governance. Social imbalances have to be addressed with the same stance as budgetary and macroeconomic imbalances. Some small progress has been made in the context of streamlining the European Semester in 2015. These changes namely consist in limiting the "country specific recommendations" (CSR) which also include social objectives. Three employment indicators

have been moved to the headline indicators of the early warning within the Macroeconomic Imbalances Procedure. These are indeed small steps if social imbalances have their impact on macroeconomic and fiscal policies. This would lead to fully integrate the social dimension in the overall governance by transforming it into a “socio-economic governance”. Unemployment, poverty, inequality, skills mismatch but also a badly functioning health system or a shaky pension system are fundamental questions in the context of a deepening of the European Monetary Union.

Institutionally this means that different Council formations have to cooperate and to interact more intensively. The EPSCO should be much more involved and should therefore review its working methods and frequency of meetings. It can rely on valuable work done by the two committees, the SPC and the EMCO which feed their analysis and views into the process. Under the initiative of the Luxembourg Presidency the EPSCO Council adopted Council Conclusions for a governance favouring a more inclusive Europe.

Too often primary focus on social issues like pension or healthcare is given on financial sustainability and cost-effectiveness, even if these criteria should not be ignored. This has been pointed out by the SPC in its 2015 report. The involvement of social partners also remains weak as well as the democratic legitimation. For the euro-zone an enhanced economic and budgetary integration should automatically lead to a deeper social integration. Therefore the Luxembourg Presidency organized an informal EPSCO of the euro area. This obviously created some tensions with the non euro-zone member states, who nevertheless have accepted the Eurogroup of the Finance Ministers. A compromise could be that EPSCO Ministers regularly discuss euro-zone specific social issues and that those non-euro zone member states who wish to participate in strengthening the social dimension should be given the possibility to take part.

The Five Presidents Report on “The Nature of a Deep, Genuine and Fair Economic and Monetary Union”, despite mentioning the “social triple A”, runs short on how the governance should be effectively rebalanced and more integrated.

Employment issues largely depend on the macroeconomic context. There is no clear position on how Europe 2020 targets which have been widely missed, should be adapted and reconfirmed as the halfway review has not been accomplished. The question of the EMU's fiscal capacity has to be addressed.

Improving the governance in a more balanced way is not only essential for restoring trust in the European Union, but also to ensure socio-economic convergence and so the sustainability of the currency union.

### **3. An employment and skills agenda**

High unemployment destabilizes not only national governments, it also threatens the cohesion of the European Union. Youth unemployment is certainly one of the most important concerns of Europeans. It is a major liability for Europe's future producing a "lost generation". Unemployment is falling too slowly. At the current pace of reduction, the 2007 pre-crisis rate of unemployment would not be reached before 2022.

The Youth Employment Initiative including the Youth Guarantee has been a valuable step to fight youth unemployment. But there is an urgent need to go beyond. The Presidency has focused the discussions on several topics: strengthening youth guarantee; fostering job creation also through supporting entrepreneurship; improving skills by developing vocational training. The idea of a new ERASMUS Programme for unemployed and less skilled young people has to be put into place and should get sufficient financial resources. Fighting youth unemployment has to remain high on the European Agenda and to be fully integrated in the different policies.

Labour market reforms are generally highlighted as the indispensable structural reforms to promote employment. They are often considered to produce above all more precarity. Many young people are suffering from precarious working conditions having a strong impact on their lives. This happens also in those countries where unemployment is low. Even in Germany one out of four employees under 35 years old is working under precarious working conditions. Therefore the concept of flexicurity has indeed to be reintroduced in European policy making. This type of reform has certainly to be adapted to the different national contexts. It is particularly important to give due consideration to the



security side. This means not only adequate unemployment benefits but above all efficient retraining programmes which have to be adequately financed. The role of the ESF has to be rethought in that direction. Social dialogue certainly has to be revitalized but this also means that collective bargaining has to be promoted in order to achieve a more balanced wage policy.

High investment in human capital becomes even more necessary as our economies transition through a major technological revolution. The digitalization will transform companies as well as ways of production. This also means a profound change in labour markets and skills demands. The digital economy will also have a dramatic impact on our social protection systems. It is therefore high time to deal with these changes and to ensure that these disruptive technological innovations will not generate more exclusion and more inequality. Europe cannot fail to embrace this revolution but at the same time this should be made compatible with our social values. This requires an adaptation of labour legislation but above all investing in skills. These are the key structural reforms the European Union should focus on in a coordinated way because the digital economy ignores borders and the completion of a digital internal market is a high priority.

It would be wise to organize a working group of experts and social partners to deal with all these economic, social, cultural... impacts of these transformations based on artificial intelligence. The Luxembourg Presidency had convened a high ranking seminar on these topics which should be put on the EU agenda.

#### **4. Promoting social investment**

A major lack of investment has been identified as Europe's biggest economic weakness. The Strategic Investment Programme launched by the EU Commission is a right but insufficient response to improve productivity and support a fair and job creating growth. But there is not only a serious need to foster economic progress, this is equally true for social progress. Therefore promoting social investment should also be regarded as a key priority.

Unfortunately this is not clearly stated by the present EU Commission that has not revamped the Social Investment Package launched in 2013. It does not make sense to talk about a pillar of social rights without stressing the

importance of social investment. As Anton Hemerijck has put it, “the social investment approach in essence rests on policies to raise the human capital stock (from early childhood education and care, vocational training, education and lifelong learning) on one hand, and labour market policies, serving to make the most efficient use of human capital across the life course, on the other”<sup>6</sup>. In that context, the social economy should play a much more important role through social innovation. The Luxembourg Presidency has given high priority to the promotion of this sector by creating a European framework and facilitating access to financial resources. For the first time, EPSCO Council has endorsed this approach.

There should be a strong awareness that sharp fiscal consolidation or austerity policies not only exaggerated social hardship specially in the vulnerable countries but finally darkened the perspectives for a sustained recovery. These mistaken policies have been growth reducing and socially unjust. The main victims have been the young, the long term unemployed and the children. When over 40 million people in the European Union are suffering from food poverty, limited access to health services and associated health inequalities there is something wrong with the European Project as well as the European Social Model. Inequality has also risen dramatically generating major social costs but also impeding present and future economic growth. The European Union therefore needs a strategy to foster more egalitarian societies. That should be part of a Social Protocol whose aim should be to pave the way towards a proper European Social Union.

We have to develop a new social vision for Europe, that of a caring Union. The migration crisis has increased the fragilities of the European Union attacked by populism. It certainly is important to strengthen Europe’s competitiveness innovative capacities and economic stability but this cannot be successfully done without giving a new start for Social Europe, now! Bold action is requested, if we want European citizens to reconnect with the European ideals.

*Nicolas Schmit  
Minister of Labour, Employment and the  
Social and Solidarity Economy of Luxembourg*

6. A. Hemerijck, *The €-Crisis – Welfare State Conundrum in the Euro Area Crisis and the Transformation of EU Governance*, London, 2014

## CONTRIBUTION

*by Marianne Thyssen*

**A** new start for Social Europe?' – That is what we will discuss here today<sup>7</sup>. It is posed as a question however – and I am glad for the opportunity to answer it with a resounding 'Yes'. The European Commission has set out to create a Europe with a 'Triple A Social Rating' and I will outline our vision and plan of action.

But what does this triple A rating actually mean? For me, there is no doubt: It is an ambition – indeed, a commitment – that the economic strengthening of our Union goes hand-in-hand with improving people's lives. This is the core of the European Social Model and a vital component of our social market economy.

In my view, a 'triple A' social Europe requires fair and balanced growth that leads to the creation of decent, quality jobs, as well as chances and protection for all throughout their lifecycle.

I have put fairness at the core of my agenda for the coming years. But I believe that it is only by ensuring that social considerations are better integrated in all EU policy areas that we will truly achieve a Social Europe. As you may know, we had an orientation debate on this topic last week at the College meeting and I can assure you: the entire Commission shares that ambition, under the leadership of President Juncker.

The economic outlook across Europe is finally improving. The member states' reform programmes – implemented often in very difficult circumstances – start to have effect, helped by external factors such as low oil prices and the devalued euro. But economic growth is still too weak for many people across Europe to feel it. Labour markets are still sluggish and the social situation

<sup>7</sup>. Speech delivered by Commissioner Thyssen on the occasion of the "New Start for Social Europe?" seminar on 19 June 2015. See [full text](#).

remains problematic. I don't need to remind you that unemployment is still high, long term unemployment even more so, and that our young people have paid and continue to pay the highest price for the crisis.

The crisis has driven a wedge between southern member states or those on the periphery of the euro and those in the north and centre. While growth has been steady in Poland and Lithuania since 2008, it has fallen by more than 10% in Cyprus, Croatia and Italy, not to mention Greece.

The growing divergence between the member states is a huge cause for concern. It undermines one of the European Union's *raison d'être* - fostering economic convergence and improving the lives of all Europeans.

To me it is very clear that the course to sustainable economic growth must involve reducing inequality, within member states as well as between member states. Last month I co-presented together with secretary general Ángel Gurría a new report on income inequality at the OECD. It makes a compelling case that less inequality can lead to faster and more sustainable growth and that redistribution does not act as a brake on growth. And this week the IMF has confirmed these findings and argued for the need to support the income of the bottom 20%.

Yet, macro-economic and fiscal measures are every bit as essential to address poverty and inequality as employment and social measures. What we must remember is that economic development and social progress are closely intertwined and mutually reinforcing. Together, they are the essence of our social market economy.

The Commission is actively pursuing reforms in the member states to improve the investment environment and to modernise, in order to foster a recovery rich in job creation.

The Investment Plan for Europe, proposed by President Juncker to kick start the European economy, has been agreed by both the Parliament and Council. It will become operational after the summer and we expect the result to be up to 1.3 million new jobs, as confirmed by the ILO.

The Youth Employment Initiative and the Youth Guarantee are starting to bear fruit: there are now half a million more young people in work than a year ago. Just a few weeks ago, we paid €1 billion to accelerate support measures on the ground and benefit up to 650,000 young people this year.

Meanwhile, the European Alliance for Apprenticeships is gathering support in the business world. Evidence shows that education and training that includes work-based learning pays off. It is a springboard to employment, and we are seeing more and more offers. Over 50,000 education and training places have been created by around 200 companies in 2015 alone. I am convinced that the most effective way of preventing young people from falling into poverty and exclusion is through meaningful opportunities such as these. That is exactly why I will re-launch the Alliance in Riga on 22 June to make our dialogue with the private sector even more solid.

These are some examples of what we have already done in the first 8 months of this Commission, but we are more ambitious than that. On 9 June the Commission had an orientation debate on social policy. We agreed that Commission should have an ambitious social policy agenda, which would draw on all existing instruments: economic coordination, legislative and financial instruments.

While it is essential that we boost investment, it will only result in jobs and growth if we combine it with structural reforms that strengthen and modernise member state economies. In today's changing world - with increasingly globalised markets, an ageing population and rapid technological development, Europe must reform to survive and prosper.

We have already seen reforms pay off in several EU countries. Those that followed the reform path - like Latvia, or Ireland, or Portugal, are now among the fastest-growing EU economies. The same is true for countries that had a well functioning social dialogue.

Further reforms should ensure that people are enabled and activated to participate in society and the labour market: But also prevent and protect against risks throughout the life-course.

The same is true for investment in education and training – coupled with a performing education system that delivers the required skills. The business world must be on board here – ready to invest in job training. Evidence shows that the most competitive EU economies – like Sweden, Denmark or indeed Luxembourg, are ones where government spends more on education and enterprises provide more training than in less competitive countries.

This is why we continue to recommend such reforms as part of the EU's economic policy coordination. This year the European Semester process has zoomed in on labour market challenges and social protection. Emphasis is on modernising social legislation so as to enable the labour market to deal with the rapidly changing world of work.

Ladies and gentlemen, these are our policy recommendations, but the main responsibility for structural reforms of course lies with member states. The European Commission is closely coordinating these countryspecific reform agendas to ensure we avoid a race to the bottom.

Instead, we must strive for upwards convergence in employment and social policies. That means ensuring that no one is left behind: that people's quality of life is improved as the European economy is strengthened.

In my confirmation hearing I told the members of the European Parliament that people is what the European Union is about. It is important that people see that the Europe is working for them. That it is creating quality jobs and promoting fairness. That ultimately, it generates wealth and offers decent opportunities to all.

Our overarching objective must be this upward social convergence. To achieve it, we must all be agreed and focussed on our course of action.

In the context of reinforced European Semester policy coordination, we are considering setting certain benchmarks to cover the instruments of employment and social policy. Such benchmarks could cover employment rates and unemployment benefits, but also access to minimum income or social services. They could be set as a minimum requirement, or an upper and lower limit between which countries should position themselves.

Such benchmarks would support convergence. We cannot only ask people to accept greater flexibility to adjust to economic conditions, technological change and ageing. We should also offer greater protection and support for workers to adapt.

The successful structural reform of the Youth Guarantee could be used as a model: a Recommendation supported by a budget and closely monitored in the European Semester. This model combines investment in people with reform: a similar proposal for Europe's long-term unemployed is in preparation.

Also, in the context of our legislative framework, Europe will not deserve a social triple A if our laws do not protect workers from the risks of today and tomorrow. I would therefore call for an ambitious overhaul to adapt our regulatory framework to address today's biggest risks. This is completely in line with the Better Regulation philosophy of this Commission.

From my perspective, I see three main areas in need of update:

Firstly, working conditions - including working time: As I've said, the world of work is rapidly changing and is barely recognisable from what it was when the existing laws were set in stone. That legislation no longer reflects the way in which we work today; worse still, it does not protect the weakest workers - for example those on zero-hour contracts.

Secondly, health and safety at work: we need to simplify the existing laws. At the same time, there is a need to protect against new risks, such as carcinogens.

And finally, labour mobility: Free movement of workers is one of the fundamental freedoms enshrined in the Treaty. It is also an essential tool of flexibility, adjustment and competitiveness of our internal market - and even more so for our single currency area. It should be encouraged and facilitated as a viable and fair option for all workers.

That said, we must be mindful of the economic and social impact of labour mobility on the host country. And we must watch out for the effects of brain drain and skewed demographics in the countries from which migrants leave.

But we have to find solutions that tackle these challenges in a fair and effective manner. Labour mobility must not lead to a new divide in our labour markets, or as a matter of fact, in our societies. Those who work side by side, who contribute to growth, all merit respect and protection. Through structural reforms and economic convergence, all member states should strive to offer citizens the perspective of a decent job and good life. Our competitiveness and our future growth depend upon it. So does the fairness and prosperity of our society.

This is why the Commission, on my proposal, has put a Mobility Package on its Work Programme for the end of this year. What I want to do in this context is in the first place to take a picture of the situation as it exists today. Who is moving, from where to where? Are mobile citizens returning to their home country, for example when the economic situation there picks up again? - this is what we call “circular migration”. There are a lot of emotions on this topic but I want us to base our policy decisions on facts and figures.

The second element I want to take a look at are the EU rules on coordination of social security systems. The coordination rules have always been an important instrument to facilitate cross-border mobility of EU workers and their family. They aim to ensure that mobile EU citizens do not lose their social security protection, and that one member state - and one member state only - is always responsible for the social security protection of the individual citizen.

But we need to ensure that the rules reflect the changes in the economy and society and that they are seen as being fair by citizens and political leaders.

I approach this matter with an open mind, and we are eager to listen to the concerns and the proposals from the member states and citizens. It is clear that the issues raised do not have easy answers. The fact that the social security systems of the member states vary so substantially, does not always make it easy to find common ground.

And the third part of the Mobility Package - equally controversial - is the targeted review of the Posting of Workers Directive which President Juncker has announced straight from the beginning of this mandate. The decision whether or not to open the 1996 Directive has not been taken yet. I will not take



that decision lightly taking into account how difficult it was to reach agreement on the Enforcement Directive ultimately adopted last year. But it is clear that in this area too, the EU citizens expect that we take their concerns seriously and that we provide answers - whether in the form of legislative changes, interpretative notes or other instruments remains to be seen.

What in any event seems absolutely necessary is more cooperation, and more effective tools for cooperation, between enforcement agencies in the member states. A single social security number for each citizen for example could greatly enhance the efficiency of information exchange. Let's see how far we can push things in this area. In any event, I am glad to see already that member states are reaching out to each other to intensify their cooperation on a bilateral basis. I hope that we can generalize such good practices at EU level. The Platform for the fight against undeclared work, on which trilogues have just started, could contribute further in this direction.

Ladies and gentlemen, in recent years we have seen all member states grapple with the social impact of the crisis. Structural reforms are a policy priority: to stimulate the creation of decent jobs and to enhance the effectiveness and sustainability of social security systems.

It is our ability to overcome challenges and to provide effective solutions to foster employment and social inclusion that will determine if we succeed in giving Social Europe the new start it needs.

We need to gain back the trust of all citizens by delivering results, by offering them real chances and protection. We cannot build the sort of Europe we want to live in unless we advance on a double track: being competitive on world markets and having strong social cohesion. We need to foster growth and social progress knowing that they are intertwined.

Let us work together on that.

*Marianne Thyssen  
Commissioner for Employment,  
Social Affairs, Skills and Labour Mobility*

## EXECUTIVE SUMMARY

- A number of critical hurdles and societal change call into question the effectiveness and long-term sustainability of social policies in Europe. Globalisation, technological change, population ageing, the economic and financial crisis, as well as the increase of skills mismatch, pose **serious threats to the very foundations of national welfare states**.
- One single policy orientation could offer a valid framework to respond to all of these challenges: **a sound push for investment in human capital and social investment could in fact be beneficial in multiple ways**. It can push economic growth through enhanced competitiveness, resilience and innovation, and it can promote social justice and inclusion by reducing inequalities, both within and across countries.
- **The benefits of a social investment strategy are not only social**. It brings economic benefits as it leads to improvements in the productivity of the labour force and it has a positive impact on public finances, as spending for activation and inclusion leads to increasing revenues and diminishes the demand for social protection.
- The European Union introduced the goal of promoting human capital in the Lisbon Strategy and later launched a Social Investment Package (SIP). Nevertheless, the emphasis on social investment is retracting. **The SIP remains a series of non-binding documents and not a real strategic pact**. The Youth Employment Initiative, which provides a framework for member states to launch initiatives against youth unemployment, does not envisage a common strategy and give rise to heterogeneous initiatives, that can eventually increase divergence.

- In the framework of existing policies, it is feasible to increase the effectiveness of EU-led initiatives for social policy. For instance, specific efforts could be addressed to support member states to **widen access to early childhood education and care**, as the uptake of these services is very low among disadvantaged households. Likewise, the Erasmus initiative could be expanded to promote a real alliance for apprenticeships.
- **European decision-makers are facing a twofold challenge with regard to labour mobility:** on the one hand, labour mobility must be strengthened to create a genuine European labour market; on the other hand, they must ensure that increased mobility won't exacerbate the risk of disintegration, create tensions between mobile and local workers or add an additional burden to member states already experiencing fiscal imbalances.
- **Labour mobility is limited by the range of social security systems and obstacles to the recognition of qualifications;** it is therefore recommended to work on the coordination of welfare provisions in order to create a real system of facilitation for the portability of social rights to improve on the automatic recognition of degrees, qualifications and social rights.
- To avoid the expansion of tensions linked to social dumping, the European Union should put emphasis on the implementation of agreed upon principles. **Compliance with the principle of an "equal pay for equal work in the same place" must be ensured.**
- **Creating a Europe with a 'Triple-A Social Rating' requires fighting the alarming divergence** among member states and revising the economic governance of the Union and of the EMU. Social imbalances put at risk the economic, financial as well as political stability of the entire Union.

- Three main reasons demand **a prompt and comprehensive strengthening of the social dimension of the EMU**: 1) the need to right social imbalances as much as fiscal imbalances; 2) the lack of means to address cyclical shocks; 3) the opportunity to strengthen the legitimacy and sustainability of the EMU and of the EU. These three arguments, which are more pressing for the euro area, remain valid for the whole Union.
- The means should be found to grant more room to manoeuvre and secure appropriate financing to those member states that have excessive social and macro-economic imbalances; the Union should make sure that national policies, in line with the guidelines of the Social Investment Package and the Youth Employment Initiative, remain a priority and are matched by sufficient budget.

A summary of policy recommendations specific to the three topics treated in this report is available at the end of each chapter.

## INTRODUCTION

The European project is losing support from its citizens and that comes as a result of a strong focus on macroeconomic and budgetary issues which left aside a discussion on well-being and social progress. “The message and concrete actions coming from Europe must change”, said Minister Schmit at the beginning of the Luxembourg Presidency of the Council of the European Union. The European Commission has also realised that a change is needed and there are now expectations that joint efforts will be made in the direction of a Europe with a triple-A social rating.

In June 2015, the ministry of Labour, Employment and Social and Solidarity Economy of the Luxembourg, in partnership with the Jacques Delors Institute, has gathered together over 40 experts to think over the following question "A new start for Social Europe?" and come up with concrete policy options to give a boost to Social Europe project.

It is beyond doubt that the answer to the rhetorical question should be a resounding ‘Yes!’ and that is why the title of this publication is assertive. However, there is still not political consensus on a strengthening of the social arm of the Union.

By no means does this report advocate for a shift of social policy from the hands of member states to those of the Union; however, it appears clear that a greater coordinating role for the Union is necessary, urgent and advisable. For the years to come the European Union will remain composed of 28 different welfare states and 28 different labour markets, but the acquired level of economic integration and mobility requires a Union that facilitates coordination among national welfares and labour market provisions.

In this context, this publication aims at fostering debate on making progress toward Social Europe and considers debate as functional to build up a policy agenda for the coordination of social policies in Europe.

In what follows, the author tries to focus on ‘*Why*’ a new start for Social Europe is necessary, and on ‘*How*’ a new start for Social Europe is feasible. As political consensus is not there yet, a focus on the ‘*Why*’ is still indispensable to provide clear-cut arguments for reform. By focusing on the ‘*How*’, we can instead gain insights on how to make Social Europe operational.

This report is part of a project that the Jacques Delors Institute runs with the Ministry of Labour, Employment, Social Economy and Economic Solidarity of Luxembourg. Minister Schmit and the senior staff at the Jacques Delors Institute diagnosed that a new start of Social Europe should be grounded in three pillars: 1) investment in human capital, 2) fair labour market mobility, and 3) socio-economic convergence.

These three macro-areas actually cover a vast array of topics and it is not the purpose of this publication to be exhaustive and comprehensive. Rather, the objective is to highlight some policy areas where concrete improvements are feasible or more urgent. The ordering of the chapters is therefore not fortuitous; the topic of investment in human capital comes first as we find that its political viability may be higher. Labour market mobility follows, whilst a discussion on the harsh themes of convergence and EMU reform concludes.

This report consists therefore of three chapters, one per macro area of interest. Each chapter is structured as follows: the first section introduces key challenges and outlines the policy issues at stake with the objective of stimulating debate over potential reforms. A second section, called *discussion*, offers an account of the debate, visions and proposals shared by experts and policy-makers who gathered in Luxembourg for the ‘A New Start for Social Europe?’ round tables.

In the presence of Ms Marianne Thyssen, Commissioner for Employment, Social Affairs, Skills and Labour Mobility, Minister Schmit and the Jacques Delors Institute gathered several high level politicians, ministers, researchers and social partners to discuss how to give a new impetus to Social Europe

and define some lines of action and priorities for the months to come. In the discussion, I report some of the points raised during the round table debate which run under Chatham House rule. The text does not specifically reflect the opinion of the speakers or the participants but rather my own interpretation of their contribution to the debate.

Of relevance for the reader, each chapter ends with a short summary of policy recommendations specific to the macro area. Deliberately, this report provides no conclusions. The idea is to begin a process, and remain open to review and analyse its developments.

The reader is also invited to promote debate and the exchange of opinions via social media. Over the month prior to the publication of this report, #EnergyUnion had over 8800 mentions, - COP21 effect -, #DigitalSingleMarket got 2178, #investEU got 1892, while #SocialEurope only had 42. If we are to reposition Social Europe within the radar of policy-makers, we need to encourage public debate as well. Feedback on the publication and the proposals it contains is welcome and can be addressed to @Rinaldi\_David and @DelorsInstitute.

*David Rinaldi  
Research Fellow, Jacques Delors Institute*

# 1. Investing in Human Capital and Responding to Long-term Societal Challenges

## 1.1. Five Challenges that Demand a Focus on Social Investment

In the 2014 report on Employment and Social Development in Europe<sup>8</sup>, the European Commission upholds an investment strategy on human capital as a necessary response to a set of societal changes and challenges affecting Europe. Why that?

Since the end of the last century, the social systems of European countries have faced a number of critical hurdles which called into question the effectiveness and long-term sustainability of social policies in Europe: **i) globalisation, ii) technological change**, as well as **iii) the population ageing** pose a threat to the very foundations of national welfare states<sup>9</sup>.

Figure 1 shows how the population structure by age groups has changed in Europe from 1993 to 2013; for both men and women the share of population below 40 years of age has substantially decreased.

In addition to these societal changes, since 2007, **iv) the economic and financial crisis** has impacted European social systems dramatically; on one side it lowered socio-economic conditions and caused the impoverishment of a significant share of population; on the other side, the debt crisis left member states with little room for maneuver to reduce social malaise. Over recent years, as a consequence of austerity measures, social spending in Europe has contracted and the countries under Economic Adjustment Programme

8. European Commission, *Employment and Social Developments in Europe 2014*, Directorate-General for Employment, Social Affairs and Inclusion, Directorate A, 2014.

9. For an overview of the main challenges affecting welfare states, see Begg Iain, Mushövel Fabian and Niblett Robin, "The Welfare State in Europe: Visions for Reform", *Vision Europe Chapeau Paper*, 2015.



in particular have considerably lowered their social expenditure, including education expenditure. The crisis-hit in 2009 caused a marked increase of social expenditure, due to unemployment insurance primarily. In the following years however, real public social expenditure contracted. Drops in education expenditure, as shown in Figure 2 are particularly alarming. Vandenbroucke and Rinaldi<sup>10</sup> identify a worrying divergence in public spending on education, as countries like Romania, Hungaria, Italy, Ireland, Spain, Portugal and the UK have implemented cuts to their expenditure in education whilst allocating to education a share of GDP lower than the EU average<sup>11</sup>.

Over 23 million European citizens are without a job and almost 5 million of them are young people, whilst over 12 million are in long-term unemployment. What is also striking is that at the very same time over 2 million vacancies go unfilled in the EU. That opens a question on how to address **v) skills mismatch and skills updating**.

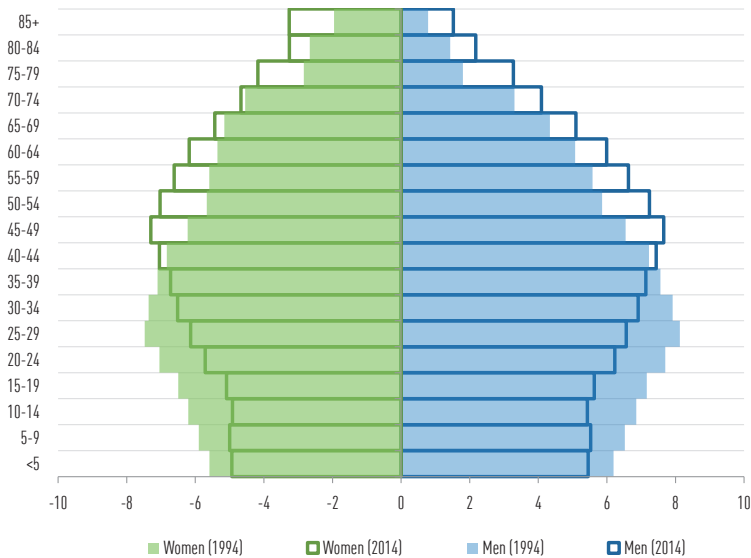
With high unemployment rates, shrinking labour force, and increasing pension obligations, tensions on welfare state are acute in some member states and divergence in the performance of different national social model is on the rise.

There is little doubt that a full economic recovery and a boost in employment rates would lessen the tensions on national welfare systems and that creating jobs should remain a key priority for the short- and mid-term. However, it is necessary to reconsider long-term sustainability, governance, and coordination of European welfare systems to make sure that societal changes are taken into account, inclusive growth is achieved, and socio-economic crises can be dealt with more promptly in the future.

10. Vandenbroucke Frank and Rinaldi David, "Social Inequalities in Europe – The Challenge of Convergence and Cohesion", *Vision Europe Paper*, 2015.

11. In 2013, spending in education was 5% of GDP in EU-28 (average), 2.8% in Romania, 3.8% in Bulgaria.

**FIGURE 1** ► Ageing of European Population – 1993 and 2013 compared  
(Population structure by age groups and sex, % share of total EU-28 population)

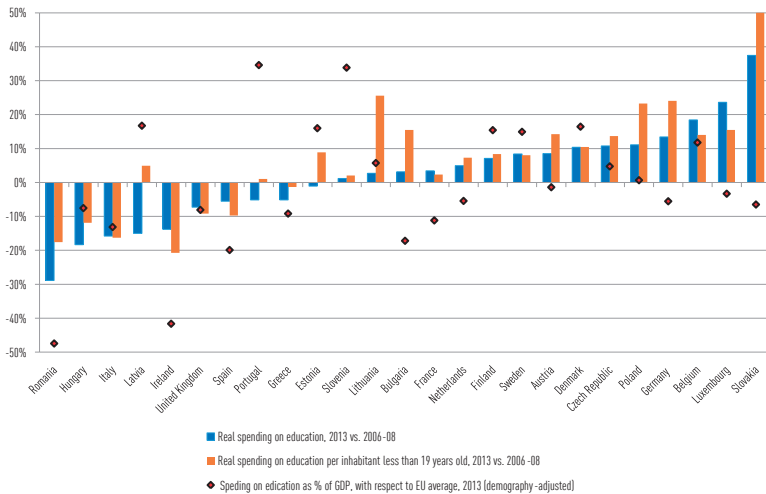


Source: EUROSTAT, data code demo\_pjangro.

It is striking to see how one single policy orientation could offer a valid framework to respond to all these challenges. A sound push for human capital and social investment could in fact be beneficial in multiple ways: 1) by focusing on **activation**, it supports inclusion to the labour market and therefore offers a framework to improve on the sustainability of pension budgets, challenged by population ageing; 2) by focusing on **capacitating spending**, it reinforces the resilience at the individual and collective level, so that our societies will be better equipped to face future crises or negative shocks; 3) by focusing on **lifelong learning**, it can provide European citizens with the skills and competences needed to address skills mismatches and, more crucially, to maintain a highly productive workforce. Thus, it can allow Europe to maintain its position as a world leader even in the face of globalisation and technological change; 4) by focusing on **early childhood care**, it ensures that the transmission of poverty

and social exclusion is lessened, so that more people will contribute to our economy when adults.

**FIGURE 2** ▶ **Development in Education Expenditure**  
(Real Public Spending on Education, 2012 levels versus 2006–08 averages)



Source: Vandenbroucke and Rinaldi (2015).

The benefits of a social investment strategy are therefore not only social. It induces economic benefits as it leads to improvements in the productivity of the labour force and it has a positive impact on public finances, as spending for activation and inclusion leads to increasing revenues and diminishes the demand for social protection.

**TABLE 1** ▶ **Evolution of the Social Investment Orientation**  
(Recent changes of social spending in EU-27)

		CHANGES IN SOCIAL INVESTMENT 2007-2013		
		DECREASE	STABLE	INCREASE
SOCIAL INVESTMENT LEVEL IN 2007	HIGH	DK	FI	SE
	MEDIUM	EL, ES, IT, HU, PT, RO, SI, UK		AT, BE, DE, FR, LU, LV, NL
	LOW	BG, CZ, IE, CY, LT, PL	EE	MT, SK

Source: European Commission, *Employment and Social Development in Europe*, 2014.

The social investment approach is far from being a new policy solution, it was already explicated in the Lisbon strategy and implemented in several member states. Nevertheless, as stressed by Martinelli<sup>12</sup>, the prevailing of neo-liberal principles and the onset of the financial crisis have prevented the social investment approach to develop into a fully-fledged paradigm. As Table 1 outlines, several EU member states which already had a medium or low orientation towards social investment have further lowered their social spending on human capital during the period 2007-2011. The European Social Policy Network (ESPN) Report on Social Investment in Europe<sup>13</sup> finds that if nine member states have a well-established social investment approach to social policies, in other ten member states it has not made any significant inroad into domestic policy agenda<sup>14</sup>. Without the ambition of being exhaustive, next session explores the leading objectives for a human capital investment strategy; session 3 will look instead at the policy framework set up at the EU level to uphold an investment strategy on human capital and session 4 will give some hints on specific policy actions.

12. Martinelli Flavia, "Social services, welfare states and places. The analytical framework", in Martinelli Flavia, Anttonen Anneli and Mätzke Margitta (eds), *Social services disrupted: Socio-economic implications and policy challenges for a crisis ridden Europe*, Edward Elgar Publishing, forthcoming.

13. ESPN, *Social Investment in Europe – A Study of National Policies 2015*, Study for the European Commission, DG Employment, 2015.

14. According to ESPN (2015) *cit.*, member states with a social investment approach are Austria, Belgium, Germany, Denmark, Finland, France, the Netherlands, Sweden and Slovenia. Those without are Bulgaria, Czech Republic, Estonia, Greece, Croatia, Italy, Lithuania, Latvia, Romania and Slovakia.

## 1.2. Investment in Human Capital: Objectives

The benefits of investing in human capital in Europe are manifold but two long-term objectives are of particular relevance for the sustainability of the European project:

### 1.2.1. The effect on economic growth through enhanced competitiveness, resilience and innovation

The economic recovery for Europe depends on the ability of our economies to improve on competitiveness and on the ability to integrate with the world economy. In this regard, a clear objective should be that of increasing the added value for goods and services produced in the EU, which can be achieved with a well-trained and highly educated workforce. In fact, available data<sup>15</sup> indicate that EU companies are increasing their demand for high-skilled labour; the challenge for public policy is therefore to put in place reforms which adapt the supply of skills to the needs of the economy.

With a working-age population in decline, progressive population ageing, and ambitious targets in terms of employment rates, the growth of labour productivity is the key for the growth potential of European economies. To ensure that labour productivity increases in Europe over the next decade, investment in human capital is essential, as it is a prerequisite for a more productive workforce.

A serious focus on education and skill development could be the trigger to boost economic and labour market outcomes in EU member states and at the same time to prepare Europe for the long-term challenges with a better skilled and more productive workforce.

### 1.2.2. The effect on social justice and inclusion through a contrast to inequalities, both within and across countries

It is also pretty straightforward to see the investment in human capital as a leading measure to contrast socio-economic distress and address

<sup>15</sup> OECD, *Employment Outlook 2014*, and European Commission (2014), *op. cit.*

social cohesion. It is beyond doubt that the financial and economic crisis have substantially increased malaise among European households; we are witnessing a progressive impoverishment of the middle class across EU member states, the number of people experiencing poverty and social exclusion is still on the rise, and debt levels are also increasing. Too often, national and European institutions have been unable to respond promptly to the worsening of these socio-economic conditions and the social malaise has reached such a high level that political cohesion has also been called into question. Addressing social justice in Europe by means of a far-reaching investment plan on people's skills, knowledge, and education is a way to strengthen social and political cohesion and is a concrete step towards achieving equality of opportunities and meeting Europe 2020 targets on education and the overarching objective of a *smart, sustainable and inclusive growth*.

For the investment in human capital to achieve its objectives of lessening social exclusion and promote well-being across Europe, the policies to be implemented must **be based on the concept of social investment** and give support to individuals and households not only in contrasting current straits but rather in equipping them with the necessary skills and resilience to adapt to change, respond to adversities, and take advantage of opportunities. Access to health and childcare services, prevention of early school leaving, lifelong learning, are key aspects of an investment strategy on human capital which serves social goals. The European Commission reports that “member states with a firm commitment to social investment have lower rates of people at risk of poverty or social exclusion, higher educational attainment, higher employment, lower deficits and higher GDP per capita”<sup>16</sup>.

Vandenbroucke, Hemerijck, and Palier<sup>17</sup> refer to social investment as an imperative. They also stress that the social investment perspective is an opportunity to reconcile social and economic goals in Europe. The question that is still to be addressed is: **what is the institutional framework needed for forming, maintaining, and using human capital** and support member states actions for the better?

16. European Commission, “Social investment: Commission urges member states to focus on growth and social cohesion”, IP/13/125, February 2013.

17. Vandenbroucke Frank, Hemerijck Anton and Palier Bruno, “The EU needs a Social Investment Pact”, *Opinion Paper*, European Social Observatory, n° 5, 2011.

## 1.3. A workable and malleable policy framework

### 1.3.1. The Social Investment Package

In February 2013, the European Commission launched the **Social Investment Package** (SIP), which is a comprehensive agenda on education, training and skills. It includes recommendations to member states on how to **i)** modernize their social protection systems, **ii)** implement active inclusion strategies, **iii)** invest throughout an individual’s life.

Commissioner Thyssen, in her intervention at the General Assembly of the Social Platform, commented that the SIP “vindicated strengthening people’s capacities to prepare them better for social and economic risks and to adapt to societal change. Above all, it emphasised the lasting benefits of adequate and well-financed social policies. The economic and social return would be evident over time”.<sup>18</sup>

Indeed, the package is a good step in the direction of a consistent investment on human capital for Europe; it provides a framework that can make the difference between success and failure in meeting Europe 2020 targets in the field of education and social exclusion, as well as those in the field of employment. It is actually aimed at strengthening inclusiveness and making our societies both more cohesive and more competitive.

The SIP provides a valuable common groundwork for EU member states activities in the sphere of social affairs. It puts forward guidelines on early childhood education and care<sup>19</sup>, preventing school leaving, enhancing lifelong learning and helping aged people to live independently. It also defines a framework to run active inclusive strategies for the access to child care, housing support, and health services.

However, the **SIP remains a series of non-binding documents** adopted by the Commission. The background report for the High-Level Group on ‘Social Union’ highlights that the current approach shows a lack of a sense of

<sup>18</sup>. Speech of Commissioner Thyssen at the General Assembly of the Social Platform, 6 May 2015, available [here](#).

<sup>19</sup>. See the Commission Recommendation on *Investing in Children: breaking the cycle of disadvantage*, EC 20.02.2013.

reciprocity and raises the question of whether there could be **political will to achieve a Social Investment Pact, rather than a package.**

Two additional aspects need close attention: one relates to the financing for social investment, the other with its implementation monitoring and integration with the European Semester.

- It is essential to understand how the Commission intends to support member states to implement the Social Investment Package through **mobilizing domestic resources and European Funds**. Specific attention should be dedicated to how member states will take into account the Social Investment Package whilst programming EU funds, especially the ESF, for the period of 2014-2020.
- Secondly, a clear objective for the European Commission should be that of **ensuring the implementation** of the policy included in the Social Investment Package by member states. A closer look at the reinforcement of the social dimension of the EMU will be covered the following chapter on *'Restoring socio-economic convergence between member states in the EU and EMU'*. However, as far as the SIP is concerned, a specific monitoring and evaluation procedure on the delivery by member states should be put in place.

More importantly, the European institutions should explore the possibility of **expanding the package both in terms of ambitions and relevance**. It is in fact crucial that the agenda put forward by the Commission in the field of quality education, continuing learning, early childhood care is supported by a strong political will, which should also shape budgetary decisions.

### 1.3.2. The Investment Plan and the Youth Employment Initiative

It has been recognized that youth unemployment is the most alarming and pressing figure of current socio-economic distress and there is consensus on taking up strong measures to tackle the issue and avoid the loss of an entire generation. As much as 7.5 million young Europeans between 15 and 24 are neither in employment, nor in education or training (NEETs), more than the entire population of Bulgaria. Thus, the Commission President has clearly



identified job creation as one of the mission of his presidency and has outlined an investment plan which is supposed to create jobs through greater levels of investment.

Now, the extent to which the **Juncker's Investment Plan** will be able to generate employment is still a subject of debate and it goes beyond the scope of this report to discuss upon the implementation and specificities of such a Plan. It is however useful to question whether and how **a specific initiative to support the employability of young Europeans can receive priority-line financing in the framework of the Investment Plan.**

With particular reference to start-ups promoting social innovation and to programmes that support youth inclusion in entrepreneurial projects, it is worth asking whether a share of the estimated € 315 billion can be secured for projects involving the active participation of citizens below 24 years old.

Will there be any room for specific criteria on youth in the selection of the investment projects to be financed by the European Investment Bank (EIB)? Will the EIB fund projects presented by young talents in peripheral countries where entrepreneurial and insolvency risk are higher?

As highlighted by Veugelers<sup>20</sup>, the selection process is likely to be the Achilles' heel of the Investment Plan, and there is probably room to **strengthen the relevance of the social rate of return in the allocation phase.**

Besides job creation through the investment plan, the flagship EU initiative to tackle youth unemployment is the **Youth Employment Initiative (YEI)** launched in 2013 to accelerate the implementation of the Youth Employment Package of 2012.

The YEI is intended to support the **Youth Guarantee** schemes by EU countries and has a total budget of €6.4 billion, half of which come from a dedicated budget and need no co-financing from the side of member states. The other half originates from the European Social Fund 2014-2020 allocations. Despite

<sup>20</sup> Veugelers Reinilde, "The Achilles' heel of Juncker's investment plan - how will the right investment projects be selected", *Bruegel Analyses*, 2014.

funds being available for about two years, the **take-up rate remains very low and results on the ground did not meet the expectations**. There is a crucial need of an efficient mobilization of the YEI.

A first step in this direction has been taken, and the European Parliament and Council have recognized the urgency of addressing youth unemployment and have agreed on increasing the pre-financing for projects that help young people to find jobs, apprenticeships, traineeships, and engage in continuing education. The financing of the YEI has been accelerated and about €1 billion is now at the disposal of member states to promote youth employment on the ground; advance payments to member states are meant to give prompt support to approximately 650 thousand young soon-to-be workers.

Several issues still need to be taken into consideration:

- Were the modest effects of the Youth Guarantee in several EU countries solely due to difficulties in accessing funds, or did they face other specific hurdles? **How do the Commission and the Council plan on encouraging an efficient implementation of YEI actions?**
- Those member states affected the most by high unemployment rates are also those which are lagging behind on taking up YEI resources and implementing a well-functioning youth guarantee scheme. **What should European institutions do if member states' efforts on the youth guarantee do not meet expectations?**
- Given that YEI projects are pursued by member states individually, it is likely that there will be a wide degree of heterogeneity within similar types of interventions across member states. Guidelines and coordination from the side of the European Commission are crucial in order to **ensure that operational programmes respect an overall coherence and contribute to convergence, rather than exacerbate divergence**.
- As it is necessary to mobilise resources as soon as possible and achieve tangible results promptly, the YEI financing will now bypass the standard ESF procedures with fast track pre-financing. This opens up the **possibility of a more direct financing of socially relevant**

**initiatives:** i) a similar system could be adopted for the entire Social Investment Package; ii) a revision of the co-financing procedure and rules of the European Social Fund may try to strike a better balance between accountability/transparency on one hand and effectiveness/responsiveness of public policies on the other.

## 1.4. Concrete Actions: Development, Maintenance and Use of Human Capital

Bottom line, both the SIP and the YEI are nothing but a frame within which national strategies design their policies for social investment in human capital. A well-designed framework which provides accessible financing, defines common priorities for action, and gives support to monitoring and evaluation is an indispensable tool to strengthen the EU's capacity to embrace a pro-social investment approach. Nonetheless, results and concrete implementation of the investment policies in human capital depend on member states' policy design.

As mentioned, the recent study carried out by the ESPN<sup>21</sup> for the European Commission highlights how **the approach to a social investment is still weak in several member states** (CY, ES, HU, IE, LU, MT, PL, PT, UK) **and almost inexistent in others** (BG, CZ, EE, EL, HR, IT, LT, LV, RO, SK).

It is therefore legitimate to ask what **the role of the Council and the Commission can be in taking the social narrative of a 'Caring Europe'** to the next level and facilitating the reform of national welfare policies toward a genuine long-term social investment perspective.

The actions undertaken at the national level to equip EU citizens to adapt to societal changes and socio-economic difficulties in the framework of the SIP and the YEI touch various domains:

- Support for quality traineeships and apprenticeships,
- Reduction of non-wage labour costs,
- Ensure adequate social protection levels,

21. ESPN, *Social Investment in Europe – A Study of National Policies 2015*, op. cit.

- Provision of first job experience and targeted wage and recruitment subsidies,
- Mobility measures and training to bring skills and jobs together,
- Support for social innovation, start-ups, and young entrepreneurs,
- Second chance programmes,
- Promotion of active ageing,
- Early childhood education and care,
- Housing-led initiatives to address homelessness and prevent evictions.

Below we review, in brief, few of these policy areas which constitute a particular challenge for the overall success of the European social investment strategy.

#### 1.4.1. Investing in Early Childhood Care

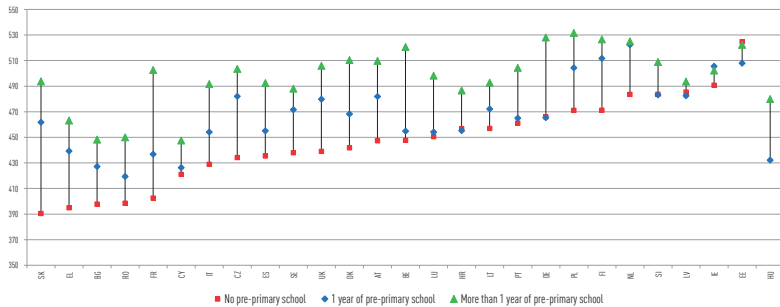
Thanks to the seminal work of the Nobel laureate, J.J. Heckman, it is now widely recognized that early childhood care and education (ECEC) is an effective measure to break the intergenerational transmission of poverty and social exclusion and that early interventions have a lasting effect on pupils' learning and motivation, and generate positive spillovers to the whole household.

The European Commission has also put great emphasis on childcare and early pre-school education for children with deprived backgrounds and a specific Recommendation has been included in the SIP.

The success of such initiatives is first and foremost essential to reduce socio-economic inequalities, enhance equality of opportunities for all, and foster social mobility in Europe; secondly, by broadening the pool of potential students attaining higher education, it contributes substantially to the development of a highly skilled workforce, which enhances long-term labour productivity and increase state revenues.

Figure 3 provides a clear perception of how enrollment into early childhood education relates with higher skill levels, as measured by the Programme for International Student Assessment (PISA), at 15 years of age. From Figure 3 it also emerges that in the majority of cases, the longer the participation to pre-primary schooling, the higher the benefits in terms of skills acquisition.

**FIGURE 3** ► Participation in ECEC improves basic skills of 15 years old  
Achievement in maths by participation in pre-primary school (PISA score points)



Source: European Commission, *Employment and Social Development in Europe*, 2014.  
Note: Data are not corrected for parental/socio-economic background.

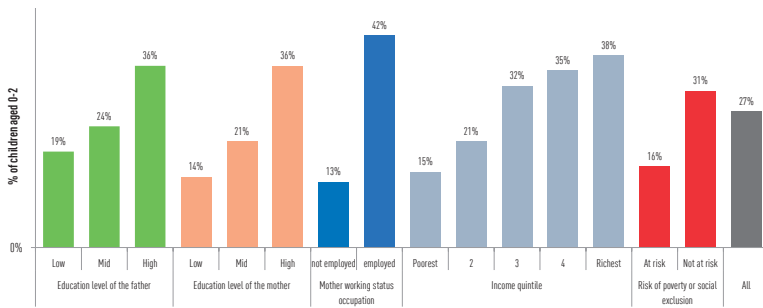
However, if the potential benefits of ECEC are widely recognized and relatively undisputed, it is worth asking whether the policy actions in this domain have been delivering the expected results. In Europe, despite great progress on ECEC over recent years, there is one key issue that still needs to be fixed: **the uptake of early childhood education and care is low among disadvantaged children in the EU**. As shown in Figure 4, only 16% of those at risk of poverty and social exclusion have access to early childcare and pre-schooling. Richer households - those in the third, fourth and fifth income quintile - are twice more likely to take up childcare than poorer ones. Likewise, if the mother is more educated, the baby is more likely to attend pre-schooling. This identifies a situation in which current ECEC policies are of support to the activation of the mother and can promote women’s participation to the labour market, but the current policy design does not appear in line with the ambition of preventing the transmission of poverty and social exclusion. The matter of access to ECEC, particularly from disadvantaged households, should be given higher attention and priority.

Problems linked to a lack of physical access, stringent eligibility criteria, excessive distance, and inadequate opening hours have been reported in

several countries<sup>22</sup>, namely France, Italy, Spain, Poland, Greece, Romania, Slovakia, Slovenia, and the Czech Republic.

A specific effort from the side of the European Commission and member states has to be devoted to a better targeting of the ECEC, which implies eliminating those financial and non-financial barriers that impede disadvantaged households to access to quality care and education for their infants.

**FIGURE 4** ▶ Uptake of early childhood cares in the EU-28  
Use of formal childcare for children aged 0–2 across several breakdowns



Source: European Commission, *Employment and Social Development in Europe*, 2014.

### 1.4.2. Promoting a Real Alliance for Apprenticeships

As part of the YEI, the European Commission has established a European Alliance for Apprenticeship (EAfA) as a joint project between DG Education and DG Employment.

It started as a promising and participatory project which involved European Social Partners - ETUC, BusinessEurope, UEAPME, and CEEP - and also benefitted from bilateral cooperations between EU countries; nonetheless results are not yet clear, nor properly monitored. A certain accent has been given to easing access to dedicated funding for business; however, specific

<sup>22</sup>. See the Eurofound *Quality of Life Survey*.

arrangements ensuring that public support works on the extensive margin rather than replacing private investment have not been put in place. In other words, **the focus of policy makers should not be on how many apprenticeships are created, but rather on how many apprenticeships are created thanks to public intervention on top of those that the private sector would offer anyway.** At the moment the greatest results in terms of number of sponsored apprenticeships happen to be in Germany, a country where the culture of apprenticeships is well established and where the private sector would have moved in the same direction even in the absence of a European alliance. The objective of public intervention in this field should be that of creating a culture of apprenticeships where it does not exist yet and where the bridge between studies and the labour market is more complex.

Second, a pivotal aspect relates to the **quality of apprenticeships** made available to young Europeans. Clear guidelines and monitoring should uphold and ensure the different aspects of a quality apprenticeship: length, formative opportunities and skills acquisition, level of pay, etc.

Third, a further challenge of such an initiative relates to its **inclusiveness**. Often, eligibility restrictions or language barriers make it arduous for disadvantaged youth or low skilled to benefit from these types of mobility programmes. Which steps should be put in place to make sure that apprenticeships are also available for low skilled Europeans?

A High Level Working Group of the Jacques Delors Institute on youth employment recently recommended the adoption of a wider Young European Apprentices scheme<sup>23</sup>, which will be discussed in the chapter on labour mobility.

### 1.4.3. Financing for Higher and Tertiary Education

The completion of upper secondary education is rightly considered to be the minimum skill requirement for an active participation in social and economic life. However, in 2013 in the EU-28, 5.5 million people quit school without concluding the upper secondary education cycle. The share of school drop-outs

23. Delors Jacques, Ederlein Henrik, Lamy, Pascal Letta Enrico, Villeroy de Galhau François, Vitorino António, Baer Jean-Michel and Fernandes Sofia, "Erasmus Pro: For a Million Young European Apprentices' by 2020", *Tribune*, Jacques Delors Institute, May 2015.

is particularly alarming in Spain and Malta, where it exceeds 20%, and in Italy and Romania, where it reaches 15%.

There is a widespread consensus<sup>24</sup> that for high-income countries to enhance the quality and equity of educational outcomes, it is not only a matter of deploying sustained high levels of public spending in education, but rather it is a matter of how financial resources are allocated.

A recent simulation of the European Commission<sup>25</sup> for Germany finds that with a government spending of 0.1% of GDP, it would be possible to subsidise the cohort of young people between 20 and 24 years that engages in tertiary education. For Germany, a mid-size budget of € 2.7 billion would be sufficient to grant €1100 per student a year.

Nevertheless, as Vandenbroucke and Rinaldi<sup>26</sup> conclude: “divergence in education spending across the EU may lead to a more long term-divergence in productivity, instead of the convergence that it is so badly needed. That is not to say that the quality of education systems can be measured in a simplistic way by the level of public spending on education; but it seems very hard to improve education systems significantly whilst disinvesting.”

As the result of the changing skills mix and presence of more graduates in EU countries has positive spillover effects on the whole Union, it is worth asking whether the narrative of the ‘Caring Europe’ can also include a strong message for member states to duly support the equality of access to quality education by means of large schemes of scholarships and subsidies.

#### **1.4.4. Promoting Lifelong Learning and Skill Updating to Address Skills Mismatch**

More or less till 2010, the relation between employment rates and labour shortage indicators respected the expectations: decreases in employment

<sup>24</sup>. See for instance the contributions of Oosterbeek Hessel, Leuven Edwin, Lindahl Mikael and Webbink Dinand, “The effect of extra funding for disadvantaged pupils on achievement”, *Review of Economics and Statistics*, Vol. 89, N° 4, 2007; OECD, *PISA 2012 Results: What Makes Schools Successful? Resources, Policies and Practices*, Vol. IV, OECD Publishing, 2013; Schleicher Andreas, *Equity, Excellence and Inclusiveness in Education: Policy Lessons from Around the World*, OECD Publishing, 2014.

<sup>25</sup>. See the European Commission, *Employment and Social Development in Europe 2014*, *op. cit.*, page 126.

<sup>26</sup>. Vandenbroucke Frank and Rinaldi David, *op. cit.*, page 64.



levels were matched by decreases in labour shortages, as reported by EU-based companies. Over recent years instead, unemployment increases have been accompanied by an increase of reported labour shortages as well. Skill mismatch has now become a structural problem, which should be addressed on the one hand by increasing labour mobility and on the other by a greater emphasis on continuing learning, which helps workers to gain new skills while preventing the obsolescence of old ones.

From a public policy perspective, it is important to distinguish whether the skills mismatch is due to skill shortages or to labour shortages. The solution of skill acquisition and lifelong learning only works for the former, whilst, if the problem concerns labour shortages, it is a matter of improving on information, not on skills formation. Besides a comprehensive reform of the Eures portal and of the “My First Eures job” initiative, employment service at national and local level can help matching demand to supply of labour. A far-reaching response to skills mismatch should therefore also include reforms to improve on the efficiency and coordination of employment agency across Europe.

Two questions can open the debate on skills acquisition: one on financing and one on forecasting.

### **What should the link between forecasting and education planning be?**

Since 2008, with financial support from the European Social Fund, basic forecasting activities exist in all European countries so that what is lacking is not the knowledge about the skills desired by private sector, but rather the **means and incentives to guide the youth towards achieving those skills needed in the future.**

As labour mobility increases, it becomes more crucial to analyze trends and forecast at the European level. To this end, the **EU Skills Panorama<sup>27</sup> could be strengthened.** Additional initiatives should be put in place to ensure a coherent interplay between educational programmes and skills forecasts. If the analysis and early identification of skills needed is reinforced, the general

<sup>27</sup> The EU Skills Panorama was launched by the European Commission in 2012 to monitor and facilitate the analysis of quantitative and qualitative information on short- and medium-term skills needs, skills supply and skills mismatches in Europe.

outline for skills planning could either be integrated into country specific recommendations or assigned to a dedicated EU agency.

### **Which is the correct balance between public and private interventions?**

Lifelong learning ensures that the skills acquired by the workers are maintained and used over their life course; it enhances workers' resilience and substantially lowers the likelihood of long bouts of unemployment. Benefits for firms are also tangible: where the participation to lifelong learning is higher, labour market performance and productivity are also higher.

To what extent should the public sector be involved in the direct management of continuing learning programmes? In which areas are the training provided by the public and the private sectors complementary? How can institutions scale up the role and effectiveness of private sector in-house programmes? How can **an incentive scheme for companies to implement vocational training be designed in those countries where on-the-job training is still relatively absent?**

## **1.5. Discussion**

Investment in human capital is not a new subject of debate, but it has been absent from the political agenda of several member states in recent years and it has not received due consideration from EU policy-making either. Already in 1993, the White Paper on Growth, Competitiveness and Employment<sup>28</sup> put education at the heart of the discussion and identified investment in human capital as one of the priorities to face the challenges of the 21<sup>st</sup> century. In 1996, the UNESCO International Commission on Education for the 21<sup>st</sup> century<sup>29</sup> chaired by Jacques Delors also stressed the relevance of investing in human capital and stated that lifelong learning would have been the key issue of the upcoming century.

28. White Paper, *Growth, competitiveness, employment – The challenges and ways into the 21<sup>st</sup> century*, Bulletin of the European Communities, Supplement 6/93, COM(93)700, 5 December 1993, parts A and B, 1993.

29. UNESCO, *Learning: The Treasure Within*, Report to UNESCO of the International Commission on Education for the Twenty-first century, 1996.

It has to be recognised that certain improvements have been made over the last decades, notably if we look at formal education, the share of young adults with tertiary education increased in all member states. Nevertheless, if one focuses on actual skills and on investment in education, the human capital divide appears dramatically on the rise<sup>30</sup>.

One of the key questions that the round table on ‘Investing in Human Capital and Responding to Long-term Societal Challenges’ tried to answer is whether the EU can play a role to reduce this divide and how it should intervene. Indeed, the primary responsibility towards education and acquisition of skills for youth is in the hands of families; furthermore, many services for early childcare and primary education are managed at the local level; education policy is a matter in the hands of member states, so what should the scope of EU intervention be?

Several experts noted that a major contribution that the EU might give consists in driving a change of paradigm toward the full implementation of a social investment strategy and the subsequent streamlining process ensuring policy coordination between national and European policy-making and between economic and social policies. One of the policy-maker who took the floor during the round table discussion referred to this change of paradigm as “a cultural battle that we need to win”. The word ‘social’ is too often linked, from an accounting perspective, to a burden, whilst in most cases social expenditure is instead an investment. Changing the perspective may not be that easy, but it is an effort that must be done.

### 1.5.1. The logic behind social investment

Let’s focus briefly on the logic behind social investment. Too often, welfare is regarded as the system providing public support to those in need. This definition considers neither the dynamics of the lifecycle nor those of the labour market and implicitly frames welfare as a transfer from the active to the inactive. If we consider the lifecycle instead, we get a different picture; each individual, in different moments in time can be either a contributor or a beneficiary, as virtually everybody benefits from education and healthcare policies.

<sup>30</sup>. See Vandenbroucke Frank and Rinaldi David, *op. cit.*

What matters for our discussion is that welfare policies should not only look at the purely redistributive aspect, i.e. who to target and support, but should focus also on expanding the set of potential contributors to the welfare system. In other words, policy-making should focus on activation policies and on providing means and opportunities to European citizens to develop or return to an active life.

Furthermore, as highlighted at the beginning of this chapter, the Union is faced with relevant societal challenges which create a new set of social risks that are difficult to tackle with standard social protection tools. During the debate, there was widespread consensus that it is no longer sufficient for European welfare states to ensure a social net protecting vulnerable groups in times of downturn. It is imperative for welfare states to develop a preventive arm to boost social resilience.

Investment in human capital is a solution which contributes to the need for pushing on both activation and prevention. Social spending that ‘capacitates’ and prepare individuals, households and societies to adapt to societal change and life challenges<sup>31</sup>, yields huge advantages in terms of productivity for the private sector and empowers individuals. Investment in human capital must be framed in a coherent and strong social investment strategy which looks at how to ease such investment over the life cycle. Investment in early childhood care, education, lifelong learning, training and skills upgrading programmes, support for an active old age are all key aspects for a comprehensive strategy for human investment. The round table debate also highlighted that improving skills and activating people is a strategy to expand the number of contributors to our economies, which in turn will give more room to implement income protection systems. In this respect, it has to be clarified that social investment and standard social protection are mutually supportive. Empirical findings reveal that there is a slightly positive correlation between capacitating and compensating expenditure, which shows that there is no crowding out effect and that the two functions of welfare can go hand in hand.

**Under no circumstances should the emphasis on capacitating spending and social investment come at the expenses of social protection**

31. See Hemerijck Anton, *Changing Welfare States*, Oxford University Press, 2012.

**arrangements.** The crisis has proven that economic stabilisation entails much more than contrasting inflation; income protection has an important stabilization function for the family, which translates into stabilisation for the economy as a whole. Not surprisingly, most of the countries that did well during the crisis had a strong social net. It remains therefore essential to keep up minimum incomes to ensure decent living standards as well as political and social stability. In this respect, capacitating and compensating spending shall characterise the two functions of a modern welfare system that aims at increasing productivity and resilience, whilst ensuring that the disadvantaged are not left behind.

Experts pointed out that the EMU and the single market, built up in the '80s, are based on a social policy theory that rests on cost-containment and on the idea of a trade-off between equity and efficiency. Today, the IMF and OECD confirm that this trade-off is no longer a reality. Social investment and capacitating spending, besides providing grounds for equity of opportunities, do serve economic interests by raising revenues and improving upon workers' productivity. Welfare and social policy must abandon a purely cost-containment logic and embrace socio-economic win-win strategies. The aim should be that of raising revenues and enhancing competitiveness by maximizing qualified employment in an open economy. In this context, it has been widely stressed that social investment can actually bring in private investment too.

### 1.5.2. Divergence and economic governance

In terms of social investment strategy, certain countries are doing already quite well, Denmark and Slovenia for instance. Nevertheless, social investment in Italy, for example, is not yet on the radar of policy making. The ESPN report on social investment<sup>32</sup> was cited in this regard as it finds that 10 member states have no social investment strategy at all. It has been highlighted how this lack of vision is not a result of problems with the EMU and it is only partly due to lack of fiscal room. **The absence of a social investment strategy is a domestic policy failure.**

32. See ESPN, *Social Investment in Europe – A Study of National Policies 2015*, *op. cit.*

However, the response to a domestic failure needs not be uniquely domestic. As the human capital issue goes at the heart of the divergence problem, the Union has a role to play. At the moment, investments in lifelong learning, skills acquisition and support to unemployment are higher in those countries that are doing relatively better in terms of economic and employment records. If there is no prompt support to social investment in the countries that are suffering from recession, the situation will become unsustainable.

Experts fear that if the EU sticks to the current regime, that disallows countries like Greece and Spain to invest in their education systems, Europe is likely to be affected by growing economic divergence, which will create additional tension within the EMU till the latter may eventually collapse. In this context, social investment is an imperative and it must be supported fiscally.

An additional sharp observation was made during round table discussion: **education has a governance problem within the EU**. For instance, ministers of Education are not present in the European Semester exercise as they decided not to establish a specific committee. In addition, within the European Commission, the role of DG Education and Culture is not central. Education is off the political agenda at the European level, and often at the national level too. Raising the profile of education in the European agenda could certainly help.

Over recent years, 22 out of 28 member states have implemented cuts in education budgets and in 8 member states these cuts have been dramatic. As this represents a threat of further divergence, urgent steps have to be taken to steer education in the European Semester and have CSRs which prioritize human capital creation. The experts taking part at the round table put forward two options: i) one option is to start exploring the possibility of introducing common rules on minimal levels of public spending on education, as a share of GDP, to be enforced during the process of the European Semester; ii) a second option would be to re-launch and follow up on the European Citizen Initiative “Education is worth any cost!”<sup>33</sup>, which demands European institutions to exempt at least a fraction of government spending for education, from the measurement of member states’ public deficit.

<sup>33</sup>. See the website of the initiative: [www.invest-in-education.eu](http://www.invest-in-education.eu).

It emerged clearly from the discussion that the focus on social investment and human capital in Europe cannot be detached from a revision of the architecture built up in recent years to ensure fiscal consolidation. Extending the ‘investment clause’ to capacitating spending, steering social investment in member state strategies by means of a more balanced European Semester are all crucial factors which requires a revision of the European economic governance. These topics will be further discussed in chapter 3.

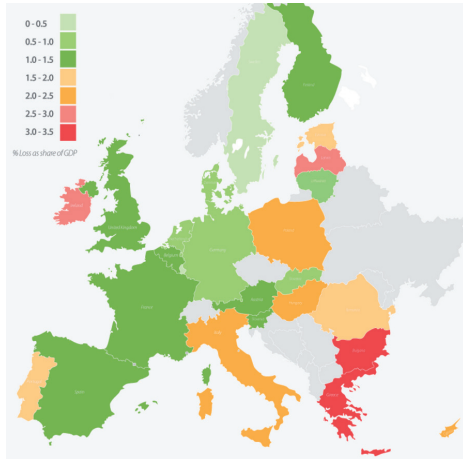
### 1.5.3. A catastrophe for Europe

23 million jobless people, of which 12 million in **long-term unemployment, represent a catastrophe for Europe**; day by day this leads to a destruction of human capital which is detrimental to the European project, to the well-being of European people and to the competitiveness of European economies. Nonetheless, there is no apparent sense of urgency to act for the protection and recovery of European human capital. The latter, as a collection of both cognitive and emotional capital, is a strategic resource at risk. As round table participants recalled, human capital is knowledge, abilities, talent, wisdom, training, is a set of skills that empowers individuals and that at the aggregate level is key national resource. The progressive destruction of such a resource has dramatic consequences at both the collective and individual levels.

For the year 2008, Eurofund estimated that the economic loss due to the lack of participation of the NEET in the labour market was approximately 1% of the European GDP, as much as the whole EU budget. As the economic downturn persisted, the cost of inactivity increased and conservative estimates for the year 2011 identified a loss of as much as €153 billion for the European economy, or 1,2% of GDP in Europe.

At the individual level, the cost of unemployment obviously has a direct impact on current and future income; empirical findings point out that one single year of unemployment lowers one’s income by approximately 15% over a period of 20 years. That, of course, does not account for the additional costs attached to the high risk of political and social alienation.

**FIGURE 5** ▶ Loss of GDP due to inactive youth



Source: Eurofund (2012)

The relevance of a fall in emotional capital and non-cognitive capabilities is often underestimated. Studies have shown<sup>34</sup> that the socio-economic distress caused by the economic recession will negatively impact both cognitive and non-cognitive capabilities of vulnerable individuals. Furthermore, such negative effects are much more pervasive and lasting than one may expect. For instance, a kid that grows up in a household affected by temporary financial insecurity is more likely to incur in health problems and to have lower educational achievements. It follows that the commitment towards an investment strategy in human capital is urgent and pressing, as it must compensate for the loss of emotional capital too. Emotional capital is in fact decisive to ensure that individuals possess the strengths and resilience necessary to face life challenges and it is pivotal in secure motivation for change and productivity. It's a burden if it is destroyed.

34. See for instance Barazzetta Marta, Andrew E. Clark and D'Ambrosio Conchita, "Childhood circumstances and adulthood outcomes: the effect of financial insecurity", *Working Paper*, May 2015.



#### 1.5.4. Human capital to restore trust and private investment

Human capital has always been an important part of Europe’s wealth and nowadays concrete actions and a **strong narrative about the EU investing into its people are necessary and strategic**. It may serve to attract private investment, including from outside the EU, as well as to restore political trust towards integration among European people. One of the questions that experts raised went exactly in this direction: how can we persuade private investors to bet on Europe and to invest in European projects if we do not invest in our people? Certainly, the absence of a serious commitment toward human capital is not a great message that the Commission gives to venture capitalists. A serious investment strategy in human capital can make Europe more attractive for both entrepreneurs and investors.

Such a strategy is particularly needed as Europe should not compete globally on price solely, as that would lead to lower working conditions. The possibility of lowering labour cost is in any case limited in Europe, with respect to international competitors. It is rather advisable to opt for a competition on quality, which requires a skilled and motivated workforce, sustained by proper investment in human capital. Actually, one of the competitive advantages of Europe is exactly the quality of the product, which crucially depends on workers’ performance, their capabilities and motivation. Competitiveness and productivity can be sustained if the work environment is structured in such a way that the full potential of the worker is realised, i.e. it provides motivation, it keeps her/his skills up-to-date, it ensures long-term stability. It is not by chance that the companies that invest more on training for their employees register better economic performances and higher reported well-being among their workers.

A push for human capital investment can also bring the political advantage of finally giving some credibility to the narrative of a caring Europe, with a triple A in social standards. At the same time, such a strategy has the potential for making Europe more competitive than the austerity paradigm that has dominated so far. However, it currently appears that European institutions, after stressing the relevance of human capital investment in the Lisbon Strategy and launching the Social Investment Package are partly retracting: there is no mention of social investment in the Commission ‘flexibility’ guidelines nor in the investment plan. Human investment - together with

culture and health - is listed among the eligible sectors which can receive financing from the European Fund for Strategic Investment (EFSI), but no priority line or special arrangements is foreseen for projects which add social outcomes to economic gains. There is at least hope that thanks to the EFSI guarantee, youth entrepreneurship will be encouraged so that more financing opportunities will be available for European innovators and talented young entrepreneurs via venture capital and non-banking sector. Fostering youth entrepreneurship is a step in the good direction, but it is not a policy that will give immediate results; returns are for the long run.

### 1.5.5. Priorities

The Youth Employment Initiative and the Youth Guarantee are supposed to offer a prompt response to youth unemployment. Nevertheless, certain member states have failed to take advantage of this European policy framework, notably those countries where special efforts would have been particularly needed. There are still problems to be solved with respect to the implementation of the Youth Guarantee, as pre-financing was only part of the problem. A strengthening of commitment, funding and coordination of these initiatives is welcome as **youth has to remain the pivotal priority**. European initiatives must reach out to all youth, including all those who do not speak a foreign language or are less trained than the mobile youth which benefit the most from the European common space.

The actions to carry out in the framework of a social investment perspective are numerous, even structural reforms can help prioritizing on human capital investment, but quality education should be one of the clear priorities. Experts called for a serious investment in education that can finance both infrastructure and comprehensive reforms, i.e. reforms that go much beyond an increase of salaries for teachers. In this respect, EIB played a role in the past and should play a role now in sustaining high investment in human capital across Europe, with respect to infrastructure in particular.

There is also very much consensus on the need to prioritise childcare. Due to unaffordable costs or to the lack of available services, still about 60% of Europeans report difficulties in access to childcare. On the matter, targets were explicit, they were first included in the Lisbon Strategy and later uphold

by the European Council held in Barcelona in 2002. The objective was to provide childcare to: 1) at least 90% of children between 3 years old and the mandatory school age and 2) at least 33% of children under 3 years of age, by 2010. We are now entering in 2016 and these targets have not been met yet.

The Lisbon strategy included possibly too many objectives and targets, so that progress was hampered by unclear priority setting. A policy-maker who took part to the process admitted that “for each scoreboard and for each guideline there was a feeling of not making enemies”, so that targets remained not binding. Now, some of the same targets are part of the Europe 2020 agenda and it is crucial to re-think how to collaborate to achieve them. It has been noted that “something that it is not binding is not a policy at the end of the day”. Would that be too much to envisage binding targets for childcare? Experts advised to explore the possibility to make progress with the Open Method of Coordination and with a dedicated budget to make sure that crucial targets are met for our children and for the Europeans of tomorrow.

## 1.6. Open questions

- What is the institutional framework needed for forming, maintaining, and using human capital and support member states actions for the better?

### **On the Social Investment Package (SIP):**

- Is there a political will to achieve a Social Investment Pact, rather than a package? Can European institutions explore the possibility of expanding the package both in terms of ambitions and relevance?
- How does the Commission intend to support member states to fund the SIP through domestic resources and European Funds? How to ensure the implementation of the policy included in the SIP by member states?

### **On the Youth Employment Initiative (YEI):**

- How do the Commission and the Council plan on encouraging an efficient implementation of the YEI actions?

- What should European institutions do if member states' efforts on the youth guarantee do not meet expectations?
- How can guidelines and coordination from the side of the European Commission ensure that operational programmes respect an overall coherence and contribute to convergence, rather than exacerbate divergence?
- The YEI financing will now bypass the standard ESF procedures with fast track pre-financing. Can this more direct financing be adopted for other socially relevant initiatives?

#### **On Early Childhood Education and Care (ECEC):**

- How to make sure that the take-up of Early Childhood Education and Care increase among disadvantaged children?
- How to promote ECEC in those countries that are lagging behind?

#### **On lifelong learning and skills mismatch:**

- What should the link between forecasting and education planning be?
- In which areas are the training provided by the public and the private sectors complementary?
- How can institutions scale up the role and effectiveness of private sector in-house programmes? How can an incentive scheme for companies to implement vocational training be designed in those countries where on-the-job training is still relatively absent?

## **1.7. Summary of policy recommendations**

- 23 million jobless people of which 12 million in long-term unemployment represent a catastrophe for Europe; day by day it leads to a destruction of human capital which is detrimental to the European project, to the

well-being of European people and to the competitiveness of European economies. Human capital, as a collection of both cognitive and emotional capital, is a resource at risk; it has always been the wealth of Europe and nowadays a **strong and lively narrative about EU investment into its people is necessary and strategic**. It may serve to attract private investment, including from outside the EU, as well as to restore political trust towards integration among European people.

- Education has a governance problem within the EU; Ministers of Education are not present in the European Semester exercise as they decided not to establish a specific committee, and DG Education and Culture is not central. Over recent years, 22 out of 28 member states have implemented cuts on education budgets and in 8 member states cuts have been dramatic. As this represents a threat of further divergence, steps have to be taken urgently **to steer education in the European Semester and have CSRs which prioritize human capital creation**.
- Several member states have not yet realized the relevance of social investment, and even the European Commission is not putting enough emphasis on it. Lifelong investment in human capital, from early childhood to old age, besides cutting down social exclusion, is crucial to making people more resilient and productive. **Europe needs a new push for social investment and more resources for the implementation of the Social Investment Package**.
- As government expenditure on education, child care, active labour participation, skill creation and human capital in general are ‘capacitating’ and boost economic recovery and long-term growth, they should not be seen as costs. **The Stability and Growth Pact and the application of the ‘investment clause’ need to be further reviewed in order to make ample room for social investment**. The latter should not be accounted for in the determination of government deficit, as it is already the case for government spending on co-funded projects and the EFSI.

## 2. Towards a More Fair and Efficient Labour Mobility in the EU

### 2.1. The primary challenges for labour mobility

Labour mobility is one of the cornerstones at the basis of the internal market; it yields benefits to the economy and to individuals as, through mobility, EU citizens can enjoy professional, cultural, and linguistic enrichment. Notably, mobility is a key factor of employability and therefore it is a means to address the divergence in employment levels across member states. Intra-EU mobility can help filling manpower shortages and tackling skills mismatches, since it facilitates a more efficient allocation of human resources across the Union. The free movement of people, despite being one of the most tangible expressions of the European integration, still needs to be enhanced and facilitated. The main concerns related to intra-EU mobility can be summarised in three points:

#### **1) Labour mobility within the EU remains limited.**

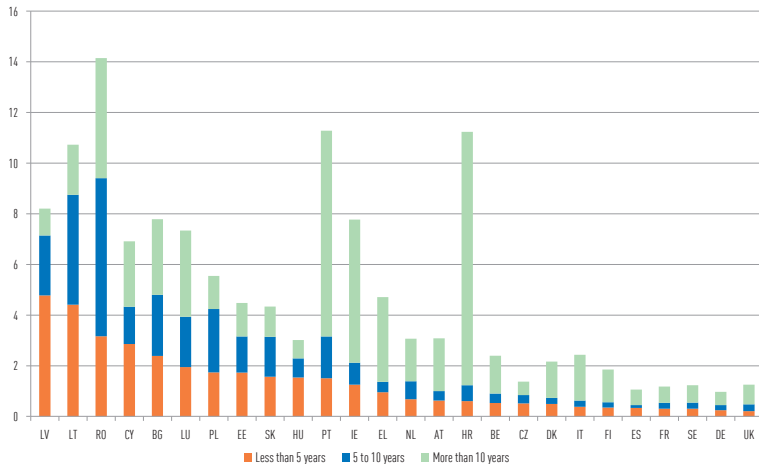
In 2013, slightly more than seven million EU citizens lived and worked in an EU member state other than their own. They represented 3.3% of total employment in the European Union. In addition to this figure of mobile workers, around 1.1 million were living in one country but working in another (frontier or cross-border workers) and around 1.2 million were posted to another country<sup>35</sup>. While labour mobility within the EU increased sharply after the enlargements of 2004 and 2007, it remains limited. Currently, some 700,000 people on average go to work in another EU member state each year, a rate (0.29%) much lower than that recorded in the U.S. (2.4%) or in Australia (1.5%). Even though a comparison between the EU and the U.S. – a federal republic with a common language – is dicey, a difference of roughly a factor of ten<sup>36</sup> in intra-borders mobility between the EU and the U.S. remains telling.

35. See European Commission, *Labour mobility within the EU*, 25 September 2014.

36. See European Commission, *Labour mobility in the EU: challenges and perspectives for a genuine European labour market*, 24 June 2014.

Figure 6 reports mobility rates by member state of origin by length of residence and it shows that mobility from certain countries of origin persists at very low levels (BE, CZ, DK, IT, FI, ES, FR, SE, DE, UK) and it does not appear more sizeable than it was in the past. As reported by Fernandes<sup>37</sup>, the crisis has fuelled the perception that intra-EU mobility hiked up as a reaction to gloomy employment figures in the Europe south. Actually, if we look at the whole Europe, the increases in mobility have been marginal over recent years. What we observe is a substitution of the mobility trends with flows from south to north (+38% since 2012) replacing those from the east to the west. In fact, the number of workers moving out of Poland and Romania, the two top countries of origin before the crisis, dropped remarkably: -41% and -33% respectively<sup>38</sup>.

**FIGURE 6** ► **Mobility rate by member state of origin, by years of residence**  
(age group 15-64, 2013, as % of the working-age population of the country of citizenship)



Source: European Commission, *Employment and Social Development in Europe*, 2014.

37. Fernandes Sofia, "Employment Mobility and Social Investment: three key issues for post-crisis social Europe", *Policy Paper n° 120*, Jacques Delors Institute, 2014.

38. See European Commission, 25 September 2014, *op. cit.*

- 2) The significant increase in departures of workers from the countries most affected by the crisis comes with the **risk of youth and brain drain**, which also poses a threat to the sustainability of welfare and pension schemes.
- 3) Labour mobility is increasingly perceived by workers in host countries as contributing to social and wage competition that is deemed unfair. This is particularly true since the EU enlargements of the 2000s to Central and Eastern Europe. In short, **the risk of social dumping contributes to fuel the feeling of hostility towards labour mobility.**

**Today, European decision-makers are facing a twofold challenge with regard to labour mobility:** on the one hand, labour mobility must be strengthened to create a genuine European labour market; on the other hand, they must ensure that increased mobility won't exacerbate the risk of disintegration, won't create tensions between mobile and local workers and won't add an additional burden to member states already experiencing fiscal imbalances.



**TABLE 2** ➤ **EU nationals working in an EU member state other than their own**  
(excluding cross-frontier workers), by member state of residence, in thousands and in %  
of total employment, 2013

MEMBER STATE OF RESIDENCE	NUMBER OF EU WORKERS, IN THOUSANDS	IN % OF TOTAL EMPLOYMENT IN THE COUNTRY OF RESIDENCE
AT	283.0	6.8
BE	315.6	7.0
CY	44.8	11.9
CZ	43.4	0.9
DE	1,882.8	4.7
DK	87.0	3.2
EE	2.3	0.4
EL	53.8	1.5
ES	764.6	4.6
FI	33.0	1.3
FR	597.7	2.3
HU	18.7	0.5
IE	204.4	10.9
IT	792.8	3.5
LU	109.6	45.9
LV	1.9	0.2
MT	2.4	1.4
NL	172.6	2.1
PL	10.4	0.1
PT	25.6	0.6
SE	132.1	2.8
SI	3.9	0.4
SK	3.9	0.2
UK	1,481.7	5.0
<b>UE- 28</b>	<b>7,071.5</b>	<b>3.3</b>

Source: Eurostat, EU-LFS.

Note: Data not available for BG, HR, LT and RO. Values for EE, LV, MT, PL and SI are of limited reliability due to small sample size.

## 2.2. Breaking down mobility barriers: priorities for action

As the European Commission has recognized the centrality of more fair and efficient labour mobility in the EU, it proposes the adoption of a **comprehensive Labour Mobility Package among the new initiatives to be carried out in the year 2015**<sup>39</sup>. Enhancing labour mobility in the EU is seen as fundamental step towards ‘A Deeper and Fairer Internal Market with a Strengthened Industrial Base’, which is a key Commission priority. One of the looming challenges over the next few months is that of ensuring that the Labour Mobility Package will also address inequalities and respect overall policy coherence with social policy objectives.

The package, designed to support labour mobility, aims at tackling abuses and frauds and achieving a better coordination of social security systems. It shall also include a targeted review of the Posting of Workers Directive and a plan to strengthen the EURES platform.

In order to reach the primary goal of facilitating mobility between member states, the EU must break down the barriers to the free movement of workers. In a recent report<sup>40</sup>, the OECD lists several obstacles that hinder labour mobility in Europe, with cultural and linguistic barriers topping the list. Going beyond this, we can identify **three key issues that must be considered in the design of the Labour Mobility Package**.

### 2.2.1. The portability of social rights and of the protection of mobile workers’ rights

**Labour mobility is limited by the range of tax and social security systems.** Mobile workers come up against two difficulties with regard to these national systems: they may lose rights to which they are entitled in their country of origin when they leave this country, while they are not sure that they will enjoy all their rights in the host country. Ensuring the portability of workers’ social rights is also an important instrument to facilitate cross-border

39. See Annex to the Communication from the Commission, *Commission Working Programme 2015 – A New Start*, COM(2014) 910 Final, 16.12.2014.

40. OECD, *Economic surveys – European Union*, Paris, March 2012.

worker mobility, both for those who decide to work in another country and for those who wish to return to their country of origin. This is a necessary condition for circular labour mobility in the EU.

The European legislation in force already provides for a set of guarantees for mobile workers with regard to the **portability of their rights**. Jobseekers are entitled to up to six months of unemployment benefits during their search for a job in another member state and in 2014 the Commission presented a proposal aimed at simplifying the procedures for granting unemployment benefits in cross-border situations. EU law also guarantees the portability of pension rights, including, since 2014<sup>41</sup>, supplementary pension rights. Similarly, in order to protect mobile workers in host countries, a new directive was adopted in April 2014 to implement measures to facilitate the exercise of rights conferred on mobile workers.

Against this backdrop, which additional initiatives could be taken to ensure the portability of workers' rights and thereby foster the creation of a genuine single labour market within the EU?

It is indisputable that the European Commission has made real efforts to improve social security coordination within the Union. A system thinking, however, is still lacking. While the portability of social rights is now formally recognised, it must consequently be facilitated on a practical and substantial level.

There can be at list three areas of discussion on the matter:

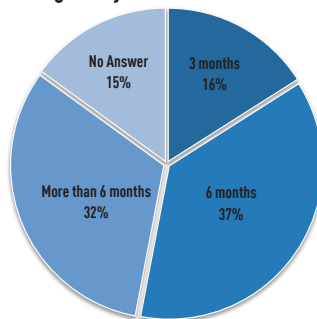
- **Extend the portability of rights to those rights which are not yet covered.** Are the European rules in force in terms of the portability of social rights sufficient? Should these rules be reviewed/completed and, if so, in which areas in particular? Will the proposal of extending the portability of unemployment benefits from 3 to 6 months be taken into consideration<sup>42</sup>?

41. See [directive 2014/50/EU](#) on the acquisition and preservation of supplementary pension rights, adopted on 16 April 2014.

42. Figure 7 reports the results of a survey question on the portability of unemployment benefits. The proposal was included in European Commission, *Strengthening the Social Dimension of the Economic and Monetary Union*, COM(2013) 690, 2013 and European Commission, *EU Citizenship Report 2013. EU citizens: your rights, your future*, COM(2013) 269 final, 2013.

**FIGURE 7** ▶ Extension of the portability of Unemployment Benefits

**QUESTION: In your view, what would be the right period of time for receiving unemployment benefits from your home country when looking for a job in another EU country?**



Source: *Public consultation on EU citizenship (2012)*

- **Create a real system of facilitation.** Even in those areas where concrete steps towards the portability of social rights have been achieved, there is still ample room to cut out the administrative burden of the recognition process. As citizens that move to another EU country will need information on multiple subjects, it is therefore advisable to generate a system based on a systemic/holistic approach: a system that facilitates communications and bureaucracy between institutions dealing with pension rights, health, and other social protections in the home country and in the country of destination. In this regard, the ‘Your Europe’ website and platform can be strengthened and empowered.
- **Launch a clear narrative about ‘Your Rights in Europe’.** Intra-EU mobility, particularly for the low-skilled, can be hindered by the lack of clear information about the portability of workers’ rights; moreover it happens as well that those who work in another European country do not take advantage of their rights so that the real effect of their mobility is a decrease in their social security level. A large-scale information campaign that explains clearly what has been achieved in terms of portability of

rights and most importantly, how to accomplish it could probably serve the purpose.

### 2.2.2. The legal and practical recognition of qualifications and diplomas

Although the EU has set up a European recognition system for qualifications, **access to employment in another member state is still hindered by professional qualification recognition systems**, by the strong presence of regulated professions and by difficulties in accessing public-sector jobs. If, from a legal standpoint, the recognition of diplomas and qualifications is possible today in most fields, in the application of these provisions there are still too many restrictions, mainly related to excessively burdensome administrative procedures.

In 2013, the Council and the European Parliament, with a modification of the 2005 directive on the recognition of professional qualifications, have introduced the **European Professional Card**. At the moment however, the future of such a card is not yet clear; the European Commission has launched a consultation in April 2014 to analyse whether it can be introduced for 7 professions: nurses, physicians, pharmacists, physiotherapists, engineers, mountain guides and real estate agents.

Should the EU prioritize this initiative? Is the revised version of the directive on professional qualifications, which will enter into force in January 2016, a sufficient response to the current difficulties? Which initiatives are still required in this area, in order to ensure *de jure* and *de facto* recognition of qualifications in the EU?

To facilitate the exchange of information between countries, the Commission has developed a **multilingual classification of skills, competences, qualifications and occupations (ESCO)**, which offers employers, jobseekers and education bodies a common “language”. How to ensure that SMEs across Europe use this common framework? Will that succeed in fostering trust between competent authorities in member states?

### 2.2.3. Ensuring fairer mobility and mitigating the risk of social competition in Europe

In order to avoid mobility-related tensions between workers, it is essential to ensure that this mobility does not infringe the rights and working conditions of workers in the host country. If social rights and wage conditions are not respected, unsupervised labour mobility will fuel an increasingly strong instinct for withdrawal and protectionism, which will undermine the single market.

**Compliance with the principle of an “equal pay for equal work in the same place” must be ensured.** In this respect, it is important to ascertain above all whether the difficulties recorded today result from the European legislation in force or rather from insufficient checks that this legislation is applied. While rules are defined on a European level, national authorities are currently responsible for their application and compliance. National authorities must also prevent the employment of European mobile workers in the black economy.

The primary aim of the 2014 **revision of the directive on the posting of workers** was to avoid situations of abuse and fraud<sup>43</sup>. The new legislation planned for this year must contribute to ensuring a better application of these rules in practice, in particular in sectors such as construction and road transportation, in which companies known as “letter-box entities” (with no real business activity in the countries of “origin”) have used false “postings” to get around the national regulations on social security and working conditions. Some countries do suffer from a lack of control as they do not have a structured administration with regard to labour inspection or because, even when national inspectorates are well organised, they lack the necessary resources to conduct their work due to the current budgetary restrictions. Moreover, **mobile workers are also more vulnerable to undeclared work**, which creates a situation of unfair competition with other workers. Yet this competition is related to their status as undeclared workers, and not that of mobile workers.

43. Maslauskaitė Kristina, “Posted workers in the EU: state of play and regulatory evolution”, *Policy paper n° 107*, Jacques Delors Institute, March 2014.

- How to revise the Posted Workers Directive to address the problems of mobile workers? Which rules can be employed to avoid the discrimination between workers at the same workplace<sup>44</sup>?
- Should the feasibility and requirements for the creation of a European work inspectorate be considered to overcome the shortcomings of national checks?

The Commission has also proposed to create a European platform<sup>45</sup> aimed at preventing and discouraging undeclared work. This platform aims to step up cooperation on an EU level with a view to combating this phenomenon more effectively, and on a national scale for cross-border situations. Will this proposal be included in the Labour Mobility Package?

## 2.3. Additional Policy Proposals on Intra-EU Mobility

### 2.3.1. An Alliance for Apprenticeships and Erasmus Pro

As part of the Youth Employment Initiative (YEI), the European Commission has established a European Alliance for Apprenticeship (EAfA) as a joint project between DG Education and DG Employment. Commissioner Thyssen has recently announced that the EAfA has so far offered approximately 50 thousand apprenticeship opportunities across Europe to young job-seekers. The scheme - promoted with the involvement of public authorities, businesses, social partners, training providers and youth representatives - includes accessible funding from various sources: ESF, YEI, Erasmus +, and EIB just to mention some<sup>46</sup>.

The success of the measure should not be measured in terms of number of apprenticeship offered but rather on the extent in which quality apprenticeships will be established as a form of on-the-job learning in those countries where

44. See the proposal by ETUC, *Free Movement, Yes! Social Dumping, No!*, 2015.

45. See European Commission, press release, IP/14/387, 9 April 2014.

46. A full list is available: [European Alliance for Apprenticeship: Funding Opportunities](#).

they were not applied so far and on the long term impact on employability and mobility of selected apprentices.

A High Level Working Group of the Jacques Delors Institute (JDI-WG) on youth employment recently recommended the adoption of a **wider Young European Apprentices scheme, the Erasmus Pro**<sup>47</sup>. As mobility is a core EU competence, it is reasonable to expect a more ambitious plan on apprenticeship that the EAfA, which is currently in place. The JDI-WG proposed to fund, with a dedicated budget of roughly € 5 billion, a young European apprentice scheme that is able to provide 200 thousand two-year long apprenticeships a year<sup>48</sup>.

### 2.3.2. The Reform of EURES Portal

The European Commission is committed to improve the EURES portal which is meant to be a useful tool to find jobs across European member states. CEPS reports that the EURES online portal has so far received little attention and only covered between 30% and 40% of all vacancies in the EU<sup>49</sup>. Moreover, about 80% of vacancies just came from two countries, namely Germany and the UK. The Eurobarometer survey 2010 reveals that only around 12% of Europeans have heard about Eures and 2% have used it. To follow up on the recommendations of the EU Citizenship Report 2013, the European Commission put forward a **proposal to revise and reinforce Eures**; such proposal, approved on early December 2015 must now be implemented. What shall be included in the platform? How to strengthen the collaboration with partners in the private sector and employers' organisations? And **how to link Eures services to the national agencies for employment?** Are 850 Eures local advisors enough to provide counselling on EU mobility?

One of the side initiatives, 'My first EURES Job', should also be revised. At the moment it aims at assisting 5000 young Europeans to find their first job; a number that is certainly not as ambitious as it could be.

47. See Delors Jacques, Enderlein Henrik, Lamy, Pascal Letta Enrico, Villeroy de Galhau François, Vitorino António, Baer Jean-Michel and Fernandes Sofia, "Erasmus Pro: For a Million Young European Apprentices by 2020", *op. cit.*

48. The proposal received positive feedback from the private sector and a network of enterprises promoting social inclusion will explore the opportunity to develop the programme in practice; for more information the reader can refer to FACE "Fondation Agir contre l'exclusion" at [www.fondationface.org](http://www.fondationface.org).

49. Barstund Mikkel, Busse Matthias and Schwarzwälder Joscha, "Labour Mobility in Europe: an Untapped Resource?", *CEPS Policy Brief*, n° 327, 2015.



### 2.3.3. Standardised Minimum Wage and Minimum Incomes

In 2015, national minimum wage settings are still missing in 6 member states<sup>50</sup> so that the risk of social dumping remains concrete. **To what extent can an EU-wide agreement on minimum wages support fairness and mobility in Europe?**

In May 2013, a joint document by France and Germany opened to the possibility of minimum wage floors, to be defined at national level, with the objective of safeguarding employment and wage levels. France Stratégie recently renewed the recommendation as a key action towards an integrated European labour market<sup>51</sup>. Already in 2005 a group of - mostly German - economists came up with a concrete proposal for a European Minimum wage policy supported by national minimum wages corresponding to 60% of the average national wage<sup>52</sup>.

**The idea of an EU-wide minimum wage may have gained political momentum;** the introduction of a minimum wage was a relevant issue during the campaign for federal elections in Germany in 2013 and in the UK there have been proposals for a raise in minimum wages.

The adoption of an EU-wide minimum income appears instead less politically viable; particularly because of the significant budgetary effort it requires. Besides the EAPN<sup>53</sup>, also the European Economic and Social Committee<sup>54</sup>, in 2013, called for EU actions in the field; particularly they recommended to issue a directive to extend minimum income schemes to all member states and link those schemes to active labour market policies and to a specific European fund for an EU minimum income.

It is true that **a European common framework to improve on minimum income protection would give substance to the discourse on the ‘Triple**

50. Austria, Cyprus, Denmark, Finland, Italy, and Sweden. These countries, however, have minimum rates set by means of sectoral collective agreements, which cover a big proportion of the labour force.

51. Boisson-Cohen Marine and Palier Bruno, "A European 'Social Contract': Priorities and Future Actions", *Note d'Analyse n° 19*, France Stratégie, 2014.

52. Schulten Thorsten, Schäfer Claus, Bispinck Reinhard, Rieger Andreas, Ringger Beat, Baumann Hans, Husson Michel and Math Antoine, *Theses for a European minimum wage policy*, Düsseldorf, Zurich, Paris, 15 April 2005.

53. EAPN, "Working document on a Framework Directive on Minimum Income", *EAPN Working paper*, 2010.

54. EESC, *Opinion of the European Economic and Social Committee on European minimum income and poverty indicators*, SOC/482 of 10 December 2013.

**A Social Rating**'. In this respect, it is worth reflecting on the political benefits which could be linked to such a measure. In particular, if citizens perceive a 'caring Europe', we may expect a lessening of Euroscepticism and a renewed vigor for solidarity in Europe.

## 2.4. Discussion

Mobility is at the moment the only shock absorption that we have in Europe and it remains quite limited. European citizens that work and live in an EU country other than their own represent 3.3% of total employment in the EU but, as mentioned in the introduction to this chapter, mobility measured by the share of persons who lived in a different state the previous year is still very low vis-a-vis the US.

At the round table on "Towards a more efficient and fairer labour mobility in the EU", several contributions listed obstacles which *de facto* impede the realization of a veritable freedom of movement across the Union. EU citizens have to go through an incredible amount of bureaucracy and efforts to have their degrees and qualifications recognized, or to simply enjoy their social and pension rights. The European Commission is very much aware of these problems and is working on multiple projects which are meant to improve on the automatic recognition of degrees, qualifications and social rights, but a stronger commitment from the side of national governments is needed if we want to achieve meaningful results.

Dismantling barriers to mobility is a positive and pragmatic move but several experts pointed out the absence of a long-term strategy conducive to a real European Labour Market. In this sense, it has been suggested that, rather than improving marginally on mobility, efforts should be targeted at the greater ambition **of creating a real European Labour Market**. "Changes at the margin, will give results at the margin" as a leading expert noted.

### 2.4.1. Mobility and dual-learning

One example reflecting how mobility programmes are not directly designed to strengthen long-term mobility and promote a European labour market is

the recent reform of the Erasmus and other mobility programmes<sup>55</sup>. The new Erasmus+, which supports formative opportunities in another member state, neither directly fosters the entry into the labour market of the destination country, nor foresees long-term relocation. If intra-EU mobility is a solution to the very concrete problem of youth unemployment, we have probably lost an opportunity to promote it. Furthermore, the European Alliance for Apprenticeships (EaFA), which consists of a platform promoting private sector involvement in quality apprenticeships, does not allocate funds in support of workers or jobseekers who are willing to relocate to another member state to carry out an apprenticeship.

The huge gap in youth unemployment among member states is not solely a consequence of the economic recession, it is also due to differences in educational and training systems. It is not by chance that in countries with lower youth unemployment there is a tradition of closeness between the education system and the labour market. Germany, Austria, the Netherlands and the UK have strong links between schools and the private sector thanks to dual-learning approaches and pre-apprentice training programmes.

To promote dual-education and tackle youth unemployment, which reached unacceptable levels in certain countries, the proposal of an **Erasmus PRO** was reiterated several times during the round table discussion. As the Erasmus programme has been one of the successes of the European Union, the suggestion is to build on it and expand it. Dual-education and work-based learning proved to be effective tools to close the gap between schooling and the labour market; therefore, a specific and ambitious programme should support mobility of apprentices across the Union. As mentioned earlier in the chapter, the Erasmus PRO aims at providing, yearly, 200,000 apprenticeships of long duration: two years minimum. The original proposal put forward by the Working Group on Youth Employment at the Jacques Delors Institute has received positive feedback from the private sector and a network of enterprises promoting social inclusion<sup>56</sup> will explore the opportunity to develop the programme in practice.

55. Lifelong Learning Programmes, Youth in Action and International Higher Education.

56. More info about FACE "Fondation Agir Contre l'Exclusion" at [www.fondationface.org](http://www.fondationface.org).

### 2.4.2. Preventing the downsides of mobility

The downsides of mobility were also a subject of debate. Countries with high youth unemployment, which will experience outflows of migrants, face the risk of **youth drain and brain drain**. Mobility, as a stabilizer to address the asymmetries between European labour markets, can create additional burdens on the country of origin. One such burden relates to the investment in education that the country of origin carries out without benefitting from its returns in terms of income generation and revenues. Losing large shares of the most talented and younger workers can be seriously detrimental for the competitiveness of a country's economy. A second burden relates to the sustainability of welfare provisions, as it can be increasingly cumbersome to sustain health and pension spending when the number of contributors decreases.

It has been pointed out that to contrast these effects, fiscal transfers from destination countries to countries of origin could be an appropriate solution. The recommendation is therefore to include a solidarity principle based on the compensation for outflows of productive workforce in the debate on the fiscal union. Fiscal arrangements must be put into place so that the pro-cyclical effects of mobility are counterbalanced.

### 2.4.3. A change in the narrative

In addition to changes in the 'management' of mobility, there is also a need to straighten out public opinion. Since the discussion on the Bolkenstein Directive in 2006, the infamous cliché of the "Polish plumber" has fuelled a radicalization of the debate and created resistances to intra-EU mobility. Indeed, the fear of unfair competition among workers and the threat of social dumping have created tensions in some countries of destination; social dumping feeds populist and Eurosceptic parties and must be avoided. We should not underestimate the emotional side of mobility, which can create disaffection to the European project and harm pan-European cohesion. The negative sentiments towards welfare tourism are actually more worrisome than the problem itself. Among others, Nedelescu<sup>57</sup> finds that the debate over welfare tourism is "grossly

57. See Nedelescu, "Free Movement of Persons: the Mirage of Social Security Schemes", *European Economic Research Papers*, n° 34, 2015.

exaggerated". It should be more clearly publicised that EU citizens moving to an EU country other than their native have an employment rate 3.5 percentage points higher than those residing in their country of origin.

The participants at the round table also outlined the inverse problem. If welfare tourism defines the act of relocating to a country in order to scrounge off its welfare system without contributing to its economy, we may define the act of moving to a third country to work, by accepting lower levels of social protection and services as **welfare masochism**.

If social dumping manages to attract the attention of the media, social downgrading does not. It happens that workers move to a country where they either find more feeble welfare arrangements than those of their country of origin or they encounter barriers to fully enjoy social rights, which they are entitled to in their country of origin. The portability of social rights is a serious problem affecting more than 7 million Europeans; that is the number of mobile workers in Europe, which amounts to approximately as much as the population of Bulgaria. In this respect, the scope for action at the EU level is twofold: i) on the one hand, continuing efforts towards extending the array of portable rights, ii) on the other hand, concrete governance steps should be taken to respond to the lack of a well-coordinated system for the enjoyment of social rights across Europe.

To this end, several experts would welcome efforts from the side of European Institutions that go in the direction of the two policy proposals outlined in this chapter in session 2.2.1 concerning the establishment of a real system of facilitation and the promotion of a clear narrative about ‘Your Rights in Europe’. A Social Union as a network facilitator to manage the exchange of information among the 28 welfare states would do a great service to speed up the administrative process ensuring the factual portability of rights.

Different contributions to the round table debate concurred that “equal conditions for equal work in the same place” must be one of the guiding principles of European labour market. The experts stressed however that once measures against social dumping will be correctly enforced, competition between workers in different parts of Europe will have to become the norm. For a Union that is based on the free mobility of workers and aspires at deepening

the internal market, it is essential for public opinion to accept that citizens of another member state can relocate and work anywhere in the Union and enjoy the same set of rights as local workers. We should be able to defend the right of motivated and talented mobile workers to arrive in a new country and - after a period of probation and insertion - achieve even better conditions than some of the citizens of the country of destination. If Europeans are not ready to accept this, it is hard to envisage a bright future for the European project.

The round table discussion reflected a widespread consensus that the problem with the Posted Workers Directive relates to its enforcement, not to its principles. It follows that the unanimous recommendation by the group of experts which took part in the debate is that of strengthening the enforcement of the Posted Workers Directive rather than reopening negotiations. It has been noted that there might be no political room to strike a better agreement on the matter and that a reopening of the negotiation would surely distract from the enforcement of current rules, which is instead the crucial priority. Improving on the enforcement of current rules means focusing on the implementation of the Posted Workers Directive, enhancing cooperation and the exchange of information between member states, enforcing penalties when necessary and making progress on transparency. To these ends, **it is advisable to establish a European Labour Inspectorate which can support and act as point of contact for all national labour inspectorates.**

#### 2.4.4. Priorities

To give a real bite to the narrative of the caring Europe and to restore confidence in the European project among European citizens, several experts noted that it would be appropriate to implement, at the European level, a form of solidarity and risk pooling which targets individuals directly rather than supporting member states' policies. However, constructing an EU-wide unemployment scheme is a very sensitive issue and will face a great deal of resistance from both governments and public opinion in certain countries. Some experts highlighted that it may not be optimal for a new start of Social Europe to put a European unemployment scheme among the immediate priorities. A polarization of the debate could harm the willingness to cooperate towards upward convergence. The same experts suggest instead starting

by reinforcing solidarity and reciprocity first with the promotion of social investment.

Lastly, speakers unanimously recognised that the political debate about jobs in Europe should not only focus on job creation but on job quality too. The increasing flexibilisation of work and the proliferation of involuntary part-time and atypical work constitute a downward spiral undermining EU social standards. Atypical forms of employment are progressively becoming the norm. Zero-hour contracts and mini-jobs, for instance, can undermine the workers' rights to a stable decent income and to basic social protection. One problem, that is too often left aside, concerns the intergenerational inequality that an excessive flexibilisation of the labour market can bring. In fact, it is not that clear how pension schemes will adapt to ensure that workers experiencing long spans of precarious employment can benefit from decent retirement conditions. To avoid further increases in the working poor population, European institutions should take an active role in promoting quality jobs. Whether minimum wages are sustained by law or through collective agreements is a national decision, but the EU's role should be that of setting and ensuring high standards for minimum wage. Without these high standards, the objective of upward convergence can be compromised.

## 2.5. Open questions

### On the Portability of Rights:

- Are the European rules in force in terms of the portability of social rights sufficient? Should these rules be reviewed/completed and, if so, in which areas in particular? The proposal of extending the portability of unemployment benefits from 3 to 6 months will be taken into consideration<sup>58</sup>?
- Would that be advisable to create a system that facilitates communications and bureaucracy between institutions dealing with pension rights, health,

<sup>58</sup> European Commission (2013), *Communication from the Commission – Strengthening the Social Dimension of the Economic and Monetary Union*, COM(2013) 690 and European Commission (2013), *Report from the Commission – EU Citizenship Report 2013, EU citizens: your rights, your future*, COM(2013) 269 final. The Annex reports the results of a survey question on the portability of unemployment benefits.

and other social protections in the home country and in the country of destination?

- Can clear narrative about ‘Your Rights in Europe’ enhance the mobility of the low-skilled workers and assist mobile workers to benefit from all their rights?

### **On Labour Mobility:**

- How to revise the **Posted Workers Directive**? Which rules can be employed to avoid the discrimination between workers at the same workplace?
- Should the feasibility and requirements for the creation of a **European work inspectorate** be considered to overcome the shortcomings of national checks?
- Is the **European Professional Card** a good way to recognize qualifications and right to training across Europe?
- What shall be the future of the **EURES platform**? How to strengthen the collaboration with partners in the private sector and employers’ organisations? And how to link Eures services to the national agencies for employment?
- To what extent can an **EU-wide agreement on minimum wages** support fairness and mobility in Europe?
- In what way can a **European common framework on minimum income protection** give substance to the discourse on the ‘Triple A Social Rating’?
- How to ensure the success of the Alliance for Apprenticeships? Should we consider wider **Young European Apprentices Scheme** such as the Erasmus Pro?



## 2.6. Summary of policy recommendations

- The overall aim of EU policy-making in the field of mobility should be that of **creating a fair European Labour Market**. Intra-EU mobility is still low and must be promoted to work as an adjustment mechanism. However, it raises concerns which should be taken care of: brain drain, social dumping and sustainability of public finances in the country of depart. An emphasis on fairness is mandatory.
- With respect to the upcoming Mobility Package, it is not advisable to re-open the negotiation on the Posted Worker Directive; on the contrary, there is a strong call to focus on the implementation and enforcement of the latest agreement. To this end, **the establishment of a European Labour Inspectorate is recommended**.
- As there is large political consensus on fighting youth unemployment, a strong and comprehensive approach to supporting mobility for apprenticeships should be put in place. To help the transition of young Europeans into the labour market, **the creation of an Erasmus Pro mobility programme** is strongly recommended. Such an apprentice scheme for young Europeans can provide 200'000 two-year long apprenticeships per year across Europe.
- Specific attention should be devoted to preventing an excessive flexibilisation of work which may constitute a downward spiral undermining EU social standards. Whether minimum wages are sustained by law or through collective agreements is a national decision, the EU's role should be that of **setting and ensuring high standards for minimum wage**.
- Besides extending the portability of social rights, such as for instance the extension of the portability of unemployment benefits from 3 to 6 months, the pivotal objective of European institutions should be that of **creating a real system of facilitation that makes portability effective**. The portability of rights, besides being formally recognised, must be facilitated. To this end, we should foresee a Social Union as a network facilitator amid national institutions in charge of social protection and services.

## 3. Restoring socio-economic convergence in the EU and EMU

### 3.1. Why a Social Europe now

As Commissioner Thyssen and President Juncker have repeatedly confirmed, one of the Commission's priorities is **creating a Europe with a 'Triple-A Social Rating'**. From the side of the Commission there is therefore a commitment to strengthen socio-economic conditions in Europe and put social stances back at the center of the European project and agenda. To do so, it is crucial to restore the core of the European Social Model and to reaffirm that the latter is a fundamental component of European -social- market economy.

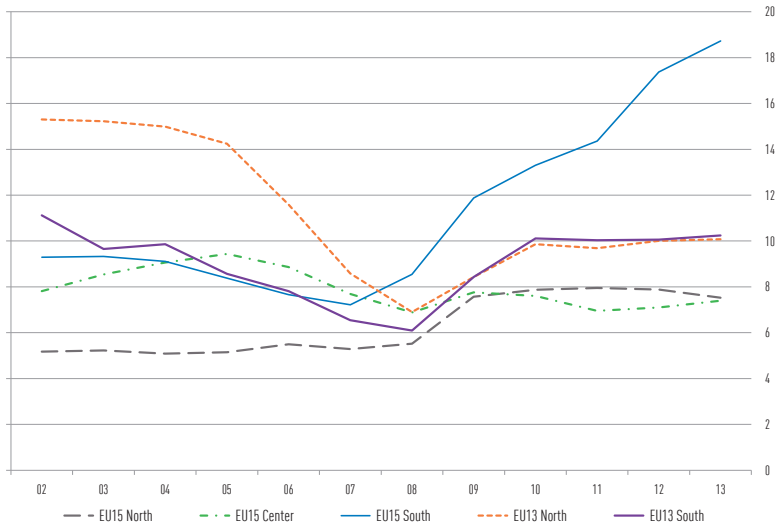
The focus on social problems does not come by chance. Rather, it is an inevitable consequence of years both of policy-making that disregarded social policies, and of short-term interventions meant to confine the financial and public debt crises.

Three main reasons demand a prompt and full strengthening of the social dimension of the EMU; three arguments that are valid for the whole European Union, but even more pressing for the euro area.

1) Since 2008 socio-economic convergence has come to a halt. The crisis - and its management - has caused an **alarming divergence among member states**. These divergences put at risk the economic, financial as well as the political stability of the entire Union. Figure 8 shows the trends in unemployment rates between 2002 and 2013 in different European regions. It is straightforward to notice how southern regions have been diverging substantially from 2008 onward. To understand what it means socially, we can observe Figure 9 which depicts the variation of NEETs between 2001 and 2013. Modest improvements in few member states (LV, IE, MT, DE, UK) are opposed to an alarming worsening in several others (HR, CY, PT, IT, EL, HU, SI). An additional aspect at the core of increasing divergence among member states relates to the different focus that national welfares assign to social investment, as we have already mentioned in chapter 1. Figure 10 shows how social expenditure as a

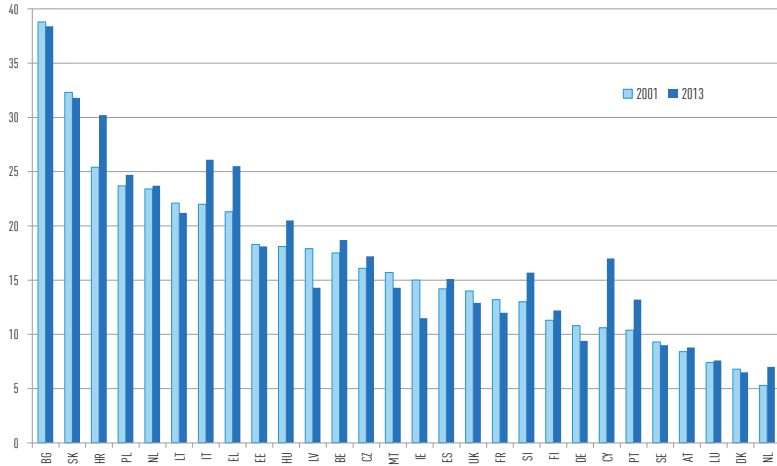
% of GDP corresponds to better performances in terms of competitiveness, as measured by the OECD Global Competitiveness Index. Disparities between Finland - which has over 30% of its GDP for social expenditure and rank 4th in the Global Competitiveness ranking - and Greece - which has a mere 22% of its GDP channeled to social spending and rank 81<sup>st</sup> - are impressive and require a specific EU commitment for upward convergence. Structural imbalances in competitiveness are particularly worrisome as they constitute the basis for further worsening of the gap between Northern and Southern countries in terms of growth, employment and prosperity. Since the creation of the common currency area, structural imbalances have been on the rise and the ongoing process of adjustment has only led to moderate results.

**FIGURE 8** ▶ Divergence in Unemployment rates (2002–2013), %



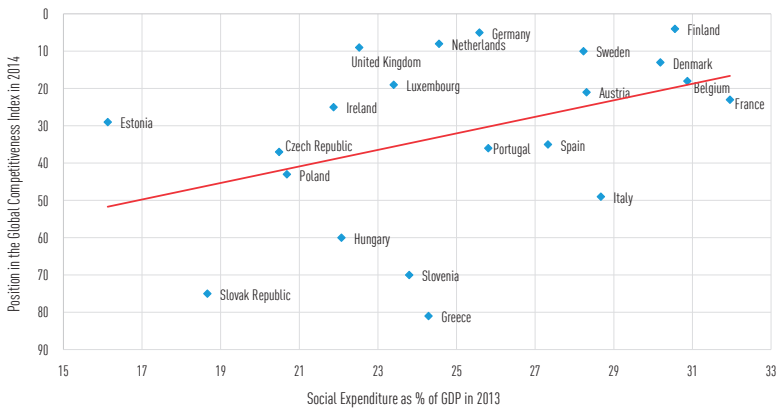
Source: European Commission (2014), *Employment and Social Development in Europe 2014*. Note: **EU-15 Center**: Belgium, Luxembourg, the Netherlands, Germany, Finland, France, Austria; **EU-15 North**: Denmark, Sweden, United Kingdom; **EU-15 South**: Greece, Ireland, Portugal, Spain, Italy; **EU-13 North**: Czech Republic, Hungary, Poland, Slovenia and Slovakia; **EU-13 South**: Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Croatia, Romania.

FIGURE 9 ► NEETs rates, %



Source: European Commission, *Employment and Social Development in Europe*, 2014.

FIGURE 10 ► Competitiveness and social expenditure in selected member states  
(Expenditure in cash and in benefits in kind)



Data: *Global competitiveness Index 2014*, OECD SOCX Database.

- 2) A social dimension is also required because of the constraints enforced by **membership of the single currency**. In the euro area, member states can no longer make a discretionary use of monetary policy or devaluations so that they are left with **no means to address cyclical shocks**. There is indeed limited room to maneuver for national states to resort to automatic stabilisers, given that they have to take into account the ceilings imposed by the Stability and Growth Pact. The absence of such adjustments has caused painful internal devaluations in several countries of the euro area and it should be recognized that the presence of these adjustments is a prerequisite to avoid financial and debt problems to transform into a social crisis.
- 3) Lastly, there is a political argument: a social dimension is essential **for a stronger legitimacy and sustainability of the EU and EMU**. We have observed an increasing disaffection towards Europe and the raise of euroscepticism in several European member states; indeed, the worsening of economic conditions and the unpopular urging on austerity measures have decreased the trust on European institutions and jeopardized that spirit of solidarity which should be at the core of the European project. In this respect, a focus on the social dimension could be able to reconcile European citizens with European political institutions and mitigate the risk of disintegration.

The 4 Presidents' Report<sup>59</sup> in 2012 depicted an EMU on 4 pillars; it envisaged a fiscal union, a banking union, an economic union and a political union, but no reference to a social union. Indeed, social matters could be partly addressed with a fiscal union based on solidarity among member states, but it was only in the Thyssen Report<sup>60</sup> that the emphasis on social aspects came out and the European social model was put at the center of the debate on the economic governance of the EMU. The recent Five Presidents' report<sup>61</sup> contains an updated plan in three stages for "completing Europe's economic and monetary union" by 2025; in an attempt to strike a balance between ambitions and realism,

59. European Council, *Towards a Genuine Economic and Monetary Union*, Report by the President of the European Council, in collaboration with the Presidents of the Commission, the Eurogroup and the ECB, 5 December 2012.

60. European Parliament, *Report with recommendations to the Commission on the 4 Presidents' Report "Towards a Genuine Economic and Monetary Union"*, A7-0339/2012, Rapporteur Marianne Thyssen, 24 October 2012.

61. Five Presidents' Report, *Completing Europe's economic and monetary union*, European Commission, 2015.

the new plan for a fiscal union includes no mention of debt mutualisation or brand-new fiscal capacities. It only puts forward, vaguely, the idea of a fiscal stabilization function for the euro area. The five presidents aim at “a stronger focus on employment and social performance”, but the document remain vague on how to achieve it.

To strengthen Social Europe, there are many reforms and policy proposals which are currently on the table and look at various aspects of EU policy-making; reforms may involve governance, regulatory, and financial aspects of the EU and the euro area. Table 3 presents an overview of priorities and future actions. Even though technical details can be a further subject of debate, there is general agreement on the type of reforms to be adopted; at the moment what appears to be missing is the political will to take one additional step towards EU integration. To restore convergence and enhance the coordination of social and macro-economic policies with the ultimate goal of ensuring decent life standards to all Europeans, our leaders should explore the possibility of:

- 1) **Revising the governance of the EMU** to make sure that the European Semester and Country Specific Recommendations (CSRs) lead to win-win solutions from both a social and an economic-financial point of view.
- 2) **Granting more room of maneuver and securing appropriate financing to those member states that have excessive social and macro-economic imbalances** to make sure that national policies in line with the Social Investment Package and the Youth Employment Initiative remain a priority and are matched with necessary budgets.
- 3) **Adopting stabilization mechanisms** to contrast cyclical shocks that cause divergence, by means of a fiscal capacity.

**TABLE 3** ► **Priorities and Future Actions: An Overview**

PROPOSALS	LEVEL	OBJECTIVES	PROBLEMS
<b>Priority 1: Complete the euro from a social point of view</b>			
<ul style="list-style-type: none"> <li>• Euro area institutions</li> <li>• Social Eurogroup</li> </ul>	Euro area	Governance	<ul style="list-style-type: none"> <li>• Regulation with EU</li> <li>• Institutional reform</li> </ul>
<ul style="list-style-type: none"> <li>• Tripartite summit</li> <li>• Macroeconomic dialogue</li> <li>• Wage coordination</li> </ul>	Euro area	Regulation	<ul style="list-style-type: none"> <li>• Autonomy of social partners</li> <li>• Coordination</li> </ul>
<ul style="list-style-type: none"> <li>• EU unemployment insurance</li> <li>• Euro area budget</li> </ul>	Euro area	Stabilisation	<ul style="list-style-type: none"> <li>• Relations with EU</li> <li>• Transfers</li> </ul>
<b>Priority 2: Adapt the common framework to the new age of mobility</b>			
<ul style="list-style-type: none"> <li>• Extension of portability of rights</li> </ul>	EU (and Euro area)	Adjustment	<ul style="list-style-type: none"> <li>• Sovereignty</li> <li>• Heterogeneity of social regimes</li> </ul>
<ul style="list-style-type: none"> <li>• European Labour Inspectorate</li> </ul>	EU (and Euro area)	Regulation	
<ul style="list-style-type: none"> <li>• Minimum wage and minimum income</li> </ul>	EU (and Euro area)	Regulation	
<b>Priority 3: Restore the Sustainability of the European Social Model</b>			
<ul style="list-style-type: none"> <li>• Long-term European investment fund</li> </ul>	EU (and Euro area)	Adjustment Convergence	<ul style="list-style-type: none"> <li>• New institution</li> </ul>
<ul style="list-style-type: none"> <li>• Social investment pact</li> </ul>	EU (and Euro area)	Adjustment Convergence	<ul style="list-style-type: none"> <li>• Transfers</li> </ul>
<ul style="list-style-type: none"> <li>• Common tax policy</li> </ul>	EU (and Euro area)	Regulation	<ul style="list-style-type: none"> <li>• Sovereignty</li> </ul>

Source: Boisson-Cohen and Palier, "A European 'Social Contract': Priorities and Future Actions", *Note d'Analyse, No. 19*, France Stratégie, 2014.

### 3.2. EMU Governance and the European Semester

The Commission has worked towards rebalancing the EU's economic governance but the social pillar is not yet fully integrated into the new tools of the EMU. As stressed in a recent study<sup>62</sup> on 'Deepening the EMU: How to maintain and develop the European Social Model?', the social dimension should not constitute a separate pillar, but it should be mainstreamed into all aspects of EU policy-making and particularly of the EMU.

In 2014, the European Commission adopted a **scoreboard of social indicators** which are designed to identify the most relevant and alarming imbalances related to employment and socio-economic conditions and draft country specific policy recommendations accordingly. If from the one hand it is encouraging that social indicators<sup>63</sup> are now included in the context of the European Semester, it is vital to realize that it is not the inclusion of a social scoreboard *per se* that will lead to a better balance between economic and social concerns and ensure policy coherence within the European Semester exercise.

To make sure that social and employment-related issues are better built into the European Semester and the Country Specific Recommendations (CSRs) the following points must be taken into account:

- **How to make sure that social imbalances within the euro area are addressed with the same stance as budgetary and macroeconomic imbalances?** As social imbalances have proved to be highly detrimental for the European people and the European project, they should be treated no differently than other "excessive imbalances". Efforts should be therefore taken to give **greater consideration to excessive social imbalances and ensure policy coherence within the European Semester.**

62. Fernandes Sofia and Maslauskaitė Kristina, "Deepening the EMU: How to maintain and develop the European Social Model? A Study for the Federal Chancellery of Austria", *Studies and Reports n° 101*, Jacques Delors Institute, 2013.

63. The social scoreboard comprises the following five indicators: 1) Unemployment rate, 2) Unemployment rate among young people and NEETs, 3) Changes to households' gross disposable income, 4) Poverty risk rate among 18-64 year olds, 5) Inequality indicators.



- **To what extent do the European Semester facilitates member states make progress towards the implementation of the Social Investment Package?** How to streamline the process that brings member states to achieve the social objectives<sup>64</sup> included in the Annual Growth Survey?
- **Does the ‘less is more’ approach jeopardize the inclusion of the social dimension into the European Semester and CSRs?** This year, recommendations on the issue of youth employment and quality of jobs have been kept to a minimum, despite their paramount relevance.

### 3.3. Ensuring financing for social investment

Providing **tangible support to deploying a far-reaching social investment strategy and securing room to maneuver in those countries under stringent macroeconomic surveillance** are probably the biggest political challenges facing Europe at the moment, which affect operational aspects more concretely. As stressed in Vandembroucke et al. (2011)<sup>65</sup>, ‘the key challenge is to make long-term social investment and short-term fiscal consolidation mutually supportive at both the EU level and in member states’. For this, European leaders should look at the way in which the Social Investment Package (SIP) and the Stability and Growth Pact (SGP) interact.

The SIP contains guidelines for member states to make a more effective use of social budgets and the Commission **Communication on Social Investment for Growth and Cohesion**<sup>66</sup> includes guidance to member states on how to make the most valuable use of EU funds, with particular reference to the European Social Fund (ESF). Nonetheless, a key problem is ignored: the need for social investment is higher in those countries where socio-economic malaise is also higher and more pressing; in turn these countries are those that cannot incur additional budget deficits and are not likely to invest in human capital

<sup>64</sup>. Reducing poverty, addressing gender gaps, preserving access to social protection and healthcare, modernising pension systems, and active inclusion strategies are among the objectives of the Annual Growth Survey.

<sup>65</sup>. Vandembroucke Frank, Hemerijck Anton and Palier Bruno, “The EU needs a Social Investment Pact”, *op. cit.*

<sup>66</sup>. See Communication from the Commission to the EP, the Council, the EESC and the CoR – *Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020*, COM(2013), 20.02.2013.

unless it is specifically financed. If the EU requires member states to commit to social investment, how can concrete financial support be implemented? Failing to address this question could lead to a situation where divergence among member states is exacerbated further.

One of the recommendations put forward in the first European Policy Brief<sup>67</sup> of the WWWforEurope project<sup>68</sup> focuses on the opportunity to concentrate all available funds at the EU level to support long-term growth and contrast youth unemployment in deficit countries with a set of mandatory targets and close monitoring.

Several scholars and commentators<sup>69</sup> recommended a **revision of the Stability and Growth Pact (SGP)** in order to distinguish between investment spending and other government expenditure with the ultimate goal of preventing drops of domestic demand as a consequence of reduced public investment. The recent Communication of the Commission on SGP flexibility<sup>70</sup> moved in that direction and allows a certain degree of flexibility in the interpretation of the investment clause. Deviations from SGP targets can be accepted if they are linked to national expenditure on co-funded projects in the framework of the Structural and Cohesion policy<sup>71</sup> – therefore including the ESF and the YEI.

A number of questions still remain open:

- **Is there room for more generous interpretation of the investment clause within the SGP?** Can ‘flexibility’ be applied to social investment even besides co-funding and contributions to the Investment Plan?
- The 5 Presidents’ report does not open up any prospects of a revision of the SGP in the short term; is it instead something that should remain on the table?

67. Aiginger Karl, Cramme Olaf, Ederer Stefan, Liddle Roger, and Thillaye Renaud, “Reconciling the Short and the Long Run: Governance Reforms to Solve the Crisis and Beyond”, *European Policy Brief*, n° 1, WWWforEurope, 2012.

68. Welfare, Wealth, Work for Europe project, for more information see [www.foreurope.eu](http://www.foreurope.eu).

69. Natali (2013), Dervis (2012) Leonard and Zielonka (2012) among others.

70. See the Communication from the Commission to the EP, the Council, the ECB, the EESC, the CoR and the EIB, *Making the Best Use of the Flexibility within the Existing Rules of the SGP*, COM(2015), 13.01.2015.

71. *Ibid.*, Paragraph 2.2. ‘Other investment under the preventive arm of the Pact’, Point iii), page 8.

- To channel specific funds for a comprehensive social investment strategy, Fernandes and Maslauskaitė<sup>72</sup> suggest the **adoption of ‘contractual arrangements’** between the EU and member states in the framework of the “Convergence and Competitiveness Instruments” proposed by the European Commission<sup>73</sup>. In their view, for the social sphere, the EU should design a sanction mechanism such that of the Macroeconomic Imbalance Procedure, but should also design an incentive scheme based on genuine reciprocity. Member states and Commission officials should define a set of social targets in line with those of the Europe 2020 strategy and agree on some *ad hoc* financial assistance for leading initiatives which aim at achieving those targets, lowering social inequalities, and promoting upward convergence. As highlighted by Rubio<sup>74</sup>, however, the adoption of contractual arrangements raises several operational questions. How to avoid a purely top-down approach? Who should negotiate the contracts to make sure that national ownership is respected? Which system should be put in place to ensure compliance? Which form of financing should follow the contract?
- Cohesion policy is also relevant to ensure a systemic approach to social dimension and secure funds for human capital investment and social protection. **How to make cohesion policy coherent with social targets?** European Structural and Investment (ESI) Funds have a sort of macroeconomic conditionality, which implies that the European Commission can, in principle, cut out payments in case a member state fails in addressing its macroeconomic and fiscal problems. Should this conditionality be converted into an incentive scheme which also takes into account a social scoreboard?
- It has been highlighted that the divergence between North and continental Europe on the one side and peripheral countries on the other is brought into being by worrisome structural imbalances in competitiveness and overall levels of prosperity. Failure in addressing these structural

72. Fernandes Sofia and Maslauskaitė Kristina, “Deepening the EMU: How to maintain and develop the European Social Model?”, *op. cit.*

73. European Commission, Communication from the Commission ‘Towards a Deep and Genuine Economic and Monetary Union. The introduction of a Convergence and Competitiveness Instrument’, COM (2013) 165, March 2013.

74. See Rubio Eulalia, “Which financial instrument to facilitate structural reforms in the Euro area?”, *Policy Paper n° 104*, Jacques Delors Institute, 2013.

imbalances would cause divergence to worsen rapidly. To help closing the gap, widened by the crisis, a standard cohesion policy will not be enough. In 2013, Jacques Delors proposed the **adoption of a Special Cohesion Fund within the EMU**, a fund which is meant “*to recover a growth model*”<sup>75</sup> in those countries which have been particularly affected by the crisis, a fund which goes far beyond the normal cohesion funds and would allow those countries “*in the space of about ten years to build an industrial structure or a research policy*”<sup>76</sup>.

### 3.4. Stabilization mechanisms to contrast cyclical shocks

The idea of a **European stabilisation mechanism** that contributes to restoring the systemic stabilisation capacity of national welfare states was already introduced in the first 4 Presidents’ Report<sup>77</sup> in 2012. Even before, it was a subject of debate during the elaboration of the Delors report in 1989. The idea of equipping the EMU with a shock absorption capacity, despite an initial reluctance, has now gained substantial legitimacy and support. As highlighted in background report<sup>78</sup> for the High-Level Group on ‘Social Union’, consensus was also registered from the side of several German political scientists and economists<sup>79</sup>, who argued that a transfer scheme would be in Germany’s self-interest and came to the conclusion that there cannot be a stable monetary union without a redistribution mechanism.

Nevertheless, the Five Presidents’ report did not put a great emphasis on the matter and did not attempt to speed up the process. Their report<sup>80</sup> vaguely introduce the idea of a fiscal stabilization function for the euro area, to be achieved in the medium to long term, as – they say – stabilization can be ensured by means of more integrated financial markets and a common backstop to the Banking Union. It is therefore highly likely that in the near future the EMU will not be equipped with a proper fiscal stabilisation. The political opportunity to

75. See Delors Jacques, “Rethinking the EMU and making Greater Europe Positive Again”, *Tribune*, Jacques Delors Institute, June 2013.

76. *Ibid*, page 5.

77. European Council, *Towards a Genuine Economic and Monetary Union*, *op. cit*.

78. Friends of Europe, *A European Social Union: 10 tough nuts to crack*, Background report for the Friends of Europe High Level Group on Social Union, by Vandenbroucke Frank and Vanhercke Bart, 2013.

79. See Glienicker Group, “Towards a Euro Union, without more integration, further crises are looming”, *Die Zeit*, 17 October 2013.

80. Five Presidents’ Report, *Completing Europe’s economic and monetary union*, *op. cit*.

implement it rapidly in order to provide a prompt European response to social malaise and increasing divergence appears to be lost. Nevertheless, a more technical debate on the different types of arrangements<sup>81</sup> that could be put in place and their specific characteristics is still on going. Such debate can be relevant in view of the White Paper expected for mid-2017.

The Directorate General for Employment and Social Affairs has already started exploring the technical feasibility of different projects for a **European unemployment insurance mechanism**, which should be meant to supplement unemployment insurance schemes run by member states. Probably the more developed proposal is the one based on the work of Dullien<sup>82</sup> which intend to respond to both symmetric and asymmetric business cycle shocks. The proposal considers a payroll tax, collected by national agencies, which would finance an insurance fund.

Another idea is instead that of creating a sort of **Interstate Insurance Scheme where member states contribute to a Cyclical Adjustment Insurance Fund** when their output gap is above the EU (or euro area) aggregate output gap and they can instead make use of fund when their output gap is below the aggregate level. This scheme, proposed by Enderlein, Guttenberg and Spiess<sup>83</sup> is supposed to increase the convergence of business cycles across the economies of the euro area and has the advantage, of avoiding permanent transfers from one country to others.

A recent simulation by Beblavy and Maselli<sup>84</sup> compares the two different options of an harmonized European unemployment scheme that target directly the unemployed and the scheme which instead transfer funds to national unemployment insurance schemes. They find that the latter gives a stronger stabilization effect.

81. For a comprehensive account of several policy proposals refer to Beblavý Miroslav and Maselli Ilaria, "An Unemployment Insurance Scheme for the Euro Area: a simulation exercise of two options", *CEPS Special Report*, n° 98, December 2014.

82. See Dullien Sebastian, *A euro-area wide unemployment insurance*, Study for the European Commission, DG Employment, 2013 and Dullien Sebastian, *A European Unemployment Insurance as a Stabilization Device – Selected Issues*, Study for the European Commission, DG Employment, 2012.

83. See Enderlein Henrik, Guttenberg Lucas and Spiess Jann, "Making one size fit all. Designing a cyclical adjustment insurance fund for the Eurozone", *Policy paper n° 61*, Jacques Delors Institute, 2013 and Enderlein Henrik, Guttenberg Lucas and Spiess Jann, "Blueprint for a cyclical shock insurance in the Euro Area", *Studies and Reports n° 100*, Jacques Delors Institute, 2013.

84. Beblavý Miroslav and Maselli Ilaria, "An Unemployment Insurance Scheme for the Euro Area: a simulation exercise of two options", *op. cit.*

Whether it is true that an insurance mechanism based on output gaps which contributes to member states' welfare system is more politically viable, it is also true that it may not give the same results as an unemployment insurance scheme in terms of re-building trust and solidarity among European citizens. The technical aspects of an insurance mechanism may be too harsh to be fully understood from the general public and the indirect support to the unemployed may not be perceived as a strong step toward a more social Europe.

The open questions are still numerous:

- Is it necessary to revise the treaties in order to have a well-functioning automatic stabilizer or it is possible to move in that direction on the basis of the treaties currently in force? **Can it be implemented as a form of enhanced cooperation or bridging clause?**
- Within the EMU, if common unemployment insurance has to be created, should it be in the form of a social policy or rather take the form of an automatic stabiliser? Do we envisage a system to support the unemployed now or a stabiliser to avoid future social imbalances?
- Should we **limit the stabilization and insurance scheme to the euro area** or design it for the EU with the greater ambition of boosting convergence and solidarity across the entire Union?
- **Is it possible to find political support for permanent transfers?** How to mitigate the moral hazard problem?
- **To what extent should EU-wide unemployment insurance have a redistributive role at the domestic member state level?** Should it finance national schemes or complement them?

In addition, one of the ideas outlined and put forward in the Five Presidents' Report<sup>85</sup> could bring support convergence and serve the purpose of reconciling economic and social objectives. In fact, if **National Competitiveness Authorities** will be designed so that they can: i) promote social dialogue, ii)

<sup>85</sup> Five Presidents' Report, *Completing Europe's economic and monetary union*, *op. cit.*

look beyond unit labour costs and promote non-wage productivity, iii) avoid the race to the bottom in labour market regulation by effectively fostering job quality, they can be a great tool to close existing gaps in labour market regulation and competitiveness.

### 3.5. Discussion

We are in a very difficult conjuncture; the socio-economic situation remain critical in many countries, whilst the euro area crisis first and the refugee crisis afterwards have been undermining that sense of common purpose that is at the core of the European project.

At the round table on “Restoring Socio-Economic Convergence in the EU and EMU” many interventions have been highly critical with the economic governance of the crisis. It has been underlined that the image of Europe did not come out well from the crisis. Europeans have seen the involvement of the public sector in banks’ bail-outs, they have heard the recommendations to cut salaries and pensions, to deregulate the labour market. It is therefore straightforward that Europeans ended up having doubts about the European project; what they have seen is that Europe privileged fiscal discipline at the expenses of the socio-economic condition of people and workers. To regain support from the European citizens, Europe needs to do something for them.

As European institutions are supposed to learn from their mistakes and change policies and methodologies, once they are proven wrong, there is nowadays great expectation for change. Europe is called to deliver, and to deliver in a different way than it has done in the last few years.

Disaffection toward the European project on the one side, and alarming statistics on youth and long-term unemployment on the other, require a change of course and offer the political chance to finally respond to the needs and concerns of European people. In this context, Social Europe is a political opportunity as it can restore confidence towards European institutions and can revitalize the European economy thanks to a social investment strategy leading to a more resilient and skilled workforce.

However, there are still strong political forces that oppose the idea of a social dimension within the EMU and Social Europe is not a shared notion. The problem with embracing social issues at the European level comes from the fact that member states fear a progressive involvement of the Union in what should remain a national domain. It could be therefore advisable to send out a clear message about Social Europe, that it does not necessarily imply shifting prerogatives from the national to the European level, it just require closer coordination between member states and between economic and social policy aims.

For a continent that aspires at inclusive and smart growth, social and economic outcomes must be regarded as the two sides of the same coin. The Union must strive for economic as well as for social prosperity, as there is no clash between the two objectives.

The challenges facing the Union and member states are well known; as said earlier in this report, globalisation, technological change, population ageing are putting in danger the sustainability of European welfare systems and demand reforms to social and economic policies. An additional challenge is posed by integration. The way in which the Union and the EMU operate today promotes divergence rather than convergence.

Abandoning the founding fathers' ambition of upward convergence, which served as a guiding principle for the shared progress that Europe has enjoyed since the Second World War, would imply surrendering to populist forces and ending up with a Union that is nothing more than a custom union. It is worth reminding the reader that since the Single Act, which entered into force in 1987 and established the basis for the internal market, it was made clear that deeper economic integration and the construction of a free market area should have gone hand in hand with deeper solidarity, and that is why cohesion funds were implemented to counterbalance the effect of economic integration and avoid excessive divergence between regions. **Europe should keep on standing on two legs: economic competitiveness and social cohesion.**

The question is obviously not only about whether or not we need Social Europe; consensus is growing, but it is not yet clear how to start and how to organise the social dimension of the Union and of the EMU. Assuming that a consensus can



be found, the question remains on **how to make Social Europe operational**. Social Europe, as a new social pact among member states and European citizens, will need to be mainstreamed. To this end, it is necessary to keep working on the Europe 2020 strategy and to update it so that it can serve as guidance towards the objective of upward convergence. Secondly, as pointed out in the previous chapter, an agenda on mobility to truly implement free movement of people and rights would also need to be part of the pact. Third, a reform of the governance of the EMU.

### 3.5.1. Towards an 'optimal' currency area

At the question: "is a monetary zone sustainable with no social dimension?", the answer of experts and policy-makers that took part at the round table was unanimous, resolute and negative. But it is not only for a political sensitivity that the EMU shall consider revising its governance; economic theory points in the very same direction.

The theory of Optimum Currency Area is well known and concrete efforts must be undertaken to reform the governance of the EMU in order to convert the euro area into an 'optimal' area. Improvements must relate to each of the four main criteria that determine the success of a currency area: 1) *openness and capital mobility* are likely to be enhanced by the Capital Markets Union and by deepening the internal market; the latter may also be useful to 2) strengthen *business cycle likeness*. As we have discussed in the previous chapter, 3) *labour mobility* is another aspect that shall be promoted. However, improvements on mobility in Europe will remain constrained by cultural and linguistic differences, which will make it hard to reach the mobility observed in the United States. For this reason it is even more crucial to 4) implement a *risk sharing system* which can compensate states that have been adversely affected by the integration process, i.e. have witnessed outflows of investments and workers.

The participants to the round table discussion have clarified that, to prevent an amplification of divergence, two ways are possible: either a fiscal channel or a social channel. In other words, either an EMU fiscal capacity or an EMU social security protection.

Endowing the EMU with a **fiscal capacity** could bring two advantages: i) the possibility for member states to have support against negative shocks, i.e. having means to contrast youth and long-term unemployment, and ii) the possibility to re-launch investment in human capital and innovation, when member states have no capacity to do so by their own.

A risk sharing system could be implemented by means of an **automatic fiscal transfer mechanism**, but it will be hard to win the political resistance of better-off countries, which are not willing to redistribute their gains. Insurmountable resistance is going to block any discussion on permanent transfers, but there should be room to discuss other types of mechanisms – insurance, re-insurance or pooling partly the unemployment insurance at member state level – conducive to temporary transfers. The moral hazard argument, which may be strong on fiscal matters, is less evident on unemployment issues. Receiving transfers when unemployment increases does not alter a government’s incentive to fight against it.

Exploring the feasibility of an EMU-wide unemployment insurance is definitely advisable. As highlighted in the previous session of the chapter, several options have been tabled and it is time to start a serious political discussion on the matter.

It is nowadays undeniable that if we want to avoid further divergence, certain forms of risk sharing and solidarity are needed among those countries that opted for a common monetary policy.

Among the additional proposals that the experts put forward, the idea of a euro area summit to meet regularly and convened to promote dialogue on macroeconomic and social issues has found particular support. Such a summit should look at – and defend – all vital aspects of the governance of the euro area, including of course, social aspects. To improve on coordination within the euro area, it is also recommended to promote dialogue with social partners. A Social Eurogroup could also be institutionalised and involved in the European Semester exercise.

### 3.5.2. Reconciling economic and social policy: the semester

The crisis came with a high social cost, which is still heavily hindering the economic recovery of the euro area. According to certain political doctrines, the governance of the euro area would have been better off by focusing exclusively on economic matters, as if a social dimension would have prevented the EMU to develop its economic potential. Actually, the opposite is true: social distress has a strong negative impact on the economy, whilst at the same time a modern social policy focusing on activation, skills acquisition and resilience would be a key asset for the economic development of the euro area.

Splitting economic and social policy and prioritising fiscal discipline led to an intensification of divergence. Indeed, lack of convergence is particularly worrisome for the euro area, but it remains a European problem. The objective of socio-economic upward convergence should stand as a guiding principle for all the Union.

**How to reconcile financial and macroeconomic policy on one side with employment and social policy on the other** is likely the greatest challenge facing EU leaders that aim at restoring convergence. Rebalancing the European semester is a necessary step to rebalance the Union.

According to the vast majority of experts attending the event, the exercise of the European Semester should be kept as wide as possible and not narrowed further to consider budgetary discipline uniquely. Its scope should not be reduced; on the contrary, it must be widened. For instance, as mentioned earlier in the report, once we deal with the economic governance of the Union, social investment must be part of the landscape. Experts proposed to find space in the MIP for a scoreboard that includes human capital indices. Measuring and monitoring human capital can help steering human capital investment in member state strategies.

There was widespread agreement that existing tools of the European Semester can be used to bring together economic and social targets. The European Commission has been facing this dilemma with the intention to rebalance the semester for quite some time but it stumbles over methodological difficulties. The problem is that social affairs are based on indicators, not on common rules

like economic affairs. When it is about financing the economy the EU has very precise rules; it is actually a rule-based organisation, so that it is relatively easy to coordinate countries around agreed upon rules in the financial and fiscal domain. On the contrary, for social matters there is less room to set out clear rules and the only reference remains a list of indicators in the scoreboard.

The opportunity to convert soft social targets into hard targets should be seriously explored as even little legislative steps in this direction could help giving sound basis for a more social-oriented Semester. In the short run however, the key point is to understand how to make a better use of the scoreboard and how to operationalise it better. Specific actions should be triggered if excessive social imbalances are detected within the EU. In other words, a corrective mechanism for social imbalances is needed. The basic idea is that of equal relevance for fiscal and social imbalances: if there is an excessive deficit procedure there should also be an excessive unemployment procedure. When unemployment rate becomes very high, the negative socio-economic effects can be huge, and the Union must act promptly.

Some interventions recalled that the **Youth Guarantee** came out as a sort of excessive unemployment procedure. The idea was to deploy a common effort and targeted financial instruments to bring down youth and long-term unemployment, when it reaches alarming peaks. Now that the initiative has proved to work to a minor extent, is it possible to envisage a strengthening of coordination, finance and monitoring? Can it be linked to the Semester Exercise?

Experts highlighted that there are two problems with **Country Specific Recommendations** (CSRs), one relates to how they are created, the second relates to the implementation of the recommendations. Particular concern was raised about the downward spiral undermining social standards, which appears to be fostered by CSRs. In particular, the way in which CSRs tackled divergence is wrong. Long term supply side effects may be positive, but for the moment Europe only experienced short term negative, i.e. recessive, effects. Experts were wondering why DG ECFIN keeps on pushing for labour market flexibilisation, when the IMF and OECD, among others, have recognised that it constitutes one of the primary sources of increasing inequality. Labour market lexibilisation has been increasing in the last years but results are

simply not visible: not on growth, not on employment creation. An additional point was made concerning wage cut policy. The example of Germany is frequently employed as a success story to show how wage cuts can lead to full employment and economic growth. However, the German model is not to be replicated; Germany relied on external demand and trade surplus, which are not policies that can be embarked by all EU countries at a time. It did work for Germany because Germany took advantage of the strong euro and the internal market and pushed strongly on exports. Without the common currency such high levels of trade surplus wouldn't have been reached.

There is real divergence in productivity and the Commission is right on addressing it firmly, but it is not clear why the focus goes predominantly on labour costs rather than on non-wage components. Non-wage competitiveness in Europe is highly heterogeneous and constitutes a big portion of the competitiveness divide affecting the Union. The Five Presidents' report puts forward the idea of **National Competitiveness Authorities** for the euro area, which are meant to address such a divide. These authorities could potentially be a great instrument to support the identification of win-win solutions at national level, if they keep both cohesion and competitiveness in their radar. Rather than being an additional instrument to mainstream labour market flexibilisation, they should actively promote social dialogue and explore policy strategies for competitiveness, other than wage depreciation.

According to some experts, **social impact assessments** could be an additional tool to 'socialise' the European semester. If reform programmes pass through the scrutiny of a thorough social impact assessment, budgetary consolidation and economic growth strategies, promoted by the Commission, would no longer be in the position to compromise social outcomes. Such an arrangement could therefore be a key element to improve the balance of decision-making within the Semester. Possibly, the Joint Employment and Social Report mentioned in the Five Presidents' Report goes in this direction. Indeed, there is much need to extend the scope, the relevance and the reach of the current Joint Employment Report. It remains unclear whether such report will have a concrete role in the revamped Semester, where the European Fiscal Board is likely to be given prominent role.

### 3.5.3. Fiscal rules and flexibility

At the round table on “Restoring Socio-Economic Convergence in the EU and EMU” many participants said that they would look favorably at a revision of the flexibility of the Stability and Growth Pact (SGP). Revisiting the discussion on flexibility should be functional to creating room for strategic investment, and social investment specifically. In general, it was noted that the application of the investment clause could be made less strict for all the investment that is going in the direction of Commission’s priorities, e.g. decarbonisation, economic return, etc.

The Two Pack already includes provisions that could be used to give special status to spending on health and education; in particular, when adjustment programmes are discussed, these public expenditures must be considered differently to safeguard them and the services of public interest they deliver.

A second option could be the creation of a separate budgetary instrument so that the SGP rule of calculation would not apply and social and strategic investment can be sustained with new means. In this respect, experts suggested to reform and expand funds and programmes that are already in place. Can the European Social Fund (ESF) be used differently? With the YEI, a sort of compartmentalisation of the ESF took place so that specific rules have been created for targeted objectives. Possibly, this approach can be extended and potentiated. Is it possible to envisage a direct or shared management of the ESF? Especially when a member state affected by excessive social imbalances fails in absorption, - in times, volumes or deviations from objectives - the intervention of European institutions could become more direct in order to improve the quality of absorption and deliver on shared objectives.

With flexibility and dedicated EU budget, four scenarios can be characterised: 1) no change in the interpretation of flexibility, no discount for capacitating spending and social investment, with the likely result of a further worsening of divergence; 2) further flexibility in the application of the SGP rules to provide member states with fiscal room specific for social investment. Success, in this case, would depend on the coherence and commitment of member states towards an effective social investment strategy that restores convergence. 3) Dedicated EU budget in support to the SIP and YEI, in which case, success would depend

on the absorption capacity of member states. A fourth scenario would be the contemporaneous implementation of point 2) and 3) in order to accommodate fiscal room for investment to member state needs and specificities.

The experts also recommended reconsidering the possibility of introducing **contractual arrangements**. As outlined before in this chapter, contractual arrangements between a member state and the EU could be implemented in the framework of the Commission’s “Convergence and Competitive Instruments” (CCI). CCI have been disputed for quite some times but a decision has not yet been reached. The discussion derailed because it was very difficult to find out how guidance and commitment for certain reforms would connect with financial support and fiscal capacity. Someone who followed the negotiations put emphasis on capacity, as the missing piece preventing an application of contractual arrangements.

### 3.6. Open questions

#### **On EMU Governance and the European Semester:**

- How to mainstream the social dimension into all aspects of EU policy-making and particularly of the EMU?
- How to make sure that social imbalances within the euro area are addressed with the same stance as budgetary and macroeconomic imbalances?
- To what extent do the European Semester facilitates member states make progress towards the implementation of the Social Investment Package?
- Does the ‘less is more’ approach jeopardize the inclusion of the social dimension into the European Semester and CSRs?

#### **On Social Investment and the Stability and Growth Pact (SGP)**

- Is there room for more generous interpretation of the investment clause within the SGP? Can ‘flexibility’ be applied to social investment even

besides co-funding and contributions to the Investment Plan? Or is there a need to re-open negotiations?

- How to provide tangible support to a far-reaching social investment strategy and securing room to maneuver in those countries under Macroeconomic Imbalance Procedure? Can the European Social Fund be revised to serve that purpose?
- Can contractual arrangements between the EU and member states in the framework of the “convergence and competitiveness instruments” be a tool for upward convergence and a concrete support to the implementation of SIP?

### **On the Stabilization Mechanism to Contrast Cyclical Shocks**

- Is it necessary to revise the treaties in order to have a well-functioning automatic stabilizer or it is possible to move in that direction on the basis of the treaties currently in force? Can it be implemented as a form of enhanced cooperation or bridging clause?
- Should we limit the stabilization and insurance scheme to the euro area or design it for the EU with the greater ambition of boosting convergence and solidarity across the entire Union?
- As the internal market deepens, is there a need to deepen solidarity? Can fiscal capacity make the euro area more of an optimum currency area?
- To what extent should an EU-wide unemployment insurance have a redistributive role within a member state? Should it finance national schemes or complement them?
- Is it possible to find political support for permanent transfers? How to mitigate the moral hazard problem? Would that be more politically viable to have an Interstate Insurance Scheme based on output gaps?



### 3.7. Summary of policy recommendations

- The divergence of European economies is alarming. This creates a threat to both the economic and political stability of the European Union. It is indeed true that restoring convergence is of paramount relevance for the sustainability of the European Monetary Union and the euro area but a strong focus on **policies that foster upward convergence should concern the entire EU and not only the euro area.**
- Social policy remains a competence of member states but the EU should take up a two-fold coordinating role: **1) coordination of member state policies** - by updating social standards and facilitating dialogue and reciprocity among national institutions for social security - and **2) coordination within the activities of the Union** - to ensure that fiscal consolidation and Country Specific Recommendations do not endanger social justice and cohesion in the EU.
- There is a clear need to **mainstream Social Europe within EU policymaking** at all levels. The European strategy for Europe 2020 has to be revised accordingly and should remain at the heart of EU mission. Besides that, existing tools of the European Semester can be used to bring together economic and social targets, particularly for the euro area. The **inclusion of a Social Impact Assessment** to improve on the balance of EU-decision making has been recommended.
- To foster convergence, a fiscal channel, with either temporary or permanent transfers, and a social channel, with an EU budget or EU social security, ought to be utilised. For the creation of an EU budget, building on what exists - cohesion funds, youth guarantee, EFSI - appears to be the most feasible way forward.

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## ANNEX 1 – PROGRAMME OF THE SEMINAR

# A NEW START FOR SOCIAL EUROPE?

19 JUNE 2015 • 09.30 > 15.30

Château de Senningen, Luxembourg

09.30 > 09.40 **Welcoming address** by **Nicolas SCHMIT**, Minister of Labour, Employment and the Social and Solidarity Economy

09.40 > 10.00 **Keynote speech** by **Marianne THYSSEN**, Commissioner for Employment, Social Affairs, Skills and Labour Mobility

10.00 > 11.20 **Round table 1 – Restoring socio-economic convergence between member states in the EU and EMU**

**László ANDOR**, Visiting professor at IEE – ULB, former member of the European Commission

**Maria João RODRIGUES**, Vice-President of the European Parliament

**Bernadette SEGOL**, General Secretary of ETUC

**Chair: Bart Vanhercke**, Director of the European Social Observatory

11.20 > 11.30 **Coffee Break**

11.30 > 12.50 **Round table 2 – Towards a more efficient and fairer labour mobility in the EU**

**Markus BEYRER**, Director General of Business Europe

**Pascal LAMY**, President Emeritus of the Jacques Delors Institute

**Ilaria MASELLI**, Research Fellow at our Economy department, unit Job&Skills, CEPS

**Chair: Jean QUATREMER**, Journalist at *Libération*

12.50 > 14.00 **Lunch**

14.00 > 15.20 **Round table 3 – Investing in human capital and responding to long-term societal challenges**

**Anton HEMERIJCK**, Dean of the Faculty of Social Sciences at the VU University Amsterdam

**Juan MENÉNDEZ-VALDÉS**, Director of the European Foundation for the Improvement of Living and Working Conditions (Eurofound)

**Anna DIAMANTOPOULOU**, President of the “DIKTIO” – Network for Reform in Greece and Europe, former member of the European Commission

**Chair: Michael STABENOW**, EU Correspondent for *Frankfurter Allgemeine Zeitung*

15.20 > 15.30 **Concluding remarks** by **Nicolas SCHMIT**, Minister of Labour, Employment and the Social and Solidarity Economy

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On the same themes...

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**ERASMUS PRO: FOR A MILLION "YOUNG EUROPEAN APPRENTICES" BY 2020**

Delors Jacques, Enderlein Henrik, Lamy Pascal, Letta Enrico, Villeroy de Galhau François, Vitorino António, Baer Jean-Michel and Fernandes Sofia, *Tribune*, Jacques Delors Institute, May 2015

**EMPLOYMENT, MOBILITY AND SOCIAL INVESTMENT:  
 THREE KEY ISSUES FOR POST-CRISIS SOCIAL EUROPE**

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**REFORMING EUROPE'S GOVERNANCE – FOR A MORE LEGITIMATE  
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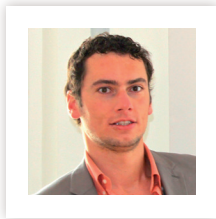
**MAKING ONE SIZE FIT ALL.**

**DESIGNING A CYCLICAL ADJUSTMENT INSURANCE FUND FOR THE EUROZONE**

Enderlein Henrik, Guttenberg Lucas and Spiess Jann, *Policy paper n° 61*, Jacques Delors Institute, January 2013



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# A NEW START FOR SOCIAL EUROPE

As stated by Jacques Delors in the foreword of this report, "if European policy-making jeopardises cohesion and sacrifices social standards, there is no chance for the European project to gather support from European citizens". "The message and concrete actions coming from Europe must change", said also Nicolas Schmit, Minister of Labour, Employment and the Social and Solidarity Economy at the beginning of the Luxembourg Presidency of the Council of the European Union.

This report, commissioned by the Ministry of Labour, Employment and the Social and Solidarity Economy of Luxembourg, focuses on 'Why' a new start for Social Europe is necessary, and on 'How' a new start for Social Europe is feasible. The report identifies three pillars on which the Social Europe project should be grounded: first, an investment strategy in human capital which can set the basis for growth and competitiveness based on social inclusion and resilience; second, an enhanced and fairer labour mobility across EU member states to build a truly European labour market; third, a pro-convergence reform of the European economic governance that can reconcile social and macroeconomic objectives.

For each of these pillars, a first section introduces key challenges and outlines the policy issues at stake. A second section offers an account of the debate, visions and proposals shared by experts and policy-makers who gathered in Luxembourg for the 'A New Start for Social Europe?' round tables, jointly organized by the Jacques Delors Institute and the Ministry of Labour, Employment and the Social and Solidarity Economy of Luxembourg.

The publication aims at fostering debate on making progress toward Social Europe and building up a policy agenda for the coordination of social policies in Europe. It highlights some policy areas where concrete improvements are feasible or more urgent and presents concrete policy recommendations.

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