

# WHAT KIND OF SOCIAL EUROPE AFTER THE CRISIS?

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Notre Europe - Jacques Delors Institute (NE-JDI) and the Calouste Gulbenkian Foundation organised an expert seminar on 3 December 2013 entitled “What Kind of Social Europe After the Crisis?”.

The seminar was introduced by Isabel Mota, a member of the board of directors of the Calouste Gulbenkian Foundation.

The first panel, chaired by David Natali (senior research fellow at the European Social Observatory), addressed the issue of “The new European economic governance: what consequences for national employment and social policies and which role for the social partners?”. It included speeches by Andrée Debrulle (a member of the Belgian CSC trade union), José Silva Peneda (president of the Economic and Social Council of Portugal), Sotiria Theodoropoulou (senior research fellow at the European Trade Union Institute) and Frank Vandenbroucke (former Belgian Minister for Employment and Social Affairs).

The second panel, chaired by Sofia Fernandes (senior research fellow at NE-JDI), focused on the theme of “What social initiatives for Europe?”. It included speeches by Pervenche Berès (president of the European Parliament’s Employment and Social Affairs Committee), Anton Hemerijck (dean and vice-rector of the Faculty of Social Sciences at the VU University in Amsterdam), Catarina Tavares (international secretary of Portugal’s UGT) and Laurence Weerts (member of the cabinet of the Commissioner for Employment, Social Affairs and Inclusion).

The seminar wound up with an address and a debate with László Andor, the European commissioner for employment, social affairs and inclusion.

This synthesis rounds up the main ideas introduced and debated in the course of the event. The document is divided into six parts:

1. Social Europe’s place in the European integration project;
2. The EU’s action in the social sphere: From “hard law” to “soft law”;

3. A set of initiatives for employment in Europe;
4. Increasing social investment at a time of tighter budgets;
5. Endowing the EMU with a social dimension;
6. Social dialogue under strain.

## 1. Social Europe’s place in the European integration project

### 1.1. The need to strengthen social Europe, and the difficulties involved

Social policies, as Jacques Delors has pointed out on numerous occasions, are a matter of national jurisdiction. Yet despite that, there are several reasons justifying the fact that in the course of the European integration process the EU has developed a set of tools in the social sphere - financial assistance, legislation or coordination mechanisms - which allow us today to talk about a “social Europe”. This “social Europe” has developed as a factor to compensate for the establishment of the single market and of the deregulation policies that go hand in hand with it, as Pervenche Berès pointed out. Thus this social Europe aims to cushion the negative impact of economic deregulation on national welfare states and to prevent social competition among member states.

Above and beyond the issues involved in economic integration, Andrée Debrulle pointed out that Article 9 of the TFEU specifies 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 human health”. Catarina Tavares stressed, in this connection, that social Europe must promote respect for basic social rights throughout

Europe, with the aim of improving its citizens' living and working conditions. That must be the cement holding the European project together and making it sufficiently attractive for it to become something more than just a group of countries united by economic interests. So social Europe does not have only a functional justification linked to economic integration, it has also a political justification, as several speakers pointed out in the course of the seminar.

Anton Hemerijck stressed that, in the current political context, it is a source of concern to see mainstream parties – social democrats and Christian democrats – defending the traditional welfare state against pressure from far right-wing and radical left-wing parties, and refusing to countenance either a transfer of powers to Europe or improved coordination of their social policies. They are tempted to say: “We are sovereign in the social sphere”, yet social imbalances and inter-country interdependence are effectively calling that absolute sovereignty into question.

José Silva Peneda noted that the European project was based on a sentiment of sharing and of commitment linked to the preservation of peace and to the search for economic prosperity. But today that sentiment of sharing and of commitment has gone into abeyance. Unless this drift is corrected in time, there is a danger of destroying the legacy left to us, a legacy consisting of sixty years of European integration. Silva Peneda stressed that Europe needs a new narrative, a vision for the future.

### 1.2. Solidarity at the heart of the European project

Frank Vandenbroucke pointed out that solidarity lies at the very heart of the European project. Indeed, the EU is based on the notion of a dual solidarity. On the one hand, one of the aims of the European project is to contribute to economic growth and prosperity so as to allow welfare states to prosper: thus, the European integration is expected to contribute indirectly to social cohesion in all EU countries. On the other hand, the EU also aims to contribute to pan-European cohesion through upwards convergence among member states. This “bidimensional” notion of cohesion presupposes a dual solidarity.

This European solidarity, however, has been coming under pressure since the 2000s; and this, for two main reasons. Firstly, EU enlargement between 2004 and 2007 has brought into being a very heterogeneous

Europe, particularly in terms of social choices and of salary levels. In this context, upwards convergence is threatened by the risk of social competition. Secondly, monetary integration has increased the need for solidarity among countries sharing the same currency. Thus we have a situation which is more complex on account of enlargement, and at the same time the need for solidarity has increased on account of the strengthening of economic and monetary integration.

In addition, the crisis has now come to worsen the tension surrounding European solidarity, because one of its consequences is a growing divergence among member states, especially within the euro area, between north and south or between the core and the peripheral countries. Frank Vandenbroucke pointed out that the example of the unemployment rate among young people is frequently used to illustrate this divergence, but child poverty illustrates it just as well. These divergences must become “a matter of common concern”. There is a European responsibility which needs to be acknowledged. The irony of the situation is that, while solidarity is more necessary than ever before, by the same token today's divergence makes it far more difficult to strengthen the solidarity that Europe needs.

### 1.3. What kind of social Europe in a time of crisis?

In the debate on social Europe in a time of crisis, Anton Hemerijck began by identifying four different stages since the start of the global financial crisis.

The first stage, with a kind of “fire brigade”, was very Keynesian, with some flanking social investment policy. Yet while the automatic stabilisers played their role in this initial phase, it is worth highlighting the fact that the primary objective in this phase was to prevent the collapse of the financial system, which led to numerous, costly bank bail-outs.

The second stage began with the explosion of the sovereign debt crisis in Greece, which led to an intrusive turn towards austerity and to a strengthening of fiscal surveillance through the Six-Pack, the Fiscal Compact and the Two-Pack.

The third stage began in 2012, when the economic, social and political limits of austerity became clear, thus paving the way for a transition period.

And lastly, in 2013, the new stage materialised as an attempt to “socialise” Europe’s economic governance, by affording priority to the fight against unemployment among young people (see § 3), by introducing the “social investment package” (see § 4 and by triggering a debate on the social dimension of the EMU (see § 5).

There are numerous challenges facing social Europe today. Five main issues emerged in the course of the debate at the seminar. First of all, the EU needs to make its contribution to tackling the social consequences of the crisis. Secondly, economic integration must be accompanied by a strengthening of safeguards for social rights. Thirdly, monetary integration and increased economic integration within the euro area need to be matched by the definition of a stronger social dimension. Fourthly, the EU needs to contribute to the modernisation of national social models by placing the stress on the social investment model. And last but by no means least, European social governance must be strengthened, in particular by taking a fresh look at European social dialogue.



## 2. The EU’s action in the social sphere: from “hard law” to “soft law”

### 2.1. European labour rights: the struggle against social dumping

Pervenche Berès stressed that one of the reasons for strengthening social Europe is that the EU is often resented by its citizens, not to mention by national political authorities, as an area given to “social dumping”. Thus it is necessary to ensure that inter-country competition within the EU does not lead to a “race to the bottom” in social standards. So European labour law must aim to set a lowest common threshold among member states. But above and

beyond legislative measures, it is necessary to consider other initiatives such as, for instance, developing an elite unit in the sphere of labour inspection, Pervenche Berès argued. This kind of idea, designed to ensure compliance with European regulations, must be explored in greater depth. This applies, for example, to worker posting, a field in which infringements are extremely common and occasionally project a negative image of European legislation.

### 2.2. National social and employment policies in the context of the new European economic governance

Since 2010 member states – in response to EMU’s weaknesses highlighted by the sovereign debt crisis – have adopted a set of new rules, mechanisms and procedures which have strengthened fiscal and macro-economic surveillance within the EU, and more especially within the euro area: the European semester, the Six-Pack, the Euro-Plus Pact, the Treaty on stability, coordination and governance (TSCG) and the Two-Pack.

While this reform of Europe’s economic governance has not been expressly designed to strengthen the European institutions’ powers in the social and employment spheres, it has indirectly achieved that. As Sotiria Theodoropoulou pointed out in this connection, the new economic governance is based on a philosophy built on the market and the emphasis is on promoting competitiveness, ensuring flexibility and achieving budget consolidation. Thus the coordination of economic policies is heavily geared towards member states’ current accounts, which means that social policies are consequently sidelined. Sotiria Theodoropoulou pointed out that there has been very little debate of any kind on redistribution or on social cohesion.

Naturally, not all countries are suffering from the same constraints on their social and employment policies associated with Europe’s economic governance. We can in fact distinguish three different situations. Firstly, those countries that are not under excessive deficit procedure or excessive macro-economic imbalance procedure have virtually no constraints on their social and employment policies. Secondly, those countries that are under excessive deficit and/or excessive macro-economic imbalance procedure have a few constraints, which tend to translate into an obligation to achieve certain results (for instance, ensuring the viability of their pension

system) rather than into an obligation concerning their means. And lastly, the new economic governance has witnessed the emergence of a new class of country, namely those that benefit from financial aid from the European Financial Stability Facility/ European Stability Mechanism (EFSF/ESM) and are thus under an adjustment programme. These countries have not only an obligation of results but also a means-related obligation. As Sotiria Theodoropoulou pointed out, these countries are bound to comply with a tight timetable for the implementation of the reforms and measures demanded of them, an obligation which goes way beyond the guidelines received by the other member states in the context either of the European semester, through “country-specific recommendations”, or of the excessive macro-economic imbalance procedure. These countries have had to pursue painful domestic devaluation processes, within which social and employment policies have frequently been used as adjustment variables. This has translated, for example, into pressure to reform health and pension systems, or the revising of job protection laws to make it easier to dismiss workers. In Portugal’s case, as Silva Peneda argued, after two and a half years of reforms and an enormous amount of belt-tightening on the people’s part, the results in terms of growth, budget consolidation and employment are frankly disappointing.

Where European governance in the social sphere is concerned, Frank Vandenbroucke stressed that we should not aim to adopt a “one size fits all” approach, yet there are three ideas worth taking into consideration. Firstly, we need a balanced macro-economic coordination approach offering countries in difficulty sufficient room for manoeuvre to allow them to address their social imbalances. Secondly, in the context of the European semester, it is essential for countries opting for a social investment strategy to have the necessary room for manoeuvre and the necessary support for them to be able to do so. And lastly, where EU guidelines are concerned, we need targets that are sufficiently strong and sufficiently binding. It is not a matter of defining new targets because in fact they already exist; all we need to do is to strengthen the Europe 2020 strategy’s targets. And all of this has to be achieved, of course, within a framework of compliance with the principle of subsidiarity, in view of the various member states’ different starting points.

### 3. A set of initiatives for employment in Europe

#### 3.1. The “Employment package” of 2012

One of the crisis’ most important social consequences has been a major increase in the unemployment rate in certain member states. Thus the priority afforded to the issue of employment at the European level has been strengthened, while in fact jurisdiction in that area is primarily at the national level.

In this connection, the Commission adopted an “Employment package” in April 2012 that included a series of guideline documents examining the overlaps between European policy in the sphere of employment and in other spheres, in an effort to foster smart, sustainable and inclusive growth. This package identifies the most promising sectors in terms of job creation and the most effective means for EU countries to create more jobs. Laurence Weerts stressed that the peculiarity of this package is that it proposes a new employment policy paradigm at the European level in three complementary ways. Firstly, the “Employment package” takes job creation into account by emphasising the need to boost the demand for labour – when the Commission’s work up till then had focused rather more on the labour supply side. Secondly, the package adopts a truly global approach to questions relating to the labour market dynamic in the European framework by presenting the European market, within which the mobility issue is crucial, in the singular. And lastly, the package places the issue of bolstering governance in employment policy at the very heart of this communication – a novel approach for the Commission, although the European Parliament and Council had already aired their views on the need to strengthen governance in this sphere on more than one occasion in the past.

Regarding the role that the EU can play in helping to create jobs, Catarina Tavares pointed out that it is necessary to go further at the European level than has been the case to date, particularly in the context of the Compact for Growth and Jobs (see Box 1). What is needed is an investment programme capable of stimulating growth and of creating jobs. To boost European businesses’ competitiveness, the UGT’s international secretary stressed that it is necessary

to make a far greater commitment to green energy and to energy efficiency.

**Box 1 – The Compact for Growth and Jobs, June 2012**

The EU's heads of state and government, meeting at the European Council in June 2012, adopted a "Compact for Growth and Jobs" designed to boost the competitiveness of Europe's economy by stimulating growth, investment and job creation.

Some 120 billion euro were earmarked for rapid growth measures:

- The EIB's capital was increased by 10 billion euro, thus boosting its overall lending capacity by 60 billion euro. This capital hike was accompanied by the pledge that the EIB's loans would be granted to the more vulnerable countries.
- Unspent structural funds (55 billion euro) were reallocated to measures in favour of small and medium enterprises and of employment for young people.
- A pilot phase for the new "project bonds" (5 billion euro) was launched for initiatives in energy, transport and broadband infrastructure.

**3.2. Initiatives for youth employment**

Six months after publishing its "Employment package", the Commission introduced a "Youth employment package" designed to address the specific issue of jobs for young people, in view of the fact that young people have been particularly hard hit by the current crisis and that this has led to the youth unemployment rate being far higher than that of the active population overall.

This "Youth employment package" contains an important initiative, the "Youth Guarantee", which aims to ensure that no young person stays unemployed, out of training or without an internship for longer than four months. In order to implement this initiative successfully, it was immediately followed by the adoption of a specific financial instrument known as the "Youth employment initiative" (six billion euro in the next multi-annual financial framework is to be allocated, in 2014/2015, to the struggle against youth unemployment). Pervenche Berès pointed out that this initiative is something of an innovation in the context of the Commission's initiatives and that it may be the embryo of a new European approach in the social and employment spheres.

Laurence Weerts stressed that the initiative must be accompanied by other measures, especially where apprenticeship, internships and mobility are concerned. The mobility issue is a key issue in the current situation because, while it can be acceptable as

a mechanism of "adjustment by the market" in the event of a cyclical shock, it cannot be allowed to turn into a permanent solution. Catarina Tavares, for her part, pointed out in this connection that the rise in youth unemployment conceals a major increase in youth emigration. Thus several countries are seeing their young people – often highly qualified young people – emigrate, leaving behind them an ageing population and a demographic void which is going to make itself felt in the next few decades.

**4. Increasing social investment at a time of tighter budgets**

**4.1. The challenge of modernising national welfare states**

Frank Vandenbroucke and Anton Hemerijck pointed out that national social models were already coming under pressure before the crisis, but that the crisis has increased that pressure. In this connection, the representative of Portuguese trade union UGT highlighted the fact that social spending in countries under an aid programme has been used as an adjustment variable, which has translated into a drop in spending on social services, health and education. This has had an impact on the most vulnerable members of the community because they are the ones who depend most heavily on public spending. Thus rather than modernising welfare states to respond to the dual challenge of effectiveness and of funding, the European social model is actually well on the way to being sacrificed to economic demands.

Anton Hemerijck argued that, in view of the growing number of single-income households and of poor workers, and in view of the difficulties that the jobless are having to face today, it is urgent to decide whether it is better to bolster social protection or to offer better services to these citizens in difficulty and to their families. That would mean shifting towards a social investment policy, as has already been done in several countries which have put their money on active labour market policies, on good childcare services and support for the elderly, on labour market flexibility or on lifelong training. This does not entail abolishing protection in favour of investment, but simply changing the traditional forms of social protection. Anton Hemerijck dwelled at some length on the fact that social protection must not be pitted against social investment – the two things are far

from incompatible, indeed social investment must represent a new kind of social protection. Also, the figures show that certain services – the health and education systems in particular – have just as much of a redistributive effect as transfers.

In addition to this issue, Catarina Tavares stressed the fact that, in view of the pressure on the funding of national welfare states, member countries should strengthen the common instruments in the struggle against tax evasion and fraud, both of which have a very negative impact on national public account and thus on national economies. At the same time, the EU must adopt initiatives designed to curb fiscal competition among the EU countries. Greater fiscal convergence is needed, in particular through the adoption of common minimum tax rates (for instance in the field of corporation tax) to be applied in all of the member states.

#### 4.2. The social investment paradigm

The European Commission introduced a “[Social investment package](#)” in February 2013 which, as Laurence Weerts pointed out, urges member states to afford priority to social investment in favour of growth and cohesion, and to modernise their social protection systems (see Box 2).

According to Anton Hemerijck, the social investment proposal is based on the notion that we can have *employment-intensive growth*. The idea is that if we wish to increase the level of employment, we have to allow families to have more than just one member taking part in the labour market; that requires good childcare services, parental leave and flexibility in the workplace for part-time activities, among other things. Also, a good education policy is essential in order to boost productivity. These are key elements if we are to have improved social protection.

In his book entitled *Changing Welfare States*<sup>1</sup>, Anton Hemerijck presents calculations showing that, if a country makes strong lifelong investments in its stock of human capital, its labour force’s output increases, as does its labour market participation rate; thus countries fund their welfare state by investing in the future taxpayer.

#### Box 2 – The European Commission’s “Social investment package”

In February 2013 the European Commission introduced its “Social investment package”, in which it urges member states to modernise their social protection systems and to afford priority to social investments. This package offers member countries guidelines for developing more efficient and more effective policies for overcoming the major difficulties which they currently face, in particular rising unemployment, poverty and social exclusion. In addition to those, an ageing society and a drop in the population of working age are sorely testing the social system in every member state.

The package is a framework for integrated action which takes into consideration the social, economic and fiscal differences that exist among the member states, and which:

- gives EU countries guidelines for using their social budgets in a more efficiently and effective manner so as to ensure appropriate and sustainable social protection;
- aims to bolster people’s current and future capacities and to improve their chance of playing a role in society and in the labour market;
- focuses on integrated packages of benefits and services that help people throughout their lives and achieve lasting positive social outcomes;
- insists on prevention rather than cure so as to reduce the need for benefits and to thus have sufficient resources to help those who really need it;
- calls for investing in children and young people in order to boost their opportunities in life.

None of this is exactly revolutionary, but it is fairly different from traditional social protection and from the stress laid to date on job protection. Even though raising the retirement age or the issue of labour market flexibility are sensitive topics, Anton Hemerijck issued an appeal to trade unions to get involved in the debate on this transition towards welfare states more strongly pegged to social investment, while also adopting a life course perspective in order to optimise opportunities for everyone. We have to accept that we are going to live longer than in the past, and more flexibly (especially when one’s children are young, and before retirement). In her capacity as a national trade-unionist, Andrée Debrulle voiced her disappointment that the social partners have not formulated a response to the proposals contained in the Commission’s “Social investment package”. She also expressed her disappointment that the Commission has not encouraged the social partners to do so by asking the Social Dialogue Committee to focus on these issues. A more pro-active stance on the European institutions’ part would certainly help the social partners to shoulder their responsibilities with greater ease and to get involved in this debate, Andrée Debrulle argued.

Anton Hemerijck insisted on the fact that social investment is not synonymous with deregulation or with labour market flexibility. Social shock absorbers are needed in the shape of an effective and fair social protection system. The financial crisis has shown that economic stabilisers perform better in Europe than they do in the United States, but they also perform better in the northern countries than they do in the southern countries. We must draw our conclusions from this.

#### 4.3. The EU's and member states' attitude towards social investment

The problem with the social investment idea has often been identified as the absence of a consistent support base. This idea should be politically attractive, yet we cannot help but note the absence of initiatives, particularly from left-wing parties which should be eagerly seizing the opportunity. In the view of Anton Hemerijck, the example of countries that have already made this transition shows that the argument does not hold water. Moreover, in an ageing continent, watching over young people and the aged, bearing in mind that young people must have good prospects and that the aged must be able to rely on the young, is what people want to hear. This is a concept that must prove capable of rallying European *mainstream* parties.

Pervenche Berès, for her part, confirmed in regard to this same topic that there is still a great deal of work to be done in the social investment sphere to persuade member states of the changing mindset and approach to social spending. Pervenche Berès argued that each country needs to ask itself questions regarding the renewal of its social protection system, and that should include a transition from distribution to investment. Numerous players, including at the European level, have not yet understood what that means, because if the concept had been understood, the Stability and Growth Pact would never have been devised the way it was, according to Pervenche Berès.

In view of this difficulty in promoting social investment policies, the question arose in the course of the seminar as to whether there is a problem concerning EU's contribution to this change of paradigm, because despite its "Social investment package", the EU still has not found either the right way

to communicate on this issue or the right way to support countries that wish to move in that direction.

According to Anton Hemerijck, the EU's experience in terms of issuing guidelines and monitoring national policies could produce results in this field in the context of strengthened procedures. In order to build a support base, it is necessary to place the man in the street at the very heart of the social investment concept and to ask what we can offer him. One should start with the aspirations and expectations of the man in the street, and those aspirations and expectations certainly include, among other things, employment, education and the ability to reconcile the personal and professional spheres.

## 5. Endowing the EMU with a social dimension

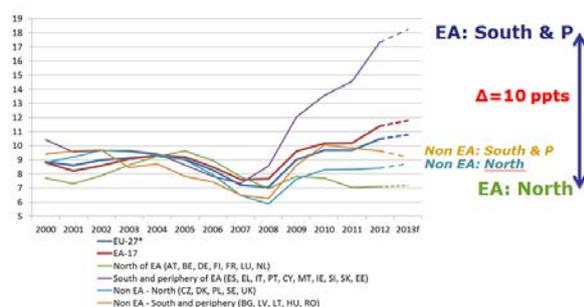
### 5.1. Economic, functional and political arguments in favour of a strengthened social dimension in the euro area

The Thyssen Report on the future of the EMU<sup>2</sup> published in November 2012, stressed the fact that the four pillars of the EMU identified in the Van Rompuy Report<sup>3</sup> - namely the fiscal, banking, economic and political pillars - needed to be completed by a social dimension proper to the euro area so as to ensure that a redressed balance is struck between the economic and social dimensions. The heads of state and government recognised that fact at the European Council in December 2012 and called on Herman Van Rompuy to submit a report on the social dimension of the EMU in 2013.

There are three main arguments justifying the definition of a strengthened social dimension within the euro area.

First of all, as Laurence Weerts and Pervenche Berès pointed out, the growing divergence between member states is threatening the stability of the common currency area and thus it demands a common response. This divergence is particularly visible in a number of social parameters, particularly in the unemployment rate. Graph 1 provides an illustration of the phenomenon: while the gap between those countries with a higher unemployment rate and those with a lower unemployment rate stands at ten percentage points within the euro area, it stands at only one percentage point for countries which are not members of the single currency.

Graph 1. Growing Polarisation in the euro area – unemployment rate (%)



Source: European Commission, cabinet of the commissioner for employment, social affairs and inclusion

Using the terms adopted in monitoring macro-economic imbalances, Frank Vandenbroucke pointed out that social imbalances within the euro area need to be addressed as “excessive imbalances” because they are as dangerous as budgetary excesses or as excessive macro-economic imbalances. Thus excessive social imbalances must be given greater consideration and be better built into the European semester and into the recommendations that the Commission issues to each member state. Frank Vandenbroucke added that we cannot separate the economic sphere from the social. Along similar lines, Laurence Weerts pointed out that as the monitoring of fiscal and macro-economic imbalances is stronger within the euro area (in particular, because sanctions are applied only to that group of countries), it is reasonable to argue that the monitoring of social imbalances should also be stronger within the euro area.

In addition to this initial argument, there is also a functional argument associated with the constraints enforced by membership of the single currency. This is because euro area member states no longer have available to them the two most important instruments for addressing a cyclical shocks. On the one hand, they can no longer resort to the exchange-rate instrument because monetary policy is in the hands of the European Central Bank (ECB), which needs to base its decisions on the overall situation in the euro area rather than on the situation in any single member country. And on the other hand, countries have only limited room for resorting to automatic stabilisers on account of the ceilings set under the Stability and Growth Pact. Thus, as both national and European trade union representatives argued in the course of the seminar, the inability to resort to currency devaluation has led to a policy of internal

devaluation which has been very tough on the man in the street in those countries under adjustment procedure, and this only helps to increase the social imbalances among countries. Thus new instruments are required to address this vulnerability on the part of euro area member countries.

And lastly, there is a political argument which also needs to be underscored in order to justify this social dimension of the EMU. If the euro is perceived as a threat to national welfare states (which does happen in countries benefiting from an assistance programme, where social policies and social spending have been used as adjustment variables), the man in the street will be unable to back the project. Thus this social dimension is also required to “reconcile” citizens with a project which should be perceived as bringing prosperity to its member states and to their citizens.

In an attempt to fuel this reflection on the social dimension of the EMU, the Commission issued a communication on the subject in October 2013<sup>4</sup>. One of the Commission’s primary constraints in this work on the social dimension of the EMU, as Laurence Weerts pointed out, was that in order to submit initiatives capable of being fairly rapidly implemented, it had to remain within the framework of the existing treaties. Thus it had to root its work in existing legal bases in the spheres of employment and of social affairs, while doing so in the full knowledge that the latter are somewhat limited.

Naturally, several speakers insisted on the fact that this EMU dimension must not be perceived as an alternative, but rather as a complement, to a social Europe at the EU28 level. It is indeed at the level of the EU28 that the issues of social rights associated with the single market or the issues of economic and social cohesion still need to be addressed.

## 5.2. Strengthening the coordination of social and employment policies

One of the crucial factors proposed by the Commission in the context of its mandate and of existing legal bases is a stronger coordination (in the furrow of its “Employment package”) of employment and social policies. The Commission suggested strengthening procedures already in place by adopting a scoreboard of social indicators designed to identify the most important imbalances in social and

employment-related terms. This scoreboard includes five major divergence indicators (see Box 3), in other words indicators of problems which threaten the EMU's economic stability and which are macro-economic in magnitude. While some of the five indicators focus on specific groups (the jobless, the poor), others concerning household income and inequality are of particular importance because they provide a "snapshot" of society as a whole, as the adviser to Commissioner László Andor pointed out.

**Box 3 – Indicators in the social indicators scoreboard**

The social scoreboard proposed by the European Commission in its Communication on the social dimension of the EMU comprises the following five indicators:

- Unemployment rate (%)
- Unemployment rate among young people and NEETs ("not in education, employment or training") (%)
- Changes to households' gross disposable income
- Poverty risk rate among 18-64 year olds (%)
- Inequality indicator

The adoption of this scoreboard will make it possible to achieve a better balance between economic and social concerns in the context of the European semester, because it will be built into the joint report on employment that is due to be adopted by the Council. Thus the scoreboard will become part of the new economic governance, and it will be taken into account, in particular, in the country specific recommendations.

Having said that, Pervenche Berès pointed out that when one looks at the Eurostat figures for the three social targets enshrined in the Europe 2020 strategy, one cannot help but reach the conclusion that countries have backtracked compared to their starting point in 2010. In this connection, Catarina Tavares stressed that in countries benefiting from an assistance programme, the Europe 2020 strategy's targets have been thwarted by the measures implemented under their fiscal consolidation programmes, which have led to a rise in the unemployment rate, in the poverty rate and in inequality, and have had a negative impact on working conditions.

Thus strengthening the instruments that the EU has available to it for monitoring the real situation and for identifying social imbalances is unquestionably a good initiative in itself, but it then remains to be seen how the resulting analysis is used. The EU must

not confine itself to simply monitoring, it has to be involved in the action, as Sotiria Theodoropoulou pointed out. In Pervenche Berès's view, it is not enough for these indicators to be taken into account in the annual recommendations that the Commission issues to each member state, the indicators also need to be taken into account in the procedure for monitoring macro-economic imbalances.

Speakers voiced the fear that the social dimension of the EMU might be restricted to this initiative involving social indicators, a fear that was to be borne out a few weeks later by the deliberations of the European Council of 19 and 20 December 2013. As Frank Vandenbroucke stressed, this result is disappointing in consideration of the fact that the debate on the EMU's social dimension has been ongoing for a year, although as the former Belgian employment minister pointed out, a little progress is better than no progress at all.

**5.3. Defining social benchmarks/standards**

Laurence Weerts highlighted the fact that the aim of the Commission's Communication on the social dimension of the EMU is also to strengthen benchmarking, the idea being to identify a methodology allowing to have more social standards, in particular along the lines of what has been done with the "Youth Guarantee".

In this connection, Pervenche Berès proposed two pathways for achieving new social standards within the EMU. The chair of the European Parliament's Employment and Social Affairs Committee stressed the need for a minimum wage in accordance with a common rule that would tailor the actual amount to the economic situation in each country, which would help to foster overall demand in the euro area. And at the same time, we also need to ask ourselves questions regarding the issues involved in setting a minimum income.

**5.4. A solidarity instrument for structural reforms**

The issue of solidarity mechanisms within the euro area is another key question in the social dimension of the EMU.

Above and beyond the existing instruments at the EU28 level, structural funds in particular, the communication followed on from the "Blueprint

for the EMU<sup>5</sup> which the Commission presented in November 2012, highlighting the idea of establishing a specific EMU fiscal capacity, which would translate into a financial assistance mechanism conditional on member states' implementation of structural reforms. This is, in fact, the same concept of implementing "convergence and competitiveness contracts" that was proposed in the Van Rompuy Report (see the Commission's communication dated March 2013 on this topic<sup>6</sup>).

Franck Vandebroucke agreed that the idea is a promising one, but only on two conditions. First of all, this contractual approach must embody the reciprocity that is objectively needed in the EU today; in other words, contracts must help to impart a fresh boost to the convergence process and that is how they must be seen. To achieve that, the former Belgian minister stressed that we need to distinguish two different approaches.

On the one hand, there is the principal-agent model (thus a model based on a principal player telling a third party what to do) which is a hierarchical model. In order to achieve the desired aim, there is an incentive, and this is the case with the adjustment programmes currently being implemented, in which results achieved are periodically assessed before releasing a new tranche of the financial aid previously agreed on. Yet in terms of the general public's perception this is not a good solution because, regardless of the results achieved, it is an approach that is bound to foment an adverse response, as we have seen in connection with the response to the German proposal along those lines. Moreover, it is not the kind of inspiration that we need. What the euro area needs, according to Frank Vandebroucke, is not to be found in this principal-agent model, which forces countries to implement structural reforms in return for a financial incentive; what is needed is a different narrative, the narrative of solidarity in structural reforms.

In this alternative approach rooted in solidarity, a broader field of action is required. It is not simply a matter of competitiveness or of labour market or pension system reforms, it is a matter of creating jobs, of developing employment and training programmes in countries in difficulty. Frank Vandebroucke argued that the notion of social investment should be built into this approach.

Also, conditionality is required, but not along the lines of the principal-agent model. The kind of conditionality that is required is the kind to be found in structural funds, where countries subscribe to shared targets, each one does its share of the work and Europe supports the progress made at the national level. In this context, one of the ideas that surfaced in the European debate was to grant subsidised loans instead of grants; in Frank Vandebroucke's view, that is not a bad idea but we need to go even further for those countries that are having to cope with serious financial difficulties.

In this connection, the countries concerned by this solidarity in structural reforms must be those countries facing the most serious difficulties, in particular Greece, Portugal and Spain. It is not possible, as the European Council proposed, to exclude those countries currently under adjustment programmes. To safeguard European solidarity, these contracts must put in evidence that the EU understood that some countries are facing very serious difficulties and that those countries need to be supported if they are to achieve the collective targets.

### 5.5. An insurance mechanism against asymmetric shocks

In an effort to address the problem of the absence of adjustment mechanisms for the euro area member states when faced with an asymmetric shock (an absence which makes it inevitable for them to implement very painful internal devaluations), the Commission's communication put forward a proposal to establish - in the longer term - a transfer mechanism within the euro area via the adoption of automatic stabilisers. Such a mechanism might come in one of several shapes, but the Directorate General for Employment and Social Affairs is currently exploring the technical aspects of potentially establishing an unemployment insurance scheme to supplement the mechanisms already in place in member states. Laurence Weerts explained that this idea is sparking the adoption of an increasing number of positions and a growing body of academic research, and she stressed that it is an issue on which we must continue to work.

Pervenche Berès, however, highlighted the fact that the Commission specifies in its communication that it is talking about a long-term initiative, justifying that stance by arguing that the implementation of such a mechanism requires a revision of the

treaties. In Pervenche Berès's view, that argument is not convincing because it should be possible to move forward on the basis of the treaties currently in force - thanks to the article on enhanced cooperations or the article on bridging clauses, in particular -, or at least it is necessary to work in that direction rather than to stand idly by doing nothing until the treaties are revised. Having said that, the chair of the European Parliament's Employment and Social Affairs Committee did recognise that the battle over this issue is a long way from having been won, because there is a certain amount of resistance even at the European Parliament level, and the idea was not built into the European Parliament's resolution on the social dimension of the EMU.

Among the various different ways of implementing this cyclical stabilisation mechanism, Pervenche Berès agreed with the position espoused by Laurence Weerts, arguing that implementing an unemployment insurance scheme - rather than an insurance mechanism based on output gaps, a proposal which the average man in the street would find hard to understand - would entail a major political advantage, showing that Europe does not act solely in banks' favour but also in favour of its more vulnerable citizens, in this case the unemployed. It would be an instance of Europe protecting its citizens.



## 6. Social Dialogue under Strain

### 6.1. The development of social dialogue in Europe since 1985

Andrée Debrulle began her address by reviewing the development of European social dialogue since the mid-1980s. She distinguished three different periods.

The first, stretching from 1985 to 1991, was characterised by bipartite activities which spawned documents without any binding force.

The second, and far more important, period ran from 1992 to 1999. It was during that period that the Protocol on Social Policy was adopted and subsequently (in 1997) incorporated into the Treaty of Amsterdam. This protocol served as a background for the first framework agreements on parental leave (1996), on part-time work (1997) and on fixed-term contracts (1999). After this period, there were no new framework agreements incorporated, via directives, into European law.

The third period began with the European Council meeting in Laeken at the end of 2001, to which the social partners submitted a common proposal calling for increased independence and greater autonomy in social dialogue. This shared proposal paved the way for three steps forward. First of all, a decision was reached two years later to institutionalise the Tripartite Social Summit as the forum for inter-professional social dialogue. Secondly, the European social partners thrashed out a series of so-called "voluntary" agreements on teleworking (2002), on stress in the workplace (2004) and on harassment and violence in the workplace (2007). A fourth agreement on the inclusive labour market was signed in 2010, although it is not yet in force on account of differences over its legal content. And lastly, the European social partners have adopted joint multi-annual programmes at the interprofessional level since 2003 (the first of which was adopted at the Genvall Summit in 2002), which include common targets for the following three-year period.

### 6.2. The challenges facing European social dialogue in the EU28

Andrée Debrulle pointed out that the enlargement of the EU to include the countries of Central and Eastern Europe in 2004 and 2007, taking the number of EU member countries from 15 to 27, marked a key moment in the history of European social dialogue. This, because the new member states had no solid social dialogue ethos, partly because numerous member states had no well-established employers' organisation for a counterparty. Thus the successive enlargements triggered a rather liberal wave because most of the governments in the new countries failed to offer strong support to the development of social dialogue.

Moreover, as Andrée Debrulle pointed out, there is another disturbing factor associated with

enlargement, and it concerns the emerging clash between “old” and “new” Europe. This conflict can be detected in trade unionists’ discussions with workers, who tend increasingly to blame workers from Eastern European countries for tension over salaries or over social standards, which brings with it the risk of downward harmonisation, of a “race to the bottom”. In the view of Belgian trade union representative Andrée Debrulle, this approach is totally false and must be countered.

In addition to these challenges, we have also seen the pressure of the economic and social crisis of the past few years. Andrée Debrulle pointed out that the current situation is not favourable for persuading Europe’s trade union members of the importance of Europe and of the good things that it has done and continues to do for workers.

In consideration of all this, the Commission itself has recognised that it is necessary to activate European social dialogue. Yet that observation is not followed up by the kind of action required to turn it into concrete reality. But we need to remember that the TFEU, in its Articles 153 to 155, entrusts the Commission with pro-active tasks in the sphere of social consultation. It is a matter of stimulating social consultation at the European level in order to improve workers’ social protection and to raise health and safety levels. Thus Andrée Debrulle insisted that the Commission needs to go beyond purely routine formulas and, in its capacity as guardian of the treaties, it needs to return to the substance of the articles enshrined in the TFEU.

Pending the Commission adopting initiatives, the social partners are endeavouring, for their part, to strengthen European social dialogue. Andrée Debrulle highlighted two initiatives going in that direction. On the one hand, the European trade unions and employers’ representatives have joined together to set up a fund making it possible to translate voluntary agreements, to clarify concepts, to exchange best practices and to promote the ownership of key topics. This shows that Business Europe, the CEEP, the UEAPME and the ETUC<sup>7</sup> are getting involved and investing in the adoption at the national level – by the social partners and the employers as well as by the workers – of the products of European interprofessional social dialogue. On the other hand, the same players have put together a common declaration on the social partners’ involvement in the

new European economic governance, which they presented at the last Tripartite Social Summit in October 2013. This is important, because economic governance has a considerable impact on collective bargaining, particularly with regard to salaries.

Despite these initiatives undertaken by the European social partners, Anton Hemerijck pointed out that there is a lack of engagement on the part of the social partners on the new initiatives coming from the Commission, whether they be “social investment” or “social dimension of EMU”. Employers do not seem interested as high unemployment is to their market advantage, and trade unions define themselves in class terms and do not look at Europe’s troublesome social future through the lens of the life course, including female (mother) employment. This is a real omission, according to Anton Hemerijck.

In an effort to renew European social dialogue, Silva Peneda made an appeal: “What we need to do today is to reinvent Val Duchesse<sup>8</sup>”.

### 6.3. Social dialogue in a crisis context

Andrée Debrulle warned that “social dialogue is in danger”. Membership figures are dwindling in numerous trade unions, many employers are not organised, certain governments do not want trade unions, and in addition to all of that, interpersonal confidence does not necessarily exist between the interlocutors, namely the trade unions and the employers.

Interprofessional social dialogue simply does not exist in a number of member states, when in fact it is important in accompanying crisis situations or in setting an example with regard to the implementation of the European economic governance directives.

Nor indeed does sectoral dialogue exist in many EU countries. Yet as Andrée Debrulle pointed out, sectoral dialogue is what makes it possible to negotiate working and salary conditions, and to organise worker solidarity among firms in the same or similar fields.

So there is a shortage of effective interprofessional social and sectoral dialogue, in addition to which there is a clear and openly stated will on employers’ part to establish social dialogue at the most decentralised level possible, at the company level, which effectively means less solidarity.

Aside from these difficulties, the situation is more serious in those euro area member countries that have been granted financial assistance under the EFSF/ESM and have thus had to implement of a memorandum of understanding signed with the Troika.

Speaking in her capacity as a Portuguese trade unionist, Catarina Tavares said that governments subjected to an adjustment programme no longer dialogue with their social partners; in Portugal, social dialogue has become a consultative mechanism, a mere formality. Silva Peneda supported that argument by stating that collective bargaining has been frozen rather than encouraged in the implementation of the adjustment programme. Sotiria Theodoropoulou added that countries benefiting from an assistance programme have come under strong pressure to decentralise the collective negotiation of salaries in order to tailor salaries to the level of the individual company and, as far as possible, to its productivity trend. Andrée Debrulle, for her part, pointed out that it is not the EU but the International Labour Organisation (ILO) which has intervened in situations in Greece and Spain to remind players that collective bargaining needs to be a part of the solution in order to safeguard the people in those countries.

Silva Peneda argued that in order to have the kind of social dialogue that really brings added value to the formulation of public policies and contributes to a new governance, that dialogue needs to be structured. The president of the Social and Economic Council of Portugal stressed that the expression “structured dialogue” is different from other kinds of dialogue, particularly from hearings and from consultation. Structured social dialogue has to include the exercise of consultation and compromise, which function as a permanent method of governance. That is the only way for social dialogue to become a crucial instrument for improving the quality of public policies while at the same time strengthening their political legitimacy and social cohesion. According to Silva Peneda, structured social dialogue must be perceived as something that facilitates the reform process.



## Conclusion

What kind of social Europe after the crisis? There are numerous challenges facing social Europe today.

First of all, in the context of the economic and social crisis, the EU needs to make its contribution to tackle the growing social divergence among member states.

Moreover, economic integration must be accompanied by a strengthening of safeguards for social rights across the whole territory of the EU. In the same vein, monetary integration and increased economic integration within the euro area need to be matched by the definition of a stronger social dimension.

While the current crisis and the European economic integration are increasing the pressure the national welfare states are facing, the latter were already, before the crisis, confronted with a dual challenge in terms both of funding and of effectiveness. In order to ensure the long-term viability of national social models, to which European citizens feel particularly attached, the EU needs to contribute to the modernisation of welfare states by focusing on the social investment model.

Finally, last but not least, the European social governance must be strengthened, in particular by taking a fresh look at the European social dialogue.

In order to answer to these challenges and hence to strengthen the social dimension of the European project, it is crucial that social concerns are placed at the heart of European action. This is not only necessary for functional reasons but also for political ones: in a context of growing euroscepticism, it will not be possible to “reconcile” the European citizens with the European project if the latter is seen as impinging on the national welfare states.

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2. European Parliament, Marianne Thyssen (rapporteur), *Report with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup "Towards a genuine Economic and Monetary Union"*, A7-0339/2012, 24.10.2012.
3. Herman Van Rompuy, *Towards a Genuine Economic and Monetary Union*, 5.12.2012.
4. Communication from the Commission to the European Parliament and Council, *Strengthening the Social Dimension of the Economic and Monetary Union*, COM(2013) 690 final, 2.10.2013.
5. Communication from the Commission, *A Blueprint for a Deep and Genuine Economic and Monetary Union, Launching a European Debate*, COM(2012) 777 final/2, 30.11.2012
6. Communication from the Commission to the European Parliament and Council, *Towards a Deep and Genuine Economic and Monetary Union. The introduction of a Convergence and Competitiveness Instrument*, COM(2013) 165 final, 20.03.2013.
7. CEEP: European Centre of Employers and Enterprises providing Public services; UEAPME: European Association of Craft, Small and Medium-sized Enterprises; ETUC: European Trade Union Confederation
8. The Val Duchesse process (1985), set up by Jacques Delors to associate social partners in completing the single market, is considered to be the starting point of the European social dialogue.

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