

The European Social Model(s): Which directions and responsibilities for the EU?

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Teresa Bomba

Notre Europe

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Eur-IFRI

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Presentation and summary of the contributions

PRESENTATION

Economic policy has long dominated the EU's discourse as a result of the Union's strong commitment to foster economic performance. Whereas the implementation of the Single Market Act and the Euro are among the most important institutional achievements at the European level of the past decades, European social policy has made little progress until the first half of the 1990s. From 1957 until the 1990s, social policy had in fact been essentially left to national welfare states. The harmonisation of national social and labour market arrangements was not understood as necessary, as differences in national systems were regarded as sustainable. EU governments saw harmonisation of social corrections in the market at EU level as unnecessary.

The integration process during the 1990s was critically challenged for not including a social dimension, while generating a series of macroeconomic adjustments in most European countries. Certain member states kept pushing for a greater European role in social policymaking. The shared focus, in the first half of the 1990s, was the convergence of concrete policy objectives. The EU Council issued a strong recommendation in 1992 concerning common criteria for a guaranteed minimum income, in the context of a wider debate on the need and desirability of setting common standards for social policy. However, it was only with the Luxembourg process in 1997 that an agreement to coordinate employment policy at the European level was reached. In parallel, a debate on the economic relevance of social protection emerged under the Dutch Presidency that same year. This idea evolved to show that social policy is not by definition and primarily an impediment to economic performance, nor a by-product of economic growth, but rather a productive factor.

Action took place in 2000 with the Lisbon Agenda, which purpose was to fill a gap between European-level economic policies and national-level social policies. In this context, the Lisbon Strategy can be interpreted as seeking a new balance between the social and economic dimensions of European integration. This implies addressing the EU objectives of full employment and social cohesion alongside sustainable growth, competitiveness and fiscal stability. The model adopted for the employment field was followed at the Nice Summit in December 2000 when a decision was reached to advance European social policy by means of a new governance instrument - the open method of coordination (OMC). The emergence of the OMC within the governance architecture of the EU introduces the notion of "soft" law strategies. The major elements of the OMC are: fixing commonly agreed guidelines for the European Union; establishing quantitative and qualitative indicators in each member state in order to compare best practices; setting national targets as a translation of the European objectives into national and regional policies; and periodic monitoring in a process of peer review. It was first applied to fields such as social inclusion and pensions. Later, progress was also made in health care and care for the elderly. Most recently, the mid-term review of the Lisbon Strategy triggered a streamlining of social protection. These policy fields, which had

previously been addressed under separate OMC processes, now share the same time horizon, while greater efforts are made to coordinate them.

As most of the literature concentrates on assessing progress towards meeting the Lisbon objectives, less attention is paid to the direct influence of the strategy's broad objectives and the elements of the OMC in national social policy-making. Yet, it is necessary to take into account the impact of the most recent activities and institutions of the EU if one wishes to understand the contents and challenges of social and labour market policies in individual member states, and consequently of social Europe as a whole. The Open Method of Coordination for social policies in Europe is in fact a back-and-forth interaction between European and national actors. At the member state level, one needs to consider the domestic mechanisms of adaptation for evaluating the significance of the tool at the EU level.

How competences are shared between member states and the Union implementing social reforms gives rise to significant differences among member states and a certain level of heterogeneity. The definition of objectives and the monitoring of results belong to the EU level. The means and design of its implementation are left to the arbitrary capacity of each member state to adapt its labour market and social institutions, to promote employment, and to develop innovative arrangements to face the new needs and security demands in a context of rapid change. As a result, the social dimension of European construction is still little known and understood at member state level.

Setting aside the discussions on the existence of a European Social Model (ESM) or the presence of different national models in Europe, we need to address the balance between the goals of economic prosperity and social well being on which the European welfare states are based, as this balance is currently under threat.

The reasons invoked to support this view are diverse: while some would stress internal causes such as demographic trends, changes in family structures, and current working relations, others tend to blame external forces, in particular globalisation. According to the political options suggested, the diagnosis can be more or less radical. For some we face a crisis, which can be overcome through reform. Others advocate a total rupture given the obsolescence of the system as a whole. In employment for instance, the first would argue for flexicurity, while the second would be in favour of greater flexibility. Europe wide, the different views on the present social situation are even more diverse. Some talk about the deepening of inequalities, the persistence of significant unemployment levels, a breakdown in social mobility, precariousness of employment, and the individual frailty of the most vulnerable. Others emphasise a general improvement in living conditions, an increase in average income levels, and a wider access to services such as education and health.

While at the EU level some solidarity mechanisms have been improved, with the emergence of the European social dialogue and cohesion policy, others have not made much progress, in particular tax competition and the weak cooperation in economic policy. Concurrently, the reforms put forward at national level have followed an individual rather than a common frame,

while new member states, subject to economic transition requirements, have occasionally brought a different perspective to the debate.

With this context in mind, Notre Europe and Eur-Ifri's workshop on the European social model aimed to contribute to the search for a better balance between economic growth and social needs. More specifically, the purpose of the workshop was to identify new directions and responsibilities for the European Union to modernise the European Social Model.

- What can be done under the present stalemate in Social Europe?
- Which degree of diversity and divergence can Europe sustain?
- How can Europe ensure that future social protection systems are socially adequate and financially sustainable in all Member States?
- Is cooperation under the Lisbon process sufficient?
- Does tax competition undermine national social policies?
- Pressures for an update of the foundations of today's Social Europe may include a discussion on minimum European standards. As with working conditions, the promotion of gender equality and the equality of treatment for the disabled, is there room for new social minima? Is the renovation of the method of 'packages' desirable?

These are some of the crucial questions defining the future of Social Europe, which the workshop and this summary seek to address.

Summary

TRENDS IN INEQUALITIES AND POLICIES - INDIVIDUAL TALKS

ASSESSING TRENDS: ARE SOCIAL INEQUALITIES RISING WITHIN COUNTRIES?

Jean Peyrelevade, former head of Suez, UAP and the Credit Lyonnais, identifies modern capitalism with the idea of "dissociated capitalism", organised as a gigantic listed company. Listed companies correspond to a significant part of total GDP. Shareholders worldwide represent approximately 300 million people, most of whom in developed countries - 50 percent are in the United States, 25 percent in Western Europe, and 15 percent in Japan, who control the total global stock market capitalisation. Nationally, 50 percent of the American population holds shares, 20 percent in Europe. The capitalist system follows a single criterion: shareholders' interest. The distinctive feature of this new type of power is that it is legitimised under a democratic process. The opposed power is frail and weak. It is non-active, and most disturbingly non reactive.

Peyrelevade points out that the present capitalist system is unsustainable. The present global imbalances are neither sustainable nor equitable. It creates fundamental imbalances, where too much power is given to capital and shareholders (listed companies' are increasing their influence and activity at a high rate). Current pressures on listed companies are becoming unsustainable, as there is little margin for further sustaining 15 percent of profit earning with a growth rate of 3 percent.

Peyrelevade argues that we are living under a capitalism dictatorship, where the temptation of the Anglo-Saxon model is high. Europe can be better equipped to correct imbalances in this respect, although neither the European political power nor the Commission are aware of the dimension of such power. Worldwide, the general attitude towards capitalism is positive. It is seen as a engine for growth and economic prosperity, if run under a certain degree of political control.

Peyrelevade concludes by advocating that the question of the scope of power held by shareholders needs to be further investigated.

François Martou, Professor at the Université Catholique de Louvain and former President Belgian Mouvement Ouvrier Chrétien focuses on trends in education inequalities and the link between education, training and economic objectives in Europe. According to Martou, education inequalities have remained constant in the EU, showing that European countries are facing serious difficulties in improving social mobility through their education systems. Although there is evidence of a positive link between the educational level and employability, where a successful path through the education system would lead to employment, tertiary education in Europe is not a guarantee of employment. This simple fact, says Martou, is the evidence for an urgent call for a project to better support the transition from education to the

labour market. Furthermore, inequalities are not solely present within countries. They are high between EU countries as well, which emphasises the European dimension of the problem and the need to address it at the European level.

The unemployment rate in European countries is on average twice as high among young people (15-24 years old) than that of the total working age population. On the one hand, expectations towards the returns on higher education are lower, though in principle an increase in the average level of education of the population would correspond to an improvement for the population as a whole. On the other hand, the barriers to young and poorly qualified people entering the labour market have increased significantly in the last decades, which make their inclusion in society increasingly difficult. Martou argues that the solution for the dual problem of the qualification of the younger population lies in the transition between school and employment.

The first stage of the European project would focus on the association between a solid basic education and training. As inequalities of access to training are present in several member states, where training is accessed mainly by those with a higher level of education, the second stage would involve a high investment in ensuring training and in promoting life-long learning. Martou suggests that European incentives should be developed in order to promote higher equality in the whole of the supranational territory, through enhanced cooperation and associating it to economic objectives and a concrete budget.

The starting point of **Daniel Vaughan-Whitehead**, principal advisor to the International Labour Organization, focused on the characteristics of the European social model (ESM). According to him, the model exists and it has been reinforced over the past few years. It is a social model with common elements, values and instruments. It is from the different national practices and experiences that the European model derives its substance and strength. For him, the field of employment and working conditions is characterised by a strong acquis communautaire, which has not ceased to develop in several directions. The European Employment Strategy has also allowed introducing employment questions in the heart of the European Agenda. However, new forms of work while gaining relevance in most European countries need to be addressed urgently.

The recent enlargement has had a significant impact on this edifice. The new countries present sharp differences in working conditions, and the economic and social levels are significantly disparate between new and older member states. Eastern countries present a high degree of informal economy, lower levels of employment, and considerable regional disparities in employment and unemployment levels. Unemployment is a new phenomenon, already assuming significant proportions especially of long-term unemployment. The younger working age population, both highly and low qualified, is vastly affected. This illustrates the imbalance between demand and supply in the labour market, making evidence of greater needs in terms of educational and training policies. Most countries evidence higher economic growth levels than in the EU15, though not directly resulting in employment growth and increases in income from work. Furthermore, the frail social dialogue has allowed a shift towards independent work

associated to inferior access to training, collective agreements, and labour law. For Vaughan-Whitehead, we are here at the heart of the diversity from which we should be deriving the strength of the ESM.

Four European instruments can play a major role in the improvement of employment conditions in Europe:

- 1. Legislation where there is a gap between the harmonisation of the *acquis* communautaire, community directives, and national practice, particularly in health and security at work. It has proven difficult to impose new legislation in some countries. The Social Charter, which frames the fundamental rights in employment and working conditions, should play a major role in this field.
- 2. The Open Method of Coordination for employment, which is still far from playing fully its role in an enlarged Union. For this method to become more effective, the new specificities of the member states should be integrated in order to allow greater adequacy between common employment objectives and the new member states' situation, such as the size of the informal economy, or the differentiated access to employment, education and training.
- 3. The structural funds should support more strongly the employment strategy. The allocation of EU budget resources should be reviewed in the European budget. The new member states have not yet fully benefited from the structural funds, as they require.
- 4. Social dialogue: today, tripartite instances are present in most member states, although there should be a greater effort to improve the use of collective negotiations and bipartite negotiations between unions and employers, particularly at the local level.

Vaughan-Whitehead also offers three general remarks for Europe's employment policy. First, greater flexibility has been introduced in European labour markets, giving rise to a replacement of the traditional risk of unemployment to higher insecurity in employment. Yet, this has come about with significantly higher costs on employment quality and on access to quality employment. An aspect of the Lisbon objectives, which is often neglected, is the question of how we can convert this higher job creation into employment of higher value added and higher quality for the labour force. Second, flexicurity is a positive starting point to answer the need to make the labour market more flexible while guaranteeing a certain level of security for employees. Under recent employment policy trends, however, this notion has emerged as the panacea to modernise labour markets, while a clear imbalance in favour of flexibility is taking place. Finally, the increased mobility and free movement of workers has brought about greater transparency to the labour market. However, it has also resulted in a replacement of the labour force and an increase of informal employment.

Vaughan-Whitehead concludes by arguing that the European social model is an example to be followed in other parts of the world. One of the keys in discussing future perspectives for the ESM is the weakly explored complementary nature between Europe and the international level.

DESIGNING POLICIES: SOME SUCCESS STORIES. WHAT CAN TAX AND JOB CREATION POLICIES DO?

Kenneth Nelson, Assistant Professor at the University of Stockholm, addresses the question of convergence in social policy across EU member states. Two pressure processes are currently at work that require the restructuring of social policies in advanced European market economies. The first is the internationalisation of trade, capital, and labour, often referred to as economic globalisation, which pushes the reorganisation of the welfare state into a more market friendly direction. The other is the creation of a supranational organisation in Europe – the EU, raising the question of how to balance economic integration and supranational regulations with national social policy legislation. In this respect, we would expect the assimilation of social arrangements to be higher between European countries, than for instance among OECD countries, suggesting the idea of convergence of their institutional models.

The development of social insurance programmes in fourteen countries, the majority of which from the European Union, allows the identification of five main configurations of social insurance provision: the targeted model, which only applies in Australia and New Zealand, the voluntary state subsidised, exclusive of unemployment benefits in some EU countries, the state corporatist, the basic security and the encompassing. The basic security model provides relatively modest benefit levels. Benefits are usually flat rated, or if earning-related the earnings ceilings are very low. It exists in two different types, where eligibility is either determined on citizenship (generally corresponding to full coverage) or on contributions. In the state corporatist model, social insurance is fragmented across occupations and eligibility is determined by occupation and contributions, providing relatively high degrees of income security. Finally, in the encompassing model, which is the result of a combination between the basic security and the state corporatist models, eligibility is based on citizenship. There are basic benefits for those not in paid work, and for the economically active benefits are earnings related. The basic security model exists in the UK, Denmark and the Netherlands. The state corporatist model is present in Belgium, Germany, and continental European countries. The encompassing model is developed in Finland and Sweden.

According to Nelson, countries can be subject to convergence pressures in various ways:

- Because political decision-making is lacking in policy fields where authority has been ceded to the EU.
- Because of constraints on political decision-making in policy fields where authority is still at the national level, but dependent of policies where authority has been handed over to the EU. This may take the form of unintended convergence. The example can be the Maastricht criteria, which in some cases force countries to reorganise their social protection systems.

 EU non-binding policy recommendations, which sometimes result in social policies emulating cross-nationally. This is the case with the OMC, where member states participate in benchmarking activities and identified best practices.

If there is evidence of convergence, the interpretation to be given is that of unintended convergence.

Data analysis shows that the development of social insurance since the mid-1980s is characterised by retrenchment and cutbacks in benefits in Europe and elsewhere. Yet, the degree of retrenchment varies significantly according to the institutional configuration of social insurance. The most severe cuts are found in the basic security countries such as the UK, where earnings-related supplements have been abolished, and benefits were made taxable without raising the initial gross levels. And, Denmark and the Netherlands, for instance, have not upgraded the maximum income ceiling for benefit purposes, giving rise to an erosion of benefits, especially for those with higher levels of income. Portugal, Spain and Greece are ambiguous welfare states. They are characterised by generous social pensions but are the least developed in other areas, they have also known cutbacks in recent years. The state corporatist model seems to be the less vulnerable to cutbacks.

Nelson concludes that, despite the general trend in benefits and cuts, the result is not clear convergence in social insurance schemes. We can still identify all models across Europe. Some of the changes introduced in the 1980s and the 1990s have even reinforced the distinctive nature of these models.

Henri Sterdyniak, Professor at the University of Paris IX – Dauphine, analyses taxation issues, in particular the current tension in Europe between individual countries desire to preserve taxation autonomy and Europe's increasing uniformity, which is the result of increasing free movement of people, goods and capital. Tax incidence in Europe is high, corresponding on average to 40 percent of income levels. The equivalent in Japan and the USA is approximately 25 percent. For Sterdyniak, the rationale behind high levels of taxation in Europe is redistribution, which is widely supported and crucial for the European Social model.

Sterdyniak argues that the ESM is currently under threat, for two main reasons. The first is political as the neo-liberal ideology threatens to supplant social democracy. Governments are seeking to reduce corporate taxation, which all taken together makes difficult the organisation of taxation across Europe. The second is globalisation. While countries compete with one another, under increasing limited options for taxation, companies are able to choose their production site in a member state with more favourable taxation. Consequently, member states' ability to impose taxation is slowly being eroded.

Sterdyniak distinguishes three possible directions for the EU:

- The EU could choose to make taxation levels more uniform as integration progresses in order to facilitate companies' adaptation to differing national taxation systems. As most national governments continue expressing their willingness to keep their respective autonomy, unification appears to be impossible.
- 2. The EU could opt to let competition between member states rule, as is the case today. The risk associated with this strategy is that it does not deliver what European citizens expect. Simultaneously, it will undermine the ability of member states to tax mobile factors of production, and wealth.
- 3. Alternatively, the EU could promote fiscal coordination. Subsidiarity would still be applicable, but when necessary harmonisation would also be possible. This strategy requires a tax by tax agreement on minimum tax rates to ensure some form of coordination. If this strategy is not followed, the freedom of movement of goods and persons to countries with very low tax rates must be limited, says Sterdyniak.

So far, there has not been a free-market shift. Overall taxation rates range from approximately 45 percent in Scandinavia and France, to about 35 percent in Southern Europe, the UK and the new member states. However, taxation on heritage and accumulated wealth in some countries is being reduced. Several new member states have also opted for a flat rate tax with very low taxation rates even for higher incomes. These countries are seeking to attract research, business, and high individual incomes through a tax avoidance scheme. The ESM explicitly requires higher taxes on higher incomes, and the correction of imbalances in wealth distribution across the population. For Sterdyniak, countries choosing to keep high taxation levels should be entitled to retaliatory measures, and here the EU can make a difference. Currently, the most harmful tax competition takes place in corporate taxes. The reduction in corporate tax rates, especially in some countries, is artificially attracting profits earned in other countries. The EU should promote the negotiation of tax rates and agreements on minimum rates.

Furthermore, European social welfare contributions are high in Europe, and are likely to increase in the coming years as a result of ageing and increasing demand for health care. In a number of countries, it is also essential to increase family and child allowances. Harmonising social protection in Europe is certainly not an option. However, minimum standards could be defined, in order to avoid unfair social competition Although main social contributions in Europe are earnings-related, reform in taxation systems should be envisaged to impose taxation on other sources of wealth, company profits, accumulated wealth, private income, or even to create new taxes such as an environmental tax.

To conclude, Sterdyniak sums up by saying that Europe faces two basic options. Either to choose to preserve a strong European social model with high levels of taxation, and a focus on Europe's comparative advantage in education, health and social services. Or to move towards a more liberal system, where under the absence of coordination between taxation systems, countries will be pressured to go down the road of lower taxation.

The main purpose of **John Morley**, Professor at the University of Nottingham Business School, is to show how high levels of social performance are part of a high-level of economic performance. When discussing the social model it is important to go back to the social policy agenda of Nice and the triangle between social, employment and economic policies, in which social action is part of the effort to develop a competitive Europe. The links between economic and social policies are, he argues, presented today as pushing in opposite directions instead of being reinforcing, and "much more needs to be done to go through the arguments", he says. This point can be illustrated by three simple arguments on competitiveness, employment performance and the quality of employment in the EU.

For Morley, there is often a high degree of confusion in the way European competitiveness is determined. First, there seems to be a kind of macro view of what is a business friendly environment. This is the sort of thing Davos and the World Economic Forum do. For these forums high levels of public spending are valued negatively in their criteria of ranking best performing countries. Europe is commonly accused of having problems of competitiveness. Yet, if we take trade performance, Germany, for instance, has a trade surplus, which is equal in relative terms to the U.S. deficit. Another aspect of European competitiveness is productivity. In Europe, the hourly productivity rate is around 90 percent of that of the USA. Remembering that the EU includes countries, which are still catching up, the more developed economies actually exceed on average the USA.

The second analysis shows that employment performance in Europe is not as far from the performance of the USA as it is usually portrayed. The employment rate in the United States is 70 percent, where EU15 is just bellow 65 percent, and 70 is the Lisbon target. If these gross figures are adjusted so that they translate part-time work into full-time equivalents, two things are worth noticing:

- within the EU, the Netherlands and the UK levels of employment drop dramatically. On the other hand, if we take a descending order in terms of full-time equivalents, among the top ten performers, we find Cyprus, Slovenia, Czech Republic and Estonia. This shows that differences between old and new member states are too often overstated.
- comparing employment rates by gender and age group in the USA and Europe, the most striking thing is that the employment rates of men (aged 25-55) are almost identical. The main difference is in the group over 55. People in the USA continue to work, while in Europe the employment rate falls very rapidly.

The conclusion is that the EU is generating jobs for the core working age population. We see this even more so in the case of women, where in the USA women work across the whole age spectrum. Hence, the gap between the EU employment rates and the US are attributable to this age and gender distribution.

The third shows that the reason why some countries achieved high levels of employment and quality employment goes back to their education systems and social policies and their labour market systems, as well as their ability either to have dynamic macroeconomic policies or to be able to explore the opportunities of the prevailing macro policy. Small economies have done well in the EU in recent times, and the problem of Europe is that its macroeconomic policies respond to the needs of the large economies. There is also a clear impact of education on earnings levels, and the ability to participate in the workforce. People with low education levels not only will be earning low pay, but only work 25 out of those 40 years. At the other end, there are people with higher education, which on average work around 35 years with much higher levels of pay.

For Morley, the open method of coordination has had an enormous impact so far, particularly where countries were extremely isolated to design their policies and look about their relative performances. Moreover, it is also true that when problems occur, countries worry. Hence, the EU is indeed having an important role in strengthening employment and social policies.

Morley concludes by referring to the core issues on the EU agenda. First, it should concentrate on setting the record straight regarding the cost of EU social systems, and also on the reality of labour market flexibility. In addition, it should address the rescaling of the workforce to massive restructuring of the economy.

THE ROLE OF THE EUROPEAN UNION – PANEL DISCUSSION CHAIRED JOINTLY BY TOMMASO PADOA–SCHIOPPA, PRESIDENT OF NOTRE EUROPE AND PIERRE DEFRAIGNE, DIRECTOR OF EUR–IFRI

IDENTIFYING THE ROLE OF THE EUROPEAN UNION: REVIEWING THE EUROPEAN SOCIAL CONTRACT

Isabelle Cassiers emphasizes three sets of facts: (1) inequalities are increasing in several European countries as a result of unemployment and of unprecedented financial pressures on the wage/profit distribution in the GDP whereas mobility through education is diminishing; (2) cuts in social insurance benefits go along with a deterioration of the distributional role of the national taxation systems; (3) frail EU responses both at macroeconomic level (Eurozone) and at the structural level (the Lisbon Agenda). She wraps up the morning session findings in a five-prong structure.

How can we prevent market forces from triggering a race to the bottom in European social protection?

How can we provide a counterbalance that guarantees some degree of political control over the economic dimension?

How do we promote high quality growth, while respecting the environment and promoting equality and higher levels of employment?

Should growth become an objective in itself?

Does it bring maximum well-being to the greatest number of people in Europe?

Isabelle Cassiers strongly feels that Europe needs to improve rapidly the co-ordination of all policies at the EU level. Above all, she argues, the EU needs a different vision for Lisbon, one that promotes a central European project rather than a plain benchmark exercise.

The panellists identified several strategies to ensure the preservation of Europe's social dimension, given the current pressures on the European social model and recent trends analysed in the earlier sessions:

- 1. Provide better support for the transition from education to the labour market: François Martou calls for a project to support the transition from education to the labour market. Initially, this project should focus on the association between a solid basic education and training. The second would involve higher investment in training and promoting learning along the life cycle. Martou suggests that European incentives should be designed to promote higher equality at the supranational level, through enhanced cooperation combined with economic objectives, and a concrete and ambitious budget.
- 2. Ensure quality employment through flexicurity: Vaughan-Whitehead argues that success in job creation has come about in Europe with significant high costs on employment quality and on access to quality employment. In his view, the Lisbon objectives should not neglect the question of how to convert this higher job creation into employment of higher added value and higher quality for the labour force. Flexicurity is a starting point. It answers the need to render the labour market more flexible while guaranteeing employees a certain level of security. However, Europe should also take into account that this notion has emerged as the panacea to modernise labour markets, while a clear imbalance in favour of flexibility has been taking place in recent years. Other speakers supported this idea. Vladimir Spidla suggests that flexicurity should be one of the axes for a common economic and social reform to be pursued in Europe. Emmanuel Julien, in turn, emphasises that one of the purposes of benchmarking is to provide solutions for common reform among member states. In this perspective, flexicurity, a more equitable solution according to the Danish experience, should be experimented in Europe under a commonly agreed policy convergence framework. He adds that there is no serious risk of scaling social protection downwards in European countries. The level of employee protection has continued to rise, and covers ever-greater rights, he argues.
- 3. **Promote fiscal coordination**: bearing in mind the subsidiarity principle, **Henri Sterdyniak** recommends the introduction of moderate degrees of harmonisation in taxation. The aim is to pursue a strategy of fiscal coordination, involving a tax by tax

agreement on minimum tax rates. The starting point can be corporate tax rates, where minimum standards should be defined, to avoid unfair social competition in Europe. Reform in taxation systems should also include taxation on other sources of wealth, company profits, accumulated wealth, private income, or even the creation of new taxes such environmental taxes, as a complement to earnings-related social contributions. Under the absence of coordination between taxation systems, countries will be under pressure to lower taxation levels, and move towards a more free-market system.

- 4. Develop current European employment and social policies: more broadly, John Morley insists on the idea that the EU has an important role in strengthening employment and social policies. While referring to the core issues on the EU agenda, he suggests that Europe clarifies concretely the costs generated by EU social systems, and the reality of labour market flexibility. In addition, the EU should address the rescaling of the workforce to massive restructuring of the economy. Henri Malosse, on the other hand, defends the idea of reinforced cooperation as a direction for giving the OMC a new "élan". Europe has options which it has not fully capitalised on. Joint policies and the OMC should be taken to their logical conclusion, and used for setting common objectives. The major obstacle he sees in this respect is member states' lack of political will.
- 5. Correct the imbalance between the political and economic dimensions: Emiliano Gabaglio argues that Europe needs to rediscover a forward looking political perspective, rather than see itself primarily in economic and monetary terms. The social dimension is at the heart of this project. Unless we revive Europe's project as part of a social and political union, as well as an economic and monetary union, it will be very difficult to ensure quality growth and our own economic development in the future, says Gabaglio. Already growth was not just seen as an economic dimension in the Lisbon strategy. Julien considers that there is a false question on the control over the economic process. The economy is returning power to the system and the social partners. There is European power today with the European Parliament, the Commission and the European Economic and Social Committee. What Europe is missing is political leadership, and a clearer division of competence between the EU and the national level.
- 6. Reform the European model: for Emiliano Gabaglio, Europe has to make a choice between maintaining a social model and opting for an increasingly free-market economy. If the European social model is at stake, it is the whole compromise in which European prosperity, well-being and civilisation has been built which is questioned. The focus should not be on its preservation, but in reforming the system in order to ensure its survival, and to maintain redistributive and active social policies. He is in favour of some degree of reform to compensate the impact of slow economic growth on the financing of social policies. The social dimension, which requires substantial growth, requires that the economic dimension should be addressed first. Europe needs to take

advantage of macroeconomic policy to build social policy, and there is still a missing pillar to create genuine economic and monetary union. Commissioner Spidla acknowledges that Europe needs to work harder to conduct economic and social reforms, to improve the quality of governance and the responsibility of the partners. Emmanuel Julien shares the view that the responsibility of social partners should be reinforced. The state should give more competence and legitimacy to civil society. He argues that although all actors want a balance between the social and the economic dimensions and believe that the two can reinforce each other, it is behind this idea that there is ambiguity. The suggestion that there exists a consensus today on the balance between the economic and social spheres is false. Since there is no debate in Europe on the scope of competition, there is no real social contract, no real responsibility. Michel Hansenne further adds that Europe has chosen a unique approach, but it is far from assuming all the responsibilities with the historical engagement of solidarity and enlargement.

7. Enforce Europe's role of counter power: Jean Peyrelevade's contribution points in this direction. He argues that we are presently living under a capitalism dictatorship, where the temptation to follow the Anglo-Saxon model is considerably high. In this respect, Europe is better equipped to correct imbalances. Even though, he says, neither the European political power nor the Commission are aware of the dimension of such power. Michel Hansenne shares the opinion that the EU has an important role in acting as a counter power, particularly in the international sphere. An extra effort should be made to move forward much more deliberately than in the past, with strong mechanisms for world governance.

Concluding Remarks

FROM CONFLICT TO COMPETITION: ON THE CRISIS OF THE EUROPEAN SOCIO-ECONOMIC MODEL

Tommaso Padoa-Schioppa is President of Notre Europe, President of the International Accounting Standards Committee, and Counsellor of the Institute of International Affairs (Rome). His earlier appointments include: member of the Executive Board of the European Central Bank (1998-2005), Deputy Director General of the Banca d'Italia (1984-1997), Chairman of the Commissione Nazionale per le Società e la Borsa (1997-1998), and Director-General for Economic and Financial Affairs at the Commission of the European Communities (1979-1983). He graduated from Luigi Bocconi University, Milan, Italy, in 1966, and received a Master of Science from the Massachusetts Institute of Technology.

Is European growth really as bad in Europe as people say or think? *The Economist* published a few weeks ago a little box which sets out the difference between the first official data against the final revised data on growth between the USA and the EU. If we compare European growth with American growth on the first figures

European Growth: things are better than they appear

which come out and compare them with definitive figures, the gap between European and American growth is half of what it appears to be. This illustrates the optimism built into the US data and the pessimism built into the EU data, which accounts for fifty percent of the perceived difference in growth. If we apply the statistical method of estimation of the quality of GDP, or other such methods, this difference can be further reduced. Unsurprisingly, if we take GDP per capita rather than the growth rate of GDP, we see that a third of the difference is also eliminated. In the end, the growth rate of per capita income is basically identical over the past six years in Europe and the United States.

Another important issue to be addressed is the quality of economic growth. An important part of US growth is dedicated to military expenditure, individual security expenditure, and energy waste. Therefore, if one were able to calculate growth on the same footing, European growth is higher than growth in the United States. The idea is not to lull ourselves into a sense of false security in any way, but we should be able to make precise and fair comparisons. Furthermore, we need to ask ourselves, which is the growth rate the richest part of the world is willing to hold in the present world framework, and in a sustainable perspective. All this does not prevent us from having a social dimension. It is conceivable to have higher social equality and a reinforced social concern, with all growth levels, including a very slow growth rate.

When aiming for more growth in Europe, three solutions can be suggested: two can be ruled out as illusory, only the third is worth pursuing.

More growth for Europe: from illusions to action

The first illusory solution would be to return to the old "each man for himself" approach, and to act as if there was no Single Market, no European Union, and that, if the Single Market and the EU indeed did not exist, European growth would be much greater. Part of the economic patriotism and championing of national issues we have witnessed recently has

to do with this illusion. It is perhaps true that the growth effect generated by the process of liberalisation spurred by the Single Market has not produced its full effect. It is also true that the growth generating effect of the Single Market is not infinite, as will eventually run out of steam. However, there is no evidence that if we destroy the Single Market, we will have more growth.

The second illusion is macroeconomic: we are told that the European Central Bank (ECB) should have the same status as the Federal Reserve. This has not been spelled out explicitly, but one can hear it in the undertones: "if there was no Stability and Growth Pact, one would be able to stimulate growth more effectively" seem to suggest some people. I do not believe that macroeconomic stimulus could achieve more than it is currently doing. As concerns monetary policy, the two percent rate of the European Central Bank, which has lasted for two years and a half, is the lowest rate we have witnessed since Bismarck left power in Germany. When there was recession in Germany, immediately after the First World War, the Bundesbank rate was higher than the ECB's under a period of slow growth. At present, the situation is still one of growth rather than recession.

The third - more constructive - is to strengthen Europe along two lines. We first need to complete the transition from a "war frame of mind" to a "competition frame of mind". We then need to develop positive policies at the EU level. What does it mean to move from a logic of war to a logic of competition? Economists find it difficult to draw a line between conflict and competition. When we talk of fiscal competition, some say

Strengthening Europe: from conflict to competition

that certain types of fiscal competition could more properly be called conflictual, while others refer to them as legitimate competition. When we talk about social dumping we know that some retrenchment of the social safety net is a hostile act, while others consider it as part of legitimate competition.

The idea remains that there are several areas in Europe in which we do not have competition but conflict. Brussels is the place where competition is managed and organised. It is also the place where the cartels meet in order to prevent it, and the distinction between the two is not easy to draw. There are many areas, including social protection, where more competition would be desirable, and it is the absence of competition, or the failings of that competition, which are hindering growth. The same applies for positive policies. If we look at the list of areas in which the treaties grant competence to community policies - such as energy, research, and transportation - none have been fully developed, essentially because the cartels have been stronger than the authority which would have been able to stimulate them. The situation of land transportation between Germany and France today continues to be consistent with the idea that one day there may be a war between those two countries. It is impossible, for instance, to come to Paris from Frankfurt on a regular basis by road or rail, only the airways are open. If we had the type of transportation network there is in France through-out the European Union, we would be able to take a train in Frankfurt and within two and a half hours arrive in Paris. The reason why this is not easy is that transport policy is not properly activated. The same applies to research, to armament, and to energy. We need more

competition and we need more common policies. In fact, we have competition where we should be having cooperation, and we have cooperation where we should have competition. This is why the construction of Europe is not as far advanced as it could be, and it is not advanced to the point where it could push growth.

The next issue is the nature of the growth crisis, if such a crisis exists, and whether the crisis lies in the political arena, rather than in the economic field. The nature of the crisis is political: cartels are stronger than the desire to stimulate competition. And when we refer to a European crisis as being an economic one, we are wrong. It is true that if we would have more growth in Europe, if the climate was improved, there would be more positive results. But, this is not the cause or the nature of the crisis. Economics are not to blame.

When dealing with the European social, we often tend to speak a great deal about growth. The question of why we insist talking about this issue each time the social model is the focus of attention is unclear. Does it mean that in the presence of growth, there would be no reason to discuss the social model? Can one not exist without the other? Is there a trade-off between the two?

Growth and the European social model

My personal feeling is close to the underlying assumption behind the question: "how can we prevent a race to the bottom in European social protection induced by market forces?". This reveals our concerns and the idea of an eventual trade-off. In order to have more growth we suspect and fear that there will be less social protection. This is a false idea. When we talk about the social model in quantitative terms, and then ask how much social protection is compatible with growth, one might fear that this quantum is lower in the context of increasing globalisation. The essential element linking social protection to growth is the quality of the protection rather than its "quantity". If you move from one social protection model - or from certain social protection institutions - to another, there will always inevitably be winners and losers. And those who are likely to be the losers will come together to protect the old social model. That is the real difficulty we are facing. However, if we start talking in terms of the quality of the distribution of social protection within a given society, then you are denying the major element of growth.

One simple reason allows us to speak of a European social model. To my knowledge, the list of national tasks defined under Social Policy is nowhere else greater than the list defined in Europe, which covers among other issues health, pensions and unemployment. States' responsibilities (not local communities, cooperative or private initiative) have no comparison in Europe with those in the USA or Asian countries. They are characteristic of European societies and economies. They are founded on historical grounds: there have been wars, there has been nationalism, there has been the construction of Europe, and taken our shared history there are things we do not wish to repeat, and things we wish to continue with. The way in which one carries out these tasks varies widely from one country to another, and, this in turn, means that the social model is adapted to circumstances in different countries. That, however, does not diverge from the notion of a European social model as a whole.

A better understanding of the distinction and links between growth and the social model remains to be reached.

The problem is one of conflict of interests inside a single country, rather than a conflict between interests of different countries. Governments are not strong enough to overcome internal resistance of the interests, which would be the losers if the blockages were removed. This is primarily a problem for big countries. It is the big countries, which maintain the illusion of self-sufficiency. Small countries perform, on average, better than bigger countries. Because the cost of the illusion of self-sufficiency is very high, there are fixed costs, which operate independently of the size of the country, and the illusions have been dropped by the smaller countries, which have gained from it. The big countries see no point in changing this system. They continue to dream their dream. And the small countries profit from their realism. It is a

bit of a caricature, but not totally without truth.

Conclusion





WORKSHOP on

The European Social Model(s): Which directions and responsibilities for the EU?

9 March 2006, Brussels

European Economic and Social Committee (99, rue Belliard - Brussels)



Interpretation FR | EN and EN | FR

Programme

9.15 – 9.30					
Welcome	Henri Malosse, President of the section "Employment, Social Affairs and Citizenship", European Economic and Social Committee				
Opening	Thierry de Montbrial, President of IFRI and Tommaso Padoa- Schioppa, President of Notre-Europe				
Session I	Assessing trends: Are social inequalities rising within countries?				
9.30 – 11.00	Income Inequalities: "Pressure from the global financial sphere on the real sphere: impact on inequalities" Jean Peyrelevade, former President of the Credit Lyonnais				
	<u>Educational inequalities</u> François Martou, Professor at the Université Catholique de Louvain, former President of the MOC				
Coffee Break	Employment inequalities Daniel Vaughan-Whitehead, Principal advisor to the International Labour Organization on working conditions and employment and wage policies				

Session II

Designing policies: Some success stories. What can tax and job creation policies do?

11.15 - 13.00

Efficiency/equality through active social policies

Kenneth Nelson, Research Fellow at the Swedish Institute for Social Research (SOFI), Assistant Professor at the University of Stockholm

Taxation in EU

Henri Sterdyniak, Director of the globalisation economics department OFCE, Professor at the University of Paris IX - Dauphine

Job creation policies

John Morley, Professor at the University of Nottingham Business School

Lunch Break

Session III

Identifying the role of the European Union: reviewing the European social contract

14h30 - 16h30

Moderator

Tommaso Padoa-Schioppa, President Notre Europe

Rapporteur of the Morning's sessions

Isabelle Cassiers, Professor at the Université Catholique de Louvain

What can the EU do to prevent the unravelling of the social model?

Vladimir Spidla, European Commissioner for Employment, Social Affairs and Equal Opportunities

Panellists

- Michel Hansenne, former Director-General of the ILO
- Anne Van Lancker, member of the European Parliament (Socialist Group)
- Emilio Gabaglio, Former General Secretary of the European Trade Union Confederation
- Emmanuel Julien, Deputy Director of Social Affairs, Employers Confederation (MEDEF)
- **Henri Malosse**, President of the section "Employment, Social Affairs and Citizenship", European Economic and Social Committee

Conclusion 16h30-17h00

Tommaso Padoa-Schioppa, President of Notre-Europe

In partnership with:



SPEAKERS AND PANELLISTS

Isabelle Cassiers

Isabelle Cassiers est Professeur d'économie à l'UCL et chercheur qualifié du FNRS. Elle est aussi membre du Conseil central de l'économie et de l'Institut pour un Développement durable. Ses domaines de recherche privilégiés sont l'histoire économique et sociale et la macroéconomie institutionnelle. Parmi ses publications récentes on relèvera : *L'État social actif, vers un changement de paradigme ?* (co-direction avec P. Vielle et Ph. Pochet), PIE-Peter Lang 2005, 357 p. ; *Politique monétaire et croissance économique en Belgique à l'ère de Bretton Woods* (1944-1971) (en collaboration avec Ph. Ledent), Banque Nationale de Belgique, 2005, 224 p. et « De l'État providence à l'État social actif : quelles mutations sous-jacentes ? » *Regards économiques*, IRES-UCL, novembre 2005, n°36, 15 p., http://regards.ires.ucl.ac.be/.

Emilio Gabaglio

Emilio Gabaglio est professeur dans l'enseignement supérieur. Il accède à la direction de la CISL italienne en 1974. Elu conseiller général en 1977 et secrétaire national en 1983, son engagement dans les affaires européennes le conduit à la CES, dont il devient le secrétaire général en 1991, fonction dans laquelle il a été confirmé en mai 1995 et juin 1999.

Michel Hansenne

Michel Hansenne est docteur en droit de l'Université de Liège où il a commencé en tant que chercheur avant de se lancer dans une carrière politique. En 1974, il devient membre du Parlement belge. Il occupe plusieurs postes ministériels dans le gouvernement belge : ministre de la Communauté française d'avril 1979 à décembre 1981 ; ministre de l'Emploi et du Travail de décembre 1981 à mai 1988 ; ministre de la Fonction publique de mai 1988 à mars 1989.

En 1989, M. Hansenne devient le huitième Directeur général du BIT et est réélu pour un second mandat en 1993. En 1999, il a publié "Un garde-fou pour la mondialisation".

En 1999, M. Hansenne devient membre du Parlement européen.

Emmanuel Julien

Directeur Adjoint des Relations sociales au MEDEF (Mouvement des Entreprises de France), Emmanuel Julien représente le MEDEF auprès de l'UNICE (l'organisation patronale européenne), de la Commission européenne et des organisations syndicales. Pour cela, il propose les actions du MEDEF, définit les mandats de négociation et les actions de lobbying relatives aux projets de directives communautaires. Il est membre du Bureau de la

Commission sociale de l'UNICE et Président du Groupe de travail sur la responsabilité sociale de l'entreprise. L'UNICE est la principale organisation d'entreprises au niveau européen. Elle est constituée de 39 organisations nationales provenant de 33 pays européens et elle est présidée par Ernest-Antoine SEILLIÈRE.

Anne Van Lancker

Anne Van Lancker est sociologue. Elle a commencé en tant que chercheuse scientifique au HIVA (Hoger Instituut voor de Arbeid : institut supérieur du travail) en 1978-1979. Assistante en sociologie du travail à l'Université Catholique de Louvain (1979-1984), elle est cadre du service d'étude du CEIEV (centre d'étude et de documentation de l'Institut Émile Vandervelde) de 1984 à 1988, puis collaboratrice du groupe SP de la Chambre des représentants (1988-1989), chef de cabinet adjointe du ministre flamand de l'emploi (1989-1990), chef de cabinet du ministre flamand de l'emploi et des affaires sociales de 1989 à1994. Députée européenne (depuis 1994), elle est membre de la commission de l'emploi et des affaires sociales, de la commission des droits de la femme et de l'égalité des genres.

Henri Malosse

Henri Malosse est président de la section "Emploi, Affaires Sociales et Citoyenneté "au Comité Economique et Social Européen. Il est directeur conseiller pour les affaires européennes auprès de la Présidence de l'Assemblée des Chambres Françaises de Commerce et d'Industrie (ACFCI); administrateur du Cercle des Délégués Permanents Français à Bruxelles; membre du Comité Economique et Social Européen (CESE), membre du Bureau, président de la section ECO "Union économique et monétaire, cohésion économique et sociale"; vice-président de l'association européenne des PME du Parti Populaire Européen.

Il est co-auteur de plusieurs ouvrages, dont *Unifier la Grande Europe* (avec Bernard Huchet).

Henri Malosse est aussi conseiller en Europe de l'Est sur les réformes économiques et le développement de la société civile ; membre du comité d'orientation du Centre des Etudes Européennes de Strasbourg (CEES) auprès de l'ENA à Strasbourg.

François Martou

François Martou est professeur émérite à l'Université Catholique de Louvain et administrateur de cette université. Il a présidé une coordination d'Organisations sociales en Belgique (Mouvement Ouvrier Chrétien). Il a aussi présidé de 1990 à 1996 le Conseil de l'éducation et de la Formation de la Communauté française de Belgique. Il a été régent de la Banque Nationale de Belgique de 1992 à 2001.

Thierry de Montbrial

Thierry de Montbrial est directeur fondateur de l'*Institut Français des Relations Internationales* en 1979. Il est professeur titulaire de la chaire *Economie appliquée et relations internationales* au Conservatoire National des Arts et Métiers depuis 1995 et professeur à l'Ecole Polytechnique depuis 1974. Depuis décembre 2003 il est également président délégué du Conseil de Prospective Européenne et Internationale Pour l'Agriculture et l'Alimentation. Il est président du *Centre franco autrichien pour le rapprochement économique en Europe* (depuis 1985). Né en 1943, Thierry de Montbrial est ancien élève de l'Ecole Polytechnique, docteur en économie de l'Université de Berkeley (Californie) et ancien ingénieur général au Corps des Mines.

John Morley

John Morley is a Special Professor at the University of Nottingham Business School in the UK, where he works on a range of policy issues, including globalisation and structural adjustment. He is an economist by training, who has taught economics and statistics at universities in the UK and the US, and been a member of the UK government economic service. He has also worked in industry, journalism and politics. Until autumn 2003, John Morley was Adviser to the Director-General of Employment, Social Affairs and Equal Opportunities in the European Commission, working with Commissioner Anna Diamantopoulou. He had previously been Head of the Employment Task Force set up to develop and implement the Delors White Paper on Growth, Productivity and Employment, and was closely involved in the launch of the Lisbon strategy. He is currently in the process of preparing a new report on 'The State of the World Economy'.

Kenneth Nelson

Kenneth Nelson is assistant professor in sociology at the Swedish Institute for Social Research, Stockholm University. He is specialized in comparative welfare state research, and has written several articles on social insurance, minimum income protection and poverty. Currently he is head of a research project on poverty dynamics in Canada, Germany, Sweden, the United Kingdom, and the United States. He is also engaged in a project on globalisation, the European Union, and the convergence of social policy.

Tommaso Padoa-Schioppa

Tommaso Padoa-Schioppa est président du Groupement d'études et de recherches Notre Europe. Diplômé de l'Université Luigi Bocconi (Milan, 1966), il est également titulaire d'un Master en Science du Massachusetts Institute of Technology.

Il fut auparavant Secrétaire adjoint du Comité Jacques Delors pour l'étude sur l'Union Economique et Monétaire (1988-1989) ; président du Comité Consultatif Bancaire de la Commission des Communautés européennes (1988-1991) ; du groupe de travail sur les systèmes de paiement des Banques Centrales de la Communauté européenne (Institut

Monétaire européen, 1991-1995); du Comité de Bâle sur le Contrôle Bancaire (1993-1997); du Comité régional européen de l'International Organization of Securities Commissions (IOSCO), qui comprend 34 membres (1997-1998); du Forum of European Securities Commissions (FESCO, 1997-1998); et du "Committee on Payments and Settlement Systems" du G10 (2000-2005).

Il est enfin l'auteur de nombreux ouvrages et articles.

Jean Peyrelevade

Polytechnicien, Jean Peyrelevade a été directeur adjoint du cabinet de Pierre Mauroy de 1981 à 1983. Longtemps professeur d'économie à l'Ecole polytechnique, il a dirigé successivement les plus grandes institutions financières françaises : Stern, Suez, l'Union Assurances de Paris et le Crédit Lyonnais. En 1991, il fonde, en compagnie de Philippe Herzog, Jean-Pierre Brard, Jean-Christophe Le Duigou et Michel Rocard le think tank "Confrontations Europe". Ancien chroniqueur à l'Express, Jean Peyrelevade est l'auteur de plusieurs ouvrages sur l'évolution du capitalisme contemporain, notamment Le capitalisme total (2005). Depuis octobre 2004 il est associé gérant de Toulouse et Associés, Banque d'Affaires.

Vladimir Spidla

Vladimir Spidla est un homme politique tchèque, de sensibilité social-démocrate. Il est commissaire européen chargé de l'emploi, des affaires sociales et de l'égalité des chances dans la Commission Barroso depuis le 22 novembre 2004.

Il étudie à l'Université Charles de Prague où il obtient une maîtrise à la faculté des arts libéraux et des sciences en 1974 et un doctorat en histoire et préhistoire en 1976. Elu député en 1996 (président de la commission parlementaire de la politique sociale et des soins). Il devient ministre de l'emploi et des affaires sociales en 1998-2002. De 2002 à 2004, il est Premier ministre, mais contraint à la démission après un lourd revers subi par son parti, le CSDP, aux élections européennes de juin 2004. Cette même année il est nommé à la Commission européenne, chargé de l'emploi, des affaires sociales et de l'égalité des chances.

Henri Sterdyniak

Diplômé de l'Ecole Polytechnique et de l'ENSAE. Henri Sterdyniak dirige le Département "Economie de la Mondialisation" de l'OFCE (Observatoire français des conjonctures économiques), Paris, et est Professeur à l'Université de Paris-Dauphine. Il a publié de nombreux articles en macroéconomie, politique économique, économie monétaire et Internationale, économie européenne, questions sociales et budgétaires. Il a dirigé de nombreux rapports pour des institutions françaises ou internationales. Il est membre du comité directeur de l'Association Française de Sciences Economiques.

Ses recherches se concentrent sur : Mondialisation, économie internationale, taux de change, politique monétaire et budgétaire, coordination des politiques économiques, questions européennes, macroéconomie, fiscalité, protection sociale, retraites.

Daniel Vaughan-Whitehead

Daniel Vaughan-Whitehead est docteur ès sciences économiques de l'Institut Universitaire Européen de Florence.

Membre du groupe des conseillers de Jacques Delors à la Commission Européenne à la fin des années 80, il a conseillé, de 1991 à 1999, les gouvernements mais aussi les partenaires sociaux de 16 pays d'Europe centrale et Orientale à partir de l'équipe de l'OIT (Organisation Internationale du Travail) basée à Budapest. De 1999 à 2003, il met cette expérience au service de la Commission Européenne, où il est responsable du dialogue social dans le processus d'élargissement.

Aujourd'hui, il est en charge des politiques salariales et des conditions de travail et d'emploi auprès de l'OIT à Genève. Il est l'auteur du récent ouvrage 'l'Europe à 25 : un défi social' publié par la Documentation Française.

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