Since a year before the European elections, the European Union has gone through a crucial period marked by growing anti-EU sentiments and the difficult implementation of its largely renewed socio-economic governance. After years of in-depth innovations and the hope of reinvigorating the E(M)U social dimension, European institutions have engaged in a lively debate on how to exit the recession and relaunch the integration project. While most Member States have continued to pursue punitive austerity programmes – at a time when 27 million Europeans are unemployed and a quarter of the EU population is at risk of poverty – most stakeholders (namely the trade union movement) and policymakers agree on the need for an EU-driven growth strategy.

This 2013 edition of Social developments in the European Union provides key insights from analysts and scholars. Through the critical assessment of the EU economic governance of the last few years, contributors have set guidelines for a reinforced EU social protection and investment plan. The proposals for a pan-European unemployment insurance scheme and an EU minimum income scheme are analysed together with a renewed focus on the gender dimension of European social policies. Beyond economic and social governance, this volume critically reviews national reforms of labour market policies. While the state of the European economy is still gloomy, the institutional and policy reforms proposed here represent an opportunity to unveil a new path for Europe.
Social developments in the European Union 2013
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Preface

Last year’s *Social developments in the European Union* shed light on the main tensions affecting the integration project, while providing some insights on to how to move beyond such problems. The main issue we described was the increasing divergence between the North and the South of the EU. To address it, we proposed a more flexible EU political economy to tackle asymmetrical shocks, allowing the rich countries (North and Continental Member States) to spend more, thus boosting internal demand. This was expected to help the poor countries (Southern Member States) to start on a path of renewed growth.

In this book we continue this search for a possible strategy to lead the EU out of crisis. While the Brussels community of EU policymakers anxiously await the next European Parliament – with the risk of an increased weight of euroscepticism – many are debating how to bring the EU out of its multidimensional (political, economic and social) crisis. The most recent debate has focused on how to reinvigorate the social dimension of the EU and the Monetary Union. In the following pages we thus provide a detailed summary of the proposals put forward by experts and stakeholders for a new EU social toolkit. The contributors give a detailed description of both the challenges involved in revising the EU economic and social paradigm, and some options for a reinforced protection of social rights.

This year we see a complex, and to some extent ambivalent, picture. While EU leaders are struggling to restart the integration project and effectively address economic, social and political challenges, two agendas have been developed in parallel: some see them as conflicting while others are hoping for synergies between the two. The first agenda is very much focused on conditionality and the so-called contractual arrangements. The focus is here on the need to find new and more effective instruments to compel Member States to follow the EU budgetary and macroeconomic guidelines. Access to structural funds, for instance, is increasingly linked to the strict respect of EU macroeconomic
policy. The second agenda is keener to set EU-level stabilisers to make the EMU stronger and sustainable in the medium and long-term. These stabilisers are deemed useful for both economic and social reasons.

While the political landscape seems still largely hostile, the debate among experts and stakeholders has centred on a few key issues: the options we present here include the setting up of a European unemployment insurance scheme, the launch of a European minimum income programme, and a more effective social dimension for the EMU (with reinforced social policy coordination). They represent a breath of fresh air in the EU edifice and give us some hope for a more social type of integration.

This year’s *Social developments in the European Union 2013* concentrates, therefore, on the potential for a more effective Social Europe. All the chapters attempt to identify an alternative path to help the EU to survive and pursue a more socially-oriented growth pattern. As was the case in previous years, the present edition consists of two parts. One of these examines the main issues at stake in the integration process, with an in-depth reflection on the EU’s economic and social paradigm, and the other is more focused on the specific development of single policy areas (at the EU and national levels). This year this part concentrates on employment policy and the gender perspective in the EU social agenda.

The European Trade Union Institute has worked together with the European Social Observatory to draw up this new edition of *Social developments in the European Union*. Through this publication, we aim to contribute to the debate between policymakers, stakeholders and public opinion in general.

Maria Jepsen, Philippe Pochet, David Natali and Bart Vanhercke
Introduction
A last chance to rescue Europe?
(Re-)launching social EU the only strategy against anti-euro sentiments

David Natali

The European Union (EU) has spent the last 5 years tackling the most impressive economic, social and institutional crisis. European policymakers have followed a typical ‘muddling through’ strategy to save the integration project: incremental or even major reforms based on the minimum reachable consensus between Member States. Such an approach – reactive to many respects but also very ideological – has helped the EU to survive but has not set a coherent and effective European project for the long-term. The EU is thus trapped ‘between a rock and a hard place’: on the one hand, it proves incapable to address the main social and employment problems; on the other, and consequently, it has seen the growth of anti-Europe sentiments across Member States.

The year 2013 was thus marked by the increased awareness – between stakeholders, policymakers and analysts – of the need to set up a more ambitious strategy able to provide more coherence to the EU. Many emphasised the need to focus on the real economy (more growth and more employment) to avoid the ‘lost decade scenario’ with low growth, high debt, deflation, and high unemployment (Zuleeg 2013). As we show below, allowing this scenario to progress would both result in stagnation and undermine EU legitimacy.

In the following we fix some of the main issues at stake in the EU debate in 2013, in the long preparation of the European elections of May 2014. First, we look at the ‘social state’ of the Union (the ‘rock’ in our metaphor): Member States are still suffering from the consequences of the recession, and huge social and employment problems are evident. Second, we provide some evidence of the mounting anti-European
feelings spreading all over Europe (the ‘hard place’). This is the most urgent risk for Europe. Third, we trace the milestones of the EU debate and policymaking of the last months: we look at the timid advancement of the roadmap for a ‘genuine’ EMU, and the increased weight of the European Central Bank (ECB) in the European institutional landscape. All this provides a gloomy picture of the Union. Fourth, we propose a summary of the most ambitious proposals for a more legitimate and socially inspired EU. These are some of the many possible strategies to exit the institutional and political crisis of the EU. Here pessimistic readings of the EU state of the art leave place to a more lively debate and a clear understanding of the potential for faster-paced social integration. Many EU observers share the idea of a dramatic challenge that only a more ‘Social’ EU with increased fiscal capacities may address. This year the aim of ‘Social developments in the EU’ is consequently to provide room for a frank debate, between practitioners and analysts, about what is the next step for a more social EU. In many respects, it is the last chance for rescuing Europe.

**Too weak recovery and the persistent unemployment crisis**

As we show in the following, 2013 has been a complex year with persistent tensions. Austerity has aggravated the effects of the prolonged crisis on the EU labour markets, exacerbated poor social conditions, with a vicious circle that leads to the further weakening of Member States’ public finances (ETUI 2014).

Europe is the sick-man of the global economy

While the global economy shows risks and tensions together with signs of more robust growth, the EU has performed worse on average in comparison to its ‘global competitors’. As stressed by the Commission in the yearly publication ‘Employment and Social Developments’, since 2008, labour market have passed through critical phases. Global unemployment peaked in 2009 at around 6%, to then drop in 2010 and 2011. In 2012, the global unemployment rate increased again, if modestly, and is projected to reach about 6% in 2013 with the unemployment rate in developed economies forecast to be 8.7% (European Commission 2014).
During the crisis, the labour market performance in the EU was, on average, worse than that in other developed countries. Employment rates in the EU between 2008 and 2013 were lower than the OECD average, while unemployment rates were higher. In 2013, unemployment reached a peak of 27 million (about 11.5%). The negative trends in the labour markets were accompanied by negative GDP growth in both the EU and the euro area in 2011 and 2012 at a time when the unemployment rate decreased in the US, Japan and Canada. Income and wage inequalities have further increased in the period.

Southern countries are the sick-man of Europe

As we stressed in the last edition of *Social developments in the EU* (Natali and Vanhercke 2013), prior to the recession, the European Union saw convergence of most social and employment performance indicators. Since 2008, however, most employment and social indicators point to a growing divergence between the Southern and peripheral European Member States and those of Northern and Central Europe.

The average unemployment rate reached 17% in the south and periphery of the euro area, against 7% in the northern part of the continent. The gap has now reached its maximum level in the eurozone (about 10%), around 10 times the difference between the same regions of the non-eurozone (European Commission 2014). Thus, the financial crisis that erupted in 2008 has contributed to a huge divergence between the different European regions. The average rate of people who are not in employment, education or training (NEETs 15-29) reached 22% in the south and periphery of the euro area, against just above 11% in the north, and the gap between the two areas continues to increase, following a similar pattern to that of unemployment trends. To add an even more problematic indicator, since 2010 household disposable incomes have been declining, especially in Greece, Spain, Ireland, Italy, Cyprus and Portugal.

As stressed by ETUI (2014), such negative trends have been aggravated by the weakening capacity of the automatic stabilisers to tackle the consequences of the crisis. During recent years, the contribution of social benefits to the change in gross household income lessened. This is assumed to be the consequence of the increase in the number of long-term unemployed.
losing their entitlements, and the partial phasing-out of the post-crisis stimulus measures. All this had the effect of excluding some of the potential beneficiaries from acceding social protection schemes (European Commission 2014).

**The anti-EU sentiments time bomb**

Recent years have been marked by the increased discontent towards European institutions. In 2013, this trend has further aggravated. This is particularly the case of populist parties that are now gaining votes across the EU Member States\(^1\). These political movements share a key element: the mistrust of EU institutions and the technocratic elite. They see themselves as nationalists and populists (with some reference to authoritarianism) (Mudde 2013). Those in the northern part of Europe reject the idea of paying to save Europe’s periphery, while those in the southern part fight against sort of structural reforms that Europe asks to adress public budget stress. But euro-scepticism is not confined to populist movements (Bendavid and Parussini 2014). A turn against the European Union is evident also in the more traditional parties on both the right and left of the political spectrum.

As we show below, almost all the EU countries are experiencing the rise of the anti-European mood. The year began with the British call for a EU referendum in 2017. In January 2013, after a phase of tensions between the coalition government and EU institutions, David Cameron proposed to ask UK citizens if they want stay in the EU or not. This should happen after having passed through tough negotiations for a return of some powers from Brussels to the UK (Vina et al. 2013).

As stressed by some commentators (Emmanouulidis 2013a), the anti-EU parties have gained ground in the Member States and their progress at the European elections will have serious implications at both European and national level.

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1. These forces include among others in Austria (the FPÖ, Team Stronach), France (Front National), Finland (True Finns), Germany (Alternative für Deutschland), Greece (Golden Dawn), Hungary (Jobbik), the Netherlands (Freedom Party), Italy (Five Star Movement), and the United Kingdom (UKIP).
More in particular, in Austria, the far-right Freedom Party won a record 20% in September’s elections, contributing to the erosion of the electoral consensus for the more traditional parties. The ruling coalition between the Social Democrats and the Conservatives reached only a narrow majority, just above 50%. In Sweden, like other Nordic countries, anti-immigration parties are increasingly gaining consensus. The far-right Democratic Party is now the country’s third-largest, and has been draining support from the ruling center-right coalition (Bendavid and Parussini 2014).

In France, the National Front won the last elections and contributed to the defeat of both the Socialists and the divided centre-right opposition. In the UK, the independentist UKIP promoted a virulent campaign against the EU and its immigration policy.

What is more, Populist parties are now trying to create an international alliance. The French FN and the Dutch Freedom Party started to forge an alliance for the May election. And French and Dutch leaders pursued further alliances with the Austria’s FPÖ on the one hand, and the Flemish Vlaams Belang on the other (Bendavid and Parussini 2014).

As shown by Roth et al. (2013), although all the EU Member States show an overall moderate decline in trust in the European institutions, such decline has been particularly pronounced in the periphery. Those countries that are more affected by the crisis (Spain, Greece, Portugal and Ireland) have seen the most spectacular rise in the EU backlash. This seems to be highly related to the employment crisis: an increase of unemployment turns out to be significantly and negatively associated with trust in the national and EU institutions. This further proves that addressing social challenges is crucial to safeguard the European integration process and the foundation of contemporary democracies.

**The EU has ‘muddled through’ the crisis**

While in the years since the crisis we have seen the full implementation of the revision of the EU economic governance, 2013 has proved much less revolutionary (see Degryse 2012 for an overview of past reforms on economic governance). Little progress has been made in the revision of the economic arrangements and the most needed strategy for growth
lagged behind\textsuperscript{2}. In the following we provide some examples of the apparent European stalemate, referring to the limited implementation of the Compact for Growth and Jobs and the first steps towards a Banking Union.

Piecemeal arrangements and few progresses

EU leaders did not make any ground-breaking decisions on the key topics on the agenda (like unemployment and economic innovation and growth). Their main assumption seems to be that the economic situation will improve in 2014 due to increasing demand from outside Europe and the expected positive impact of the return of confidence in the future of the euro (Emmanoulidis 2013a).

Policymakers decided to ‘wait and see’, hoping for some economic recovery and trying to limit the political consequences of austerity. They gave Member States more time to implement fiscal consolidation and structural reforms. Yet, the heads of state and government did not deliver a convincing agenda for growth (Emmanoulidis 2013b).

A clear example of this trend is represented by the partial implementation of the \textit{Compact for Growth and Jobs}. This was agreed on by the heads of States and Governments at the European Council of July 2012 ‘to help Europe move beyond the economic and financial crisis and to create smart, sustainable, inclusive, resource-efficient and job-creating growth’ (European Commission 2013a: 1). It is expected to support the recovery through, for example, the expansion of lending activities for the European Investment Bank (EIB), but the reality is that implementation is too slow. As stressed by the Commission and external commentators, results have been disappointing and the strong political commitment of the Member States and the European Parliament ‘has not yet fed through to an intensification of work that would deliver rapid results on the ground’ (European Commission 2012).

\textsuperscript{2} One of the few progresses was made in December 2013 when the European Council agreed on the main features of a system of ‘partnerships for growth, jobs and competitiveness’ based on mutually agreed contractual arrangements and associated solidarity mechanisms (European Council 2013). But a new report by the President of the Council is expected in October 2014.
As stressed by Griffith-Jones and Kollatz-Ahnen (2013), the main problems are related to the limited activation of the EU budget (with its overall restriction in 2012). Investments usually take times to deliver growth, and this further explain doubts about the efficacy of the EU growth strategy. The doubling of paid-in capital for the EIB approved by all EU countries did not deliver yet. The EIB did not reach the full-scale of activities needed before the second half of 2013. The EU budget will not come into action before autumn 2014 (with the new structural funds), meaning that another year will be lost (ibidem).

As stressed by Zuleeg (2013), there is no convincing answer to the problem of high unemployment, particularly youth unemployment, risking the credibility and long-term stability of EMU. The Youth Guarantee has too little funding underpinning it and there are serious doubts about its practical implementation, especially in countries in crisis. It is interesting to look at the feedback provided by the European network of public employment services (HoPES 2013). Their analysis – based on the results of a self-assessment by European PES of their service strategy and delivery capacity in relation to the implementation of Youth Guarantee schemes – provides important insights. The latter clearly stress that ‘further investment is required in preventative services including youth at risk, in promotion of training and cooperation with relevant labour market actors’ (ibidem, 3). In these fields PES assume to have weak expertise and the urgent need for more investments is stressed.

First steps towards the European Banking Union, the proof of a stronger ECB

In 2013 some steps towards the implementation of an EU Banking Union were accomplished. This confirmed the increased weight of the ECB in the EU institutional landscape. If we look back at the crisis and the consequent evolution of EU politics and institutions, the ECB’s tasks have been significantly extended throughout the last years. As stressed

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3. The ILO estimated that 21 billion euros are required for its full implementation in the EU (ILO 2013).
by Darvas and Merler (2013), the ECB adopted wide-ranging measures to support financial stability and repair the monetary transmission mechanism, by providing banks with ample liquidity and by launching two government bond purchasing programmes, in line with economic conditionality.

More in particular, the ECB conducted two small-scale quantitative easing programmes to promote credit growth. It became a member of the Troika, along with the European Commission and the IMF, in the context of EU/IMF macroeconomic adjustment programmes in euro-area countries. Such competences for the ECB have been formalised and broadened by the Treaty on the European Stability Mechanism (ESM), the euro area’s permanent rescue fund. The ECB then started to take on board macro-prudential roles by becoming a key participant in the European Systemic Risk Board (ESRB). Also, the ECB increasingly plays a role in surveillance missions within the Macroeconomic Imbalances Procedure (MIP) (ibidem).

The very last ‘success’ of the ECB was represented by the Single Supervisory Mechanism (SSM), the first element of the so-called Banking Union. In May 2012, and in response to these increasing challenges, the European Commission (EC) and the European Central Bank (ECB) called for setting up a eurozone banking union. The objective of such a union was threefold: provide joint supervision of European banks, supply resolution for the most vulnerable ones, and set up a deposit insurance through a common deposit scheme (Papadopoulou 2014). This should help foster growth in the euro area. It is also supposed to break the vicious debt circle between states and banks.

Setting up the Single Supervisory Mechanism (SSM) – the first leg of the Banking Union – represents one of the major advancements in 2013. On 12 September 2013 the European Parliament gave its consent with the amended draft Council Regulation on conferring that task. On that base, in December 2013, European finance ministers agreed on the creation of a single European bank supervisor. As a consequence of the deal, in participating countries, the European Central Bank (ECB) will take over from national supervisors as the regulator of all banks with
assets greater than €30bn (or constituting at least 1/5 of their home country’s GDP)⁴. Starting in autumn 2014, the ECB will supervise major credit institutions, and will have exclusive competence for those ‘specific supervisory tasks which are crucial to ensure a coherent and effective implementation of the Union’s policy relating to the prudential supervision of credit institutions’ (Darvas and Wolff 2013).

This scheme gives the ECB the potential to shut down a bank whose activity seems unsustainable and thus strengthens its role as a supervisor of the banking sector within the eurozone, by authorising (and withdrawing authorisation) of credit institutions, ensuring compliance with the EU rules on own funds requirements, and carrying out supervisory reviews (EurActiv 2013).

While these progresses may contribute to a more stable financial and credit market, the system agreed on by the EU gives room to doubts about its effectiveness, and more decisions are needed to make it work (Papadopoulou 2014). In particular, even after the agreement in early 2014, there will be no joint government back-up to help cover the costs of closures. In the words of Paul De Grauwe, ‘The key to the banking union is an authority with financial clout. They don’t have it so we don’t have a banking union’ (quoted in EurActiv 2014).

**A lively debate on the E(M)U social dimension**

While the institutional and political scene at the European level was thus marked by few advancements, a more intense debate developed both at the national and EU level on the options to address economic stagnation (weak recovery at best in some Member States) and reinforce social integration. That debate was stimulated by the Commission with the communication on ‘Strengthening the Social Dimension of the European and Monetary Union’ (European Commission 2013b). The document sets four main axes to improve the social dimension of the euro-area:

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⁴ Currently, national technical standards for bank supervision in Europe are loosely coordinated through the European Banking Authority (EBA), an EU agency whose supervisory board includes representatives from each of the 28 EU Member States.
— **Reinforced surveillance of employment and social challenges and policy coordination.** For the Commission progress is needed on incorporating the social dimension in surveillance of the macro-economic imbalances. It is also needed more generally in the European Semester of economic policy coordination, and can be done by strengthening the existing framework for coordination of employment and social policies. This could be achieved through the explicit reference to social and employment issues in the Macroeconomic imbalances Procedure (MIP), the set up of a scoreboard of social and employment indicators, and the better coordination of employment and social policies in the European Semester;

— **Enhanced solidarity and action on employment and labour mobility.** In this case, the Commission proposes the full activation of the European Structural and Investment Funds to spread more efficient employment and social policies and stresses that the case of Youth Guarantee is deemed to represent the example of the high priority given to social policies. Some options for a more strategic involvement of the EMU in social redistribution through more developed fiscal capacity are provided: the Convergence and Competitiveness Instrument (CCI) supporting the implementation of structural reforms via financial aid and the set up of a pan-European unemployment insurance scheme. As for mobility, the revision of EU legislation (e.g. Regulations 883/2004 and 957/2009 on the portability of unemployment benefits) is proposed;

— **Strengthened social dialogue.** For the Commission it is crucial to reinforce the dialogue with European social partners, activating the Social Dialogue Committee before the completion of the Annual Growth Survey (AGS) while dialogue through the Tripartite Summit and other consultation at the level of technical committees (e.g. Social Protection Committee and the Employment Committee) should be streamlined.

Parallel to the Commission’s statement, a larger debate between stakeholders and experts has developed. In what follows we provide a partial summary of the main ideas proposed (some of them are addressed in

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5. For the Commission such measures would require a substantial Treaty change, since, at present, the EU does not have the competence to adopt them, either for the euro area or for the EU as a whole.
the following chapters). While they did already attract criticism and political opposition by some Member States, they provide a useful ground for reflection.

Minimum wage at the base of the Franco-German agreement

One axis of the debate focused on the need to improve social standards and rights across the EU members. This should help the free movement of workers and thus realize more efficient labour markets in the EU, while fighting against social dumping - that is, the huge disparities in standards and pay. Many have stressed that the right answer to this set of questions would be the rise in Europe-wide minimum social provision including a European system of national minimum wages which can ‘halt this race to the bottom’ (Pristley 2014).

The idea was advanced by Chopin and Fabre (2013); they have proposed a ‘minimum European wage’ as a percentage of the median wage of each Member State. The percentage would be the same across all participating States and the absolute level of the minimum wage would vary according to the median wage of the State in hand. And the ETUC (2013b) has stressed the statutory minimum wage (...) should be increased substantially. In all Member States, wage floors should respect Council of Europe standards on fair wages6.

Some form of coordination of minimum wages in the Member States has also gained momentum through the joint declaration of the French and German Governments in May 2013. They stressed the need to reinforce national schemes in the wake of the huge debate and the new German government coalition to set up a minimum wage scheme in 2015 (for the debate in Germany, see De Spiegelaere and De Ville 2014).

Increased fiscal capacity at the EU level

Another priority shared by analysts is that of fostering public investment when there is a need and the fiscal space allows for more EU investment projects (Darvas and Wolfe 2013). For some, discussion on

6. In the trade union camp minimum wage is a very sensitive point and the debate is open.
a euro area budget should be revived to help limit the adverse effects of fiscal consolidation, especially in those countries that would most need anti-cyclical fiscal policy. In the same line another path consists of the full activation of the European Investment Bank’s (EIB) paid-in capital. An additional increase can finance increased investment for innovation, especially but not only in the countries suffering most from the crisis, as well as target SME financing more forcefully. Alongside the EIB, the European Investment Fund can provide resources to support investment and innovation by business firms in the private sector. Within its mandate, the ECB can support both institutions.

This was the position of the ETUC (2013a) that launched the idea of a European recovery plan. Such a plan should allow to invest in power generation (...) to decrease greenhouse gas emissions and to improve both education and R&D and physical infrastructures, efficient private services and quality public services. This should be financed by bilateral and multilateral loan agreements, especially for new long term investment. In this context the introduction of Eurobonds could be envisaged.

More solidarity and redistribution to the EU citizens most in need

The third axis of the debate was then characterized by the attention on the need for some automatic stabilizers at the EU level. This could take the form of a solidarity fund or of minimum social benefits to be agreed on at the EU level.

Some analysts have thus promoted the activation of a Social Solidarity Fund, to provide food assistance where it is most needed. Based on the seminal work of Varoufakis et al. (2013), the proposal is based on the use of financial interests collected by the ECB to set up a joint social funds at the EU level to help meeting basic social needs in those countries most affected by the crisis and where social risks (starting with health issues) have largely increased.

Further proposals, which will be analysed in the next chapters, have consisted of the launch of an ambitious programme of European unemployment insurance scheme: this should consist of a basic net for protecting workers through the shift of a minor part of national payroll taxes to the EU fund to redistribute resources in favour of the Member
States most affected by the jobs crisis. The need for a European minimum income programme has also been stressed by stakeholders and analysts (see Peña-casas and Bouget in the next pages). This would be a true safety net at the EU level able to coordinate national efforts while providing basic protection from the EU.

**Taking stock of the efforts for an EU growth strategy**

The complex path to exit the crisis is thus at the core of the present edition of ‘Social developments in the EU’. While in the past editions we focused on the nature of the crisis, the following chapters address the strategy most appropriate for giving a new hope to the EU. Starting from the present still worrying situation, contributors approach the way to exit the crisis while reacting to the anti-European wave.

As well as in the last edition, the book is based on two different parts. In Part One, the contributors primarily look at the reasons why Europe needs a growth-based and solidaristic plan, and the main traits of an alternative strategy against austerity. Three chapters provide an integrated view, through three complementary but diverse readings.

Anton Hemerijck provides an encompassing review of the economic and social state of the EU. His analysis is very much keen to stress the incoherence of the EU economic governance and the need for a more social Europe to address persistent divergence among Member States and growing social and employment challenges. Christophe Degryse, Maria Jepsen and Philippe Pochet propose an innovative reading of the longer-term evolution of the EU economic governance and the role of the monetary union as a driver for a more integrated continent. Their analysis is particularly critical about the limits of the strategy followed so far, and it underlines the risk of a market-driven integration. In line with these two contributions, the third chapter by Frank Vandenbroucke, Bart Vanhercke and John Morley set the line for a new social dimension of Europe, with a summary of the main challenges to address in the next months to avoid the EU failure. For the authors, social Europe is an economic necessity (to address asymmetric shocks and provide the right balance between fiscal coordination and redistribution) and a political strategy to advance in the integration process.
Part Two of this year’s edition analyses, from various angles, the options to redress the EU governance and especially to strengthen the EU fiscal capacities to address a-symmetrical shocks and reduce the divergence among Member States. Ferdinand Fichtner – in Chapter four – looks into the details of the ongoing debate about the set up of a pan-European unemployment insurance scheme. This is one of the proposed measures to provide the EU with more fiscal leeway to address the crisis while improving its own legitimacy vis-à-vis the European citizens and workers. The proposed scheme has attracted very much interest and attention in the EU debate while political disagreements and resistance persist. While its implementation seems far from being the core of a politico-institutional agreement between EU members, this tool opens room for debate and demands the implication of stakeholders and social partners in approaching the dramatic rise in unemployment. Ramón Peña-casas and Denis Bouget then address an alternative represented by the introduction of a minimum income scheme at the European level. On the base of two research projects carried out by the European Social Observatory, the two contributors set the milestones of the debate, shedding light on both methodological and technical issues to address in order to shape the political debate and make concrete proposals. Here the social problem addressed by the proposed scheme is the risk of poverty that is on the rise in many countries. Chapter six sheds light on the hidden face of the EU social policy: its gender dimension. Through a long historical perspective, Dalila Ghailani provides food for thoughts about advancement and persistent ambiguities and limits in the EU action against gender discrimination last trends in employment policy.

Chapter seven provides ample evidence of the state of labour market policies in the European countries. Carol Lang, Stefan Clauwaert and Isabelle Shömann, on the base of their encompassing analysis of labour market policies in the wake of the crisis, give ample evidence of the gloomy picture in many Member States. In many countries employment rights seem on retreat, while the need for flexibility and the progressive deregulation of labour market has monopolised the agenda. The evidence provided by the authors shows that the social turn of Europe is far from being accomplished and the search for a new compromise between social protection and investment is difficult to strike.
All the chapters illustrate the opportunities and actual limits in the definition of an alternative path for the EU. While European elections have provided evidence of the political state of the Union and the level of dissatisfaction of the public opinions, there is an increased demand for a coherent and effective strategy by stakeholders, namely the trade union movement, to support social Europe and strike new alliances to make it real.

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Fault lines and (still too few) silver linings in Europe’s social market economy

Anton Hemerijck

1. Democratic Europe caught between Scylla and Charybdis

The European welfare state and the European Union (EU) find themselves caught up in a double bind in the aftermath of the global financial crisis (Scharpf 2010, Ferrera 2005, Hemerijck 2013). On one hand, domestically, EU members are politically bound by widely cherished national social contracts on welfare provision, which in hard economic times are especially difficult to renege upon. On the other hand, at the supranational level, the (reinforced) rule-based macroeconomic governance structure of the EU, giving priority to low inflation and budget consolidation, commits its members to a long-term project of negative market integration, which in a downturn implies intrusive austerity reform of their welfare systems. This is especially pertinent for the so-called ‘Troika economies’—the eurozone countries of Greece, Ireland, and Portugal (and to a lesser extent Spain), which under the surveillance of the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) have been forced to drastically cut minimum wages, pensions, education, health and old age care expenditure and deregulate their labour markets and wage bargaining structures. When and where stagnation prevails, mass unemployment and rising poverty and inequality are the breeding grounds for Europhobic political extremism. Between rising anti-establishment populism and the EU’s intrusive imposition of fiscal austerity, a ‘political-institutional vacuum’ has emerged at the heart of

1. This article extensively builds on the analysis originally put forward in the monograph Changing Welfare States (2013). Comments by Brian Burgoon, Maurizio Ferrera, Franca van Hooren, Jane Jenson, Erik Jones, David Natali, Stefano Sacchi, Sotira Theodoropolou, Frank Vandenbroucke, and Jonathan Zeitlin are gratefully acknowledged.
the European integration project, between the Northern ‘core’ economies and the embattled Southern ‘periphery’ on the one hand, and within national political arenas between mainstream parties and Eurosceptic populist movements on the other. This political vacuum, brought home with a vengeance by the results of the elections to the European Parliament, especially the victory of the far-right National Front in France, which won over a quarter of the French electorate, considerably jeopardises solutions to the incomplete architecture of the Economic and Monetary Union (EMU), one that is able to do justice to widely shared aspirations of social fairness across the European continent and the deep economic interdependency created by the euro. It remains to be seen whether a new Commission and a new leader of the European Council will muster enough courage to cross the Rubicon of creating a safe institutional haven for the besieged currency, against the rising tide of anti-EU and anti-establishment right and left-wing populism, in the autumn of this year.

By 2014, as the existential crisis of the euro has somewhat abated, the new policy imperative for Member States and the EU more generally is to manage the social aftershocks of the global financial and economic crisis. On average, 12% of the eurozone workforce is jobless, a quarter of economically active young Europeans are unemployed, and inequality and poverty levels are rising. Without a long-term strategic focus on improving human capital and capabilities, expanding employment opportunities, and easing labour-market and life-course transitions for individuals and families, the EU risks becoming entrapped in a permanent economic depression. The crisis is by no means over.

A daunting critical question is whether the welfare state and European cooperation, two of the most important feats of post-war social engineering, prove resilient in the aftermath of the global financial crisis. This chapter examines the deep ‘fault lines’ in the European construction, on the one hand, and explores a small number – admittedly too few – ‘silver linings’ that have taken root over the past two years. I begin, in Section 2, with a brief analysis of the three critical fault lines in the European architecture – in policy analysis, institutional makeup, and domestic politics – and how they have made effective and legitimate crisis management particularly arduous for the eurozone economy as a whole and in Member welfare states individually. Section 3 is devoted to three silver linings on the horizon
of the Europe 2020 policy agenda: (1) the important lesson of proactive and reconstructive welfare reform under constrained macro-economic conditions over the past decade in most EU Member States; (2) the strong and renewed reinforcement by the European Commission of productive and active welfare states, exemplified by the launch of the Social Investment Package in February 2013; and (3) the rekindling of the debate concerning the social dimension of EMU.

In the concluding Section 4, I turn to the exploration of the available political space for making the European project once again more inclusive, consistent with the three silver linings and important macroeconomic changes enacted since the height of the euro crisis in 2012. Deep economic crises are often moments of political truth; so the history of the twentieth-century teaches us. While the social aftershocks of the euro crisis are putting grim economic and political strains on national welfare states and EU institutions, this could also engender positive consequences, as the unsettling of beliefs sometimes inspires ground-breaking social and economic policy recalibration.

2. Fault lines in the E(M)U architecture

European integration has always based itself on the promise of achieving both economic prosperity and social progress. In defining the European project, the Lisbon Treaty commits the Union to work towards the development of a sustainable ‘social market economy’, combining full employment with high levels of social protection and cohesion, gender equality and intergenerational solidarity, across all Member States. Both the welfare state and the European integration project emerged from the economic and political lessons of World War II and the Great Depression. The defining feature of the post-war welfare state was that social protection came to be firmly anchored on the explicit commitment to granting social rights as positive freedoms to citizens in areas of human need and wellbeing. By cushioning and compensating for market failures, the combination of Keynesian economics and Beveridgean social insurance, while guaranteeing access to high-quality education and health-care as citizenship rights, made modern capitalism fit for mass democracy. By contributing to economic growth, regional market integration allowed national welfare states to prosper autonomously. Gradually, a benign division of labour materialised,
whereby the technocratic ‘low politics’ of free trade and market integration were relegated to the supranational institutions of the EU, while the ‘high politics’ of jobs and social security became core prerogatives of national democracies (see Hemerijck 2013: ch. 8).

Under the current crisis of widening economic disparities and deepening social imbalances, the EU and its Member States are at risk of failing to deliver on this promise of economic prosperity and social progress. Especially, the Troika economies under the surveillance of the European Commission, the ECB and the IMF, are obliged to push through painful social and labour market reforms in exchange for financial assistance. The political upshot is that European institutions, lacking in ‘input-legitimacy’, are increasingly perceived as playing deconstructive roles in much-cherished national welfare states.

There are many reasons to be pessimistic about the prospects of a new era of constructive European integration and proactive welfare state restructuring (Saraceno 2013, Streeck 2013, Degryse _et al._ in this volume). I borrow the metaphor of ‘fault lines’ from the unrivalled diagnosis of the deep-seated policy fractures behind the global financial crisis by Raghuram G. Rajan, the former chief economist of the IMF (2010). In geology, fault lines are breaks in the Earth’s crust where tectonic layers collide, building up pressures that can unleash life-threatening earthquakes. Here, the notion underscores the seismic tensions between the existing policy plates of European economic integration and national welfare provision and how they have come to collide, stronger than ever before, in the aftermath of the global financial crisis. It is worth discussing these fault lines in turn, as each displays a different dimension of the European predicament. In conjunction, however, they could be severely disruptive for the European project.

2.1 EMU policy regime failure

The first fault line results from the deep intellectual inertia in the economic policy paradigm underlying the governance of the Economic and Monetary Union (EMU), (mistakenly) reinforced with a vengeance after the eurozone sovereign debt crisis struck in 2009. Hegemonic policy paradigms are best viewed as coherent causal and normative
frameworks for understanding economic trends and diagnosing impending policy problems from which fairly stable policy choices habitually ensue, also in turbulent economic times (Temin 1989, Hall 1989).

The introduction of EMU, with the adoption of the Maastricht Treaty in 1992, represented a major change of macro-economic policy paradigm, with important consequences for the functioning of European welfare states. The EMU policy framework, descended from the stagflation crisis of the 1970s and early 1980s, is firmly grounded in a rejection of Keynesian demand-management and the use of deficit social spending to counter deep recessions and mitigate social hardship. Erik Jones (2013) has aptly described the EMU policy framework in terms of an interlocking triptych of three basic supply-side ingredients: price stability, fiscal conservatism, and local- or domestic-factor market liberalisation, which together are believed to best guarantee productivity and employment growth. The neoclassical doctrinal triad of stable money, sound finances, and domestic market deregulation, informed by the axiomatic understandings of the micro-foundations of rational expectations, complete information, and self-correcting efficient markets – especially capital markets – for a long time allowed for a fairly coherent EU economic policy paradigm.

Doctrinal coherence in policy orientation, however, does not per se imply consistent implementation. As EMU never lived up to the textbook criteria of an Optimum Currency Area (OCA), because of low regional labour mobility and the deliberate choice not to make way for a central fiscal authority in order to pre-empt fiscal moral hazard, domestic structural reform had to take place (De Grauwe 2012). The ECB’s singular and independent mandate to maintain price stability, together with the strong commitment to fiscal consolidation by Member State governments that was enforced by the Stability and Growth Pact (SGP) and the Excessive Deficit Procedure (EDP), was thought to raise competitive pressures, forcing democratic governments to launch incisive welfare and labour market reforms. Long-term unemployment from this perspective is a problem of supply-side ‘hysteresis’ of poor motivation and low search intensity resulting from generous social standards and employment protection, creating negative ‘moral hazard’ and ‘adverse selection’ externalities (see Addison and Siebert 1997, Bertola et al. 2001).
Prevailing macro-economic policy paradigms contain, implicitly or explicitly, a political understanding of the role of the state and its social policy functions. In this respect, the EMU regime adheres to a negative theory of the state, which is most ineffective when it tries to mitigate the inevitable trade-off between efficiency and equity in favour of the latter. In addition, its understanding of institutions is essentially one of ‘market barriers’ misused by ‘distributive coalitions’, in particular by ‘rent seeking’ trade unions. Here I add the neoclassical economic understanding of low (public) sector service productivity, often associated with so-called ‘Baumol cost disease’. The core of the Baumol cost disease is that productivity improvements in labour-intensive services such as health and education consistently lag behind productivity improvement in competitive industries. When public service pay increases following wage developments in the more dynamic capital-intensive private sector, low productivity services become relatively more expensive. Assuming that social services are publicly funded, the tax share of GDP rises also, which in turn comes to burden and undermine competitiveness in the dynamic sector.

Similarly, Iversen and Wren (1998) have argued that advanced welfare states are confronted not with an inescapable ‘trade-off’ between equality and efficiency but rather with what they term the ‘trilemma of the service economy’. Their central claim is that with the shift from an industrial to a service economy, it has become inherently more difficult for welfare states to attain simultaneously the triple goals of budgetary restraint, earnings equality, and employment growth. Governments may pursue any two of these goals but no longer all three at the same time. Within a tight budgetary framework, private employment growth can be accomplished only at the cost of rising wage inequality. If wage equality is a prime objective, employment growth can be generated only through the public sector, at the cost of higher taxes or public borrowing. Since international competition and technological innovation restrict job creation in the tradable (mainly manufacturing) sector, employment growth in advanced economies may be achieved either in well-paid public services, thereby undercutting budgetary restraint, or in low-paid private services, sacrificing income equality (see also Wren 2013).

Thus, the natural prescription is to make European labour markets truly flexible by giving employers greater freedom to hire and fire, aborting minimal restrictions on working hours, lowering taxes,
reducing welfare spending, privatising pension liabilities, and curtailing trade unions and other ‘distributive coalitions’ in collective bargaining and social dialogue, as well as ensuring that states keep stagnant social services to a minimum, as ‘wasteful’ welfare provision is believed to ‘crowd out’ private economic initiative and investment.

Although EMU brought highly different varieties of welfare capitalism under one monetary umbrella, the architects of the single currency believed that the discipline of the new macroeconomic policy regimes and the single market would push European political economies towards convergence on rather minimalist competitive institutions (Hall 2014). The equation of national competitiveness and lean welfare provision and deregulated labour markets went hand-in-hand with a colossal blind spot as to the incisive interdependence created by the inescapable common currency. The financial crisis, particularly the aftermath of its sovereign debt hangover, exposed the critical failings in the EMU policy paradigm. Focusing on inflation and public deficit and debt, policy makers in Brussels and Frankfurt were entirely ignorant of how, in the aggregate, the sum total of public and private debt levels deepened Europe’s sovereign debt and banking conundrum. In Ireland, Spain and the Netherlands, households were (fiscally) stimulated to take on massive private debt to buy property and reconstruct homes, while public investments in education and public infrastructure were de facto prohibited by the SGP. In addition, higher inflation led to lower real interest rates, making borrowing cheaper. Treaty-based budgetary obligations were sidestepped when Italy and Greece joined the EMU and also when France and Germany exceeded deficit limits in 2004. The ‘one-size-fits-all’ interest rate policy, which caused diverging real interest rates across the eurozone economy, together with the explicit no-bailout clause in the Maastricht Treaty, set the scene for growing imbalances between two country groups before the onslaught of the credit crunch of 2008. A periphery group with positive output growth but high inflationary pressures, profiting from the low real interest rates that EMU brought along for them, started to diverge from the core cluster with Germany at the centre, which was confronted with stagnation as a consequence of too high real interest rates. This development revealed that uniform base interest rates can be both too high and too low in real terms at the same time across a currency union, thereby frustrating sustainable economic convergence. As a result, structural labour market and social reform did not happen where
it was needed the most, in the Southern periphery with the most rigid labour and insider-biased welfare systems. Low interests on debt and deficits apparently eased welfare reform pressures, as their superior growth performance provided massive outlays to financial speculators, which in combination with the lack of a pan-European system of financial governance also explains why the instabilities ingrained in American financial markets contaminated Europe so quickly (Tsoukalis 2009). When ultimately the sovereign debt crisis struck, capital flows shifted into reverse gear from the periphery back to the core of the eurozone, leaving the Southern periphery in the worst of possible varieties of welfare capitalism. Barring the option of currency devaluation, the Southern European economies and Ireland were practically overnight compelled to push through ‘internal devaluations’, as the single strategy left on the menu of macro-economic adjustment to asymmetric shocks under the incomplete currency union, designed without a fiscal backstop and constitutionally ruling out a ‘lender of last resort’ mandate to the ECB. The widening gap between the competitive North, now paying close to zero interest rates on moderate levels of public debt and deficits and hovering at manageable rates of unemployment, and the uncompetitive South, and also the Irish experiment in privatised Keynesianism, facing exceedingly high spreads on high debt and deficits at two-digit levels of unemployment and catastrophic rates of youth unemployment, ultimately threatened to destabilise the entire eurozone economy by 2012, as belated structural reforms in besieged Member States offered little relief under distressed macroeconomic conditions across the wider European economy (Schulten and Mueller 2013). In other words, deepening competitive divergences and social imbalances are in important ways the consequence of the misguided EMU policy paradigm, designed without a fiscal backstop and a ‘lender of last resort’ ECB-mandate, inherited from the era of the Great Stagflation of the 1970s and 1980s.

Within this overall divergence, an important illustration of the resulting social imbalances is the divergent trend in unemployment rates since the onslaught of the crisis. While the gap between low- and high-unemployment countries stands at ten percent within the euro area, it stands at only one percent for countries that are not members of the single currency. In other words, EMU, designed to foster convergence, is pushing member economies onto highly divergent trajectories of unemployment. Youth unemployment is similarly affected. By 2013 it
had increased to around 23% in the EU, with large increases in Greece and Spain, where well over half of young people aged 15-24 in the labour force were jobless. In terms of relative poverty, again the biggest hikes are in Greece, Spain and Italy. Banking support and greater social protection spending have been met with considerable reductions in public investment, particularly in education in the eurozone countries hardest hit by the Great Recession. While future developments remain difficult to predict, the tendency towards divergence will not easily be turned around because of the distinct lack of an adjustment mechanism for correcting macroeconomic and social imbalances at the EU level.

2.2 Intergovernmental drift

Policymakers are not merely locked into a monetary and fiscal regime for reasons of intellectual failure and cognitive capture. Closely related to the failure in policy paradigm, the second fault line pertains to the minimalist governance structure of EMU, based on the intergovernmental makeup of the European Union, which created the eurozone with an extremely weak institutional capacity for policy-coordination. While macro-economic rules have become truly European, decision-making powers have remained doggedly national. Moreover, EU rules are quintessentially inflexible as they are the products of hard-won and lengthy treaty negotiations between 18 eurozone and 28 internal market Member States (Fabbrini 2013). With each wave of enlargement, the likelihood of joint-decision traps in the European Council is raised almost exponentially, as treaty alterations require unanimous consent (Scharpf 1999). Intergovernmental agreement is particularly hard to come by in times of economic distress, when intellectual disagreement over crisis management touches on national (economic) interests and deep normative beliefs about the appropriate role of politics and economics.

With the exception of the ECB, national governments (of the stronger economies) have steered the European reaction to the crisis. In the process, the European Council has taken over the agenda-setting role of the European Commission, and within it, Germany has become the most prominent leader, thereby weakening the previous Paris-Berlin axis (Amato et al. 2013).
Unable to agree on a new governance structure for EMU, government leaders inevitably fell back on the rules-based framework of the status quo ex ante as the best available ‘lowest common denominator’, thereby obliging besieged Member States to take individual responsibility in domestic austerity reforms, rather than trying to reach agreement on correcting EMU’s incomplete design. When in early 2011 the European Commission proposed to increase the lending capacity of the EFSF, Germany made its agreement contingent on the adoption of a ‘competitiveness pact’, to ensure ‘stronger economic convergence’ within the eurozone by enshrining a ‘golden rule’, prohibiting countries from exceeding national debt limits ‘tout court’, in national constitutions. The European Stability Mechanism (ESM) and the tightening up of the Stability and Growth pact received inter-governmental consent. The Fiscal Compact, now including automatic sanctions, was concluded outside the Lisbon Treaty because of opposition from the UK. The Treaty on Stability, Coordination and Governance (2012) was ultimately adopted by 25 Member States, including all eurozone countries, on 30 January 2012. Implementation of the ESM Treaty was brought forward by a year from the designated expiry date of the EFSF in 2013. Thus far, however, the new fiscal governance framework of the EU and the euro area has resulted in a further deepening of competitive divergences and social imbalances between the prospering North and the stagnating South, as adverse ‘fiscal multipliers’ of public contraction turned out to be much higher than anticipated, probably because of massive private debt deleveraging with deflationary consequences (IMF 2012).

The only European institution that did not fall prey to intergovernmental drift was the ECB. Its independent intervention (strongly criticised by German authorities) to buy government bonds on secondary debt markets so as to thwart speculative attacks on Spain and Italy in 2011 subsequently led to the resignation of the President of the Bundesbank, Axel Weber, followed by the withdrawal of Juergen Stark from membership of the Executive Board of the ECB. Both German central bankers are known as adamant believers in ordo-liberal monetarist orthodoxy.
2.3 Political polarisation and the rise of welfare chauvinism

The third and final fault line stems from the incipient weakening of national statehood and domestic policy autonomy under the internal market and the currency union. European welfare states have become more semi-sovereign with the progressive deepening of the internal market and monetary union (Leibfried and Pierson 1995). By centralising monetary policy and monitoring fiscal discipline, the introduction of EMU has been a game-changing step towards an irreversible deepening of economic interdependence between the members of the currency union, with severe constraints on domestic fiscal, economic, and social policy choices. Irrespective of the loss in nation-based fiscal and monetary policy autonomy, however, political identification, mobilisation and accountability have remained overwhelmingly national. Electorates hold national leaders accountable for socioeconomic (mis)fortune. High and rising youth and long-term unemployment and strained pensions, resulting from agreements reached at the level of the EU and the eurozone, put enormous pressure on nationally elected politicians in the majority of EU countries where citizens continue to hold high expectations of social protection. Protracted failures to resolve the euro crisis at the supranational level, in turn, are increasingly mirrored by EU-sceptic domestic political pressures to water down ruling governments’ commitment to European solutions. Intrusive austerity requirements, agreed to at the EU level, fuel anti-establishment political mobilisation, as the 2014 EP elections have revealed, from the successes of the Greek Golden Dawn fascists to the landslide victory of Marine Le Pen’s National Front in France.

The crisis was preceded by these three fault lines; it did not produce them. The economic policy tragedy of the eurozone is that it confronted EU institutions and national governments with a ‘demand deflation’ mass unemployment conundrum for which EMU was not equipped. Institutionally, to the extent that Europeans struggle to agree on a shared economic diagnosis of the crisis, EU policy change is inhibited by Treaty rules, established at Maastricht in 1992, which quasi-constitutionalised the norms of price stability and fiscal conservatism, setting the scene for further intergovernmental drift. Finally, xenophobia and euroscepticism are nothing new. Long before the near economic meltdown of 2008, middle-class fears of falling behind created a narrative of a lost ‘golden age’ of welfare capitalism. The 2005
French referendum over the proposed Constitutional Treaty of the European Union culminated in a heated ideological battle between different socio-economic models, revolving around two polarised options: the ‘French’ social model, offering a high degree of social protection, versus the (false) stereotype of the ‘Anglo-Saxon’ model of capitalism, described as a ‘free market without a safety net’. Procrastination and protracted failures to articulate a solid supranational crisis resolution mechanism for the eurozone have brought anti-EU and anti-establishment populism to new heights, putting pressure on existing governments to limit or at least hide EU engagement. The cocktail of the three fault lines conjures up an image of a disintegrating continent, a far cry from the original ideal of an ‘ever closer union’ as proclaimed in the Rome Treaty sixty years ago.

3. (Too few) silver linings on the Europe 2020 horizon

The three fault lines at the heart of the European construction, critically exposed by the euro crisis aftershock, run deep. Current economic and social imbalances are the products of long-cherished and embedded policy strategies. Tinkering with low interest rates, raising consumption taxes, and perhaps introducing a levy on financial transactions will surely not salvage the eurozone as an aspiring and sustainable social market economy. But on a more positive note, the breakup of the eurozone has thus far been avoided, by buying time with an appeal to the fear of a life outside the single currency (Tsoukalis 2014).

If transformative fundamental change does happen, it will be slow in coming. When changing external conditions alter the functioning of existing policies and institutions, they also tend to modify – with a considerable time lag – the power positions and interests of relevant actors, together with their perceptions and concerns of how to steer policy in new (and old) directions (Streeck and Thelen 2005).

The aftermath of crisis, I believe, has ushered in a period of transition, which can be demonstrated in a series of important policy changes and institutional adjustments. After the brief interlude of fire brigade Keynesianism in 2008 and 2009, the euro crisis in 2010 was swiftly branded a crisis of fiscal profligacy, requiring immediate ‘internal devaluations’ through welfare state retrenchment and labour market
deregulation in crisis-ridden economies. The impetus was to restore the stable money, \textit{ex ante} sound budget policy framework, in agreement with the highly decontextualised neoclassical economics textbook ‘one-size-fits-all’ approach to welfare retrenchment and labour market deregulation under EMU.

Since the onslaught of the sovereign debt crisis, we have observed impressive ‘economic governance’ change, including the introduction of the European Semester, the Six-pack and Two-pack, and the Euro Plus Pact, reinforcing stricter EU control of Member State public finances. A number of fiscal backstops have been introduced ad hoc under significant pressures from bond markets. In October 2011 the European Financial Stability Fund (EFSF) was ratified, and its successor, the more permanent European Stability Fund (ESF), became fully operational in 2013. The new ‘European Semester’ feeds into Member States’ national reform programmes (NRPs), meant to speed up recovery (Natali and Vanhercke 2012). Although the new monitoring procedures of real economic performance are a welcome half-answer to the predicament of intergovernmental drift, to this day privileged policy recipes have remained ruggedly pro-cyclical, thereby defeating the purpose of sustainable and inclusive growth as laid down in the Europe 2020 agenda.

While the Treaty on the European Union did not grant the ECB serious competences in financial sector supervision, a Banking Union with a single supervisor and a common bank restructuring mechanism is under construction. By the summer of 2012, finally, the ECB committed itself ‘to do whatever it takes’, in the words of Mario Draghi, by purchasing eurozone government bonds in the secondary market in an attempt to stave off new speculative attacks. Coined as Outright Monetary Transactions (OMT), this instrument in effect turned the ECB into a ‘lender of last resort’ (De Grauwe 2013).

These examples go to show that the E(M)U’s macroeconomic policy regime in recent years has undergone a major – although half-hearted, haphazard and incremental – change (Amato \textit{et al.} 2013). The initiatives of the European Semester and ECB economic stabilisation interventions can be interpreted as attempts to finally respond to the problem of deep interdependency of the eurozone economy with weak intergovernmental institutions, together with a deflationary bias at the
heart of the EMU construction. Sceptics could argue that fiscal bailouts, lender of last resort interventions, and timid steps towards a banking union only go so far as to stabilise the financial system, having little bearing on already weakened national social contracts and no serious implications for strengthening the social dimension in the Europe 2020 policy agenda.

I agree that the glass is more half-empty than half-full. But I do believe that the change from a single focus on inflation targeting and country specific austerity, towards fiscal, monetary and financial interventions, which can only be interpreted as testifying to an older Keynesian insight that economic stabilisation is more than pro-cyclical market deregulation and social retrenchment, is something for social actors in national and EU policy-making arenas to take seriously and actively try to build on, in an attempt to foster renewed social progress.

From this vantage-point, I wish to highlight three important silver linings in national and EU social policy practice and thinking, which can be made compatible with the recent macroeconomic shift, and which in conjunction may subsequently help to usher in a new socioeconomic policy synthesis between an integrated coupled currency union, and a growth-friendly macro policy of long-term stabilisation, allowing active welfare states to prosper economically as well as socially.

3.1 Changing welfare states

The first silver lining concerns the broad historical lessons that 1) inclusive welfare states are far from reform-resistant and 2) that the more generous and active welfare provisions are compatible with regional market integration and fiscal sustainability under a single currency (Hemerijck 2013). The onslaught of the euro crisis calls into question whether different varieties of welfare capitalism can really be made to operate under a single currency union. Peter Hall conjectures that EMU favours Germany and the Northern European export-led growth models, but that the demand-led economies of the Southern periphery are institutionally incompatible with a one-size-fits-all currency regime that cancels out strategic devaluation in the aftermath of domestic booms (Hall 2014). Reasoning from a welfare state perspective, with social protection spending accounting for 16 to 30% of GDP across
the EU, I am less sure about the institutional incompatibility of differently organised European political economies.

Since the late 1980s, a majority of European governments have come to enact a wave of social reforms to make their social policy systems more efficient and employment-friendly. The empirical record reveals that national social policy reformers have not been merely blind followers of the competitive retrenchment-deregulatory adjustment recipes espoused by the ECB, the European Commission and Finance Ministers. Far from it! Alongside retrenchments, there have been deliberate attempts to rebuild social programmes and institutions and thereby accommodate welfare policy repertoires to the new economic and social realities of the knowledge-based economy. The European welfare states’ gradual self-transformative change process is best told in terms of a sequence of cumulative policy alterations across a wide range of policy areas:

— In wage policy, wage moderation in many countries was pursued through social pacts among the trade unions, employer organisations, and government, often linked with wider packages of negotiated reform. The EMU entrance exam of the mid-1990s played an especially critical role in helping to forge national social pacts in the hard-currency latecomer countries, such as Italy, Spain, and Portugal, as an alternative to straightforward labour market deregulation and collective bargaining decentralisation (Avdagic et al. 2011).

— With respect to social insurance and assistance, most countries today preside over universal minimum income protection programmes, coupled with ‘demanding’ activation and ‘enabling’ reintegration measures, targeting labour market ‘outsiders’ such as young, female or low-skilled workers (Clasen and Clegg 2011).

— The area of employment policy saw a considerable increase from the 1990s onwards (Bonoli 2013), alongside social security activation, of spending on active labour market policies, and training and education servicing to improve life course employability.

— With respect to labour market regulation, several European countries have moved towards a greater acceptance of flexible labour markets, with new elements of security introduced for labour market outsiders, governed by more flexible employment relations (Schmid 2008).
For pensions, financing problems due to population ageing and lower growth have prompted the reversal of the trend towards early retirement policies, together with initiatives to promote longer and healthier working lives. A key shift has been the growth of (compulsory) occupational and private pensions and the development of multi-pillar systems, combining pay-as-you-go and fully funded methods, with relatively tight (actuarial) links between pension benefits and contributions, with a view to factoring in life-expectancy (Ebbinghaus 2011).

Family policy, covering childcare, parental leave and employment regulation, and work and family life reconciliation policies, has experienced a profound upgrade in both scope and substance (Lewis 2006, Orloff 2010).

Even though social spending has largely been consolidated at the levels reached in the 1980s, practically all advanced European welfare states have been recasting and reconfiguring their basic policy repertoires. The overall extent of change has varied widely across the Member States of the European Union. With their tradition of high quality child care and high employment rates for older workers, the Scandinavian countries performed particularly well throughout the past quarter century, both in terms of efficiency and equity. In the period leading up to the financial crisis, we also observed, however, reconstructive change in countries such as the Netherlands (social activation), Germany (dual earner family support), France (minimum income protection for labour market outsiders), the United Kingdom (fighting child poverty), Ireland (much improved education) and Spain (negotiated pension recalibration). In the process, European welfare states did not become the sort of lean welfare states that European central bankers and fiscal policy authorities in Frankfurt and Brussels hoped EMU would deliver; instead they became ‘active welfare states’ at higher-than-before levels of employment, some even with a competitiveness bonus attached to the new policy mix! In this respect, the employment-centered Lisbon agenda was a reform success. On the other hand, the Lisbon era revealed the growing inadequacy of welfare systems that singularly tried to hold on to passive social protection provision, especially in the Mediterranean region (Cantillon and Vandenbroucke 2014).
The overall experience in welfare recalibration in Austria, Finland, Germany, and the Netherlands, on the other hand, shows that a common currency can be made compatible with generous and inclusive welfare provision and balanced budgets. I would partly associate the halting of the reform momentum in the pension-heavy and segmented welfare systems of Southern Europe with the adverse effects of the incomplete construction of EMU and its weak governance structure, as well as homemade social failures to accommodate policy repertoires to the new economic and social realities of the knowledge-based economy. In other words, there are reasons to believe that today’s poorly performing Italian, Portuguese and Spanish welfare states are not per se structurally incapable of effective welfare recalibration under the umbrella of a single currency.

3.2 Long-overdue EU social investment reinforcement

The second silver lining, very much built on the experience of proactive and reconstructive welfare state recalibration, has recently culminated in the launch of the Social Investment Package for Growth and Social Cohesion by the European Commission in early 2013 (Vanhercke 2013, European Commission 2013a), which has been at the forefront of reclaiming the scope for social investment in the aftermath of the financial crisis. An emphasis on the productive function of social policy stands out as the distinguishing feature of the social investment perspective, highlighting policies aimed at preparing individuals, families and societies to respond to the new risks linked to a competitive knowledge economy, by investing in human capital and capabilities from early childhood through old age (Morel et al. 2012). The 2000 Lisbon Strategy, which committed the EU to become the ‘most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth and more and better jobs and greater social cohesion’, was already strongly influenced by the ‘social investment’ perspective. By 2005, however, with the mid-term review criticising the Lisbon Strategy for a lack of focus and the multiplication of objectives and processes, the social investment baby was thrown out with the bathwater.

The extensive background documentation of the Social Investment Package makes a strong case for social investment no longer being
dismissed as ‘fair weather’ policy when times get rough, which is what happened with the Lisbon Agenda. The overall message boils down to not allowing human capital to go to waste through semi-permanent inactivity, as was the case in the 1980s and 1990s in many continental European welfare systems. Given the ageing predicament, European welfare states are confronted with a formidable social investment challenge. A careful reading of the package reveals a quiet paradigm revolution. On various occasions, DG Employment, Social Affairs and Inclusion explicitly distances itself from the traditional stable money, fiscal austerity and structural reform paradigm by explicitly arguing that active social policies ‘crowd in’ economic growth and competitiveness, high productivity job creation and tax revenues, thereby reducing long-term fiscal pressures. In the context especially of demographic ageing, attention should not only be paid to social expenditure and the costs of ageing populations, but also to exploring and exploiting new sources of revenue from high-quality childcare in promoting talent, reducing early school dropout, and improving employment opportunities for adult family members, especially mothers. The Social Investment Package and DG Employment and Social Affairs break away from the negative theory of the (welfare) state by underscoring the key importance of activating social services as core providers for dual-earner families and labour markets. The problem in other words is not welfare spending, but in essence welfare state design.

Inspired by James Musgrave’s (1959) functional approach to public finance, the analysis supporting the European Commission’s Social Investment Package (2013a) identifies three key functions of social policy: macroeconomic stabilisation, income redistribution to support at-risk groups, and more future-oriented social investments. Musgrave’s public finance perspective, conceptualised in the late 1950s, is a good starting point for a functional policy analysis of social investment. At the same time, it does not and cannot take proper account of important subsequent changes in global economic relations, labour markets and family structures. Hence there is a need to expand and enrich the Musgrave framework. I distinguish between three interdependent and complementary welfare functions of social investment policy: (1) easing the ‘flow’ of contemporary labour-market and life-course transitions; (2) raising the quality of the ‘stock’ of human capital and capabilities; and (3) maintaining strong minimum-income universal safety nets as social protection and economic stabilisation ‘buffers’ in ageing societies.
The ‘buffer’ function aims at both securing income protection and distribution, and at the same time securing economic stabilisation. The ‘flow’ function is aimed at the efficient use and allocation of labour resources and their allocation over the life course. The ‘stock’ function is linked to the future productivity of labour inputs in ageing societies. ‘Buffers’, ‘stocks’ and ‘flows’ must be viewed interactively through the lens of the life-course contingencies of modern familyhood, within which gender equality and intergenerational solidarity are central concerns (Hemerijck 2014).

Adequate minimum income protection ‘buffers’ are imperative to any effective social investment strategy, as they help to mitigate social inequity while at the same time stabilising the business cycle. The function of ‘flow’ is to help bridge critical life course transitions from schooling to the first job, during the crunch hour of making a career while raising children, taking up additional training and lifelong learning to extend the transition to (flexible) retirement, while making it possible to take care of frail family members throughout the life course. The social investment function of labour market ‘flow’ should thus not be mistaken for one-dimensional labour market deregulation and social retrenchment. In early-childhood, childcare, and pre-school education the expected pay-off is highest. There are ‘multiple dividends’ at work. Quality childcare services, alongside effective parental leave arrangements, supported by appropriate tax and benefit incentives and active labour market policies, enable more parents to engage in gainful employment without career interruptions in terms of ‘flow’, creating additional job opportunities especially for mothers, thereby boosting household incomes, while at the same time helping their offspring to a strong start. At the more mature phase of the life course, high investment in lifelong learning is associated with more older worker employment participation and a higher average exit age.

As the risks of the life course and the labour market have fundamentally become less predictable – and thus less insurable in a strict actuarial sense – welfare states in advanced economies have to provide for enabling or capacitating social services not automatically provided for by markets, to better equip individuals and families and to mitigate the unanticipated hazards they face. The central importance of capacitating public services ex ante, a term coined by Charles Sabel (2012), tailored to particular social needs caused by life course contingencies, has
important consequences for our rather poor economic understanding of (public) service sector productivity, associated with the Baumol cost disease and service-sector trilemma exemplified above. A critical empirical problem is that the conjectures of Baumol and Iverson and Wren do not stand up to evidence of the competitive successes of Europe’s most service-intensive Nordic welfare states before and after the onslaught of the financial crisis. This is because their analytical conjectures are entirely ignorant of the important indirect effect of high quality employment-intensive capacitating welfare services as contributing in important ways to productivity growth in competitive private sectors, through the provision of high human capital inputs in terms of ‘stock’ and ‘flow’. The overwhelming empirical evidence compiled by DG Employment suggests that social investments, understood in terms of ‘packages’ of institutionally complementary sets of ‘stock’, ‘flow’, and ‘buffer’ policy provisions, mean that a far more effective use of available employment potential over the life course can be achieved, whereby the fiscal balance between outlays and revenues can perhaps be maintained despite a growing cohort of elderly citizens.

3.3 Socialising EMU

It is important to underscore that the social investment agenda is in essence a supply-side strategy and therefore cannot serve as a real alternative to an effective macro-economic policy. On the other hand, the more supply-side social investments are embedded in a credible macroeconomic policy framework, the higher and more robust are the social investment returns listed above. Under current conditions, to the eurozone member countries of the Mediterranean in dire fiscal straits and social malaise, the social investment message is entirely lost. Fiscal consolidation, prescribed by the Troika, MoUs, and the reinforced SGP, requires them to slash active labour market policies and retrench preventive health care programmes – a strategy which we know, in the long run, critically erodes job opportunities for men and women and thereby undermines the capacity of the economy to shoulder the ageing burden. This is where the third and final silver lining of the rekindling of the debate about a genuine ‘social dimension’ of the EMU, in line with the social investment prerogative, gains importance (Fernandes and Masauskaite 2013).
Over the past two years, the absence of a eurozone-wide counter-cyclical stabilisation capacity has slowly but surely come to be recognised as a critical design flaw in the EMU architecture. The euro crisis has revealed that stable money, sound finances, efficient markets and effective and productive welfare systems, as well as partaking in a currency union, do not shield Member States from adverse asymmetric shocks and trade imbalances. Under such conditions, counter-cyclical macro-economic management, rather than price deflation and wage flexibility per se, are more efficient in a situation with scarce human capital resources, supporting high unemployment in an ageing society. As such, the financial credit crunch and its euro crisis aftermath have brought home with a vengeance how important counter-cyclical management remains.

In December 2012, the European Council pressed its President Herman Van Rompuy to conceive a report on the social dimension of EMU in 2013, as part of the roadmap for a genuine monetary union. Next, on 28 February 2013, a little over a week after the launch of the Social Investment Package, the Council agreed to systematically address key employment and social challenges in the monetary union (European Commission 2013b). The June 2013 European Council then reached a consensus over monitoring and benchmarking social and labour market conditions in the ‘European Semester’ process, bringing together different strains of EU economic and social policy coordination under one umbrella, with the aim of increasing coherence across different policy instruments and heterogeneous coordination procedures. While the first AGS of January 2011 singularly underlined the need for fiscal consolidation and structural reform fully consistent with the EMU ex ante default policy regime, subsequent AGSs started to recognise that ‘tackling the social consequences of the crisis’ was a European priority.

Finally, on 2 October 2013, the European Commission issued an important Communication on Strengthening the Social Dimension of the Economic and Monetary Union, based on a scoreboard of social indicators for systematic social benchmarking, including unemployment rates and changes therein, the proportion of youngsters not in education, employment, or training (so-called NEETs), real disposable income of households, at-risk-of-poverty rates, and income inequality. Similarly to the Macro Imbalances Procedure (MIP), the scoreboard should alert policy makers in a timely fashion to looming social
imbalances, potentially undermining the viability and integrity of EMU. To the extent that capacitating welfare provision adds to economic competitiveness and social progress, it is in the interest of European policy-makers to support domestic authorities in maximising the return on social investments. What is therefore needed is a balanced macro-economic coordination process inciting governments to pursue medium-term budgetary discipline and long-term social investment reforms (Vandenbroucke et al. 2011, Hemerijck and Vandenbroucke 2012), by giving greater breathing space with tangible support to Member States that opt for social investment strategies based on well-defined Europe 2020 ambitions, while making maximum use of mutual learning. If the option of social investment only applies to the core rich economies of the eurozone, countries in the Southern periphery would remain entrapped in bad equilibria, thereby destroying the economic and political viability of the single currency.

Commissioner Andor and Council President Van Rompuy, alongside leading European economists such as Paul De Grauwe (2011) and Jean Pisani-Ferri (2014), have tabled proposals for improved countercyclical macroeconomic management for the eurozone. Some proposals emphasise a structured solidarity ‘interstate insurance’ instrument using Eurobonds, protecting Member States from self-fulfilling solvency crises, coupled with strong conditionality requirements to pre-empt moral hazard. Others argue for a European unemployment insurance scheme to mitigate asymmetric and symmetric business cycle shocks (see Fichter in this volume). I tend to advocate a macro-economic demand stabilisation device that incentivises Member States to pursue supply side social investment reforms in sync. In the context of the European Semester, it is essential for embattled countries opting for a social investment strategy to receive necessary support to enable them to move forward by taking on reform ownership. Conditional social investment contracts, bolstered perhaps by specially designed social investment project bonds, could be based on generous access to structural funds at low interests. Another strategy would be to discount social investments in national budget accounts, thereby exempting them from SGP deficit requirements.
4. Towards a currency union of active welfare states

I have opted to examine the deep fault lines in the European policy architecture, but also to explore a number of silver linings of progressive policy reorientation. These could act as ways out of the prevailing cul-de-sac of lecturing ‘profligate’ countries to redo their homework without considering the inherent design flaws in the EMU policy framework. The three silver linings – the already existing proactive and reconstructive welfare reform, the renewed endorsement of the social investment perspective by the Commission, and the rekindling of the social dimension of EMU – surely do not constitute silver bullets for overcoming the deeper fault lines of austerity deflation, intergovernmental drift, and raging national welfare chauvinism with which the EU is confronted today. They are merely hopeful seeds of policy redirection, at an early stage of gradual transformative change towards a more robust and sustainable European social market economy, as written down in the Lisbon Treaty. On the supply side, it is now beyond dispute that effective and efficient social investment, depending on its country-specific design and the scope of measures, incur ‘multiple dividends’. When it comes to demand, Pareto-optimal social investment returns press us to fundamentally rethink the larger macro-economic EMU policy framework. The decisive factor, however, will be the political resources and institutional backing that the EU is able to muster behind a novel macroeconomic policy regime, able to make high and robust social investment returns viable for the entire eurozone.

The euro crisis teaches us that the implicit permissive consensus is past its prime, that macroeconomic policy cannot best be determined at the supranational level in a currency union while social policy is best left to the policy space of the national state. The EMU construction was intellectually incomplete, institutionally weak, and unable to deliver positive output performance by upward social convergence. The austerity reflex has made the EU less inclusive and consequently more politically contested than ever before. Any successful attempt to save the euro today is politically bound up with the rescue of the welfare state as an integral part of the European construction. In their paramount contribution to the debate, Vandenbroucke and Vanherck (2014) draw the critical economic lesson from the euro crisis that managing deep interdependency in a currency union requires a
significant degree of social convergence (see Vandenbroucke et al. in this volume). The political implication of this conclusion is that EMU, more than ever before, is in need of a substantive political consensus on the social order that a monetary union should serve. This they coin a 'European Social Union', which should not be mistaken for a 'European welfare state' but rather denotes a systemic support structure at the EU level for national welfare state sustainability, based on a strong political commitment to a ‘caring and capacitating’ European social market economy as a common purpose, on a par with the complementary prerogatives of price stability and fiscal discipline over the economic cycle and free market competition.

References

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Various theoretical models of economic and monetary unification have been considered throughout the history of the European Community/Union: monetary union as the natural outcome of political union, monetary union as the trigger for political union, and monetary union without political union. The latter two models have been in a state of tension in recent years; the shortcomings of monetary union without political union were revealed during the recent financial and sovereign debt crisis. In order to address the crisis without setting off down the route of political union, European leaders set up a system of procedures known as the ‘European Semester’ to encourage eurozone Member States in particular to adopt economic and social policies marked by budgetary rigour, fiscal consolidation and structural reforms. In these processes, a key role is played by the ‘country-specific recommendations’, addressed each year to the Member States.

In the following paragraphs, we will begin by describing the three main policy dynamics underlying the different models of economic and monetary union (EMU). These dynamics influence the architecture of monetary union and, in our view, they also influence the resulting social model. Right from the outset, then, the choice of model is not a neutral one.

Secondly, we shall see how these different dynamics have developed, and which political preferences they reflect. Our hypothesis is that in the wake of the financial crisis of 2008, the ensuing ‘euro crisis’ reaffirmed the move away from a model of EMU backed up by a form of political union towards another model, without political integration but governed by the market. This shift, or transformation, is the result of a threefold change: in ideas (policies to be implemented), institutions (whose role would change in the new governance system) and in the
interests of the relevant players (a growing divergence between groups of countries – North, South, centre, periphery, Central and Eastern Europe, Western Europe, etc.)

We will then consider the consequences of this transformation on social models at national and European levels. These consequences are not so much linked to the crisis itself, but are, rather, inherent to that one particular vision of how economic and monetary union should operate. In our hypothesis, the crisis merely acted as a window of opportunity for the proponents of a deregulatory form of monetary union.

Finally, we will conclude by drawing attention to the points of coherence, but also to the inconsistencies, contradictions, power struggles and possible changes of paradigm that rule out any suggestion of a foregone conclusion.

1. Theoretical frameworks and institutional dynamics

As shown by Verdun (2013) and Schelke (2013), it is possible to characterise different institutional dynamics linking economic, political and monetary integration from an economic standpoint. We shall attempt to summarise the various theoretical frameworks which have underpinned these dynamics in relation to the development of EMU, as well as their implications for the social model. Basing ourselves freely on the debates among economists, we will elaborate three schematic models of possible modes of interaction, while explicitly incorporating the social dimension into the overall picture (for a more extensive description see Degryse and Pochet 2013). This will allow us to examine the political choices behind these various models.

1.1 Monetary union as the natural outcome of political union

The different sequences in accordance with the first dynamic are as follows. During an initial period, the aim is to achieve real convergence of production structures among those Member States wishing to take part in the monetary union; this entails the need for deeper economic integration. Once adequate convergence of policies, including wage and social policies, has been achieved, it is time to move on to a second
stage, to make a democratic leap, so to speak, and to create a political union as a means of achieving a greater degree of solidarity among states. Finally, this integration of the real economies and this political union enables the last stage of the construction to be completed in the form of a monetary union. In the view of Pierre Werner, former Prime Minister of Luxembourg and the author of the first report on monetary union: ‘the realization of economic and monetary union demands the creation or the transformation of a certain number of Community organs to which powers until then exercised by the national authorities will have to be transferred. These transfers of responsibility represent a process of fundamental political significance which implies the progressive development of political cooperation’ (Werner 1970). In this federal-type model, therefore, political, economic and social convergence is one of the (many) prerequisites for monetary union.

1.2 Monetary union as the trigger for political union

According to the second dynamic, political, economic and social integration is also linked to monetary union, but it is a gradual consequence of this and not a precondition. In this scenario, the monetary union is constructed on the basis of formal criteria – in particular, the well-known public deficit and public debt criteria – which allow selection of only those countries that are in a position to endure the constraints inherent in the process. Governance by indicators is regarded as a means of ‘forcing’ real convergence of the economies. This is a form of convergence that also requires solidarity mechanisms (use of structural funds, creation of a convergence fund, increased community budget) and, in fine, political integration (adoption of a European constitution). Within this model, social convergence, while representing an essential component of the project, is not assumed a priori – for example in relation to centralisation, decentralisation or coordination of collective bargaining (cf. Calmfors et al. 1988 and the many ensuing discussions on the relative effectiveness of the structures of industrial relations, cf. for example Traxler and Kittel 2000) – and is hence dependent on democratic debate.
1.3 Monetary union without political union: procedural governance and the ‘recalibration’ of social models

The third model also takes as its starting point the fact that monetary union needs to force economic union, but it regards as impossible – even undesirable – the creation in the medium term of a true political union. Monetary policy therefore has to be immunised against political decision-making (i.e. the outcome of democratic debate) and entrusted to independent experts. In the absence of adjustment instruments achieved through political integration and solidarity, this approach is focused, therefore, on adjustment through the market, implying flexibilisation of social policies at national level (decentralisation of wage bargaining, flexibilisation of hire-and-fire arrangements in particular, reduction of replacement income), increased mobility of the labour factor at intra-European level, and governance through the observance of procedures and formal rules devised by experts (‘European Semester’, budgetary discipline, etc.), under threat of automatic sanctions, in other words without, or with only extremely limited, margin for political interpretation. Under this model, the monetary union governed by rules and procedures requires a decentralisation and ‘flexibilisation’ of the social model, which becomes an adjustment variable in the event of asymmetrical shock.

Although the presentation of these models is highly schematic, they are abstract sequences and not totally linked to specific writings or authors.

2. From one model to another

The first approach – monetary union as the natural outcome of political union – enjoyed its heyday in the 1970s. It can be found in the draft Werner Plan, which stated that ‘the complete monetary unification of Europe was to be expected only as the outcome of a more protracted process of political union’ (Werner 1968). Analyses published at the time (Marjolin report 1975 and McDougall report 1977) presented the main features of the approach that envisaged monetary union as the final stage of an economic, social and political sequence. With the crisis of the euro, this vision has, to some extent, returned into the public debate, with some economists – mostly, but not exclusively, Americans (Eichengreen 2012) – arguing that there is a basic fault in the construction
of EMU. This approach no longer has political currency because EMU has, in its present form, followed a different path.

The two other approaches have been in a state of mutual tension over the last twenty years. In the first of these two approaches, it is possible to recognise the sequence of reforms followed in the European Treaties. After the architecture of economic and monetary union outlined in the Maastricht Treaty (1992) with its model of strong federal governance for the monetary aspect and of weak and procedural inter-governmental coordination for its economic aspect, the Amsterdam Treaty (1997) sought to add a coordinated ‘employment’ dimension. This dimension was later extended to other social policy areas by the use of Open Methods of Coordination – OMCs – in the social sphere in the early years of the 21st century. After this, the political dimension was debated between 2000 and 2005 in the context of the draft constitutional treaty. The aim here was real economic, social and political convergence in the long term but also the construction of a European demos, in other words a European identity, by way of a constitution.

Our hypothesis is that this approach to economic and social convergence by way of political integration was deliberately undermined as from 2005 in favour of a model based on market-driven convergence within monetary union: convergence, in other words, without political integration but by way of deregulation. The theoretical underpinnings of this model were in place even back in the 1990s, but 2005 represented, as we shall see, a turning point. From 2008, with what would become the euro crisis, strategic actors who supported this approach paradoxically found a way of using this crisis to make their mark, at the same time as the crisis could be seen as revealing the lack of stronger political integration within the eurozone. It is the theoretical underpinnings of these models and their interactions that we set out to describe in the following sections.

2.1 Monetary union and attempted socioeconomic convergence by way of political integration

In the 1990s, and in the context of preparation of monetary union, a series of political, social and trade union actors, aware of the risk of social policies being turned into an adjustment variable in the case of economic shocks in the eurozone, sought to develop a genuine social
dimension of economic and monetary integration (Goetschy 2005). This explains why the first ten years of monetary integration gave rise to certain developments in the social sphere that might appear surprising, above all in the light of the substantial weight and influence wielded by the group of experts who supported social policy deregulation (Serrano Pascual 2009).

The period, between 1995 and 2004, that might be described as the ‘social moment’ is the result, on the one hand, of a critique of the Maastricht Treaty, which was regarded as unbalanced in the employment and social policy field as compared with the more developed aspects of monetary union, and, on the other hand, of the coming to power in the Member States, as of 1995, of a majority of centre-left parties (Manow et al. 2004). The period in question was characterised by structural reforms (see below), but the difference between then and now is that these reforms were subject to negotiation.

At the European level, this ‘moment’ really began with the Amsterdam Treaty (1997) and the European Employment Strategy initiated by it. The process was taken further with the Lisbon Strategy (2000-2010) and the development of the open methods of coordination in a range of social policy fields (employment, poverty, pensions, etc.) (Pochet 2005).

At the national level, the 1990s also saw the conclusion of numerous national social pacts among political, economic and social actors (Pochet and Fajertag 2000, Pochet et al. 2010). In the majority of EMU accession countries a great deal of thought was being given during this period to the new framework of constraints represented by monetary union, particularly in relation to inflation and wage policy – including the national-level structuring of collective bargaining (Pochet 1999). This process of reflection led to attempts at institutionalisation by means of social pacts – in most cases, with the exception of Belgium, for countries outside the DM zone.

In parallel, different forms of wage coordination were emerging at the European level. On the cross industry level, the European Trade Union Confederation (ETUC) set up a working group on wage coordination, based on an explicit mandate received at its Helsinki Congress in 1999. It adopted a first resolution on this subject in 2000 (ETUC 2000). At the sectoral level the European Metalworkers’ Federation (EMF) and
the Textile Workers’ Federation (ETUF) both adopted, towards the end of the 1990s, guidelines for national negotiators (EMF 1998). At a transnational level, the ‘Doorn group’, including trade unionists from Germany, Belgium, the Netherlands and Luxembourg, (subsequently joined by the French), held annual meetings to evaluate the results of their collective bargaining in the light of the previously-agreed ‘inflation-plus-national-productivity’ formula (Pochet 1999; for a general overview Glassner and Pochet 2011). Some authors perceived this development as the emergence of a multi-level industrial relations system (Freyssinet 1996, Marginson and Sisson 2004).

The years between 1995 and 1999 were also the ‘golden age’ of the European cross-industry social dialogue. These years saw the negotiation of the only three (so far) framework agreements on labour market regulation (parental leave, part-time work, fixed-term contracts) that were turned into directives, and which became, in other words, legally binding.

Finally, the year 1999 saw the creation of the European macroeconomic dialogue, the purpose of which was to organise a dialogue between the social partners, the European Central Bank (ECB) and the European Commission. Several authors in those years gave consideration to the interactions between monetary policy and labour market institutions and actors (signaling process) (Hall and Franzese 1998, Martin and Ross 2004, Hancké 2013).

The end of the 1990s was also the time of the creation of a set of open methods of coordination (OMCs) in the social policy field (health care, pensions and poverty) with a common methodology based on regular reporting, benchmarking and recommendations. These OMCs were coordinated by the Commission’s Employment and Social Affairs DG and brought together a number of different governmental and non-governmental actors in a cluster of specialised committees (EPSCO, EMCO).

As noted by one of the academics best informed about the developments of EMU, Kenneth Dyson, ‘The ECB-centric eurozone policy community had to absorb and accommodate the so-called Luxembourg ‘process’ – with its annual employment guidelines and national action plans and the Cologne ‘process’ – the Employment Pact and the
macroeconomic dialogue. These developments opened up the dialogue about EMU by transforming the definition of who was in the policy domain’ (Dyson 2002: 101). This same period witnessed also the attempt to enshrine monetary union within a European constitutional treaty and a European charter of fundamental rights. In this paper we will not go into detail as to the content – which was controversial – of these texts; what interests us here is the general dynamic that underpinned them at the time.

This dynamic of political union and strengthened socio-economic coordination was brought to an end by France’s and the Netherlands’ rejection – by referendum – of the draft European constitution. Similarly, the social dynamic was halted from 2005, with, notably, the publication of the Kok report, entitled ‘Jobs, jobs, jobs’ which had been commissioned by the European Commission and which refocused the whole debate on growth, competitiveness and flexibility. Four years later, the euro crisis heralded the possibility of a new narrative – focused on excessive public debt, the burden represented by the social model, wage rigidities, etc. – that was to be exploited by the proponents of a market-led monetary union.

On the political front, the European elections of 2004 saw the moderate right-wing group EPP-ED win a sweeping victory over the socialists, who did much more poorly than in the previous elections1, while the liberal parties did much better. As of 2005, the Commission was led by the centre-right, with the presidency of José Manuel Barroso. In the autumn of 2005, Angela Merkel won the elections in Germany. Silvio Berlusconi was in power in Italy and Jacques Chirac in France, the latter soon to be replaced by Nicolas Sarkozy. More generally, between 2005 and 2012, the balance of power in the Member States was increasingly in favour of the right and centre-right; to such an extent that by March 2012, only three out of 27 Member States – Denmark, Austria, Cyprus – were governed by left-wingers, while one, Belgium, had a left-right coalition led by a socialist prime minister2. At the end of

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1. From receiving 34.9% of votes in 1994, their share fell to 27.3% in 2004, and to 25% in 2009. In other words, over a fifteen year period, the European Socialists’ share of the votes fell by 10%.
2. Since then, the centre-left has been making slow progress (Italy, Czech Republic).
2004, by contrast, twelve of these governments had been left-wing or centre-left in orientation.

2.2 Political integration abandoned: towards market-driven convergence

It was in this political context that the social developments of the 1990s and early 2000s were gradually unravelled. After a pretty sharp turn starting in 2005, the social OMCs were weakened in favour of a vision that gradually brought an economic approach back into the centre of European public policies and discourse.

From 2004 to 2010, the national social pacts were gradually abandoned, as were the national debates on the constraints represented by EMU. This is an undoubtedly important aspect that, to date, has been insufficiently investigated (Pochet et al. 2010, Advanic et al. 2011). Attention should also be drawn to the case of Greece, where EMU entry took place in the absence of a social pact and without giving rise to the development of a strong institution of coordination in the 2000s (Ioannou 2012). This may be the reflection of the spirit of a period during which EMU appeared to be such a success that it did not require, or no longer required, national and European institutions. Ireland and its dynamic growth, Spain and its millions of newly-created jobs, had become key references in terms of economic and employment success.

Might it be that, as from 2004-2005, this economic ‘success story’ of the eurozone created the illusion – at least until 2008 and the euro crisis – that market-driven convergence is more efficient than convergence by means of economic and social coordination? It may perhaps be appropriate to describe the proponents of this market-driven convergence as ‘hyper-realists’, in the sense that they believe that no alternative arrangement will ever work: that the single currency will never lead to an increase in solidarity among Member States and even less to any form of political union, and that markets alone can ensure

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the requisite convergence towards equilibrium within the monetary area.

The proponents of this option have, since Maastricht, advocated a change in the very function to be performed by social policy within the eurozone (Jepsen and Serrano Pascual 2005). This change would, according to them, come about in a virtually mechanical fashion in an EMU that, politically speaking, was incomplete and that it was no doubt impossible to complete. It is highly instructive, in this respect, to look back at the work of Amy Verdun, who, back in the mid-1990s, conducted interviews with central bankers, the finance ministers, and the head of the main employer organisations in three countries (France, the United Kingdom and Germany). The few quotes reproduced below serve to summarise their standpoints and to indicate the nature of their arguments in favour of a socially deregulatory monetary union: ‘Experts argued that they favoured EMU exactly because it would lead to a process of harmonization through market forces. EMU would offer legitimacy for restructuring the expensive welfare states’ (Verdun 1996). Jean-Claude Trichet, who subsequently, in 2001, was to become the ECB President, stated: ‘EMU certainly stimulates structural reform in the labour market. With increased capital mobility and a better functioning single market, firms will become more and more sensitive to overall labour cost differentials and business regulation in choosing a particular location in the eurozone. They will therefore exert a considerable pressure for appropriate reforms’ (Trichet 2001).

Gros and Thygesen, two eminent economists, specialists in monetary issues, summed up the thinking of numerous economists at the time and still today: ‘In sum, labour market flexibility is always useful and if EMU forces labour market reforms that are needed anyway, the economy of the EU can only gain’ (1998: 288). The greatest pressure of all, however, was to be exerted on wage bargaining. As indicated already by the Padoa-Schioppa report (1987: 43): ‘The principle of subsidiarity recommends minimal responsibility on the part of the Community for many aspects of social policy, but the question of convergence of labour costs is vital in the context of increasing monetary integration’.

These few references demonstrate that the austerity policies and structural reforms currently underway are not in any way linked to the euro crisis, contrary to the assertions of the great majority of national
and European political leaders, but are programmed into the genes of a specific vision of monetary union. As mentioned above, reforms were not absent from the first phase of monetary union and its ‘social moment’, but these reforms were negotiated (Pochet and Fajertag 2000).

From the middle of the first decade of the 21st century, a series of initiatives would be undertaken by the ECB, DG Ecfin and the Economic Policy Committee (EPC) (a forum for national experts) in order to consolidate the theoretical framework linking together labour markets, wages and the euro. These included working groups, networks, publication of working papers and other studies, etc. (Degryse et al. 2013). Between 2005 and 2010, this group of actors brought about and developed an extremely sophisticated arsenal of products in order to analyse the likely impact of labour market reforms, wages and monetary union. By contrast, the authors who between 1995 and 2004 had been writing on these subjects from a more ‘social’ standpoint (Hall, Soskice, Hancké, Rhodes, Pochet, etc.) turned their academic focus elsewhere.

When the financial crisis broke out in 2008, an initial response was to call into question the concept of self-regulating markets. However, very soon the transformation of the crisis of bank debts into a crisis of public debt was a chance for these well-prepared strategic actors to put their ideas into practice and alter the function of social policy so that it became the main adjustment variable in the eurozone. Adjustments, particularly in terms of competitiveness and productivity, were henceforth, according to them, to take place by way of wages, labour law and social security. This is the principle of internal devaluation, the application of which to Greece has achieved the status of an archetype.

At the same time, one actor took on a central role: the ECB and its two most recent presidents (Jean-Claude Trichet and Mario Draghi) made creative use of the instruments at their disposal in response to the risk that the eurozone might break apart. This endowed them with an increased power of influence. The ECB, the most independent central bank in the world, indicated what national structural reforms were required in return for its intervention on the sovereign debt market. This involvement went as far as the central banker sending, in secret, letters to (the Italian and Spanish) governments, detailing the list of reforms to be adopted. To some extent, the ECB took de facto control,
then, of the reins of economic and social policy coordination within the eurozone. It took over the post left empty by Maastricht and the national governments, of economic governance of the eurozone.

3. Financial crisis and dismantling of the social model

What are the consequences of these changes? The most important change is that the traditional appeals for ‘structural reforms’ expressed in texts that tended to be rather ineffectual (BEPG) have, under the new arrangements, taken on much stronger force, and are even binding in those countries receiving European financial assistance. Below we will see that things appear in a very different light depending on whether the state to which injunctions are addressed is a member of the eurozone core and the model of coordinated capitalism, or whether it belongs to the periphery, to the set of countries most hard-hit by the financial crisis (Regan 2013). We will then examine how social and labour market policies are regarded by this strengthened form of economic governance. This we will do by taking a close look at the some of the Country-Specific Recommendations (CSR). Finally, we will ask a number of questions about the new instruments of governance, and the extent to which they are able to contribute to the national reforms.

3.1 Social policy and country-specific recommendations (CSR)

The CSRs are at the heart of the new European economic governance system. These recommendations are the result of a complex process which generally begins in November with the publication by the Commission of a report entitled the ‘Annual Growth Survey’ (AGS). This document presents the challenges and priorities for the EU for the coming year. It is followed, the next spring, by adoption of the National Reform Programmes (NRPs), and by the Commission’s evaluation of the performance of each Member State.

The CSRs focus on the structural reforms likely to strengthen growth and competitiveness, and the Member States are supposed to incorporate the recommendations issued into the National Reform Programme for the following year. They are drawn up by the Commission,
discussed with the Member States and adopted, in principle, each July by the European Council.

Formally, the CSRs are recommendations, but the expectation is nonetheless that they will be followed up. They become more binding for countries of the eurozone insofar as they are linked to the risk of sanctions under the excessive deficits procedure or the excessive macroeconomic imbalances procedure.

In certain circumstances, the CSRs have made policy coordination and the soft approach to social policy more rigid, virtually compulsory, despite minor changes to the treaties in relation to social aspects. This potentially radical change in how social policy is dealt with at European level was introduced by the earlier agreement of Member States to better coordinate their economic policies, including those related to the labour market and social protection (Jepsen and Serrano Pascual 2011).

Clauwaert (2013) has carried out an assessment of the number of social recommendations included in the total CSRs received by each country. The countries subject to a Memorandum of Understanding – Greece, Portugal and Ireland – do not receive CSRs, so they are not listed in the table below.

An immediately striking feature of this table is the high number of social CSRs, amounting to more than 40% of the total. Recommendations linked to increasing labour market participation (especially for women and older workers) and to raising both the actual and the statutory retirement age are given to most Member States. Very few states are recommended to ensure the provision of comprehensive and adequate social protection for their citizens, despite the fact that poverty is increasing and social protection is losing some of its effectiveness as the crisis drags on (European Commission 2013). Hence the CSRs define the nature of the common challenges entailed by the social models and recommend how they should be tackled. This is not in itself new. This approach started at the end of 2000 when emphasis was placed on how to define common problems and how they could be solved (Jepsen 2009). What is new, however, is the instrument and the process by which this approach is currently being furthered.
Table 1  
Overview of the total number of CSRs per country compared to the social CSRs for 2011-2012, 2012-2013 and 2013-2014

<table>
<thead>
<tr>
<th>Country</th>
<th>CSRs 2011-2012</th>
<th>CSRs 2012-2013</th>
<th>CSRs 2013-2014</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Social</td>
<td>Total</td>
</tr>
<tr>
<td>AT</td>
<td>5</td>
<td>2</td>
<td>7</td>
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<tr>
<td>BE</td>
<td>6</td>
<td>3</td>
<td>7</td>
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<tr>
<td>BG</td>
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<td>CY</td>
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<tr>
<td>CZ</td>
<td>6</td>
<td>3</td>
<td>6</td>
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<tr>
<td>DE</td>
<td>4</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>DK</td>
<td>5</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>EE</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>ES</td>
<td>7</td>
<td>4</td>
<td>8</td>
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<tr>
<td>FI</td>
<td>5</td>
<td>2</td>
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<tr>
<td>FR</td>
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<td>4</td>
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<td>HU</td>
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<td>LT</td>
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<td>LUX</td>
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<td>MT</td>
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<td>NL</td>
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<td>PL</td>
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<td>RO</td>
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<td>SE</td>
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<td>1</td>
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<tr>
<td>SI</td>
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<tr>
<td>SK</td>
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<td>3</td>
<td>7</td>
</tr>
<tr>
<td>UK</td>
<td>5</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>117</td>
<td>54</td>
<td>138</td>
</tr>
</tbody>
</table>

Source: Clauwaert (2013).

The CSRs reflect a particular concept of the European economic model, insofar as they are focused on growth and competitiveness, while neglecting what constitutes the principal role of social policies, namely to provide some protection to citizens against social risks, while maintaining social cohesion and ensuring some degree of redistribution (Jepsen 2009).
### Table 2: European Commission Country-specific recommendations 2012-2013 (social field only)

| Category                        | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | HU | IT | LT | LU | LV | MT | NL | PL | SE | SI | SK | UK |
|--------------------------------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| **Wages**                      |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| reviewing wage indexation      |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| reviewing wage-setting system - align with productivity developments |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **EPL**                        |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| adjusting Employment Protection Legislation |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| enhancing participation of women |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Labour market participation** |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| enhancing participation older workers, promoting active ageing, LLL |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| reducing tax disincentives for second earners |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Youth employment**           |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| facilitating transition school to work by incentives for companies to hire young people |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| facilitating transition school to work through apprenticeships and work-based learning |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| reducing school/education ‘drop outs’ |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Pensions**                   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| explicit link between pensionable age and life expectancy |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| reducing early retirement      |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Vulnerable**                 |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| ensuring the adequacy and coverage of social protection systems |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| access to quality social services |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| better targeting social assistance |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Child poverty**              |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| making child support more effective |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| facilitating access to childcare services |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Tax**                        |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| shift away from labour, with focus on low income earners |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |

Source: Clauwaert (2013), on the basis of European Commission Country-specific recommendations 2012-2013; note that GR, IE, PT and RO did not get specific recommendations but were in general recommended to implement their respective Memorandums of Understanding (incl. any subsequent supplements).
This view takes it as read that growth will lead naturally and in a quasi-automatic fashion to a general reduction in these social risks (unemployment, poverty, etc.). However, the last three decades have shown that this logic does not always prevail, in Europe or the United States, when growth is hijacked by an ever smaller number of actors. Recent research (Alvaredo and Piketty 2009, Reich 2007, etc.) tends to show that the drive to be competitive adds to precarity rather than mitigating it. This raises the question as to whether the current approach taken by the CSRs might not be helping to heighten social risks in Europe, rather than reducing them.

A careful reading of the CSRs on pensions, labour market and labour law leaves no doubt as to the intended direction of the reforms advocated, even though the formulations in 2013 are less rigid than was the case in 2012. The following paragraphs present an analysis of the formulation of certain CSRs, and identify more precisely the overall sense of the reforms proposed.

a) Pensions

Most of the recommendations on pensions establish a link between statutory retirement age and life expectancy, seeking thereby to create automatic rules that would reduce the political risks entailed by pension reforms. The European Union – and, in particular the Ecofin Council – has for almost 20 years been sensitive to the sustainability of public finances and to the risks entailed by spending on pensions; the raising of the statutory pension age is a recommendation that has been repeated time and time again (Natali 2009). This recommendation has given rise to controversy in some countries where alignment of the actual retirement age with the statutory retirement age was the main aim (or in countries where the low employment rate of the over-55s constituted the main problem).

While these concerns are still raised in the CSRs, there is a clear and unified recommendation to increase the statutory retirement age in line with life expectancy, a recommendation that appears at odds with the chronically difficult labour market situation experienced by older workers. The strategy would thus appear to be focused exclusively on cost containment, and therefore on the need for controls on public finance4.

4. The European Commission classifies the recommendations on pensions and health care as linked to public finances and not to the labour market or to social policy.
b) Labour market

Labour market participation is the second major subject of concern encountered in the CSRs. Most countries have received a recommendation concerning activation, whether in general or in relation to measures geared to specific groups, such as the long-term unemployed.

In general, these recommendations are concentrated on strengthening the capacity of the public employment services to supply adequate levels of service, and also on the links between social benefits and the social assistance system and the activation measures.

The emphasis is also placed on increasing incentives to labour market participation by means of reform of the tax/benefits system, in particular as it applies to low wages. This question of activation and of the disincentives stemming from the tax/benefits system is a topic that has been on the European agenda for a long time. A consensus is emerging from research that, in spite of a rather inconclusive direct impact of OMCs on national reforms (Lelie and Vanhercke 2013), the European level has been invoked for the implementation of activation measures in the various Member States whose governments have used the coordination processes placed at their disposal. With regard to the CSRs and their follow-up, it seems that the 2013 crop of recommendations is more diversified, more sensitive to local contexts and less unidirectional than in the two previous years. What is still lacking, however, is consideration of the “demand” side. The recommendations are completely focused on supply-side policies, sometimes going so far as to urge a reduction in public sector employment.

In some cases, an increase in the numbers of child-minders is recommended as a means of raising women’s labour market participation. This policy approach is not new, but is a follow-up to earlier recommendations along similar lines.

c) Labour law

The last field analysed is that of labour law. Without going into detail, recent research has shown a clear link between the CSRs and reforms in the industrial relations sphere and in labour law generally. (Clauwaert and Schömann 2012, Laulom et al. 2012, Hermann 2013, Escande Varniol et al. 2012, for Italy see Sacchi 2013). This is particularly the
case for countries experiencing major economic difficulties, or those subject to Memorandums of Understanding.

It is not indeed methodologically possible to establish any unequivocal distinction between the European influence and other forms of influence; what is important is to analyse the general thrust of the reforms recommended and to consider their impact, alongside all the other forms of pressure applied in the same direction (Pochet and Degryse 2012).

3.2 New institutional roles

In light of these new governance mechanisms put in place as a result of the euro crisis, can we say that the EU has entered a new era of social policy coordination? To provide an evidence-based answer to this, we must consider two further questions: a) what real and tangible influence will these mechanisms exert on the design of national social models, and b) how will the European institutions – in particular the Commission and the ECB – but also the financial markets (which have now implicitly become players in their own right in the governance of the euro) carry out their new roles?

a) It is clear that social questions are right at the top of the political agenda and have a central role in the CSRs, and that the latter adopt a consistent approach as to the function of social policies. However, the three consecutive years of the ‘European Semester’ (2011-2012-2013) have shown, so far, that this is a system in progress. There are ongoing struggles among actors and conceptions, even if there is no doubt as to which are the dominant messages for the moment. There is a stronger normative direction than previously, aimed at increasing the sensitivity of social policies to market forces.

The central question is really that of knowing to what extent these recommendations are binding and impossible for the national governments to elude or disregard. How do these recommendations affect and interact with national reforms, more closely associated with domestic dynamics?

The CSRs undeniably give strong support to the position of the proponents of deregulatory reforms in the Member States; to some
extent they exert pressure from above on national democratic discussions, and very much help to direct these discussions. The recommendations give the impression that there is a European ‘right way’ to carry out reforms; they thus carry considerable weight.

It is true that not all EU countries are affected to the same extent by these calls for structural reforms. Countries that, at least for the time being, are much less affected by CSRs on collective bargaining are the Benelux countries, Austria, Germany and the Scandinavian countries, i.e. those countries that constituted the heart of the DM zone in the 1980s and 1990s. The reforms in the area of social protection, by contrast, affect all countries, one reason for this being that their introduction is generally associated with national domestic dynamics of population ageing. Moreover, from a purely legal angle, only those recommendations based on Article 121 (2) of the Treaty (BEPG), implementing the corrective aspects (Article 121 (6)) related to the ‘Six-pack’, may result in sanctions if not followed. The employment-related recommendations, based on Article 148, do not lead to sanctions if disregarded.

In any case, what is quite clear is that the strengthening of the system of economic governance has brought about new forms of interrelationship between the EU and the Member States (de la Porte and Heins forthcoming).

b) As well as these new procedures and new instruments, the role of certain actors is changing. As a result of the crisis, the financial markets have become players in their own right in the new European governance system: by issuing differing credit ratings for individual Member States, by increasing economic instability, but also by immediately punishing any uncertainty by means of the famous ‘spreads’.

The ECB is an external agent taking part in discussions, but, above all, creating the conditions for its ‘independence’ from political powers and for its credibility vis-à-vis the markets (Buiter 2008). One of its strengths is that the conditions for changing its statute (28 unanimous votes) are almost impossible to meet. It did, however, step out of its isolation and became explicitly part of the new structures (Troika). This was the counterpart of the fact that the ECB, in the absence of any
credible coordinated political response, became the only body capable of exerting influence on the financial markets. It agreed to take on this role in exchange for the guarantee that the EU would oversee developments in those countries that had run adrift. The ECB’s new position was therefore right at the centre of gravity of the normative apparatus, located mid-way between the markets and the political sphere. As pointed out by Torres: ‘For the ECB, this “invasion of other policy domains” – by calling for sound economic policy management, in particular in the fiscal domain, for structural reforms and for reinforced economic governance in general – is motivated by the fact that the euro area is at the epicenter of sovereign debt crisis.’ (2013: 293-4)

The financial support mechanisms, macroeconomic imbalance procedures and country-specific recommendations result in greater imposition of prescriptive norms. As we have seen, the ECB and DG Ecfin have increased their knowledge of labour markets (and of the national reforms) and are in a position to exert much stronger and more precisely-targeted pressure than was previously the case, partly because of their greater expertise, but above all because the crisis has placed the ECB at the centre of the stage: mid-way between the markets, which it has managed to reassure, and the political actors, whom it tells what they must do to ensure that the markets remain calm and so that the ECB will take action to stabilise the system in the event of crisis.

There is, however, an imbalance in this prescriptive approach. Just looking at the example of pension systems, the fragile political balances struck between the social and financial aspects of these systems disappear and are replaced by prescriptive indications based solely on their financial sustainability: a lengthening of working life and a later statutory retirement age. Not all Member States are willing to leave the initiative to the EU. The countries receiving financial assistance, however, are subject to much greater constraints, and the reforms required are set out in much more detail.

The following stage, not yet completed, is that of the ‘contractual arrangements’, by means of which the States formally undertake, vis-à-vis the Commission and in exchange for financial assistance if necessary, to implement the structural reforms on pain of sanction.
This idea is taken from a report by the four presidents (Commission, European Council, ECB and Eurogroup), which signifies, here again, a more direct commitment on the part of the Commission and the ECB to more binding solutions.

Let us emphasise in passing that these recent developments have indeed caused concern in those involved in work-related issues – fears, above all, of the European institutions ‘intruding’ in the autonomy of the collective bargaining process and in national social dialogue (in some countries, at any rate). The European trade union movement, therefore, is trying to define an alternative to this model of procedural governance based on deregulatory reforms. Currently, the text that best describes this alternative is the ‘Plan for investment, sustainable growth and quality jobs’ 5, presented by the European Trade Union Confederation (ETUC) on 7 November 2013. This plan, by means of the institutional arrangements and financing it proposes, would reintroduce a certain prospect of political union into economic and monetary union.

Be that as it may, time will tell how Member States react to the new procedural governance system being put in place, how and whether they will act on the specific recommendations addressed to them, and how they will reform their social models in reaction to the European requirements. It is clear, however, that if these reforms are carried out on the basis of the CSRs, the European Union will have entered a new era of social policy coordination.

**Conclusions**

The imbalances in the institutional structure of economic and monetary union as adopted under the Maastricht Treaty (and as the result of a political choice ‘by default’) were able to be redressed in the 1990s and early 2000s by the conclusion of social pacts in the Member States, but also by social strategies put in place at the European level that included the development of the European social dialogue, the European employment strategy, the Lisbon strategy, the open methods of

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coordination in the fields of pensions, health care, and so forth. The economic and monetary union thus had, to a certain extent, its social dimension, even if this was weak, contradictory and fragile.

From the middle of the decade of the 2000s, this dimension was subjected to a first phase of dismantling with the arrival in power in most of the European capitals of governments of the centre-right and right, as well as the arrival of the new European Commission with Mr. Barroso as President. The open methods of coordination were gradually voided of their substance, the European social dialogue was no longer fed, the social goals of the Lisbon Strategy were neglected, and few new European legislative initiatives were taken in the social policy field.

In the wake of the financial crisis that exploded in 2008, what little remained of the social dimension of the economic and monetary union, and of the European Union as a whole, underwent a second phase of weakening. After first of all tackling the onset of crisis in 2008-2009 with measures to boost economic activity and employment, the Member States subsequently embarked upon major programmes to reduce public expenditure and introduce structural reforms.

The reforms in question related principally to labour law, social protection and collective bargaining. At the level of content, they pretty much resembled the usual precepts advocated by mainstream economists who generally regard the European Social Model as the main reason for the deterioration in the Member States’ public finances. If the content of these reforms was therefore not new, the political and socio-economic context opened up, by contrast, a window of opportunity for the proponents of draconian reforms.

While justified in official discourse by ‘the crisis’, these reforms were in fact quite unrelated to the economic cycle. They were actually aimed at reconfiguring whole areas of the European Social Model – labour law, collective bargaining, social dialogue, wage formation systems, the two sides of industry, the foundations of social protection, and so forth – even though the best components of this model had proved efficacious in the crisis for avoiding a serious deterioration of the situation in the economy and on the labour market. The countries that experienced the lowest unemployment rates were in fact those that had the strongest social institutions and social partners.
A worrying prospect: towards a more imbalanced European social governance?

These reforms have been undertaken in the framework of strengthened economic governance geared towards ‘growth’ and ‘competitiveness’. As these processes are still in the process of construction and there exists little serious and reliably documented research on the real impacts on the national social models, it is not at this stage possible to draw any definitive conclusions.

What is perfectly clear, however, is that the social policy recommendations addressed to Member States are developing a new message containing specific ideas about how a national economic and social model should operate and that this message is being communicated to all the Member States, albeit with some slight variations. The tenets of this message are as follows: the costs of health care and pension systems should be pegged or even reduced; the wage formation systems should be brought within the realm of competition; the social benefit systems create disincentives to labour market participation; labour costs must be reduced. This message contains nothing or very little about how social models should reduce inequality, supply citizens with greater protection against the (growing) social risks, nor about the ways in which they could contribute to the operation of a regulated market economy.

Growth and competitiveness should, according to this system, reduce, almost automatically, social risks (unemployment, poverty, etc.). Growth and competitiveness would, in a way, become our new social model, although more and more research has shown that in fact, for decades now, these principles have contributed more to increasing precarity than to shared prosperity.

Finally, however, all will depend on the real force of the European recommendations, and on the capacity and determination of the governments to make use of them or to modify their content. It is possible that the new system of European strengthened governance will become an extremely effective instrument for making fundamental changes to the bases of the current European Social Model. For this reason it is important to place social issues back on the political agenda at both the national and the European levels (Vandenbroucke, 2012; Rodrigues, 2013), to complete economic and monetary union and endow it with genuine instruments of adjustment and stabilisation, and to change the direction of economic policies, to place them in the service of a sustainable and shared prosperity.
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A European Social Union: key questions to answer

Frank Vandenbroucke, Bart Vanhercke and John Morley

Introduction: purpose and scope

In the aftermath of the recent European elections, there is an increasing awareness of the risks and consequences of the European Union and its Member States failing to deliver on the fundamental goals of the European project, namely the pursuit of both economic and social progress through the progressive development of our welfare states, and through the pursuit of upward convergence across the Union. In contrast to such lofty ambitions, the reality is that average incomes per head in real terms were lower in EU28 in 2012 than they had been back in 2004, with a growing divergence between countries, instead of convergence, notably within the eurozone. Although a recovery is seen to be on its way, we will still need to tackle the social and budgetary legacy of the crisis, as well as facing the risk of low rates of economic growth for several years, and the challenge of demographic ageing – all of which makes the pursuit of economic progress and social cohesion even more challenging.

While the EU has ceased to be the veritable ‘convergence machine’ it used to be (Gill and Raiser 2012), in terms of political support, there is rising euroscepticism in many Member States, with the EU being held largely responsible for the current state of affairs by much of public opinion – hence the urgent need to review both the scope and purpose of the Union’s social objectives, and the way they can best be pursued and achieved.

The aim of this chapter is not to set out a detailed agenda on specific social policies, but to propose a concept (a European Social Union) and to formulate key questions which have to be answered. In doing so, it
distills the main ideas and findings set out in a more extensive publication which the authors produced for Friends of Europe\(^1\) (Vandenbroucke with Vanhercke 2014). Section 1 briefly describes the deeply worrying legacy of the economic and financial crisis and argues that social investment is a key stepping stone towards revamping the EU’s social dimension. Section 2 argues that a basic consensus on the European Social Model is a necessity, both at the level of the eurozone and for the EU28. Section 3 then introduces 10 ‘tough nuts to crack’ concerning the objectives, instruments and governance of the EU’s future social dimension. The final section concludes that Europe needs a Social Union that would support national welfare states on a systemic level, as well as guide the development of national welfare states through the establishment of general social standards and common social objectives.

1. **Five years of economic crisis: an unsettling legacy**

While a recovery in the European economy is clearly underway, its robustness and scope is far from guaranteed. Meanwhile, the legacy of the crisis is deeply worrying\(^2\).

1.1 **Labour markets, welfare and social expenditure**

Employment rates in the EU were lower in 2012 than they had been 8 years earlier, including in EU15 as a whole, if we exclude Germany. Moreover the employment gap between the southern EU15 countries and others has been growing larger. GDP per capita was only marginally

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1. Between the winter of 2013 and spring 2014, we have been working with Friends of Europe – a leading independent think-tank for EU policy analysis and debate – to launch and support a High-Level Working Group comprised of social partners, independent experts and high profile political actors on the theme of a ‘European Social Union’. The Working Group is expected to produce its own report by autumn 2014. We contributed to that Working Group with a background report that was authored by Frank Vandenbroucke with Bart Vanhercke, with support from John Morley and Terry Ward, while a range of people provided generous feedback.

2. The European Commission’s reports on ‘Employment and Social Developments in Europe’ (ESDE) provide excellent analyses of the impact of the crisis and the strengths and weaknesses of European welfare states. Chapters 2 and 3 of European Commission (2013a) cover social trends, the dynamics of poverty and exclusion, and social protection systems. See also chapters on convergence and divergence, and on effectiveness and efficiency of social expenditure, in European Commission (2014). Much can also be learned from Eurofound publications (2013a and b) on working conditions and job quality.
higher in 2012 than in 2004. In EU15, excluding Germany, it was no higher than 8 years earlier. In the southern EU15 Member States and in 7 out of the 13 new Member States, it was lower. Changes in household income per head show a somewhat different pattern from GDP per capita. There was a significant fall in real household income per head in 2008-2010 (in line with the fall in GDP per capita) but with an even bigger decline in the subsequent two years, reflecting the decline in average earnings along with the rise in unemployment.

In terms of poverty, the data available on material deprivation – as measured by financial stress and lack of access to basic goods and services – adds to the disquiet on living standards. While the proportion of the population affected in this way had declined markedly in the period 2005-2008, it then rose from under 13% in 2008 to over 15.5% in 2012. As is well recognized, young people have been particularly hard hit by the recession, with the youth unemployment rate increasing to around 23% in the EU in 2012, and over double that rate in Greece and Spain. While we recognize that these figures may, in some cases, overstate the problem, the number of young people not in employment, education or training – the so-called NEETs – is also very high in a number of countries.

Huge disparities in rates of child poverty across the eurozone, and non-convergence and even divergence during the crisis years, signal the extent of the social imbalances in the eurozone, partly due to divergences in economic growth across Member States. In the years before the recession, there was already a gradual divergence in GDP per capita between EU15 countries within the eurozone. As they went into recession, these disparities narrowed at first but from 2009 to 2012, those countries with the highest levels of GDP per capita recovered more quickly, and disparities then widened again.

Relative to GDP, public spending increased significantly over the period of economic downturn, but more as a consequence of the fall in GDP than as the result of any acceleration in government expenditure. In fact growth in public spending was only slightly higher over the years 2008-2010 than in the preceding four years, and less in both the EU15, excluding Germany, and the EU13.
In a recession, welfare states commonly serve as automatic economic stabilisers in support of aggregate demand and, in particular, addressing problems of poverty. In the first stage of the recent crisis, this was actually the case, albeit to a varying extent between countries. However, from 2010 onwards, the automatic stabilisers became increasingly constrained, notably in countries with high levels of sovereign debt. In particular, public investment was considerably reduced over the crisis period. Even in the two years 2008-2010, when measures were taken to counter the deflationary effects of the global recession, general government fixed capital formation declined in real terms across the EU and by even more over the subsequent two years. The result was an overall reduction of public investment in the EU of 15% over the four years 2008-2012.

Moreover, the same occurred with investment in developing and maintaining human capital, covering spending on education, child care and health. Government expenditure on education, for example, followed a similar pattern, with growth maintained in most countries over 2008-2010, but it was largely cut back in the following year. As a result, real public expenditure on education was lower in 2011 than it had been in 2008 in 10 Member States, with expenditure on tertiary education often cut more than overall spending on education. In terms of government expenditure on childcare, the data show that, in the years before the onset of the crisis and in the initial period 2008-2010, there had been an expansion in real terms in nearly all Member States. In the following two years, however, expenditure was reduced in real terms in most countries, being lower in 2012 than it had been in 2008 in 10 Member States. While government expenditure on health increased in real terms in most countries over the two years 2008-2010, it failed to do so in the Baltic States, Bulgaria, Ireland, Greece, Slovakia and Hungary, where it had already been reduced in the preceding period, as it had in Portugal, with further reductions in 2011.

With the European Union facing ever expanding global economic challenges and opportunities, concerns are often expressed about the effect of EU social spending on its competitiveness. In reality, however, when both private as well as public spending are taken into account, overall social spending in the United States is seen to be nearly as high as in Finland, Germany and the Netherlands, and higher than in many other European countries.
A European Social Union: key questions to answer

Figure 1: Global competitiveness and levels of social spending

OECD countries ranked according to Global Competitiveness Index 2013-2014

Public spending 2009


Public and private social spending as a % of GDP

Moreover, as an appendix in Vandenbroucke with Vanhercke (2014) shows, there has been little sign of any significant deterioration in the competitiveness of the EU relative to other developed economies when measured in terms of export shares. At the same time, however, the continuing competitiveness of Germany in export markets relative to other EU countries, especially relative to the larger EU15 Member States, underlines the divergence in economic performance that has been evident since the crisis hit.

Figure 1 ranks the OECD countries (on the horizontal axis) according to the World Economic Forum’s Global Competitiveness Index 2013-2014. On the vertical axis we display public and private social spending as a percentage of GDP (the latest year for which such comparable data are made available by the OECD is 2009).

Overall there is no correlation between social spending and competitiveness among OECD countries. Even though social spending is around 30% of GDP in Finland, Germany, and the Netherlands, these Member States still figure in the top 10 of the Global Competitiveness Index of the World Economic Forum. The Swedish level of social spending is even higher, but that does not prevent it from being 6th in the ranking. Among the ten most competitive countries in the world, five are from the EU15.

Thus, while there is no overall evidence that social spending per se hinders countries in their continuous battle for competitiveness, it is nevertheless the case that some European Member States seem to be both much more effective (in terms of their expenditure achieving the objectives of the policies) and much more efficient (in terms of ensuring value for money spent) than other Member States in the organization and allocation of their social spending (Cantillon and Vandenbroucke 2014, European Commission 2014).

The huge disparity in the performance of the different European welfare states, associated with both differences in the effectiveness of investments in human capital and differences in the effectiveness of social protection systems, underlines the need for, and benefit of, a Europe-wide agenda for reform, with a view to improving performance.
1.2 Key challenges: the human capital asymmetry and labour migration

Such a reform agenda will need to tackle at least two key challenges: disparate levels of educational achievement and increased labour migration. Differences in educational achievement are large across the Union with, for example, more than one in three Spaniards aged between 25 and 34 years having completed no more than lower secondary education, against fewer than one in six in Germany. And while there is no simple causal relationship between levels of employment and levels of educational attainment, it is notable that Greece, Italy and Spain all combine low employment rates with weak PISA scores with respect to the educational achievement of their 15-year-old students.

This educational challenge is one that the European Union has recognized, with a reduction in the number of early school-leavers being one of the headline targets in the Europe 2020 agenda. Yet, while the European Commission has developed a comprehensive education agenda, education still receives far less attention than it deserves at the highest levels of European decision-making and when it comes to setting budget priorities.

We cannot do justice to the many aspects of labour migration and mobility, which have become increasingly important for Europe, both in terms of intra-European migration and mobility and in terms of immigration from other regions in the world. There have been significant changes in immigration flows, not only in terms of their countries of origin and destination, but also in terms of their motives: temporary migration has become more prominent, notably labour flows that rarely lead to permanent settlement, let alone social integration. Galgóczi and Leschke (2012) underscore that post-2004 intra-European labour mobility constitutes a historically new phenomenon in a number of respects. Different forms of labour mobility coexist: commuting, short-term, circular or more permanent migration, but various ‘functional equivalents’ of migration, such as (bogus) self-employment and posted work, also play an important role.

Labour migration has an important economic and social impact on both the countries of departure and the recipient countries, as well as creating obligations and responsibilities for all Member States concerned. This
has been seen to be an important dimension of EU social policy. However, in general, European welfare states fail with regard to the integration of migrants in their societies. A recent survey (de la Rica et al. 2013) confirms large gaps in labour market outcomes between natives and migrants in most countries, both in terms of employment and wages and in terms of large gaps in educational outcomes. Poverty rates reported by welfare states are significantly higher for residents who are not national citizens of these welfare states than for their national citizens. From the opposite perspective, there are growing concerns about the dramatic demographic loss in some Member States. European Member States need to develop a shared vision on labour migration within the EU. Fundamentally, it seems that intra-European migration today goes hand in hand with problems of under-utilization and poor development of human capital.

1.3 A common orientation: the social investment imperative

The question then is: how should the EU and its Member States address these formidable challenges? In our view social investment – including investment in human capital – is as crucial for Europe’s success as the widely acknowledged recognition of the importance of research and technological investment, infrastructure investment, or physical capital investment (Morel et al. 2012). Moreover, we see exactly the same basic rules applying to assessment of the benefits and costs of all such investments – notably the requirement to take both a long view and a wide view (Prest and Turvey 1965), in order to measure not just their initial incidence but their full and total impact.

— The need for a long view with respect to social investment reflects the reality of human existence. A life-cycle approach is called for (Eurofound 2013a), recognising the need for major investments in care and education in the earlier stages of life, the substantial compensating economic returns in the central productive phase of working life, and the drawing down from accumulated financial and related reserves and investments towards the end.

— The need for a wide view reflects two major concerns. The first is the recognition of the inter-dependence between social and other investments since the success of the latter depend to a large extent
on the quality of the associated human resources. The second is the recognition of the spill-over costs of social failure – whether in education, health, or social integration – all of which can place a serious, long-term, debilitating, and disruptive burden on the economies and societies that are affected.

Obviously, with regard to social outcomes, increases in investment in education and child care are no panacea; welfare states also differ with regard to the effectiveness of their social protection systems, which underscores that the redistributive role of social protection remains important *per se*. Welfare state performance depends on the combination of effective investment in human capital – by means of education, training and child care – and effective protection of human capital – by means of adequate transfer systems and health care.

The Social Investment Package, launched by the European Commission (2013b and c) in February 2013, presents a similar argument and provides an interesting common orientation for EU Member States (Hemerijck 2013, Vandenbroucke et al. 2011); see also Hemerijck in this volume.

### 2. Why a basic consensus on the European Social Model is a necessity

Ten years ago the quest for an operational description of the European Social Model might have been dismissed as ‘interesting’ but not strictly necessary given the capacity of Member State governments to compromise and ‘muddle through’. Today, when everything ‘European’ is seemingly up for question in many Member States, it has become an existential conundrum for the Union (Vandenbroucke 2013). Following Fernandes and Maslauskaite (2013a and b), we distinguish between those arguments that apply specifically to the eurozone and those that apply to the EU as a whole.

#### 2.1 A social dimension for the eurozone

We identify three basic reasons as to why the EMU needs a social dimension: these are functional, political and economic.
The functional argument fits into a broader debate on the consequences of monetary unification, given that the members of a currency area face a trade-off between symmetry and flexibility that inevitably has long-term social consequences. Flexibility implies choices that are not socially neutral. For example, there can be a ‘high road’ approach to encouraging greater labour market flexibility, based on the development of a highly skilled and versatile labour force, or there can be a ‘low road’ approach based on labour market deregulation. Less flexibility necessitates more symmetry, which implies a degree of social convergence that, in turn, limits the diversity in Member State social systems that can be accommodated in a monetary union.

There is also a further trade-off between absorbing asymmetric shocks through budgetary transfers between members of a monetary union, and the need for flexibility. In this respect, the absence of interstate fiscal transfers is a serious flaw in the overall eurozone design. Since flexibility, symmetry, or budgetary transfers are not socially neutral choices, the long-term tradeoffs implied by monetary unification inevitably require participating countries to establish a consensus on the ‘social order’ that the monetary union has to serve.

Politically, social divergence in the eurozone threatens the sustainability of the project, in that it will steadily undermine the credibility of the European project. Reasoning in terms of ‘us’ and ‘them’ – ‘the South’ versus ‘the North’ – will inevitably gain legitimacy, while the Union will lose legitimacy (including through the steady weakening of the pro-European mainstream in Southern European countries). This will make it increasingly difficult to take steps that are necessary to consolidate the eurozone in the longer term, such as stabilizing fiscal transfers. Many people agree that the longer-term consolidation of the eurozone requires some degree of ‘fiscal union’, but the sustainability of a fiscal union between countries ultimately requires something more: it requires mutual trust with respect to each other’s internal social fabric.

In economic terms, the high levels of youth unemployment and child poverty we see today reflect an investment deficit that has resulted in a vicious circle of underperforming systems in terms of labour markets, child care, education and social transfers. This is creating serious objective problems with regard to the economic symmetry required among the members of a monetary union. In other words, these kinds of excessive
social imbalances threaten the monetary union as much as do excessive economic imbalances, and there is hence a need to both manage the trade-off between symmetry and flexibility and rebuild the stabilisation capacity of welfare states.

In sum, (1) managing the trade-off between symmetry and flexibility, (2) repairing the decreased stabilisation capacity of welfare states and (3) preventing excessive social imbalances (for political and economic reasons) presuppose an operational basic consensus on common, normatively charged objectives of social policy within the eurozone.

2.2 A social dimension for the EU28: restoring regulatory capacity

The somewhat haphazard process of European integration has led to a loss of regulatory capacity, which needs to be restored either at European or at national level. In the words of one analyst, this loss has ‘eroded both the sovereignty (the legal authority) and autonomy (de facto regulatory capacity) of Member States in social policy’ (Leibfried 2010).

As regards the regulatory capacity of Member States, a long-standing concern, or even fear, has been that the pursuit of ever increasing economic integration without social harmonisation would lead to social dumping and a ‘race to the bottom’, whereby the Member States with lowest social standards become the most competitive in terms of production costs (see Maslauskaite 2013, for a nuanced discussion). Such fears, as with more current worries over ‘welfare tourism’, may not be well-founded in practice, but they are nevertheless causing considerable social and political tensions and, even if there is no large scale social dumping, we must recognize that blatant cases of illegal work and exploitation do occur.

The dilemma is that most highly developed EU countries are confronted by a conflict between the desire of businesses to see their economies opened up to migrant workers in order to meet their labour market needs, and domestic political opinion, which often appears opposed for a variety of reasons, from fears about increased competition for jobs to wider social concerns and upheavals. Hence the extent to which Member States can uphold social standards in a context of free movement is an
increasingly important policy issue. In this respect the judgments by the Court of Justice with regard to trade union actions defending local minimum wages raise concerns that have to be answered. Specifically they require a clarification with regard to legal issues, notably in the context of posted workers, and with regard to the application of the subsidiarity principle in social policy.

The case of health care also illustrates how internal market rules can lead to unanticipated outcomes through Court of Justice interpretations of basic Treaty provisions. These legal cases raise many detailed and complex issues, but the main conclusion to be drawn is that no neat and tidy separation can be made between market issues – which are addressed at a supranational level – and social issues – which are addressed at a national level.

This recognition inspired the introduction of the ‘horizontal social clause’ into the European legal architecture, via the Lisbon Treaty: the clause that requires all EU actions to take into account ‘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’ (Article 9 TFEU). In practice, however, while this serves as a general rallying cry behind many European Commission employment and social initiatives, it does not appear to have played much of a role so far in relation to more broadly-based concerns, such as the design of macro-economic adjustment programmes.

2.3 A shared notion of solidarity

European integration must be based on a shared understanding of the need for solidarity at both a pan-European level and within national welfare states. The pan-European notion of solidarity refers not only to economic convergence and cohesion on a European scale, but to individual rights such as free movement. Solidarity within national Member States, on the other hand, refers particularly to issues such as social insurance, income redistribution and the balance of social rights and obligations. This dual perspective illustrates why solidarity is inevitably a complex and multidimensional notion in the European
context, and why consecutive enlargements as well as monetary unification have made it even more demanding and difficult to handle.

Conceptually, the notion of solidarity can take the form of mutual insurance or redistribution. In practice, however, it is often a mixture of both. Both aspects presuppose reciprocity, but with different emphases. When solidarity is defined as mutual insurance, reciprocity is embedded in contribution-based entitlements. When solidarity entails redistribution, it implies a propensity to cooperate and to share with others. In all cases, reciprocity requires a sense of common goals and values among those concerned. There is no way back: reciprocity in the EU requires both shared values and a sense of common purpose.

That underlines why the success or failure of the eurozone requires the long-term trade-offs implied by monetary unification to be matched by agreement on the social order that the monetary union has to support, including the mutual obligations that the countries have to meet in support of social investment generally.

2.4 The necessity of a European Social Union

The damaging effects of the crisis clearly need to be addressed by more resolute EU level action to promote sustainable growth, employment and social investment. Pragmatic observers sometimes justify the current ‘muddling through’ policy approach as ultimately successful, but it looks increasingly risky given the erosion of political capital in support of continued European cooperation that such an approach has produced. Or, in the words of European Commissioner László Andor, today’s functioning of the EMU and sticking to the Maastricht orthodoxy ‘is not sustainable: it must be either altered through reform of the EMU, or the EU itself risks being destroyed by political conflict between the EMU’s winners and losers’ (Andor 2013: 3).

The success of the eurozone is crucial to the EU’s future. However, monetary unification obliges participating countries to establish a basic consensus on the social order that the monetary union has to serve. Such a consensus must cover Member States’ mutual obligations, i.e. what they may demand from one another and what they owe each other. European solidarity implies reciprocity. The social dimension of
the EU as a whole needs to be strengthened, deepening the mutual understanding of the social goals to be achieved through market integration and the mobility of people, services, goods and capital, while maintaining the principles of social regulation that serve these goals.

We need a clear-cut concept, rather than vague talk about ‘social Europe’. A European Social Union would support national welfare states on a systemic level in key functions such as macro-economic stabilisation, and guide the substantive development of national welfare states through the establishment of general social standards and common social objectives. That would leave detailed decisions concerning the ways and means of social policy to the Member States while, at the same time, ensuring that these would be cooperating within a union with an explicit social purpose: hence the expression ‘European Social Union’. ESU, so conceived, is not only desirable, but necessary.

Elsewhere we provided a detailed presentation of the ‘state of play’ of social policy at the EU level after more than five decades (Vandenbroucke with Vanhercke 2014, section 3). This underscores the notion that a call for a ‘European Social Union’ builds on, rather than denies, the positive and significant social acquis that exists and which has continued to be developed ‘under the radar’ (Vanhercke 2013). However, it also raises the question as to the extent to which the idea of a ‘European Social Union’ can be fitted into the existing governance framework (that is, the traditional Community Method, the EU distributional mode, policy coordination and European social dialogue). New departures will need to be envisaged: observers like Loukas Tsoukalis (2014) defend the case for a new grand bargain to rescue the – unhappy and precarious – European project.

3. Towards a European Social Union: 10 tough nuts to crack

This year offers us a window of opportunity to debate the social dimension of European integration afresh. European elections in May brought many new Members of the European Parliament into office. In November 2014, a new European Commission will take power. In
December the European Council will have a new president. Recent initiatives in the social field, including the Social Investment Package (European Commission 2013b and c), and the Social Dimension of EMU (European Commission 2013d) provide the opportunity to think through the development of a ‘European Social Union’. However, there are ‘tough nuts to crack’ along the way, which we present below:

— Tough nuts numbers 1 and 2 concern objectives: cracking them implies, fundamentally, an agreement on the meaning and significance of the European Social Model.
— Tough nuts 3 to 7 relate to instruments; they may serve to illustrate an overarching question about the social policy role of the EU in a context of ‘shared sovereignty’.
— Tough nuts 8 and 9 refer to challenges of governance and stakeholder involvement.
— In tough nut 10 we return to a substantive policy challenge, namely education.

3.1 Is social convergence necessary?

In the long run, EMU is not sustainable without a basic consensus on the social order it has to serve, and without a concomitant degree of convergence on fundamental social goals. However, today we see divergence in the eurozone instead of convergence. We have deliberately avoided the term ‘harmonisation’ as a policy objective, not just because it has become unfashionable but also because, while the European aspiration remains upward convergence, a degree of diversity among Europe’s welfare states is legitimate.

This raises the question (tough nut 1): Is upward convergence a necessity – in the Eurozone and in the EU at large – to be reconciled with the legitimate diversity that characterises the EU?

3.2 Social investment as a common agenda?

Insofar as there is agreement on the need for convergence, at least in the above terms, the next question concerns the direction of convergence and the way to pursue it.
The concept of social investment has emerged as a social policy perspective in response to fundamental changes in our societies, with a focus on policies that prepare individuals, families and societies to adapt to various transformations, rather than simply repairing damage caused by market failure, social misfortune, poor health or prevailing policy inadequacies.

It focuses particularly on early childhood education and care, preventing early school-leaving, promoting lifelong learning, affordable child care (as part of an active inclusion strategy), housing support (fighting homelessness), accessible health services and helping people live independently in old age. It presupposes an appropriate complementarity between ‘protecting human capital’ by means of the traditional instruments of social protection (cash benefits, health care) and ‘developing human capital’, by means of education, training and activation.

This raises the question (tough nut 2): Do we see ‘social investment’ as the basis for a ‘pact’ for setting long-term goals in a spirit of reciprocity, extending the European Commission’s Social Investment Package (European Commission 2013b and c)?

Even with agreement on a common orientation, as proposed in the ‘tough nuts’ 1 and 2, there are issues of sovereignty. National welfare states have become semi-sovereign: the fundamental political question is whether we think sovereignty can be regained by limiting the role of the EU, or whether regaining sovereignty requires the common definition of social objectives at the EU level and the acceptance of more effective European instruments to promote convergence in the agreed direction.

We might label such a process as one of ‘shared sovereignty’. Obviously, the next question is what ‘shared sovereignty’ means exactly, and how the common orientation proposed in the tough nuts can be made operational. The tough nuts 3 to 7 below relate to policy instruments. However, answering them will shed light on an overarching question: What type of role do we see for the European Union in this process of shared sovereignty?
3.3 Mainstreaming social policy objectives in the overall governance architecture of EMU

Excessive social imbalances – such as current levels of youth unemployment or child poverty – threaten the monetary union as much as excessive economic imbalances. A first step towards convergence is therefore to fight such excessive social imbalances, notably within the eurozone. This requires the social dimension to be mainstreamed into all EU policies, particularly macroeconomic and budgetary surveillance, rather than being developed as a separate ‘social pillar’.

Refining the MIP Scoreboard, which is used in the Macroeconomic Imbalances Procedure, was a first step towards such mainstreaming. Social and employment indicators have indeed been added to the set of ‘auxiliary’ indicators that are used in the economic reading of the MIP Scoreboard. Such social indicators could alert ministers to employment and social imbalances that could threaten the stability of the EMU (Barcevičius et al. 2014). These new monitoring tools, which could extend beyond the Europe 2020 targets, seem essential for the effective implementation of the European Semester and the recently proposed Social Dimension of a Genuine EMU (European Commission 2013d). However, some nervousness exists as to the ownership and control of the process in which they will be used (see also Degryse, Jepsen and Pochet in this volume).

This raises the question (tough nut 3): Do we agree with mainstreaming social policy concerns in the macroeconomic and budgetary surveillance of EMU, and – if so – what should be the role of the different policy strands?

3.4 Enhanced compliance in exchange for more solidarity?

The performance of welfare states is firstly a responsibility of the Member States. On a pan-European level, however, there is a common interest in having well-performing welfare states, which is not always the case at present, and which cannot be achieved without reform. Under these conditions, contractual arrangements might complement the existing macroeconomic surveillance framework with a constructive surveillance of employment and social policies (together with main-
streaming the social dimension into macroeconomic and budgetary surveillance). It would be important, however, to ensure that such contracts\(^3\) were seen by Member States as an effective way of achieving solidarity with respect to commonly agreed structural welfare state reforms, rather than as a means of imposing policies in a ‘top-down’ fashion (see Rubio, 2013, for a development of this argument); even the mere image of ‘bribery’ into reform (Pisani-Ferry 2013) could provoke the kind of popular resistance already seen in bailout countries.

This inevitably raises questions about the contribution of the European funds, since there is a risk that contractual arrangements would overlap with existing cohesion policy programmes with a clear social commitment (Tokarski and Verhelst 2012). Under which conditions could contractual arrangements and cohesion policy operational programmes be made into consistent and complementary policy tools, in order to strengthen – rather than merely substitute – efforts at EU level with respect to employment and social policies? Can the reformed programming of the cohesion policy support a ‘constructive surveillance’ of the implementation of EU employment and social policies?

This raises the question (tough nut 4): Can contractual arrangements between the EU and the Member States contribute to a constructive surveillance of employment and social policies alongside the surveillance now in place for economic policies? Can contractual arrangements and cohesion policy operational programmes become consistent and complementary policy tools? Can we instantiate ‘solidarity in reform’ in this way?

### 3.5 A stabilisation mechanism for EMU?

EMU badly needs a European counter-cyclical stabilisation capacity in order to restore that which had previously been provided by national welfare states. Since the ‘Four Presidents’ (European Council 2012) took on board the idea of equipping the EMU with a shock absorption capacity, the idea has gained legitimacy. The elaboration of the idea

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\(^3\) Proposed by the European Commission as part of a ‘convergence and competitiveness instrument’ (European Commission 2013e).
entails complex questions (which are also discussed by the IMF; see Allard et al. 2013). Some proposals emphasise the need to respond to asymmetric shocks and propose ‘interstate insurance’, triggered by economic indicators (Enderlein et al. 2013, Drèze and Durré 2013). Member States pay into the scheme when their output gap is above the euro area aggregate output gap, i.e. when their cyclical economic position is better, and countries receive payments from the scheme when their output gap in a given year is more negative than the euro area average. Importantly, such an insurance scheme would not lead to permanent transfers from some countries to others, but all countries would be contributors and benefactors over time.

Others argue in favour of a European Unemployment Insurance scheme that would respond to both asymmetric and symmetric business cycle shocks (Dullien 2012 and 2013). The underlying idea is to establish ‘basic unemployment insurance’ in Europe with transfers to the short-term unemployed (see Fichtner in this volume). Such proposals are demanding – albeit in different degrees – in terms of mutual trust, common purpose and the understanding that responsibility and solidarity go hand in hand.

This raises the question (tough nut 5): How should one assess the political (as opposed to technical) feasibility of such schemes?

3.6 An agreement on minimum wages to support sustainable mobility?

The French and German governments have made proposals regarding minimum wages and issues concerning cross-border mobility, giving support to the idea that more cross-border mobility would be a positive development if organised with respect to existing social regulation (Bundesregierung 2013).

Admittedly, the French-German proposal was formulated in rather vague terms. In April 2005, researchers from Germany, France and Switzerland proposed a European minimum wage policy according to which every country in Europe should guarantee a national minimum wage (Schulten et al. 2005). They proposed a national minimum wage norm corresponding to 60% of the average national wage. As a short-
term target, these researchers called for a norm of at least 50% of the national average wage. A report by Eurofound (2013c) illustrates the many difficulties that emerge in relation to such a proposal at the European level. But, in our view, that does not invalidate the fundamental argument that the EU should show that it cares about decent minimum wages.

Accepting that we should embrace cross-border mobility positively, that EU Member States should have universally applicable systems of minimum wages, reaffirmed in one way or other by public authorities, with economically sustainable levels defined with reference to the national context – is thus more than one tough nut to crack at once; but it would definitely constitute a coherent approach. Recent evolutions in the minimum wage debate in both Germany and the UK, seem to encourage us to at least engage in the debate.

This raises the question (tough nut 6): Could a binding EU framework on minimum wages support national social policies and ensure that cross-border mobility can be encouraged without jeopardizing existing social arrangements?

3.7 Increasing the effectiveness of minimum income protection by EU initiatives?

Proposals have also been tabled with regard to minimum income protection, notably by the European Anti-Poverty Network (EAPN 2010). More recently the European Economic and Social Committee also called for an EU directive that would extend minimum income schemes to all Member States, while it linked such schemes to active

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4. Note the Commission’s plans to present proposals in 2014 to review the unemployment chapter of Regulations (EC) 883/2004 and 987/2009 with a view to simplifying procedures for granting unemployment benefits in cross-border situations (European Commission 2013d: 10).

5. The introduction of a minimum wage was a central issue during the 2013 German elections. The introduction of the minimum wage is now part of the coalition agreement: a nationwide minimum wage of EUR 8.50 will be introduced as of 2015, but will not come into full effect until 2017.

6. In January 2014, the UK Government made a significant shift in the minimum wage debate: the Chancellor of the Exchequer, George Osborne called for a rise in the minimum wage from 6.31 to 7 pounds per hour, reflecting an unexpected consensus developing in Britain.
labour market policies and the setting up of a European fund for an EU minimum income (EESC 2013). Such a European framework would give substance and political salience to social rights in a ‘caring Europe’. However, any binding agreements on minimum incomes would have to be introduced flexibly and gradually, and in unison with a degree of convergence in activation measures and minimum wages (not in an absolute sense, but relatively to median wages in Member States). Moreover, even a scheme of moderate ambition would require a significant budgetary effort by poorer Member States. Nevertheless, in a number of Member States there is clearly an urgent need to enhance the effectiveness and efficiency of minimum income protection.

This raises the question (tough nut?): Can a more binding EU framework on minimum income protection raise the quality and efficiency of domestic social systems?

### 3.8 Strengthening social dialogue?

Strengthening social partner capacity and social dialogue structures, especially in Central and Eastern Europe, is a prerequisite to revamping this governance tool (European Commission 2012). Hence, the question is: which instruments could be used to support national social partner organisations as a stepping-stone to a more fruitful EU social dialogue? Would monitoring of national social partner involvement at all stages of the European Semester be a way forward (e.g. Member States to annex Social Partners’ opinions to their NRPs, or invite them to contribute to implementing the CSRs that are relevant for them?) Or would another possibility be increased ESF funding for national trade union campaigns, training and networking?

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7. The Workers’ Group of the European Economic and Social Committee (EESC) contracted the European Social Observatory to conduct a study on the legal and political feasibility of introducing a guaranteed minimum income at European level. See Peña-Casas in this volume.

8. Our emphasis on these questions with regard to the social dialogue between the traditional social partners does not imply that we consider the involvement by NGOs to be unimportant. We see the latter as generally accepted.
Secondly, the question is: how can the social partners be involved more effectively in European socio-economic governance (as proposed in the Commission Communication on the Social dimension of EMU)? Is the Tripartite Social Summit an appropriate vehicle for this purpose, and to what extent should its composition and preparation be improved? Is there scope to improve the (rather formal) Macroeconomic Dialogue where Council, Commission, European Central Bank and social partners exchange views? Thirdly, to what extent can European Commission and European social partner resources be focused on the promotion of the European sectoral social dialogue? In which areas could such a dialogue still bear fruit (on Member States’ social investment strategy, on industrial innovation strategies, on an ultimate agreement on working time with a view to responding to the CJEU’s activism in this area, on the conditions for a transition towards a green economy?).

Summing up, this raises the questions (tough nut 8): What could be the most fruitful ways forward: building on existing arrangements, including the sectoral dialogue; working by means of the European Semester; broadening the Macroeconomic Dialogue? Should the EU support national social dialogue in a more direct way (e.g. enhanced capacity building efforts through the Funds)? And, on which particular issues should it focus?

3.9 Improving the EMU’s democratic legitimacy through better social governance?

Developing and maintaining a basic consensus on common social policy objectives, as well as mainstreaming these into macroeconomic and budgetary policy, requires governance procedures that are seen as legitimate, notably at the level of the eurozone. It is perfectly possible to imagine the different Council formations, including Employment, Social Policy, Health and Consumer Affairs (EPSCO), meeting at the level of the eurozone. Similarly, the new European Parliament could (and arguably should) organize dedicated ‘eurozone’ sessions for discussion and decision, with the social partners in the eurozone taking the initiative to start negotiations for EU18 (Chopin and Fabre 2013).
At the same time, would such improved eurozone governance, and thus a deepening of integration between the eurozone countries – which for the Glienicker Group (2013) should include a new euro-Treaty, an economic government and a euro-budget – not increase the risk of a two-speed Europe?

This raises the question (tough nut 9): Would improved eurozone governance of this kind enhance both the legitimacy and quality of social governance, or would it simply increase the risk of creating a two-speed Europe?

3.10 Education as the pan-European social investment priority

European welfare states face a formidable human capital challenge, namely the huge disparity in levels of educational achievement within the EU (European Commission 2013f and g). If there is one domain in which upward convergence should be our ambition, and a matter of common concern, it is here. Obviously, an education agenda must go hand in hand with an agenda to create employment, notably for young people.

The European Commission has developed a comprehensive agenda on education, training and skills, and issued excellent Recommendations on the modernisation of education systems. However, the question remains as to whether this educational agenda carries sufficient weight at the highest levels of European political decision-making and in the setting of budgetary and policy priorities in Member States; on the basis of the spending data presented in the previous section, the answer seems negative. That is not to say that the quality of education systems can be measured in a simplistic way by the level of public spending on education, but it seems very hard to improve education systems significantly while disinvesting.

This raises the question (tough nut 10): Do we believe that more success in quality education for all young Europeans should be a number one priority within a credible European social investment strategy? How far do we see tangible pan-European action being developed in this area?
Conclusion: from a sense of survival to a sense of common purpose

We see the need for far more resolute EU-level action to promote sustainable growth, employment and social investment. The social impact of the current economic adjustment processes is unsettling. The European Union must be seen to be caring for the social conditions of its citizens.

Europe needs a Social Union that would support national welfare states on a systemic level with respect to key functions such as macroeconomic stabilisation, as well as guiding the development of national welfare states through the establishment of general social standards and common social objectives. That would leave the ways and means of social policy to the Member States, while European Member States would cooperate in a union with an explicit social purpose.

The long-term trade-offs implied by monetary unification require the participating countries to establish a basic consensus on the social order that the monetary union has to serve. Without this, social divergence in the eurozone erodes the legitimacy of European cooperation as it exists today and damages the trust-based legitimacy that will be needed for it to perform better in the future.

In pursuing this goal, we should avoid three misunderstandings.

— Firstly, a European Social Union should not be a parallel and separate social pillar to be added to existing pillars. The social dimension should be mainstreamed into all EU initiatives, because social policies are commonly affected by policies pursued in other areas. The same holds for the social dimension of the EU at large.

— Secondly, a Social Union should not be a top-down ‘one size fits all’ approach to social policy-making in the Member States. A balanced approach is needed with respect to macro-economic coordination: a combination of greater room for manoeuvre, and tangible support for Member States that opt for social investment strategies and policy guidance based on clear objectives, well-defined social outcomes, and maximum scope to exploit mutual
learning. A European Social Union is not a European Welfare State: it is a Union of national Welfare States.

— Thirdly, positive reforms are needed. The social achievements of over half-a-century of European integration and welfare state development should not be underestimated. At the same time, however, Europe’s citizens need a reformist perspective that gives the *social acquis* a credible future, creating a European Social Union that builds on that *acquis* through a social investment pact.

In political terms, both national social cohesion and pan-European cohesion need to carry the same political weight as economic objectives at the highest levels of policy making in the EU.

As signs of economic recovery strengthen, we can hopefully look forward to Member States no longer being guided by day-to-day crisis management. Without a sense of common purpose, however, it will not be possible to overcome the legacy of the crisis, to avoid the risk of continued sluggish economic growth that is fuelling euro scepticism, or to offer young people in Europe the stimulating and optimistic prospects that their parents enjoyed. Moving from a ‘sense of survival’ to a ‘sense of common purpose’ is a basic condition for building a Social Union.

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A European Social Union: key questions to answer


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All web page links were checked on 7 June 2014.
Euro area-wide unemployment insurance: useless, desirable, or indispensable?

Ferdinand Fichtner

Introduction

The European Monetary Union (EMU) is still struggling with its severest crisis since the introduction of the common currency in the 1990s. While financial markets have recently seen a substantial decline in tensions, the economic situation is still difficult in several countries. Economic conditions are particularly hard in countries such as Spain, Italy, Portugal or Greece, where pre-crisis capital inflows have created massive overcapacities in certain sectors – be it the housing sector in Spain or the government sector in Greece. Since the global financial crisis in 2008/2009, a reversal of capital streams has been observed. Formerly attractive target countries – including today’s crisis countries – have seen massive outflows of capital and are facing the need to reduce the overcapacities previously financed by financial inflows. This has resulted in a substantial deterioration of labour market conditions and in considerable worsening of the social and political situation in some of the crisis countries. While the European Central Bank (ECB) has contributed significantly to the improvements on financial markets, the central bank’s capacities for dealing with the difficult economic conditions in the crisis countries are limited.

With different currencies (and flexible exchange rates), the countries’ autonomous central banks could have reacted independently to emerging imbalances. For example, an independent Spanish central bank would probably have increased interest rates much earlier than

1. DIW Berlin, fichtner@diw.de. This contribution is based on previous work with and by Sebastian Dullien, HTW Berlin. See Dullien and Fichtner (2013). The author would like to thank an anonymous referee for helpful comments.
the common European Central Bank, making it less attractive to invest in Spanish housing and thereby dampening the developments in that sector. On the contrary, an independent German central bank would probably have kept its monetary policy rates lower than the ECB chose to, providing an expansionary impulse to the sluggish German economy in the previous decade. Thus, the absence of autonomous monetary policies contributed to the build-up of imbalances in the monetary union – and the lack of independent monetary policy makes it more difficult to deal with the current situation.

For this reason, extensive literature suggests that a monetary union should go hand in hand with strong cooperation on fiscal policy between the Member States. With monetary policy unable to react to country-specific developments, fiscal policy is the preferred means to stabilise economic fluctuations and to compensate for – from a national perspective – the overly restrictive or overly expansionary monetary policy of the supranational central bank. In this situation, the creation of a fiscal transfer mechanism can support national fiscal policy institutions in fulfilling their objective of macroeconomic stabilisation, because it provides additional scope for national policy makers to react to weak economic developments with an expansionary monetary policy.

Thus, it is only logical that the recent policy debate in Europe should consider calls for strengthened fiscal policy coordination and the establishment of a fiscal transfer mechanism. For example, the report made to the December 2012 European Council, ‘Towards a Genuine Economic and Monetary Union’ (‘Van Rompuy-Report, European Council 2012), calls for an integrated budgetary framework to ensure sound fiscal policy making, possibly combined with some form of fiscal solidarity.

The present contribution outlines a European fiscal transfer system in the form of a European unemployment insurance scheme for the short-term unemployed. As the article will argue, the common unemployment insurance has some advantages compared to other forms of fiscal transfer systems. By putting the focus on unemployment, an automatic

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2. Recent policy documents typically use the term ‘fiscal capacity’, to avoid the politically charged term ‘fiscal transfer’.
link is ensured between payments and the cyclical situation of a Member State, making the system relatively robust against political manipulation. Furthermore, this set-up will most likely prevent a situation where countries systematically become net recipients or net contributors; therefore, the risk of permanently making transfers to single countries is low. With a European unemployment insurance scheme, cyclical imbalances within the monetary union can be effectively dampened, at not much additional administrative cost. Such a system could thus become an important stabilising element for the Member States of the European Monetary Union and the Union as a whole.

This contribution continues as follows. Section 1 explains, in more detail, why a fiscal transfer scheme is a useful complement to monetary integration. Section 2 develops the concept of a European unemployment scheme. Section 3 highlights the advantages over other forms of fiscal transfer schemes and discusses the risks associated with the introduction of such a system. Section 4 looks into the distributional effects of such a system; the effects on disposable household incomes are discussed and conclusions are drawn with respect to political support for such a scheme. Finally, the last section contains concluding comments.

1. The necessity of fiscal transfers in a monetary union

The Optimum Currency Area (OCA) theory, a strand of the macroeconomic literature pioneered by Mundell (1961), has identified the central problem of monetary integration as follows: the unified monetary policy of a supranational central bank cannot take into account the country-specific economic fluctuations in the member countries of the monetary union and, in particular, interest rates are set by the central bank according to the average economic conditions in the currency union. More specifically, the central bank has no possibility to stimulate the economy with low interest rates in one part of the union while, at the same time, dampening economic developments by means of a high rate in other regions. As such, business cycle fluctuations in the member countries of the monetary union will typically be more volatile than in a situation with an independent monetary policy. So, for example, the labour market situation – i.e. the level of unemployment – can become less stable than under flexible exchange rates.
With the formation of the European Monetary Union, the theoretical problem became obvious in practice: instead of entering into a convergence phase, the economies of the Member States of the EMU started to drift apart. The existence of the monetary union contributed to this divergence. For fast-growing countries with high inflation (such as Spain, most of the previous decade), monetary policy was too expansionary and contributed to an overheating of the economy and additional inflationary pressures. On the other hand, Member States that were in a recession and faced with low inflation (Germany, at the same period of time) were confronted with the overly, for them, restrictive policy of the European Central Bank, resulting in continuously weak growth and increasing unemployment. It is thus widely debated whether additional stabilisation mechanisms are necessary in order to compensate for the lack of a stabilising monetary policy.

An obvious instrument to stabilise economic developments would have been the use by national governments of a counter-cyclical fiscal policy. Unfortunately, the effectiveness of fiscal policy in stabilising the economy – fairly limited in general due to time lags – is hampered by an incentive problem in the monetary union. The high degree of trade integration in the euro area leads to a leakage of fiscal stimulus to neighbouring countries, since a significant part of the stimulus-generated income is spent on imported products (Goodhart and Smith 1993); this makes fiscal policy comparably unattractive in the monetary union. To make things worse, the flexibility of national fiscal policy is reduced by the European rules applicable to national budgets, such as the Stability and Growth Pact, limiting national governments’ leeway in pursuing a stabilising fiscal policy.

In this environment, it seems advisable for monetary integration to go hand in hand with strong fiscal policy coordination, which ensures that national governments actually use their fiscal policy to stabilise their economies.

3. The traditional OCA literature highlights labour mobility between the member countries as a stabilising device (Mundell 1961); specifically, it is argued that an integration of the labour markets can lead to stabilising movements of labour from countries which are facing high unemployment to countries in a more favourable economic situation. The cost – in terms of unemployment – of giving up a stabilising monetary policy can thus be reduced by increasing labour mobility between the countries.

4. See Fichtner (2008) for an overview of the traditional and recent debate on the costs, benefits and prerequisites of monetary integration.
respective economies. In addition, national governments must have enough fiscal leeway to do so. Kenen (1969) argues, in an early contribution to the OCA literature, that supranational fiscal transfer schemes can be helpful in this regard. In particular, fiscal transfers between the member countries can provide the governments of countries in a recession with additional leeway to engage in a counter-cyclical fiscal policy. Ideally, such a transfer system would be designed in such a way that the governments of countries which are in a good economic situation have to pay more into the system. This reduces their ability to implement expansionary fiscal measures, but these should be unnecessary in this situation. Historical evidence presented by Bordo et al. (2011) indicates that supranational transfer schemes are one of the crucial components of successful monetary unions: the monetary unions, for example, in large federal countries such as the USA or Germany.

The necessity of such a mechanism for Europe was already highlighted by Delors (1989). Several proposals have been made to this effect. A number of these call for the setting up of a European fund to transfer payments between the Member States’ national governments, depending on the respective country’s output gap, i.e. the difference between actual and potential GDP (Enderlein et al. 2013, Wolff 2012). Member States with a negative output gap would then use these payments to stimulate demand to support their economies. This would be financed by payments from Member States enjoying strong economic growth – or, more specifically, a positive output gap – at that particular time.

However, these proposals have a number of serious weaknesses. First, it is not clear whether the transfers from this stabilisation fund to the respective national government would be used promptly to stimulate demand. Given the typically long planning and implementation horizons of public investment or other public expenditures, it seems likely that the transfers from Brussels might not be used efficiently and effectively to stabilise the economy; there is even a non-negligible risk that these transfers would have a pro-cyclical effect on economies, due to time lags.

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5. A detailed overview of fiscal transfer schemes in the monetary union is given by von Hagen and Wyplosz (2008).
Secondly, there are substantial methodological uncertainties associated with calculating potential GDP and, thus, the output gap. If one considers OECD estimates of the output gap in, for example, Spain over the past ten years, there have been significant retroactive revisions (Figure 1). Linking sizeable financial transfers to such an uncertain form of measurement is not likely to gain political acceptance.

Figure 1  Output gap estimates over time (% of potential GDP)


2. The concept of a European unemployment insurance scheme

A clearly preferable alternative to the stabilisation fund discussed above would be a transfer mechanism that automatically redistributes resources from the citizens of countries with a stronger economy to citizens of countries with a weaker economy. A European unemployment insurance scheme lends itself naturally to this purpose. The system would take over part of the member countries’ national social security responsibilities; transfers would take place on the individual level; unemployed persons in all member countries of the monetary union
would receive benefits from the system, and employed persons in all member countries would pay a contribution to the insurance scheme. On the aggregate level, the system would automatically lead to countercyclical transfers: countries with higher unemployment, i.e. with a weaker economy, could expect to receive positive net payments (aggregate benefits less aggregate contributions) from the insurance scheme, while countries with a stronger economy would face negative net payments, i.e. net contributions to the system. Since payments would be made directly to and by citizens – as opposed to the government receiving or paying the funds – it is likely that these payments would swiftly lead to the desired increase or decrease of demand for consumption goods. This is particularly true since recipients of unemployment benefits typically have a comparably high propensity to consume – that is, they spend a relatively high share of their income on consumption goods and have a low savings ratio.

For reasons to be discussed below, it would be sensible for the benefits of this European unemployment insurance scheme to be paid out only for a limited time period, to cover only short-term unemployment. In addition, the amount of the insurance payments (as a percentage of the wage before entering into unemployment) could be relatively low. It
would be left to the individual countries to offer payments beyond this basic level of protection, funded by national contributions or taxes. Thereby, the amount or duration of total unemployment benefits could be adjusted according to the respective country’s political and societal expectations and values. Effectively, the European unemployment insurance scheme would offer basic coverage, beyond which all politically desirable payments would be covered by social security institutions in the member countries themselves. Figure 2 shows the relationship between the European unemployment insurance scheme and a more generous national system.

Therefore, the introduction of such a European unemployment insurance scheme would not decrease the level of social protection in the member countries, nor would it necessarily lead to a situation of equal social protection across member countries. There is a possibility, however, that social protection in some countries would increase. This would be the case if the degree of protection offered by the European scheme – in terms of eligibility criteria, replacement rates, or the maximum period of entitlement to unemployment benefit – were higher than the degree of protection offered by the national insurance regime in the respective country.

Finally, the European unemployment insurance system would not replace national unemployment insurance. This would be true for two main reasons: Firstly, the national systems would – in most cases – be needed to fill the gap between the level of protection offered by the European system and the politically and socially desired level of protection in the respective country. Secondly, the national systems would continue to play an important role as distributors of benefits, both from the European system and from the national system, and as the institution administering contributions both to the European and to the national system.

3. Risks and opportunities of a European unemployment insurance scheme

A European unemployment insurance scheme, such as the one outlined in the previous section, would have several advantages. Primarily, as discussed above, an international transfer system would help the
European Central Bank to fulfill its role as the common monetary authority; it would cushion destabilizing developments in single member countries which otherwise could potentially damage the monetary union as whole. In addition, there would be several further advantages of a transfer system in the form of an unemployment insurance scheme:

— Unemployment and, in particular, short-term unemployment are closely linked with the business cycle. Just as a normal (national) unemployment insurance regime helps persons who become unemployed to keep up their consumption level (Gruber 1997), an internationally redistributing unemployment insurance scheme would help to automatically stabilise economic developments on an aggregate level: countries experiencing an economic downturn would have increased inflows in terms of benefits from the insurance, and countries in an economic upturn would pay higher contributions due to increasing employment and a higher wage bill.

— The transfer payments could be expected to have a substantial impact on aggregate demand. Since unemployed persons typically spend a comparably large part of their income (including transfers) on consumption, the transfers would be likely to have a prompt and noticeable impact on the economy. In fact, it can be shown that a reasonably sized European unemployment scheme such as the one proposed above would have significantly dampened the decline of Spanish GDP during the global recession in 2008/2009.

— If the insurance scheme were reasonably sized, it would come at no additional costs to workers or firms in the monetary union. Since the system would replace parts of the national schemes, it would merely imply a redistribution of funds between national funds and the European system. This would also mean that the incentive for the unemployed to look for a new job would remain unchanged – with potentially positive effects on the duration of unemployment.

Certainly, there are risks associated with the creation of a common European unemployment insurance scheme. As in every insurance system, there is an imminent risk of moral hazard. That is, the motivation of national governments to bring down unemployment – e.g. through

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7. See Dullien and Fichtner (2013) and the literature cited therein.
labour market reforms – would be reduced by the fact that some of the cost of unemployment (specifically, the cost of benefits to the unemployed) would be taken over by a supranational institution. This does not seem to be too much of a risk, however. Firstly, the social burden of unemployment goes far beyond the pure cost of unemployment benefits; in their own interests, national governments will always try to solve labour market problems as fast as possible, since social tensions resulting from unemployment will have an impact on their political support. This effect would be reinforced by the suggestion of having the European unemployment insurance scheme focus on short-term unemployment. This might, in fact, even increase the motivation of national governments to help the unemployed to find new jobs within the first twelve months of unemployment: they would wish to avoid long spells of unemployment, since, after twelve months, the full cost of benefits would be borne by the national system.

4. Public and political support: the distributive effects of a European unemployment scheme

The introduction of a European unemployment insurance scheme requires strong political support. Considerable costs would be involved in the creation of this system. The distribution of benefits from and the administration of contributions to the European system could be handled by the existing national institutions in charge of administering national benefits, thereby limiting the additional institutional burden created by the European insurance scheme. The introduction of European unemployment insurance would not even require a harmonisation of social security standards across countries – given that the European system can be designed to reflect the ‘lowest common denominator’ of existing national insurance systems.

However, some harmonisation of the social security systems in participating countries could be useful. Reference wages for unemployment benefits, for example, can be calculated on the basis of gross or net wages; both approaches are currently used in Europe. The European unemployment insurance scheme needs to be based on one particular system, be it net or gross wages. While there would be no immediate need for participating countries to harmonise their national system with the system used by the European unemployment insurance
scheme, it would create an additional administrative burden to have to record data on both gross and net wages. Harmonisation would therefore be sensible.

Changes would also be likely in cases where the national system is largely funded from taxes. The European unemployment insurance scheme would function better as an automatic stabiliser if it were financed with contributions; it would thus be sensible to use such an approach for the scheme. This would require countries not currently using a contribution-based approach for their national systems to establish a separate institution to collect contributions to the European system – a considerable additional administrative burden. Again, this would make harmonisation advisable, albeit not imperative.

In addition, some effects on international and intranational income distribution cannot be precluded. As regards the international dimension, there is a risk that the creation of a European unemployment insurance scheme would lead to a persistent – and not only a cyclical – redistribution of funds between participating countries. For example, countries which have systematically higher (short-term) unemployment will benefit more from such a system than a country that has a comparably low level of unemployment. In fact, there have been substantial differences in short-term unemployment rates between European countries in the past. For example, countries with high seasonal unemployment (e.g. due to the greater importance of agriculture or tourism) can be expected to have a higher share of short-term unemployment and will therefore benefit more from the system than others. While some of those problems can be solved by formulating suitable eligibility criteria for benefits from the European unemployment insurance scheme, the risk remains – as in every insurance system – that some participating countries benefit more than others. For the political support of the system it will be of crucial importance to address this issue and to preclude permanent transfers as effectively as possible.

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8. Tax-financed payments into the system would typically be independent of the respective country’s economic situation. As a consequence, the country’s net payments (i.e. the payments into the insurance scheme minus transfers out of the scheme) would be less cyclical than if financing were based on contributions, the latter depending on the labour market situation of the member country.
In addition, there might be effects on income distribution within the participating countries. The European unemployment insurance scheme, as outlined above, is designed to avoid effects on income distribution in the participating countries. This would be the case as long as the European insurance provided a lower level of protection (e.g. in terms of the level of benefits or in terms of the maximum period of entitlements to unemployment benefits) than all national insurance schemes. In this case, European unemployment insurance would simply replace a part of the respective national insurance; the total benefits received by the unemployed would remain unchanged in all countries, since national insurance payments would be used to top up the (comparably low) benefits paid out by the European unemployment insurance scheme, adding additional benefits so that the protection level corresponded to that observed before the creation of the European unemployment insurance scheme.

However, European policy makers are facing a trade-off: if they wish to avoid any change in income distribution associated with the establishment of the European unemployment insurance scheme, they should design the European component to be as small as possible. Thereby, effects on income distribution would remain limited. However, the lower the level of protection provided by the European insurance scheme, the lower would be the stabilisation effect resulting from the establishment of this scheme. Presently, there are some countries in the euro area where unemployment benefits are fairly low; in Ireland, for example, the net replacement rate is approximately 35%\(^9\). A European unemployment insurance scheme designed not to exceed the level of protection provided by the most restrictive national system might fall short of expectations in terms of stabilisation effects. Therefore, it seems likely from a practical perspective that a European unemployment insurance scheme would provide a protection level somewhat higher than the protection provided by the least generous national systems. As a consequence, effects on income distribution might arise, possibly leading to political opposition against the system.

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\(^9\) For a comparison of unemployment benefits in EU Member States see European Commission (2013).
Let us be clear: while effects on income distribution cannot fully be ruled out with a sensibly sized system, the effect on the level of social protection in the participating countries would be unambiguously positive. The European unemployment insurance scheme would effectively establish a minimum standard, and national governments would top up the benefits at national level with national payments. Fears that a European unemployment insurance scheme would set a benchmark and lead to a ‘race to the bottom’, – i.e. lead national governments in countries with higher social protection to cut down benefits – do not seem justified. The European Union has established minimum standards with respect to several aspects of working conditions – think of the working time directive or the Council directive on health and safety at work – with no evidence that national legislation would converge down to this minimum standard from a more protective stance.

Conclusions

The present article outlines the system of a European unemployment insurance scheme. The introduction of such a system could effectively cushion cyclical imbalances in the euro area and have substantial advantages over a more traditional fiscal transfer system, e.g. a system based on measurements of the output gap. Firstly, transfer payments are automatically linked to the business cycle, thus largely preventing countries from becoming permanent net contributors or net recipients. Secondly, the system is transparent and easy to understand for policy makers and the general public, and it is less susceptible to political influence than other transfer systems. Finally, such a system is socially and politically desirable, since it would set a minimum standard for the level of social protection in the participating countries without necessarily enforcing harmonisation of unemployment insurance schemes across Europe.

As such, a European unemployment insurance system of this kind could be an effective stabilising element for the Member States of the European Monetary Union. Expectations should not, however, be set too high. With a reasonably sized system, the stabilisation effects would be limited. Some dampening of economic cycles – both in upswings and in downswings – could be expected. But it is clear that an automatic
A stabiliser such as that proposed in the present article would not have fully avoided, for example, the unwinding of overcapacities leading to massive economic problems in the European crisis countries. Even more so, the establishment of a European unemployment insurance scheme could not even out structural differences between the participating economies. Persistent asymmetries, e.g. those emerging from institutional conditions such as the regulation of labour markets or wage negotiating systems, could still lead to persistent and large structural imbalances and would need to be monitored and eliminated through other mechanisms.

Large uncertainties remain with respect to such a European unemployment insurance scheme. The reliable quantification of the international transfers arising from such a scheme, and the estimation of the stabilisation effects of such a system, require data – such as the work history of unemployed persons – not available in an easily accessible and internationally comparable form. Any assessment, therefore, of the implications of the introduction of European unemployment insurance relies heavily on guesswork and assumptions, and substantial further research is required to shed light on the effects to be expected. In addition, the required institutional and, in particular, legal changes – including, possibly, changes to the EU treaties – would take a long time to implement.

With the crisis acting as a trigger and a starting point, recent years have brought substantial improvements to the European institutional framework. Some of the monetary union’s problems have been addressed with the creation of the European Stability Mechanism (ESM) or the Macroeconomic Imbalance Procedure (MIP), and the ongoing process of forming a banking union is establishing an overdue common regulatory framework for European financial markets. A further centralisation of fiscal policy is still, however, on the agenda.

A European unemployment insurance scheme could be an important element of such a further centralisation of fiscal policy. Without reducing national policy makers’ flexibility in setting the nationally desired level of social protection, it would help the participating countries to deal with asymmetric shocks and thereby ensure greater economic stability in the monetary union. The basic principles and underlying ideas are easy to understand and to communicate, hopefully leading to a high
degree of political acceptance. Finally, and most importantly, the European unemployment insurance scheme could be an instrument that would strengthen Europe’s social profile, thereby helping to overcome the negative reputation which the European integration process has acquired in the years of the crisis.

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Towards a European minimum income? Discussions, issues and prospects

Ramón Peña-Casas and Denis Bouget

Introduction

Never before has there been such social inequality and poverty in the European Union (EU), and the situation has continued to deteriorate since the beginning of the severe economic and financial crisis affecting Europe. The EU’s sometimes drastic fiscal austerity policies have contributed to this growth in poverty and inequalities. Such is the worrying assessment that must be drawn for 2013 (European Commission 2014, SPC 2014).

In 2012, almost 84.1 million Europeans – 16.9% of the population – were living below the relative poverty line – a threshold set at 60% of the equivalent national median income. According to the extended definition of poverty and social exclusion used to set the EU’s quantified poverty reduction objective in the Europe 2020 Strategy, more than 124.5 million Europeans are in this situation, i.e. almost 1 in 4 people in Europe (24.8%) (Eurostat 2013). This is a shocking figure, especially since poverty has become more severe and more persistent since the beginning of the crisis (European Commission 2013). These European averages mask greatly varying situations between European countries. There is increasing divergence between, in particular, Northern countries, on the one side, and Southern or ‘peripheral’ countries on the other, with converging situations within these groups, even between eurozone members and non-members (European Commission 2014).

1. This chapter is taken from a report drawn up by the European Social Observatory (OSE) at the request of the Workers’ Group of the European Economic and Social Committee (Peña-Casas et al. 2013). The views expressed in it are those of the authors.
Although since 2007 two successive serious economic and financial crises have contributed to an increase in precarity and poverty within the European Union, social protection arrangements in most Member States have nevertheless helped to cushion the effects of the crisis. They have been severely tested – torn between, on the one hand, increased calls on their resources as a result of the crisis, and, on the other, restrictions placed on them by the need for fiscal austerity. Initially, following the onset of the financial crisis in 2007, social expenditure increased, acting as a macroeconomic stabiliser. However, as of the financial crisis of 2011, this trend was reversed, although the social situation continued to deteriorate. Social expenditure was targeted by fiscal austerity strategies and at the same time became procyclical (European Commission 2014). Social protection systems were called into question as expensive, unfair and economically inefficient – and this too contributed to an increase in poverty and social exclusion in a large number of Member States. The recent deterioration of the social and economic situation in many European countries is thus the outcome of two phenomena, each of which has fed into the other: low or negative economic growth in a context of stagnating crisis, and the reduction of social expenditure and, more generally, of public expenditure as a whole (OECD 2014, SPC 2014).

The current crisis has highlighted, in particular, the essential role played by the most low-profile and residual of the social protection schemes: the last-resort schemes providing a minimum income to citizens who can themselves no longer scrape together the financial resources needed for a decent standard of living. In this chapter, we shall focus our attention on universal guaranteed minimum income (GMI) schemes available to the working-age population. These national policies have offset the effects of the economic and financial crisis and have made it possible to contain poverty, to varying extents, depending on their own inherent effectiveness and the constraints placed upon them by the context of austerity (SPC 2013 and 2014).

Discussions of minimum income schemes have focused on two main questions: financial adequacy, and their potential effectiveness in combating poverty or in terms of employability policies. The adequacy or otherwise of the benefits provided is a concern, since the target groups, generally socially excluded, may have very varied social and economic characteristics. Another frequent debate has concerned the extent to which minimum income schemes have an effective impact on
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poverty and employment, in the light of potential financial (dis)incentives and the criticisms levelled against activation policies. Over the last twenty years, social policy reforms have focused on the need for ‘active’ and ‘activating’ support allowing for a return to employment (Weishaupt 2013, Betzelt and Bothfeld 2011).

Against this rather gloomy and very diverse backdrop arises the question of whether there should be a European minimum income scheme expressing greater European solidarity, i.e., a European instrument related to non-contributory minimum income schemes geared towards those of working age and able to work2. The renewed interest in this idea is also part of a more general trend concerning social protection. Thus, as well as the idea of a European minimum income (EAPN 2014, ETUC 2013, EESC 2013, European Parliament 2010, EAPN 2010), there have been various initiatives concerning the idea of a European unemployment insurance scheme (cf. the chapter by Fichtner), the desire to establish a minimum wage in each Member State (European Commission 2012) as well as citizens’ initiatives to establish a universal basic income scheme in Europe. None of these ideas are new, but it is no coincidence that these ideas and demands are all coming to the fore at this time of crisis. Faced with a severe deterioration in the social situation within the EU, Europeans are, more than ever before, expecting Europe to take action to promote solidarity and social progress.

This chapter begins with an account of the current situation regarding minimum incomes in Europe: common features and differences, as well as the limitations faced by national policies (Section 1). The European Union itself has launched a number of initiatives over the years (Section 2), but these have come up against difficulties and institutional barriers. Given these circumstances, there have been increasingly frequent calls for the setting up of a minimum income policy at European level (EGMI), as a tangible expression of the European Social Model. In Section 3, we address the potential objectives of such a scheme, the financial resources necessary, and the possibility of setting up a European minimum income fund.

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2. This chapter does not, therefore, consider minimum income schemes for particular categories of the population (old-age schemes, etc.), or minimum wages, organised and managed by the social partners, even though these are relevant to the discussion of certain elements of GMI schemes.
1. The current situation in Europe

1.1 National policies: similarities and differences

As things currently stand, 26 of the 28 Member States have established measures to guarantee a minimum income to the working-age population. National social assistance or welfare schemes have been developed over the years, taking various approaches responding to the concerns of the time. Guaranteed minimum income (GMI) schemes began to appear gradually following the Second World War in a number of Western countries, as last-resort, universal and ‘residual’ components of social welfare regimes, designed to offer protection to citizens who were temporarily unable to provide a decent or sufficient standard of living by their earnings alone (United Kingdom 1948, Finland 1956, Sweden 1947, Germany 1961). After the oil crisis of the 1970s, characterised by increasing levels of unemployment and the emergence of the ‘new poor’, the GMI schemes introduced or revised in most Western European countries (BE, FR, DK, IE, UK, NL in the 1970s; FR, LU and SE in the 1980s) had two main objectives: to guarantee a minimum level of resources, and to bring beneficiaries onto the labour market. This so-called ‘activation’ approach has been taken since the 1990s, in various forms and under various headings: the ‘active welfare state’, ‘flexicurity’, etc. The concept behind this approach is that of ‘full citizenship’, based on social inclusion and active integration of GMI beneficiaries into the social and working life of their countries (Weishaupt 2013, Betzelt and Bothfeld 2011). In the countries of Central and Eastern Europe, with the encouragement, in particular, of the World Bank, national GMI schemes were set up following the transition period (1990-2000) from the Soviet-era planned economies to the market economy – a change that resulted in a significant increase in poverty.

The current situation – the outcome of the development of national schemes in the absence of coordination at European level – reveals strong similarities between all the national systems in Europe, as well as some differences, partially reflecting the specific types of scheme.
1.1.1 Similarities
The seemingly diverse approaches and characteristics of the schemes mask, in fact, the existence of many common features at the core of the systems. It is vital to identify these similarities, not only in order to analyse national schemes, but also in order to understand and design any future European policy. National systems:

— have been set up as statutory last-resort systems, and, on this basis, constitute the final safety net of the social welfare regime;
— are, in all cases, a subjective right, since individuals must apply to the schemes;
— include, to differing extents, discretionary elements (a partially subjective assessment of needs by assessment committees);
— all, to differing extents, include the requirement that people able to work be available for work, and actively seek work;
— are subject to certain eligibility conditions concerning the resources needed to maintain a decent standard of living, or to meet minimum needs;
— take the form of a differential amount, making up the difference between household resources and a reference threshold established by law or regulation;
— provide differing amounts to individual households, based on (accumulated) income, size and composition of household;
— set no time limit on the duration of benefits;
— are available to all citizens of the country, as well as to citizens of another Member State when these have become legal residents of the country;
— are, in all countries, financed by taxes (Peña-Casas et al. 2013).

The conception of a future European minimum income system, presented in the next few sections, is largely based on these features, which are strongly ingrained, both ideologically and technically, in national policies. They are a source of inspiration for the new model, but also potentially act as constraints.

1.1.2 Differences between national schemes
Although there seem to be many common features between schemes, there are also differences, in terms of institutional organisation, levels of benefits, age and eligibility criteria, income components considered, the composition of families or households, activation conditions, etc.
Attempts have been made to develop typologies of the, at times, significant differences between countries, to show both the internal similarities and structural differences. Such attempts have used criteria such as institutional structures, degree of coverage, conditions of eligibility or level of benefit. This exercise is made even more difficult by the fact that GMI schemes in Europe have undergone many reforms over the last 20 years, especially since the recent crises (Bahle et al. 2011, Marchal et al. 2011). Of these many typologies, we will use that of Crepaldi et al. (2010), which is based on the degree of universality of schemes. It distinguishes between two large groups. The first of these contains countries with a universal GMI scheme providing support to all people with insufficient resources. In these countries, the GMI is the sole (or main) support scheme. The second group is made up of countries where GMI schemes are last-resort schemes for those who are not eligible for another category-based scheme. In these countries, a general GMI scheme co-exists with a number of schemes targeted at particular groups. Overall, European countries can, depending on their degree of universality, all be placed somewhere on a continuous scale taking in these two groups (represented by the black dots in Table 1). As well as these two large groups, there is a group made up of countries that only have local schemes or schemes open only to certain categories.

Table 1 Typology of European GMI schemes on 1 January 2013

<table>
<thead>
<tr>
<th>Universal</th>
<th>Last resort</th>
<th>Local and/or category-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>●●●●</td>
<td>●●</td>
<td>●</td>
</tr>
<tr>
<td>BE FR LU MT PT RO</td>
<td>AT BG CZ CY EE FI HU DE IE UK</td>
<td>DK LV PL NL SK SI SE LT ES HR</td>
</tr>
</tbody>
</table>

Source: Peña-Casas et al. 2013, based on Crepaldi et al. 2010; using data from the MISSOC (Mutual Information System on Social Protection).

1.2 Concerns and limitations of national policies

As we have already noted, most discussions on a European minimum income focus on two main issues: firstly, adequacy of benefits, i.e. what is a sufficient level of income, given the diversity of situations and the fact that the scheme is part of a structured welfare system targeted at
poverty and social contingencies, and, secondly, the effectiveness of the scheme – external effectiveness with respect to its link with activation policies, and internal effectiveness in terms of the very high level of non-take-up of the schemes.

1.2.1 An adequate policy?
Discussions have centred on minimum income as a key element in combating poverty and social exclusion. Support of an adequate income (Veit-Wilson 1998) is regarded as essential to a life lived with dignity. It is seen as a safety net ensuring that those not entitled to other forms of assistance do not end up destitute, and is considered as vital support for the most vulnerable groups, enabling them to take an active part in the life of their community or society. More traditionally, the purpose of the minimum income is to ensure that the individual’s basic needs are met; it therefore plays an important role in attenuating the social impact of the recession, maintaining the purchasing power of consumers and even kick-starting the economy.

GMI schemes are a vital last bastion in the fight against poverty, but they are only one element of a broader integrated social welfare system. Their role in combating poverty, therefore, is subject to two limitations. Firstly, GMI schemes do not reach all poor households. In 2011, with the exception of a small group of countries (LT, EE, PL) in which 7 to 9.9% of the working population received a minimum income, the proportion of beneficiaries was below 5%. This implies a considerable gap between the number of people receiving a GMI and the share of the population in a situation of relative poverty, i.e. below the threshold of 60% of median national income. This difference exists largely because many people do not claim the GMI to which they are entitled (cf. below). Moreover, income from the GMI often represents only a small share of the income of poor households (less than 10% of total income). Other social transfers, as well as earnings, made up almost three quarters of the income of poor households in Europe in 2011. Nevertheless, the GMI accounted for a larger share of the total income of extremely poor households (living below the 40% poverty line). This confirms its role as a last-resort scheme (Peña-Casas et al. 2013).

The issue of adequacy is particularly sensitive because minimum income policies are part of a more general and structured context, due to the multidimensional nature of poverty (European Commission
and to the diversity of social groups: the working poor, long-term unemployed, the disabled, homeless, etc. (Immervoll 2010). In most cases, purely economic support is insufficient to help people to escape from poverty and social exclusion. For this, more complex and individually-tailored support is often required. Although most assistance schemes agree on the policies necessary (education, housing, etc.), it seems to be left to national and local players to decide how these will be structured, with no clear message given as to how to manage priorities.

According to Frazer and Marlier (2009), most Member States do not have a clear definition of their scheme as aiming to provide adequate minimum income, guaranteeing the right of an individual to live in dignity. There are, then, different understandings (which must be taken into account) of what is meant by adequate: types of income, share of the population covered, eligibility for the various existing schemes and, above all, the political response needed to address the problem (EAPN 2010). The effectiveness of social welfare transfers in alleviating poverty varies greatly from country to country, and these differences are in part a reflection of differences between national GMI schemes. The level of income provided by the GMI scheme also varies greatly between countries. Nowhere in the EU does it reach the poverty line of 60% of median income, and in 17 Member States the level of GMI even falls below the 40% extreme poverty line (Peña-Casas et al. 2013).

1.2.2 An effective policy?

Over the last twenty years, discussions on social policies targeted at the poorest have focused on the need for ‘active’ and ‘activating’ support (Weishaupt 2013, Betzelt and Bothfeld 2011). In this context, the ‘Make Work Pay’ dogma has come to dominate the drafting of European and national activation policies. This approach has also put pressure on the discussion as to the level of welfare benefits, reducing it to an oversimplistic comparison between the level of benefits and that of low wages. The fear that GMI will act as a deterrent, discouraging recipients from returning to work, is based on an assumed degree of tension between GMI and wages. The GMI must be generous, to relieve poverty, but limited – in any case clearly below the minimum wage or the low levels of pay generally offered on (re)-entry onto the labour market. Graph 1 illustrates this tension. It shows the relation, in net terms, between GMI, minimum wages (where a statutory minimum wage
exists) and low wages, in relation to median household income. These are average figures for several types of household.

Figure 1  **GMIs, minimum wages and low wages, as a proportion of equivalent median household income (%) – net values – 2011**

Net GMI levels fall, in all cases, beneath the 60% poverty threshold. In many countries they do not even reach the level of the 40% extreme poverty threshold (except in DK, IR, NL, LU, LT and BE). In almost all countries the minimum and low wages fall somewhere between these two poverty lines – cause for concern if employment is seen as a way of preventing or escaping poverty. Only in Ireland, the United Kingdom and the Netherlands are minimum wages clearly above the 60% threshold. In several countries, the net minimum wage is even close to the 40% poverty line (ES, LV, SK and RO), or even beneath that line (EE), as is the case in

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3. Net low wages are calculated as equal to the threshold of 50% of the average wage.

In the OECD definition, GMI schemes give rights to individuals with no other source of income, and not therefore entitled to unemployment benefits. All relevant cash benefits are taken into account (social assistance, lone-parent benefits, other family benefits and, if appropriate, housing benefits), as well as income tax and social security contributions, where relevant.
Bulgaria for low wages. In these cases, how much of an incentive can minimum wages and low wages below the poverty line be? These low-paid jobs may increase the income of poor people, but, contrary to the rhetoric vaunting the social effectiveness of incentivising activation policies, they are not sufficient in themselves to provide a road out of poverty.

Although so-called ‘welfare-to-work’ policies can be an effective way of increasing the employment rate of GMI beneficiaries, the most effective policies of this kind tend, in the long run, to be those with high budgets (individual support, human capital development) (Immervoll 2010). Member States, however, tend to make payment of the minimum income conditional on employment assistance and activation measures, thus restricting access to benefits and social services. This trend has led to reductions in welfare payments and employment assistance paid to the unemployed and those not in work, with a view to providing a greater incentive to find a job (Frazer and Marlier 2009). The European Anti-Poverty Network (EAPN) has underlined the negative impact of these policies on those who are out of work (EAPN 2010). According to this NGO, governments use welfare measures to force people to accept employment, in order to increase employment rates and reduce the numbers receiving social security benefits. This trend has been further strengthened by the economic situation, especially in 2013. In a context of weak employment markets, activation policies encourage those on a minimum income to compete with others who are unemployed (Immervoll 2010); in reality, they have more difficulty finding employment than people receiving unemployment benefit (Immervoll and Richardson 2011). The requirement to be actively seeking employment brings with it the issue of the sanctions to be applied if such an obligation is not respected (suspension or reduction of benefit, even exclusion from the benefit scheme). Such sanctions are even more questionable since GMI is the final safety-net in the social welfare system.

One of the negative consequences of this trend is illustrated by the large number of eligible people who do not claim the minimum income. This leaves some of the most vulnerable members of society in a sort of legal no man’s land, working in parallel and illegal labour markets, or leaving them to the care of charitable associations.
Sufficient coverage?

Almost all the European countries have GMI schemes and recognise, both in their national constitutions and by means of international conventions, that this protection is a fundamental right of individuals. Nevertheless, in reality many individuals do not benefit from this right. This raises the question, crucial in assessing the effectiveness and fairness of public policies, of the non-take-up of social welfare payments, and particularly those related to the minimum income. Although the level of non-take-up is high, relatively little research has yet been carried out on it, and it often seems not to be a priority for governments (Nelson 2013, Hernanz et al. 2004). Non-take-up can be an individual choice, or the result of a situation beyond one’s control, caused by the interaction of many factors. Matsaganis et al. (2008) have studied the existing literature and conclude that the non-take-up rate for social assistance varies between 40 and 60%, depending on the particular schemes and countries studied. Basing themselves on reports from the European network of anti-poverty experts, Frazer and Marlier give similar figures. They also stress that the risk of non-take-up is particularly high for certain social groups (women, couples, young people, people with a low educational level and migrants), and also in certain inland, more rural areas (Frazer and Marlier 2009). Despite difficulties in measuring this rate and uncertainties relating to the estimates, one conclusion is clear: there is a high level of non-take-up of the minimum income. One out of every two beneficiaries, approximately, does not receive the GMI, although they would be entitled to do so.

In the current context, non-take-up is even more of a political and social challenge, since in most European countries, social and anti-poverty policies are increasingly targeted at particular groups, which implies more conditions placed on the assistance on offer. Such targeting is sometimes justified, in political speeches, as a way of combating social security fraud or ‘welfare tourism’ (Warin 2012).

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4. Warin (2010), defines three main forms of non-take-up: firstly a lack of knowledge (caused by a lack of information as to the existence of a scheme or how to access it - the potential beneficiary does not, therefore, make a claim); the non-request (a person eligible for and informed as to the scheme chooses not to, or is constrained not to, claim benefit); non-receipt (an eligible person makes a claim, but receives nothing or only part of the sum on offer).
2. **GMI and the EU: the current situation**

In the area of social policy, any direct EU intervention requires a unanimous decision by the EU Council, and must respect the principles of subsidiarity (the Union only acts if the objectives of the action proposed cannot be met by the Member States acting alone, for reasons of scale or because of the across-Europe effects of the action), and of proportionality (the action shall not go beyond what is necessary to meet the objectives of the treaties). According to the treaties, then, the EU can only make suggestions (recommendations) or organise non-binding policy cooperation processes and exchanges of good practice (Open Methods of Coordination, OMC), which should result in convergence between the Member States as set out in the recommendations (Council Recommendation of 1992 on the convergence of objectives) and European strategies (Lisbon, Employment and Growth, and the Europe 2020 Strategy). This legal argument relating to subsidiarity is usually invoked to explain why the European institutions have done relatively little to help combat poverty.

Given the difficulties faced by and the deterioration of national policies, the idea of creating a European minimum income seems to be a new solution, which has even more political justification since the European Union is often accused of being behind this increase in poverty. This idea, then, is part of a drive for European solidarity, and has therefore been brought to European level by representatives of civil society (EAPN 2014 and 2010), trade unions (ETUC 2013) and by a number of European institutions (EESC 2013, European Parliament 2010). For this reason we should take another look, even before we address the issue of a possible future European guaranteed minimum income, at the initiatives already taken by the European institutions in previous decades.

2.1 **A lengthy European debate**

The establishment of a European minimum income requires a legal structure based on a set of premises, several of which have become reality over the last thirty years. The right to a minimum income allowing an individual to live with dignity is a fundamental human right, recognised as such in various international conventions and European charters to which the EU, and particularly its Member States,
have signed up. This right is also recognised, with various nuances, in all the national constitutions of EU countries (Peña-Casas et al. 2013). It is, therefore, a historical right strongly rooted in the European legal order. Nevertheless, it was not until the beginning of the 1990s that the issue of a guaranteed minimum income was raised at European level, although this was still in relation to initiatives which would be non-binding on Member States.

The Community Charter of the fundamental social rights of workers, adopted in Strasbourg on 8 December 1989, proclaims the right of workers to an adequate level of social security benefits. Moreover, persons who have been unable to enter or re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and social assistance, in keeping with their particular situation (European Commission 1990). In 1992, the European Commission made a proposal for a directive on minimum income, which was down-graded into the ‘Council Recommendation on common criteria concerning sufficient resources and social assistance in social protection systems’ (Council of the European Communities 1992). Adoption of this text was a symbolic attempt to include a social dimension in the emerging single market. The recommendation asks Member States to recognise an individual’s fundamental right to sufficient resources and social assistance to live in human dignity. This right is to be implemented by means of national political strategies to combat social exclusion, and requires, if necessary, the reform of social protection systems. With a view to this, the recommendation sets out a number of principles and guidelines. At the time of its adoption, eight of the twelve Member States had already introduced a guaranteed minimum income (the exceptions being Italy, Greece, Portugal and Spain). The 1992 recommendation, therefore, could be seen as principally calling on these latter Member States to set up an income

5. The Member States ratify (or choose not to ratify) a number of (usually not all) ILO conventions. The EU as such cannot ratify these, since until 2009 it was not legally entitled to do so. However, ‘The European Union actively participates in discussions and negotiations at the institutional meetings of the ILO in Geneva (International Labour Conference, Governing Body), notably on the adoption of conventions, recommendations, resolutions and other important texts, and in a number of cases also on monitoring the application of the conventions’ (http://www.ilo.org/brussels/ilo-and-eu/lang–en/index.htm).

6. The provisions of the Charter were included in the Treaty of Lisbon (Article 151 of the Treaty on the Functioning of the European Union) and in the EU’s Charter of Fundamental Rights, which is part of the treaty and is legally binding.
protection system (Cantillon and Van Mechelen 2013). It directly influenced, for example, the adoption of a minimum income scheme in Portugal in 1996.

Almost 15 years then went by with no action in this area, and when the idea seemed to have been forgotten. Then, at the onset of the financial and economic crises in 2007-2009, and following an intensive campaign by European civil society (EAPN) to promote the idea of a European minimum income, the Commission returned to the issue of national minimum income schemes, from the viewpoint of active inclusion (Frazer and Marlier 2010), in its ‘Commission Recommendation of 3 October 2008 on the active inclusion of people excluded from the labour market’. This strategy for active social inclusion is based on three concepts supposedly of equal importance: adequate income support, inclusive labour markets (social activation) and access to quality (social) services. The recommendation refers explicitly to the criteria set out in the 1992 Council Recommendation, which ‘remains a reference instrument for Community policy’ (European Commission 2008). The approach based on the guiding principles of active social inclusion then gained gradual acceptance as a key reference point for the social inclusion OMC and the Europe 2020 Strategy. However, true to the principles of subsidiarity and proportionality, it remains within the competence of Member States, by virtue of its principle on the activation of social welfare beneficiaries (Frazer and Marlier 2013).

At the same time, in its Resolution of 6 May 2009 on the Renewed Social Agenda, the European Parliament stressed the need to modernise and reform social security systems, with a view to eradicating poverty in the long term and establishing a scheme for an adequate minimum income. In 2010, the European Year for combating poverty and social exclusion, the European Parliament, in its resolution of 20 October 2010, declared the need for a ‘minimum income in combating poverty and promoting an inclusive society in Europe’. The resolution refers to an ‘adequate minimum income’, set at a level of at least 60% of the median income in each Member State (European Parliament 2010). In 2010, at the request of the Belgian Presidency of the EU, the European Economic and Social Committee sketched a clearer outline of national guaranteed minimum income schemes. The setting up of a minimum income system should be considered, within a context of active social inclusion policies and access to good-quality social services (EESC
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In an own-initiative opinion adopted in 2013, the EESC asked for the setting up of a European minimum income scheme, supported by a specific solidarity fund (EESC 2013).

Aside from these calls for action, however, the Commission remained relatively inactive in this area. At the launching in 2010 of the Europe 2020 Strategy and the setting up of the ‘European Platform against poverty and social exclusion’ (European Commission 2010), no reference at all was made either to a guaranteed minimum income or to any binding legislative initiative relating to social inclusion (Peña-Casas 2012). In 2013, the Commission took the initiative and presented the ‘Social Investment Package’ (European Commission 2013). Based, once again, on the main principles of active social inclusion, this Communication calls upon Member States to set reference budgets ensuring adequate means of subsistence, taking account of consumption patterns, different situations and types of household. It invites Member States to include progress made in this area in their National Reform Programmes (NRPs).

Civil society organisations have continued to call for a binding legal instrument relating to a European minimum income, as well as action in the area of national schemes (EAPN 2013). In parallel, the Executive Committee of the European Trade Union Confederation (ETUC) adopted a text on 23 April 2013, stating that ‘the ETUC supports the introduction of a social minimum income in every Member State on the basis of common European principles’ (ETUC 2013).

Our examination of this series of texts, none of which carry much legal weight, should also refer to the treaties and directives. ‘Solidarity’ is one of the fundamental values of the Union (Art. 2 TEC), and the fight against poverty and social exclusion is listed as one of the main Union objectives (Art. 3 TEC). One new feature of the Lisbon Treaty (2009) is that the EU Charter of Fundamental Rights is granted ‘the same legal value’ as the treaties, whilst remaining a separate legal text not incorporated into those treaties (Art. 6 (1) TEU). Article 9 TFEU on the ‘horizontal social clause’ states 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’. The horizontal social clause, however, does not transfer any new powers to
the EU. It can not therefore be used as a legal basis for the establishment of a proactive and complete social policy covering all the areas listed in this article.

Many provisions in the European treaties refer explicitly to EU objectives relating to combating social exclusion (Art. 3 (3) TEU). Nevertheless, the setting of objectives is not in itself sufficient to give the European Union the power to adopt a binding legal instrument obliging Member States to legislate in the area of minimum income, since, even if the legal basis is accepted, the measures adopted must respect the principles of subsidiarity and proportionality. These principles mean that in the area of social protection, Member States remain responsible for the structure and content of their minimum income schemes or their social security systems guaranteeing a minimum income.

The only legal basis for a legally-binding EU initiative can be found in Title X of the Lisbon Treaty, on social policy, and, more particularly, in Article 153 TFEU. This article refers explicitly to the fight against social exclusion as one of the areas in which the Union supports and complements the activities of the Member States with a view to achieving the objectives of Article 151 TFEU, in the form of ‘measures designed to encourage cooperation’ (Art. 153.1 (j)). Nevertheless, the fight against poverty is not one of the areas in which the Union supports and complements the activities of the Member States by means of directives setting out minimum requirements in the field of social security (Art. 153.2 (b)). As the treaties are currently drafted, the only area in which such requirements may be established is for the particular group of ‘persons excluded from the labour market’ (Art. 153.1 (h)), which would not include persons unable to work (Peña-Casas et al. 2013). Implementation of a binding European legal instrument at national level would nevertheless be a complex task, since national GMI schemes do not generally distinguish between these two groups. A political approach would still be possible, but would require a Commission initiative, as well as the unanimous approval of the European Parliament and the Council of the EU following the usual legislative procedure. It is a question, then, of political will. However, until now, with the exception of the 1992 recommendation on sufficient resources, the speeches and texts of the European Commission and Council have avoided advocating a European minimum income.
3. Developing a European guaranteed minimum income

The first question arising from the creation of a European minimum income would be the form it would take, and how it would compare to current national schemes. It would also require the untangling of a complex set of political issues (Vandenbroucke et al. 2013). It would seem impossible to merely transfer national schemes to the European level, given the differences between the countries, and also the institutional barriers already referred to. The general principles guaranteeing sufficient resources for a decent standard of living are stated regularly in the charters and treaties. On the basis of these stated purposes, a European guaranteed minimum income (EGMI) should be constructed around more precise objectives, which would make it possible to develop more effective implementation tools, and to assess the national and European financial resources that would be needed to finance the schemes.

3.1 Objectives

The establishment of a minimum income is always based on doctrinal considerations relating to poverty, and in particular to forms of poverty judged to be abnormal, iniquitous, unbearable and collectively unacceptable social and economic situations (Veit-Wilson 1998). Developing such a system at European level would mean that a certain type of cash provision must be granted to the poorest households, according to a system involving both the European institutions and those of Member States.

3.1.1 Objective 1: Moving towards a European reference minimum income

The EGMI would be a means-tested system of cash benefits, reflecting the desire repeatedly expressed in declarations to ensure sufficient resources to guarantee a decent standard of living and to cover individuals’ basic needs.

A minimum income established with respect to the relative poverty thresholds

Relative poverty is measured in Europe by means of two thresholds: the ‘60%’ threshold, and the extreme poverty threshold, set at 40% of the national median income. The choice of the 60% threshold would be justified by its use as the official poverty threshold in Europe, and also
because anti-poverty associations are all calling for this to be set as a minimum income objective. It has become a true point of reference – a benchmark. In view of the growth in the number of working poor (Fraser et al. 2011), a minimum income based on a threshold set at 60% of the median income would mean that many countries would have to reconsider their minimum wage (Figure 1) and would encourage social partners to reassess all wages, particularly minimum wages. The 60% threshold could be an ultimate goal, one that would gradually be achieved, taking account of the specificities of each country, of the nature of social dialogue between the social partners, and also in the light of other types of minimum provision for those not in work (the elderly or disabled).

The threshold set at 40% of median income is generally considered as a way of measuring extreme poverty. It is a ‘floor’, often seen as representing a minimum subsistence threshold. For several years now, all charitable associations have noted a rise in forms of extreme poverty, despite the policies developed to fight against social exclusion. Given all the criticism currently levelled against the European Union, particularly the Commission and the Council, the idea of launching a major policy for combating severe poverty, under the aegis of the European Union, would weaken national political objections from those who are keen to maintain their responsibilities in the field of social protection but are finding it increasingly difficult to shoulder these, in the light of the key human rights principles. However, this threshold of 40% of median income is still a relative measurement of poverty, and cannot, then, systematically guarantee a sufficient level of income to ensure that basic needs are met. For this reason, and as a result of the social and economic crises, the relative poverty threshold fell in a third of Member States between 2008 and 2012 (European Commission 2014).

3.1.2 Objective 2: Reducing the gap in each country between national minimum income and the poverty threshold

If it is not possible to establish a true pan-European minimum income, uniform across all the EU Member States, one objective that could have some political success would be to improve the situation in many countries while maintaining a national framework for a minimum income. The top-priority objective for EU policy would be gradually to reduce the gap between the current minimum income and the extreme poverty threshold, as a first stage, and to establish an EGMI equal to the
extreme poverty threshold for all countries not achieving this level. The second stage would involve a long-term objective of reaching the 60% threshold. In those countries, for example, where the 40% threshold has already been met (DK, IR, NL, LU, LT and BE), a gradual process would be launched, with a view to achieving a minimum income equal at least to the poverty threshold of 60% of median income. As demanded by the EESC in its 2013 opinion, a European solidarity fund should be set up to support Member States in this process (EESC 2013).

3.1.3 Objective 3: organising the relationship between the EGMI and other national minima

The question that arises is how, in practical terms, the EGMI would fit in with the national minimum, not just in terms of the level of benefit provided, but also with respect to eligibility criteria. Unlike the implementation of a universal benefit system, the setting up of a European minimum income scheme, whatever shape this would take, would require a reform of the multi-level governance of the scheme. The European Union would not have its own administrative body for each country; it could only follow national policies, with the option of asking for changes to be made to the most problematic-seeming discriminatory criteria. The list of features shared by the current national schemes (cf. Section 1.1.1) should be re-examined, with a view to identifying the source of any hold-ups and malfunctions.

In this still-national context, only claimants from the country itself – i.e. nationals and legal residents – would receive the EGMI, subject to resource criteria amended by the European agreement. The EGMI would be administered by local services or offices, which would probably need to be reformed to improve monitoring (take-up) and help the scheme to better meet social needs. Such a system, unlike the pilot projects set up by the European Commission to combat poverty in the 70s and until 1994 (Room 2014), would largely respect the principle of subsidiarity, including the need for an activation policy, which is one of the supporting principles of the 2008 recommendation. A European minimum income solidarity fund would help Member States to narrow the gap with the 60% poverty threshold.

To encourage countries to finance such a European solidarity fund, recourse to the fund could be made subject to political and financial commitments from the applicant Member States, as well as a timetable.
for reaching the level of the poverty threshold, together with interim goals. For Member States already close to the 60% threshold, the fund could alternatively be used to fund an improvement in social services or take-up of the schemes, once the GMI had reached the poverty threshold. In this way, the fund would help to adjust income levels and improve the quality of services, two of the pillars of active social inclusion emphasised in the 2008 recommendation. The social activation pillar would still be dealt with by the European Social Fund.

3.1.4 Objective 4: reduce non-take-up
The existing non-binding instruments could be used to encourage Member States to make progress in this area, on the basis of exchange and discussion of good practice. The issue of low take-up could, for example, be explicitly included as one of the common poverty reduction objectives, which are still relevant to the ‘social inclusion’ OMC. The new financial programme for employment and social innovation (EaSI), with a budget of almost 920 million euros for the period 2014-2020, can be used to finance activities involving transnational cooperation, research, experimentation or social innovation to improve social policy schemes. This source of funding could therefore be used to gain a better understanding of and to try and reduce non-take-up, which is both an injustice and the denial of a fundamental right. A reduction in non-take-up should also be included as a cross-cutting objective for the whole of the social OMC (social protection, social inclusion and health), particularly since, with respect to minimum income policy, it is a good topic for social experimentation.

3.2 Financial outlay

One potential objection to the creation of an EGMI and a European minimum income fund could be the cost of such an initiative, particularly at a time when public expenditure is being cut. For this reason, we should at this stage give an idea of the figures involved. In 2010, expenditure on national GMI schemes was about 27.8 million euros for the whole of the European Union7, i.e. 0.23% of European

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7. Neither Italy nor Greece have GMI schemes. Croatia is not yet covered by MISSOC data.
GDP, 0.8% of total social welfare expenditure, and representing a figure of 48.3 euros per inhabitant (Peña-Casas 2013).

A first group of countries is characterised by high percentages of expenditure going to GMI schemes, varying between 2.4% of total expenditure in the Slovak Republic to 4.9% in Cyprus. This group also includes Lithuania (2.9%) and the Netherlands (4.2%). In a second group of countries, (BE, SI, LU, IE, RO, FR, DK, PT, FI and SE), GMI makes up 1 to 2% of total social protection expenditure. In the remaining EU countries, GMI represents less than 1% of total social protection expenditure. Overall, the total costs of GMIs are very low in comparison with the full social protection budget. This means that the extra costs of upgrading them as part of a European GMI system should not require a huge financial contribution from Member States, which could generate sufficient political opposition to block the initiative.

In order to estimate the costs and financial contributions required to increase current GMI levels to that of the poverty thresholds, we will use here four of the nine scenarios examined in the report by Peña-Casas et al. (2013). These scenarios take account both of the necessary increase in GMI and of hypothetical improvements in take-up. The financial contribution required for various redistribution hypotheses is calculated as a percentage of total wealth (GDP), but also in terms of gross disposable household income.\(^8\)

For a type of assistance which is, by definition, residual, the scenarios most likely to be acceptable to most Member States, if not all, would probably be those involving a guaranteed minimum income at least equal to the extreme poverty threshold (40%), reflecting the human rights declarations likely to be called upon in the political debate and used as arguments in any disagreements. The purpose of this idea would also be to require Member States to implement a minimal level of inter-State solidarity (cf. Article 2 of the EU treaties). Scenario (A) is based on the extreme poverty threshold (40%) but with no change in the efficiency of implementation of the measure, i.e. with an average non-take-up rate of 50%. For the EU as a whole, the budgetary resources

\(^8\) For a detailed description of the methodology used and the other scenarios, see the report by Peña-Casas et al. (2013).
needed to bring current GMI levels up to at least that of the extreme poverty threshold would be around 17.2 billion euros per year. This sum could easily be absorbed through public funding or tax revenue. This scenario, with its high non-take-up rate, is both unfair, since a high proportion of those entitled to the benefits would not receive them, and inefficient in terms of management of the policy.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>Additional amount required (M euros)</th>
<th>Current cost (M euros)</th>
<th>Total cost (M euros)</th>
<th>Additional cost</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% gross disposable income</td>
<td>% gross domestic product</td>
<td>% gross disposable income</td>
<td>% gross domestic product</td>
<td></td>
</tr>
<tr>
<td>(A): 40% threshold - 50% take-up</td>
<td>17,214.45</td>
<td>30,722.63</td>
<td>47,937.08</td>
<td>0.31%</td>
<td>0.19%</td>
</tr>
<tr>
<td>(B): 40% threshold - 100% take-up</td>
<td>57,257.3</td>
<td>61,445.3</td>
<td>118,702.6</td>
<td>1.16%</td>
<td>0.63%</td>
</tr>
<tr>
<td>(C): 60% threshold - 50% take-up</td>
<td>55,965.2</td>
<td>30,722.6</td>
<td>86,687.8</td>
<td>0.91%</td>
<td>0.56%</td>
</tr>
<tr>
<td>(D): 60% threshold - 100% take-up</td>
<td>114,175.9</td>
<td>61,445.3</td>
<td>175,621.2</td>
<td>1.90%</td>
<td>1.15%</td>
</tr>
</tbody>
</table>

Source: Peña-Casas et al. (2013).

Another aim of a European minimum income should be to encourage the Member States to improve access to this minimum income. A system providing maximum levels of information, support and advice would ideally have a take-up rate approaching 100%. Simulations carried out using scenario (B) show that such a system would cost more than 57.2 billion euros per year for the whole of the EU, to cover the costs of increasing the average GMI to the extreme poverty threshold for all those who would be eligible.
Although the 40% threshold is considered as a floor, the main objective is still to establish multi-level concerted policies, aiming to set GMI at a level reflecting the 60% threshold. Scenario (C), which combines this threshold with the current take-up rate, would require a greater level of investment, of around 56 billion euros. A situation of maximum take-up would cost 114 billion euros per year. The costs to each Member State could differ, so European solidarity would have to come into play.

Generally speaking, the EU would not be directly involved in the national or local management of the minimum income. Its role would be to ensure the gradual harmonisation of several criteria. Some of these criteria would be absolute: age, conditions of residence, composition of the family or scale of equivalence. Other criteria would be relative, particularly the minimum income threshold used as an eligibility criterion for a differential allowance and the setting up of a policy to encourage greater take-up of the scheme, even though, for the moment, the estimates are still uncertain. Support for Member States would be provided through a European minimum income solidarity fund.

### 3.3 A European minimum income solidarity fund

The development of the European Union has been marked by much legal, economic and sociological research into the thinking up, design and development of a European social policy expressing the collective will of the Union. The proposal for a European minimum income fund (EMIF) follows on from previous proposals such as the proposal for an Active solidarity fund (Pochet et al. 1998) relating to unemployment, or even the idea of a ‘European social snake’ (Dispersyn et al. 1992).

Unlike in previous proposals, the EMIF would have not only a cyclical function, to cushion asymmetric shocks between countries, but first and foremost a social justice role vis-à-vis the people of Europe. It would be

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9. Increasing national GMIs to the 60% poverty level would require a financial input of below 1% of GDP in most European countries, but a small group of countries (PL, EE, SK and CY) would be required to contribute more than this - somewhere between 1 and 2% of GDP (PL, EE, SK, CY) (Peña-Casas et al. 2013).
a weapon in the fight against extreme poverty, providing help to countries unable to guarantee all citizens an income level equivalent to 40% of the median national income, while aiming to provide, ultimately, income equivalent to 60%. This support would be guaranteed as long as necessary, depending on the rate of progress made by Member States to bridge these gaps.

The fund could be either fully funded from the EU budget, or by contributions from Member States. One possible intermediate solution would be for the fund to be cofinanced by the Union and the Member States, to an extent dependent on national wealth, somewhat similarly to the Social Investment Pack idea of a European unemployment insurance fund (cf. the chapter by Fichtner).

Another possibility would be to use an alternative budget made up of new resources. A tax on financial transactions, for example, could be used to finance a solidarity fund. The process underway, involving 11 European countries, to establish such a tax was dealt a relative blow by the negative opinion of the Council legal service, but the Member States involved, as well as the Commission, wish to pursue this initiative. It is difficult to estimate how much such a tax would yield, and its potential contribution to European and national budgets, but some could be transferred by the Member States and the European institutions.

Another possibility would be to call upon existing but not fully used budgets, particularly those falling under the Structural Funds, which themselves are solidarity schemes. Over the budgetary programming period 2007–2013, for example, more than 30.3 billion euros were not taken up by Member States. Although this amount fluctuates, it could be used to provide resources to a European solidarity fund.

Currently, the obstacles to such an initiative currently give the impression of an impenetrable wall. Although, as the treaties currently stand, the EU cannot impose such a fund on Member States, nothing would prevent the European Council deciding to set up this fund by means of an intergovernmental process. The fund could cover the whole of the EU, which would require a unanimous vote, but possibly also a decision taken by a qualified majority. It is, above all, a question of whether sufficient political will exists, as is shown by the example of the
European Financial Stability Fund used to rescue banks in the eurozone. The Youth Guarantee is another good example of the sort of process that combines reforms to national systems with European support from structural funds (ESF) and specific funds (Youth Employment Initiative) (European Commission 2013).

Conclusions

The year 2013, similarly to the two previous years, has suffered from cyclical developments, caught between the economic slowdown and the cuts in social expenditure in many countries, thus provoking, quasi-automatically, further pressure on national anti-poverty and social exclusion policies. This trend has made it difficult, or nearly impossible, for States to use their general social protection regime to improve the living conditions of the poorest sections of society. These circumstances largely explain the growing swell of public opinion calling for the establishment of a European guaranteed minimum income.

Over time, moreover, the EU has produced many official texts on the fight against poverty, referring to the meeting of basic needs, and above all referring to the principle of human dignity. The horizontal social clause in the Treaty of Lisbon (2009) is one of the most recent examples of this. Until now, these texts have not been sufficient to bring into being a EGMI, as a result, in particular, of the principles of subsidiarity and proportionality, as well as the unanimous voting rule in the EU Council, all of which have prevented, de facto, any progress in this area.

Nevertheless, the change of context described in this chapter has resulted in considerable changes not just to the rules, but also to the reasons for their application. The principles of subsidiarity and proportionality, in particular, would not apply so strongly if the creation of a European minimum income was no longer replacing social protection systems that have developed over time, reflecting the scale and values of each individual nation. It is because national systems are currently failing to effectively combat poverty, partially as a result of the rules imposed by the EU concerning macroeconomic imbalances, that the EU must now take action. To put it another way, action by the EU has become necessary, in the name of the principle of subsidiarity itself. As for the unanimous Council vote required for any reform in the area
of social protection, it is well known that this rule is ineffective in decision-making processes relating to income redistribution.

We should remember that quite apart from issues of social justice, poverty also damages the economy, representing as it does a waste of human resources and engendering expenditure on social protection and welfare. A European solidarity fund would therefore be a form of long-term investment – a social investment, the need for which is becoming increasingly acute.

Such a fund, moreover, would continue the line of funds already set up in the history of the Union, and, in broader terms, it would be part of the global broadening of anti-poverty strategies, developing a common floor of minimum social protection (ILO 2012).

References


Towards a European minimum income? Discussions, issues and prospects


Gender equality, from the Treaty of Rome to the quota debate: between myth and reality

Dalila Ghailani

Introduction

Gender equality is a fundamental human right. It is a moral imperative linked to principles of justice and equity, and with political, economic, social and cultural aspects. It is regarded as an essential factor in well-being and happiness across the world (OECD 2012) and is guaranteed internationally (ILO, UN) and at European (Council of Europe) or national level by means of a substantial body of legislation.

What, then, is the situation within the European Union (EU)? We are familiar with the ‘family photos’ of the Heads of State and Government of the EU Member States. The famous photo taken at the signing of the Treaty of Rome in 1957 contained only men. At the 50th anniversary of the birth of the EU (2007) little had changed: the German Chancellor, Angela Merkel, stood as the only woman, in the front row, surrounded by her male counterparts.¹

Yet from the outset, the EU has been in a position to influence gender balances within Member States. The Treaty of Rome, negotiated and signed by men, nevertheless contained a provision ensuring equal pay for men and women (Article 119, EEC). Since then, the EU has undeniably become a key player in the development of equal treatment between the two sexes (Kantola 2010).

¹. In 2013, Angela Merkel was flanked by four female colleagues: Helle Thorning-Schmidt (Denmark), Alenka Bratusek (Slovenia), Dalia Grybauskaite (Lithuania) and Laimdota Straujuma (Latvia).
In 2014, then, after more than half a century of developments, has the equality so strongly promoted in the legislation and rhetoric of the European institutions become a reality, or is it still a myth? We shall see that despite extensive Community legislation, strategies and financial instruments, the objective of equality is far from being met.

The first section of this chapter describes the various stages in the development of the EU gender equality policy. A second section gives an overview of the binding and non-binding Community instruments aimed at ensuring and promoting equality. Then, in a third section, we assess the effectiveness of these instruments, analysing the current situation of men and women with respect to labour market participation, unemployment, poverty and remuneration. The following section focuses particularly on three problems identified as priority issues within the EU: violence against women, the gender pay gap, and the balanced representation of women and men on the boards of listed companies. Other issues, such as reconciling working and family life, or psychological and sexual harassment, are also key aspects of the study of gender equality. Since we can not, however, cover all areas, we have chosen not to address these issues in this chapter, but rather to refer the interested reader to appropriate literature. A final section contains the conclusions to be drawn from this situation of persisting inequality.

1. Gender equality in the EU: origins and doctrine

The EU’s gender equality policy developed in three stages: an initial ‘dormant’ stage, a second ‘awakening’, and a third stage of ‘constitutionalisation’ of the principle of gender equality (Bain and Masselot 2012).

Originally, Article 119 of the Treaty establishing the European Economic Community (EEC) (1957) was the only provision setting out the principle of equal pay for men and women for equal work or work of equivalent value. Its purpose was strictly economic: to eliminate distortions of competition between companies established within the Community. France, whose legislation guaranteed equal pay between
Gender equality, from the Treaty of Rome to the quota debate: between myth and reality

men and women, was concerned that the existence of a cheap female labour force in other Member States could put the French economy and companies at a disadvantage (Van der Vleuten 2007). Article 119 EEC, referring only to equal pay for equal work, was seen as a simple declaration of intent, of no particular import, and was even compared by Hoskyns to a ‘Sleeping Beauty’ (Hoskyns 1996).

In the 1970s, gender equality policy gained considerably in importance, thanks to the active involvement of the Court of Justice of the European Communities (CJEC; CJEU since the entry into force of the Treaty of Lisbon). Given the social climate of the time, equal pay was at the top of the political agenda. The famous Defrenne judgments (1971, 1976 and 1978), challenging the employment conditions applying to air hostesses working for the Belgian airline Sabena, helped to activate Article 119 EEC. In these rulings, the Court held that Article 119 EEC has horizontal direct effect, is a fundamental right, and has a dual purpose: to avoid competitive disadvantages within the Community for companies which respect the principle of equal pay, and to contribute to the improvement of living and working conditions. This period was characterised by the use of the concept of formal equality, and by a ban on discrimination in the labour market. Structural inequalities, however, were not addressed (Kantola 2010).

The Treaty of Amsterdam (1997) changed the Community approach by establishing the concept of substantive equality. The addition of Article 13 EC (Article 19 TFEU), which made it possible to adopt a directive on gender equality outside the workplace, symbolises this new broader

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2. The preamble to the Constitution of the Fourth Republic (1946) states solemnly that: ‘The law guarantees women equal rights in all areas to those of men’. The preamble then refers to this principle as ‘the foremost of the political, economic and social principles necessary in our time’.


4. Later, in the Deutsche Post judgment (2000), the Court held that the economic aim was secondary, since the principle of equal pay was first and foremost a fundamental individual human right: Judgment of the CJEC of 10 February 2000, Deutsche Telekom, C-50/96 Rec. I-743.

5. The ‘formal equality’ approach is based on ‘individual justice’ and the ‘principle of merit’. It focuses on equality for individuals, formal neutrality and procedural justice. The ‘substantive’ approach focuses on the characteristics and (dis)advantages of a group, the impact of the group, actual results, substantive equality and the desired outcomes (De Vos 2007).
approach to equality. This Treaty promoted gender equality as one of the central tasks of the Union (Article 2 EC), and introduced the concept of ‘gender mainstreaming’, requiring the European legislator to take account of the principle of gender equality when drafting and implementing all legislation (Article 3 EC). Article 141(4) EC (Article 157(4) TFEU) allows positive action measures providing for specific advantages for the underrepresented sex in working life\(^6\). These provisions were confirmed in the Treaty of Lisbon (2009). New areas of action were also opened up by Articles 82 and 83 TFEU, which would act as a legal base for two directives adopted in 2011 and 2012 on the protection of victims and combating trafficking in human beings (cf. above).

The Amsterdam and Lisbon Treaties changed the political situation: in the area of gender equality, it was now time to be proactive, rather than reactive. Gender equality was no longer exclusively an issue for women, but part of the general socio-economic and structural struggle against inequalities (Bain and Masselot 2012).

The European Union Charter of Fundamental Rights (2000) establishes gender equality as a fundamental right, banning any discrimination notably on the grounds of sex (Art. 21). It recognises the right to gender equality in all areas, allows for the possibility of positive action (Article 23), and sets out rights relating to the reconciliation of family and working life (paid maternity leave and parental leave). Since the entry into force of the Treaty of Lisbon, the Charter has become a binding list of fundamental rights (Art. 6(1) TEU), addressed to the EU institutions and bodies and to Member States when these are implementing Union law (Art. 51(1) of the Charter). Some authors have expressed scepticism as to the legal consequences of the Charter in the area of gender equality, given the limited scope of the gender equality provisions, the restricted legal effect of the Charter itself and the mixed reactions to it in several Member States (Ellis 2010). The Kücükdevici\(^7\) (2010) and

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\(^6\) Positive actions are measures granting a specific advantage to the underrepresented sex in working life, aiming to eliminate or offset the damaging effects of behaviour and structures based on a traditional concept of the distribution of roles between men and women in society. They include the setting of targets, even of quotas, for hiring and promotion, the preferential granting of childcare places to female workers, etc. (Burri and Prechal 2010).

Test-Achats\(^8\) (2011) judgments, however, in which the Court of Justice of the European Union (CJEU) refers in its arguments to the equality provisions in the Charter, would seem to contradict this impression.

2. **European instruments for implementing gender equality**

European gender equality policy uses both ‘hard law’ and ‘soft law’. ‘Hard law’ refers to legally-binding statutory or regulatory norms, the respect of which may be imposed. ‘Soft law’ refers to provisions that are not mandatory, and respect of which may not be imposed, but which are based on the power of persuasion and on the spread of good practice and convergence objectives.

2.1 Hard law: treaties, directives and case law

Under the Community legal framework, treaties and directives must be complied with. This framework, largely concerned with regulation of the employment market and related areas, also includes the judgments handed down by the CJEU.

**Compliance with the Treaties**

As referred to in the first section, the Union from the outset considered equality between men and women a fundamental principle. Equally, the idea of gender equality is deemed to be at the heart of all its activities.

**Implementing Community directives**

Directives are important tools for achieving equal treatment of men and women. A plethora of directives banning gender discrimination was adopted from the 1970s onwards, for two essential reasons. The first of these was the inability, or lack of resolve, of certain Member States to implement Article 119 EEC on 1 January 1962. Implementing the equal pay principle therefore became a priority of the social programme set up in 1974, encouraging Member States to adopt a directive on equal pay.

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between men and women (Burri and Prechal 2010). Secondly, once the CJEC (now CJEU) had established the direct effect of Article 119 EEC, many cases were referred to the Court, and showed clearly how difficult it was to consider pay separately from other aspects of working conditions, including the rules applicable to retirement pensions (Kantola 2010).

The main directives on equal treatment of men and women essentially concern employment and related areas: pay, access to employment, training and promotion, and working conditions; social security; parental leave; protection of pregnant workers, etc. According to the European Commission, the purpose of these measures is to create uniform rules by doing away with obstacles to women’s participation in the labour market, and by combating stereotypes. While this objective is laudable, the idea of an altruistic Commission guided solely by a desire to improve gender equality must be taken with a grain of salt. According to Stratigaki (2004), these measures, defined as gender equality policies, are in fact designed to create a more flexible labour force, by incorporating flexible and temporary work carried out by women. The European efforts to increase gender equality are merely, in this view, a way of reformulating neoliberal internal market principles to make them more attractive to public opinion.

Not until 2004 was a directive finally adopted on gender equality outside the workplace. Due to the hostile political context, there were many doubts as to the adoption of Directive 2004/113/EC implementing the principle of equal treatment between men and women in the access to and supply of goods and services: it was finally adopted, after a long and arduous process (Masselot 2007). With a view to simplification, several ‘equality’ directives were repealed in 2006, and their content transferred to Directive 2006/54/EC on the implementation of equal opportunities and equal treatment of men and women in matters of employment and occupation. The ‘maternity’ directive (92/85/EEC) and the directive on parental leave (92/85/EC) were excluded from this consolidation exercise. This exclusion was strongly criticised: there were objections to the fact the provisions relating to pregnancy and maternity could be seen as exceptions to be dealt with separately from

9. The exclusion was due to the different legal base of these two directives: one was based on health and safety, the other came from the social partners.
the issue of gender equality. This exclusion, combined with that of the rules relating to parental leave, seemed to undermine the concept of reconciling working and family life\(^{10}\) (Burrows and Robinson 2007).

Prechal and Burri have studied how gender equality provisions have been transposed into national legislations. Whilst Member States have indeed implemented Community legislation in this area, an analysis reveals a number of weaknesses. As the authors comment: ‘A correct transposition of the EU rules into national law is not enough (...) what also matters is that the transposed rules are applied in everyday life and are effectively enforced through the appropriate mechanisms (...) In other words, law in the books must also be law in everyday practice. Unfortunately the law in the books and law in practice still differ, sometimes dramatically’ (Prechal and Burri 2009:33).

**The case law of the Court of Justice of the European Union**

The CJEU has undeniably contributed to the progress made in gender equality. Taking an activist approach in the 1970s, it handed down essential judgments based on scanty legal provisions, interpreting these generously and extending the substantial protection offered by Community law to many areas, including pregnancy, positive action and occupational pensions. It strengthened application of the law by developing the principle of direct effect of directives\(^{11}\), the concept of indirect discrimination\(^{12}\), and that of the reversal of the burden of proof\(^{13}\), all principles codified in the form of directives (Masselot 2007).

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\(^{10}\). The directive on equal treatment for self-employed workers and for their spouses participating in the activity (86/613/EEC) was also excluded, since it applied to a specific category of people requiring a specific approach. So was the directive on equal treatment for men and women in matters of social security (79/7/EEC) due to a lack of political consensus.

\(^{11}\). The principle of direct effect enables private individuals to invoke a European rule directly before a national or European court.

\(^{12}\). Indirect discrimination occurs where an apparently neutral provision, criterion or practice would put persons of one sex at a particular disadvantage compared with persons of the other sex, unless that provision, criterion or practice is objectively justified by a legitimate aim, and the means of achieving that aim are appropriate and necessary (Art. 2(1b), of Directive 2006/54/EC).

\(^{13}\). When persons consider themselves wronged because the principle of equal treatment has not been applied to them, and establish before a court or other competent authority facts from which it may be presumed that there has been direct or indirect discrimination, it shall be for the respondent to prove that there has been no breach of the principle of equal treatment (Art.19(1) of Directive 2006/54/EC).
An increasing number of cases has been referred to the Court since 1975. Lavena and Riccucci (2012) have listed 205 judgments handed down between 1971 and 2008. Of these judgments, 29.3% related to application of the principle of equal treatment in the area of social security, 26.3% to its application to employment, and 21.5% to equal pay. In 95% of cases, the Court was responding to questions referred for a preliminary ruling: it essentially clarified to national courts how Community provisions should be interpreted, and sanctioned Member States for non-transposition or incorrect transposition of Community provisions into their own legislation. In total, 133 (64.9%) decisions out of 205 cases were in favour of women.

2.2 Soft law: charter, pact and strategy

Together with the standard legislative and binding legal instruments, other ‘soft law’ instruments have gradually taken on more importance in the area of gender equality. As well as strategic programming tools covering particular issues, there are also financial instruments and a European agency. In the next sections we shall refer to the most recent of these (Bellal et al. 2011).

2.2.1 Strategic programming instruments

The Women’s Charter (2010)

The European Commission strengthened its commitment to gender equality by presenting a ‘Women’s Charter’ (2010), in which it undertook to build a gender perspective into all policies in the next five years, as well as adopting specific measures to promote equality between men and women. The Charter focuses on five areas of action: equality on the labour market and equal economic independence for women and men, reducing the gender pay gap by 2015, equality in decision-making, dignity, integrity and an end to gender-based violence, and gender equality beyond the European Union (European Commission 2010a).

14. A national court may refer a question to the Court of Justice of the European Union for a preliminary ruling on the interpretation or validity of Community law in the particular case being examined by this court.
This Strategy provides a global framework allowing the Commission to defend gender equality. It combines specific measures and the building of an equality perspective into all EU policies and includes a series of actions based on the five priorities identified in the Women’s Charter. The Strategy emphasises the contribution made by equality to economic growth and sustainable development and defends the creation of a gender equality dimension in the Europe 2020 strategy. Progress made is presented in a specific annual report (European Commission 2010b). Contrary to usual practice since 1982, there is no specific equality financing programme linked to this strategy.\(^{15}\)

European Pact for equality between women and men for the period 2011-2020 (2011)
The European Pact for gender equality for the period 2011-2020 is a renewal of the first Pact adopted by the European Council in 2006. In the context of EU 2020, it emphasises the need to do away with obstacles to women’s participation in the labour market, in order to meet the objective of a 75% employment rate for women and men aged between 20 and 64 (by eliminating all forms of discrimination, promoting a better work-life balance, etc.). This set of instruments is intended to integrate the gender perspective into all policies carried out at European and national levels, by including this aspect in the impact assessments carried out before new policies are developed (European Council 2011). The weak point of this Pact is the lack of precise, quantified targets.

2.2.2 Other instruments

The financial instruments ‘Progress’ and ‘Daphne’
As well as the European Social Fund, which has gender equality as one of its 18 investment priorities for 2014-2020, EU financial actions in the area of equality draw on the Community programme for employment and social solidarity (Progress) (European Parliament and Council of

15. The first multiannual action programme to promote gender equality was launched in 1982. The fifth action programme (2001-2005) was the last to focus exclusively on promoting gender equality. It was followed by the PROGRESS action programme (2007-2013), in which equality between women and men is only one of the objectives.
the European Union 2006). Gender equality is one of the five areas of action of this programme: 12% of its budget was allocated to this area between 2007 and 2013.

Daphné III (European Parliament and Council of the European Union 2007) is an EU programme designed to prevent and combat violence towards children, young people and women, as well as to protect victims and groups at risk. Its budget for 2007-2013 was 116.85 million euros.

As part of its financial programming exercise for 2014-2020, the European Commission presented a proposal for a regulation setting up a programme on ‘Rights and Citizenship’ for 2014-2020 (European Commission 2011). The activities carried out previously under Section 4 (‘Antidiscrimination and diversity’) and Section 5 (‘Gender equality’) of the Progress programme and the Daphne III programme will be continued and developed further in this new programme. The fund, which will have a budget of 439 million euros, will be managed by DG Justice.

**The European Institute for Gender Equality**

In December 2006, the European Parliament and the Council created a European Institute for Gender Equality, the general aim of which is to promote gender equality by integrating the gender perspective into all European and national policies. The institute fights against discrimination, raises awareness of gender equality issues, and provides technical assistance to the EU institutions by collecting, analysing and distributing data and methodological tools16.

### 3. The real gender equality situation: current situation and impact of the crisis

This section aims to give an overview of the situation of men and women, with regard to employment and unemployment rates, the pay gap, poverty risk and the situation regarding women in decision-making bodies.

Employment and unemployment rates

Until 2007, the employment rate for women in the EU-27 increased regularly, reaching 62.8% in 2007, compared to 77.9% for men. The crisis resulted in a sudden halt to this trend and a clear fall for men: in 2012, the male employment rate fell to 74.6%, whilst the rate for women stagnated at 62.4%. In 2012, the unemployment rate for women was similar to that for men (10.8% compared to 10.6%), where female unemployment rates are usually above those of men. However, this closing of the gap between men and women at a time of crisis did not signify a reduction in gender inequality. It was not such good news as it might seem, since the narrowing of the gap was due to a deterioration of the situation for men rather than an improvement in the situation for women.

At the beginning of the crisis, the structure of employment across the various sectors of activity protected women’s jobs well, since they were over-represented in the service sector, including in public sector jobs, and under-represented in the typically male sectors (production, manufacturing, construction and finance), which were the first to be hit by the crisis (Bettio et al. 2013a). After this initial phase, the effects of the lasting crisis spread to the whole population. Fiscal austerity measures led to job cuts in the public sector and in the sectors dependent on subsidised employment, and this had a significant direct impact on female employment (Karamessini and Rubery 2013).

Since flexibility of working time was used as an adjustment variable during the crisis, the hardest-hit group were initially ‘typical’ workers, usually male, rather than atypical workers, more frequently female. Although the number of men working part-time increased to a level of 8.4% of salaried workers in 2012, most part-time workers were still women (32.1% of female workers in 2012). There was also a significant increase in involuntary, rather than chosen, part-time work from the beginning of the crisis, with the vast majority of new jobs created being part-time jobs (European Commission 2014a). Women can see no improvement in their prospects of leaving part-time work, and are facing tougher competition from men.

The prospects for young people are a cause for concern. In 2011, nearly 17.5% of young women and 13.4% of young men were totally absent from the labour market, without occupation and without a job, not involved in any training or study programme. Nevertheless, most young
people in temporary or part-time work are women, who have a greater need to begin their working lives combining temporary and part-time work (Plantega et al. 2013).

The deterioration of the labour market resulting from the crisis therefore affected women and men differently, since certain consequences affected women specifically: maternity rights and advantages were not always fully respected, and greater discrimination against pregnant women was noted in some Member States (Leschke and Jepsen 2011).

The pay gap: always to the detriment of women

In 2011, women in the EU received an hourly salary on average around 16.4% lower than that of men (European Commission 2014b), although figures varied greatly between the individual countries. The pay gap was less than 10% in Italy, Luxembourg, Malta, Poland, Romania and Slovenia, was close to 20% in a group of countries including Finland, the United Kingdom, Germany, Austria and the Slovak and Czech Republics, and was as high as 30% in Estonia (OECD 2012). How could such a substantial pay gap persist for so long in spite of all the measures taken to abolish it?

The gender pay gap is a complex phenomenon resulting from several intimately related factors (Ghailani 2009). Besides differences in individual characteristics (age, education, professional experience), the predominance of women in part-time work is a key factor. Part-time jobs are often concentrated in sectors and professions with lower full-time pay levels and more limited career opportunities, all of which reinforces the pay gap (Plasman and Meulders 2010). The horizontal and vertical barriers faced by women at work are another important factor in inequality. Those sectors in which women are over-represented (health, education etc.) have lower pay levels than those applicable in mostly male sectors (construction, transport, etc.). Within individual sectors, men are more likely than women to be in positions of responsibility with higher pay (Busch and Holt 2011). The effect of non-paid work bringing up children, the under-valuing of women’s skills and abilities, and wage structures all contribute to the pay gap (Smith 2010). As well as these persisting factors, which provide some explanation for the gap, there are also situations that can only be explained as direct or indirect discrimination: either women are not being paid the same as men despite doing identical work or work of equal value, or they are the victims of practices that may
not have been originally designed as discriminatory but that result in unequal treatment of men and women (Foubert et al. 2010).

Although, overall, the pay gap has closed slightly over the last decade, it is still increasing in some countries such as Hungary and Poland (OECD 2012). The reasons for the overall reduction are still being discussed, but a number of hypotheses have been put forward: reductions in top-ups (rewards and bonuses) received in addition to the basic salary by male workers; a change in the sectoral breakdown of the labour force, the setting up of political programmes to reduce the pay gap in a number of Member States; and the increasing proportion of highly-qualified women (European Commission 2012a). There is a risk, however, that fiscal austerity, including a pay freeze and pay cuts in the public sector, will reverse this trend. The differing impact of the crisis on employment for women and men is also helping to reduce the pay gap, but as a result of reduced pay for men rather than an increase in women’s remuneration, in a sort of downward convergence.

The consequences of pay and professional discrimination continue to affect women even after the end of their working lives. At the end of their respective careers, the gap between women’s and men’s pensions is far greater than the pay gap, as high as 39% (2010). Whilst this gap is essentially due to the large number of women who work part-time or who have taken time out of work, the pension system can also reproduce, exacerbate or attenuate the gender differences seen in the area of employment. In most Member States, a considerable proportion of this gap cannot be explained by differences in observable characteristics of men and women (careers, education, age, marital status, etc.). Understanding these causes, then, is still a major political challenge (Bettio et al. 2013b).

**Women more at risk of poverty**

Within the EU, women run a higher risk of poverty or social exclusion than men. In 2011, 55.7 million men experienced poverty or social exclusion, compared to 63.8 million women. Lone parent households, usually women, are particularly affected. This risk of poverty is also higher for the oldest women (older than 75), those not in active employment or the unemployed. These various risks are even greater for migrant women (European Commission 2013b). If we bypass the gender bias created by measuring poverty in terms of households and
consider individual rather than aggregated income, the risks of poverty and in-work poverty are seen to be far higher for women than for men (Peña-Casas and Ghailani 2011).

Between 2008 and 2010, the crisis slightly reduced the gaps between men and women, since it sped up the deindustrialisation process, historically associated with more male employment. Social transfers and income redistribution mechanisms attenuated the potential of the crisis to increase poverty and also helped to reduce the gap in poverty levels between women and men (Bettio et al. 2013a). Nevertheless, the constraints imposed by fiscal austerity are a real threat to the level and quality of social protection and to gender equality. Although the new budgetary rules are not automatically coupled with a reduction in social expenditure, it is clear that in times of crisis, social expenditure is the first to be cut (OECD 2011). In the context of the Euro Plus Pact and the emphasis on the sustainability of public finances, health and pension systems are in the firing-line, as are all other social protection mechanisms, and this leads de facto to a significant reduction in social benefits (Klarzer and Schlager 2013).

**Women in decision-making bodies: conspicuous by their absence**

Women are still under-represented in decision-making bodies, both in companies and in society. This difference in opportunities to rise to positions of greater responsibility is now commonly referred as the ‘glass ceiling’, which prevents women from reaching the highest positions, regardless of their abilities.

Over the last decade, the proportion of women and men in the boardroom has scarcely progressed in Europe. The management boards of the largest European companies are still dominated by men. In 2012, the proportion of women represented on the boards of the largest companies listed on stock exchanges in the EU was only 13.7%, compared with 11.8% in 2010 (European Commission database), and only 3% were chairpersons (European Commission 2012b).

In politics the situation is not much better. In May 2013, only 27% of ministers in Europe were women, although some Member States (France, Denmark and Finland) claim that they are aiming for parity. The percentage of women MPs is equally low: only 27% of national parliamentarians are women. Sweden, Finland and Spain stand out with
40% of MPs being female; at the other extreme, however, the Hungarian parliament has fewer than 10% women (European Commission 2013c).

4. The major challenges to be overcome

The description of the situation given in the previous section clearly shows the major challenges that remain in the area of gender equality. The perception of European citizens is also a good indicator of the challenges to be overcome. A Eurobarometer flash survey17 carried out in 2012 shows that while most Europeans think that gender inequalities have tended to decrease in the last ten years (60%), more than half feel that that they are a serious problem in their country (52%). The most important problem, in the majority view, is violence against women (48%), more so than the gender pay gap (43%). This pay gap is seen as a serious problem by a clear majority of Europeans (69%), and an even greater majority sees the gap as unjustified (85%). With regard to the access of women to managerial posts, 88% of respondents felt that women should be equally represented in corporate managerial posts. In total, 75% of Europeans were in favour of legislation being adopted, as long as this took account of qualifications and did not automatically favour either gender18.

Combining working and family life is also a major issue, as is psychological and sexual harassment. Due to a lack of space we shall not address these issues here, but this does not in any way detract from their importance in understanding gender inequality19.

4.1 Eradicating violence against women: an absolute priority

Gender-based violence against women is violence that is directed against a woman because she is a woman or that affects women disproportionately. It is a manifestation or result of discrimination against

women and includes all acts of gender-based violence that result in, or are likely to result in, physical, sexual, psychological or economic harm or suffering (European Council 2012).

Using this definition, an estimated 13 million women in the EU are victims of physical violence: one in every twenty women has been raped at some time since the age of 15; 18% of women have experienced some form of stalking since the age of 15. Half of women in the EU (53%) avoid certain situations or places for fear of physical or sexual attack. Around 12% of women – i.e., 21 million women in the EU – report that before the age of 15 they suffered a form of abuse or a sexual incident of some kind perpetrated by an adult. These shocking figures, however, underestimate the real situation experienced by women in Europe. The survey carried out at the request of the European Parliament and the EU Council by the EU’s Fundamental Rights Agency (FRA) on violence against women shows that most women who are victims of violence do not report these incidents either to the police or to a victims’ association. Most women who are victims of violence never contact the judicial system, nor any other organisation (FRA 2014).

This violence incurs significant direct (care and support to victims, legal services, etc.) and indirect costs (loss of productivity for the economy, human suffering, etc.). Investments in combating violence against women can thus bring about a reduction in public spending and an increase in productivity, while also reducing human suffering. The whole of society, therefore, benefits in terms of sustainable development and social cohesion.

Under the Spanish presidency of the EU, the European Council adopted conclusions on the eradication of violence against women, and asked the European Commission to develop a European strategy to prevent and combat domestic violence (European Council 2010a). Two successive EU Council presidencies (2002) commissioned studies to achieve a better understanding of the issue: one on measures taken to combat violence against women in the EU Member States20, the other

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The Cyprus presidency (2012) chose to concentrate on the issue of support services for victims of domestic violence (European Council 2012).

The European Commission undertook in its Women’s Charter (2010) to adopt measures to combat domestic violence. In its gender equality strategy 2010-2015, moreover, it refers to gender-related violence as one of the main problems to be solved in order to reach true gender equality. Support has taken a number of forms: ‘zero tolerance’ awareness-raising campaigns, exchanges of good practice, conferences, cooperation assistance under the ‘Daphne’ programme, and the operational funding of European networks such as the European Women’s Lobby and the Women Against Violence Europe (WAVE) network (Kantola 2010). Contrary to the plans announced in 2010, no proposals for legislation on violence have been made, although the funds are available, and preparatory studies on harmonising legislation were carried out in 2008. More attention is being given to the sensitive issue of female genital mutilation. In terms of legislation, the Commission adopted the ‘victims’ package in 2011, implementing the Stockholm Programme 2010-2014. This programme sets out the criminal legislation and other support measures necessary to protect crime victims at EU level (European Council 2010b). When female victims of violence move within the EU, they currently receive judicial protection by virtue of Directive 2011/99/EU on the European protection order in criminal matters (European Parliament and Council of the European Union 2011) and Directive 2012/29/EU, establishing minimum standards on the rights, support and protection of victims of crime (European Parliament and Council of the European Union 2012). This latter text applies to victims of crime and refers in particular to gender-based violence.

Most Member States have implemented National Action Plans (NAPs) to combat violence, most of which consider violence against women an issue of human rights and gender equality. These NAPs generally concern the training of key players, preventing and changing violent behaviour and support to victims. Sweden, Spain and the United

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21. 7 indicators were established: profile of female victim of violence; profile of male perpetrator; victim support; measures addressing the male perpetrator to end the circle of violence; training of professionals; State efforts to eliminate violence against women, and evaluation.
Kingdom no longer had NAPs in 2013 (EWL 2013). The Member States have also adopted legislation punishing acts of domestic violence against women; however, only Spain, France, Portugal and Sweden specifically, in their criminal codes, define domestic violence against women as a form of gender-based violence. Within the EU, there are big differences between legal systems in terms of the rules on criminalisation and protection measures. This has led the European Institute for Gender Equality (EIGE) to the distressing conclusion that: ‘domestic violence against women remains a hidden, under-reported and deeply traumatising act of violence. It is not always taken seriously by their communities or the authorities, making women and girls more vulnerable to violence, and, in some cases, murder’ (EIGE 2013: 6).

In the light of this situation, recommendations have been made and suggestions for future action put forward, such as the inclusion in future EU gender equality strategies of new forms of violence, or newly recognised forms such as stalking or abuse linked to the use of new technologies. Other proposals include EU accession to the Council of Europe’s Istanbul Convention (2011) on preventing and combating violence against women and domestic violence; an undertaking by the EU and the Member States regularly to collect data on different forms of violence against women; and the taking into account at European level of the impact of violence against women in the areas of employment, education, health and information and communication technologies (FRA 2014, EIGE 2013).

4.2 The pay gap: the fundamental challenge

The ‘gender pay gap’ is the most significant sign of gender inequalities on the labour market. After more than 40 years of equal pay legislation, the gap remains in all Member States, irrespective of their levels of

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22. The Istanbul Convention is the first legally-binding regional instrument in Europe thoroughly addressing the various forms of violence directed against women, such as psychological violence, physical violence, sexual violence and sexual harassment. The Convention entered into force after the 10th ratification. By the end of 2012, 15 European Union Member States had already signed it.

23. The unadjusted gender pay gap represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.
female employment, their social protection model or their legislative progress on gender equality. Reducing the pay gap has long been a priority for all the EU institutions.

Under the auspices of the European Employment Strategy (EES), since 1997, combating pay inequalities has become an essential factor in the efficient use of female human resources in Europe and in attaining sustainable employment rates. The European Council’s 2003 decision on the employment guidelines introduced a new objective to be met by 2010: ‘a substantial reduction in the gender pay gap in each Member State, through a multi-faceted approach...’ (Council of the European Union 2003). Gender equality in general, and in the area of pay in particular, has nevertheless received less emphasis in the EES since the Employment and Growth Strategy (2005-2010), and has almost entirely disappeared in the new Europe 2020 strategy (Peña-Casas 2013).

In its 2007 communication on tackling the pay gap between women and men, the European Commission proposed a series of actions: better enforcement of existing legislation, account to be taken of the gap in employment policies, and exchange of good practices between Member States (European Commission 2007). Eliminating the pay gap through legislative and non-legislative measures is a key objective of the ‘European Commission’s ‘Gender equality strategy 2010-2015”, and is necessary to meet the objectives of the Europe 2020 strategy.

In 2013, the Parliament called upon the Commission to support Member States in reducing the gender pay gap by at least five percentage points per year, with the aim of eliminating the gender pay gap by 2020, and to revise Directive 2006/54/EC (European Parliament 2013a).

This issue was also a priority for the European social partners. The ‘Framework of actions on gender equality’, adopted in March 2005 by the European social partners, aimed in particular at reducing the gender pay gap. This framework is structured around four priorities: addressing gender roles, promoting women in decision-making, supporting the work-life balance and tackling the gender pay gap. These four priorities have a direct and indirect impact on equal pay (ETUC et al. 2005). The social partners encouraged equal pay at national level by
means of awareness-raising activities and training measures, the publishing of studies, etc. (ETUC et al. 2009). This framework covered the period 2005-2009 and was not renewed thereafter.

Current measures and provisions are still insufficient. Quite clearly, although legislation is vital, it is not enough in itself either to close the gender pay gap, or to tackle the structural factors on the labour market which account for this gap. Closing the gender pay gap, therefore, is still a real challenge to be overcome.

In this context, the Commission, to help employers in their efforts to tackle the causes of the gender pay gap, organised an initiative in 2012 and 2013 called ‘Equality Pays Off’. The purpose of this initiative was to make companies more aware of the equal pay issue and how equal pay could act in their interests, improving access to the potential female labour force, given demographic trends and increasing skills shortages. On 5 March 2011, it launched the first European Equal Pay Day24. It also underlined the importance of setting up non-discriminatory systems for job evaluation and classification, which could contribute to a better implementation of the equal pay principle in practice (European Commission 2013d) and recommended that Member States encourage wage transparency in companies and enable employees to obtain information on pay. Member States should ensure that employers report on pay levels and should promote the development of gender-neutral job classification systems (European Commission 2014a).

National governments and social partners should, moreover, develop policies to close the gender pay gap. Thus the law in France, Cyprus, Austria and Italy expressly ensures that the job evaluation and classification systems used to determine pay levels apply to both men and women without discrimination. In other Member States, however, no such specific provision exists. In Belgium and the Netherlands, collective agreements guarantee the non-discriminatory evaluation of jobs. Certain Member States (Belgium, Luxembourg, Austria) have also drawn up guides and check-lists on job evaluation and classification, making it possible to assess jobs objectively without any gender bias.

24. Equal pay days also took place on 2 March 2012, 28 February 2013, and 28 February 2014.
Portugal, Finland and Lithuania have adopted gender equality strategies that include provisions to tackle the gender gap. In Estonia, an action plan to reduce the gender gap was adopted in 2012. It sets out five main lines of action, including the analysis of organisational practices and pay systems in the public sector. The equality action plans and audits allow companies to measure the progress they have made in the area of gender equality and equal pay. In certain cases, the national legislature requires that such plans be implemented. In other Member States, implementation is voluntary.

4.3 Balanced representation on corporate boards: the heated debate on quotas

Women make up around 45% of the working population in the EU (Eurostat 2011). Although they are often more highly-qualified than men (higher education), the percentage of women in the workplace declines in proportion to the level of responsibility of positions in undertakings or administrations. They have worse career prospects and their qualifications are under-used. In 2012, women occupied on average only 13.7% of seats on the highest decision-making bodies of companies (management boards or supervisory boards) of the main publicly listed companies in the Member States.

This under-representation of women is traditionally attributed to both individual and organisational factors. The main argument is that not enough women possessing the required human capital (skills and experience) are available to occupy management functions. It is said that they lack ambition and do not have the necessary ‘leadership’ qualities. Surveys, on the contrary, show that women are increasingly highly qualified and are present in ever larger numbers in the pool of potential candidates for leadership from which board members are

25. On 22 April 2012, Belgium adopted a law to tackle the gender pay gap. This law requires differences in pay and in the cost of labour between women and men to be reported in companies’ annual social balance sheets. These annual reports will be sent to the National Bank, and the information will be made public. Law of 22 April 2012 to combat the gender pay gap, Belgian Official Gazette, 28 August 2012.

selected (Vinnicombe et al. 2008). The recruitment process for such high-level posts is still a problem, since it is based on the use of headhunters, personal recommendations, individual approaches and an influential informal network (social capital). Finally the term ‘professional homosociability’ has been used to explain that men prefer to recruit men.

There are many economic arguments in favour of strengthening the female presence on management boards. McKinsey (2010) established a positive correlation between the presence of women in positions of responsibility and the organisational and financial performance of a company, as well as its quality of governance and company ethics. From a macroeconomic viewpoint, strong economies and sustainable pension regimes depend on a higher employment rate for women and a greater reward in terms of pay for their work (OECD 2008).

Within the EU, the question of the male-female balance in decision-making posts moved to the heart of the political debate in 2010, when the Commission adopted its new strategy for equality between women and men. It spoke of ‘targeted initiatives to improve ... ‘Women on the board pledge for Europe’, calling upon publicly listed EU companies to enter into a voluntary commitment to reach the target of 30% female members on their highest decision-making bodies (management or supervisory boards) by 2015, and 40% by 2020, by actively recruiting qualified women to replace outgoing male board members.

The public consultation organised in the wake of this initiative in 2012 revealed broad agreement on the urgent need to increase the percentage of women on boards but showed that stakeholders disagreed on the best

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27. The ‘European Business Schools: Women on Board initiative’, organised by European business schools to try and increase the number of women on corporate boards, was quick to list more than 7,000 ‘board ready women’, with high levels of qualification, good professional experience and who would be ready to accept a director’s post (http://www.edhec.com/html/Communication/womenonboard.html).

ways to produce change: maintaining self-regulation (companies) or setting binding targets (NGOs, trade unions) (European Commission 2012c).

In November 2012, since the calls for self-regulation with a voluntary undertaking by Member States had not produced convincing results, Viviane Reding launched a draft directive intended to significantly increase the representation of women on the board of EU companies listed on stock exchanges, setting a minimum target of a presence of the under-represented sex of at least 40% of non-executive directors. This objective is to be met by 2020, and, in public companies, by 2018. The concentration of European policy on companies listed on stock exchanges is justified by their economic importance and their high profile. The quota is linked to a starting provision, whereby priority is given to a candidate from the under-represented sex in the selection of non-executive directors ‘if that candidate is equally qualified as a candidate of the other sex in terms of suitability, competence and professional performance, unless an objective assessment taking account of all criteria specific to the individual candidates tilts the balance in favour of the candidate of the other sex’ (Art. 4 (3)). If an unsuccessful candidate challenges the selection procedure, the company must disclose information and must bear the burden of proof (European Commission 2012c).

The Commission’s wishes did not receive unanimous support from all Member States, nine of which29 clearly expressed their rejection of this measure in a letter sent to President Barroso and to Viviane Reding: ‘We agree (...) that there are still too few women on the boards (...) but we do not support the adoption of legally binding measures (...) at the European level’ (Spanneut 2012).

The European social partners were still divided as to the type of measures to adopt. The ETUC issued a position paper in June 2012, emphasising that ‘one of the most effective ways to ensure a better gender balance on boards is the introduction of binding measures, with clear targets,

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29. Letter signed by the governments of the United Kingdom, the Netherlands, Bulgaria, Latvia, Estonia, Lithuania, the Czech Republic, Hungary and Malta. As well as the nine signatory countries, Germany was also against the idea of a quota imposed at European level.
deadlines and sanctions’ (ETUC 2012: 3). In the view of BusinessEurope, ‘legislative quotas imposed at EU level are not the right way forward to encourage career progression and nominations of women at the top, and do not address the real causes of lower percentages of women in senior and executive positions’ (BusinessEurope 2012).

At national level, France, Italy and Belgium have adopted legislation setting a quota linked to sanctions\(^3^0\). The Netherlands and Spain have also adopted legislation, but their rules are far more flexible (non-binding or with no sanctions attached). The United Kingdom has chosen to set voluntary targets (Selanec and Senden 2011).

The European Parliament adopted the draft directive with a large majority in November 2013 (European Parliament 2013b). The December EPSCO Council took note of the progress report on the work done, which showed that although delegations agreed with the objective of the proposal, they had differing views as to how it could be met (European Council 2013). Some delegations said they would prefer a voluntary solution giving Member States greater leeway to decide on their own strategies. They emphasised that the proposal failed to respect the principles of subsidiarity and proportionality and stated that they did not support the adoption of legally binding provisions in this area at European level (Council of the European Union 2013).

The debate is, therefore, still a tricky one, but it continues...

**Conclusions**

Substantial gender inequalities remain in 2014. Women still come up against glass walls and ceilings, which prevent them being treated on an equal footing with men.

This does not mean that the EU has done nothing to promote gender equality: on the contrary. There is, indeed, a general consensus among academics that the European institutions have been an important

\(^{30}\) Similarly to Norway, where this type of legislation has led to rapid progress and to a quota of 40%, set in 2003, throughout the country.
catalyst in developing economic, social and political equality for women. Nevertheless, it would be an exaggeration to say that the EU defended a broad interpretation of gender equality right from the outset. Its equality policy, rather, has developed gradually over several decades, taking in new areas and new commitments, particularly with regard to combating violence against women, and going beyond the limited field of discrimination in employment.

However, the Member States still hold the main political levers affecting gender equality, and these States are still divided, even reticent, when it comes to the implementation of effective integrated gender equality strategies. The debate concerning the composition of company boards is a good example of the opposition in some countries, but it also shows the tension that may occur vis-à-vis Europe when it comes to implementing proactive policies. The main issue is the political will of Member States.

Legislation, although vital, is not in itself sufficient to attain gender equality. There is a need for radical change in mentalities and in socio-cultural references in relation to gender discrimination. This change must begin with the general public, since the views of ordinary citizens influence the political priorities of the national authorities that they elect, but there must also be a change of attitude among employers, since they can take direct action to eliminate differences in employment practice. In this context, social dialogue also plays an essential role in encouraging these developments, which, unfortunately, remains a long-term task. True gender equality is still more of a myth than a reality in the EU.

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Since 2008 and the beginning of the economic crisis in Europe, the legislative situations in EU Member States have undergone several, accelerated changes. Although the roots of the crisis clearly lie in financial speculation, not only has the situation led to reforms in the field of economic and financial law, but labour law has also been particularly hard-hit by the adoption of measures aimed at finding a way to exit the crisis. The 2008 crisis was an opportunity to bring back a long-standing concept promoted by the European Union, that of flexicurity. Traditionally, flexicurity is a two-sided notion which purports to combine flexibility for employers and companies on the one hand with more job security for workers on the other hand.

However, various pieces of research (for example Clauwaert and Schömann 2012, Escande Varniol et al. 2012 and Omajjee 2012) conducted since the beginning of the crisis in the field of labour law reforms and social policies demonstrate that the core idea of flexicurity has been somehow distorted over the years, so that it now leans more towards greater flexibility to the detriment of security, leaving the concept of flexicurity imbalanced.

Therefore, concerns have recently been raised as to the effectiveness and the relevance of the concept of flexicurity as it has developed during the crisis (Escande Varniol et al. 2012, Laulom et al. 2012, Lokiec et al. 2012, Schömann 2014). As it stands today, the concept seems to suffer from a serious number of shortcomings due to the way in which it has been used politically. Consequently, some authors have come to the conclusion that the flexicurity approach should either be abandoned or be substantially improved (see Buroni and Keune 2011).
The crisis was used as an excuse to justify this distortion. Reforms, aimed at introducing more flexibility into labour markets, were said to be temporary and implemented only as a means to solve the crisis, and therefore ephemeral in nature. Yet, as the crisis continues into its seventh year without real signs of abatement, these reforms are becoming more permanent, and questions have arisen as to the effectiveness of such prolonged reforms in resolving the financial and economic crisis in the long-term.

When it comes to making the labour market more ‘flexible’ and adapting it to the changes imposed by the economic crisis, working time reforms and atypical forms of employment contracts are usually considered efficient and accessible tools to adjust the alleged constraints imposed by labour law.

Therefore, this paper will try to demonstrate how working time (Section 1) and contracts of employment (Section 2) are still affected by the adoption of deregulating measures in national labour laws, and it will examine the effects of such measures.

Section 1 will focus on the issue of working time and aims to demonstrate that Member States are pursuing reforms in this field by either extending or reducing working time duration, and are sometimes even granting greater freedom in how employers can allocate working time.

Section 2 takes a more in-depth look at the issue of changes in employment contracts. Not only are existing contracts being subject to deregulation and made more flexible, but innovative forms of employment are also being created, in order to allow even more flexibility.

With a view to providing an updated and global vision of recent reforms adopted in the Member States, we highlight the main trends and tendencies recently observed, using a country-by-country analysis. First, some Member States have been selected to provide vivid examples of the measures adopted. Following these non-exhaustive examples, we analyse the effects such measures might have. In doing so, this publication will build on substantive previous research conducted by the ETUI on these subjects (Clauwaert and Schömann 2012, Lang et al. 2013a and b), but will also extend and complement this work by including the most recent developments in these fields.
1. Working time as an adjustment variable

Working time has been defined at EU level by Directive 2003/88/EC as ‘any period during which the worker is working, at the employer’s disposal and carrying out his activity or duties, in accordance with national laws and/or practice’.

Although this definition is imposed on each Member State and the issue of working time is regulated by a European Directive, Member States are still granted significant room for manoeuvre in implementing reforms and flexible working time arrangements. This appears to be a key adjustment mechanism for most governments in accommodating labour market fluctuations.

The beneficial sides of flexible working time arrangements have often been put forward, especially when introduced at the request of employees, mainly in order to reconcile work and family life. In this respect, the United Kingdom (PlanetLabor 2013a) has recently enlarged the possibility for employees to request flexible working time. As of April 2014, any employee with at least 26 weeks continuous service will be able to claim this right, whereas before, this right was reserved for people taking care of children or dependent relatives.

However, flexible working time measures are also advocated as a way to mitigate the adverse effects of the crisis, and various solutions have been adopted in order to introduce greater flexibility into the relevant legislation.

Some Member States have chosen to extend the duration of working time authorised by the law so that companies are allowed to ask their employees to work longer hours. Contrariwise, due to work shortages, reforms have also been adopted in order to enable companies to shorten working hours. More generally, mechanisms have been implemented or altered to give companies further possibilities to arrange the allocation of working hours according to their needs.
1.1 Extension of working hours

Among the multiple ways of extending working hours, raising the maximum working time authorised by law is one of the most frequently chosen options.

Sometimes, this limit has been increased for particular sectors only, as is the case for Ireland (Sheehan 2013). With a view to saving €1 billion in public service costs, under pressure from the Troika, the Irish government started negotiations with trade unions on January 14, 2013 on pay and working conditions, with one of the proposals discussed aiming to increase working time for civil servants working less than 40 hours a week. After various failures to reach an agreement, in May, 2013 the so-called ‘Haddington Road Agreement’ was adopted. According to this agreement, the standard working hours of public servants will increase as follows:

— Those with a working week of 35 hours or less will see their hours increase to a minimum of a 37 hour week.
— Those with a working week that is greater than 35 hours but less than 39 hours will see their hours increase to a 39 hour week.
— Working hours of those currently with a net working week of 39 hours or greater will remain the same. However, an hour of overtime worked each week by these grades will be unpaid until 31st March 2014.

Likewise, Portugal (Darcy 2013a) is also under the scrutiny of the Troika and reached an agreement in May 2013 on the new package of austerity measures that the country had to adopt in order to meet the budgetary targets imposed by the Troika. Longer weekly working hours for civil servants were included in this package, and since September 28, 2013, civil servants have been working 40 hours a week instead of 35, without financial compensation.

In August 2013, the conservative party in Austria (Risak 2013) proposed an increase in the daily maximum working time from 8 hours (or 10 if negotiated in a collective agreement) to 12 hours. However, the social democratic party overwhelmingly opposed this proposal, as this would have amounted to a reduction in workers’ wages.
Without having to extend legal working hours, overtime is another way for employers to require their workers to work longer hours. Therefore, throughout the crisis, particular efforts were made to facilitate the use of overtime.

On July 17, 2013, the Belgian (PlanetLabor 2013b) Parliament adopted a bill to modernise labour legislation, which notably makes the overtime system more flexible, following previous agreements between employers and unions. The maximum number of hours an employee can work in addition to usual working time has been raised from 65 to 78 hours per quarter and 91 per year. A collective agreement can even bring this limit up to 130 hours and a sectoral collective agreement can raise the limit to 143 hours.

Changes have not only been made to the amount of overtime allowed, but have also aimed at reducing overtime pay. In Poland (Mrozowicki 2013), discussions that took place in February 2013 in the Tripartite Commission on Social and Economic Affairs brought up the idea of reducing the overtime bonus from 50% to 30% for normal working days and from 100% to 80% for overtime performed on night shifts, Sundays and public holidays. Likewise, in Latvia (Dupate 2013), draft amendments to labour law were submitted to Parliament and were adopted in the first reading on October 3, 2013. As part of these reforms, the Employers’ Confederation in Latvia claimed that the current requirement to pay double salary for overtime work is excessive and expressed a wish to decrease it to 150% of the normal pay.

Recent developments have also shown frequent attempts to turn times usually considered as non-working periods (Sundays, public holidays, nights) into working periods. Although this can be presented as a way to create new jobs, in practice unions are concerned that it could have a detrimental effect on the workers’ health and family situations, as the periods they are likely to be asked to work extend over the whole week and could result in fragmented working schedules without long rest times.

Therefore, such changes remain a sensitive issue. In France (Kessler 2014), for example, unions are strongly opposing companies that are putting pressure on the government, arguing that other EU countries do not have such restrictive legislation.
In December 2013, Decree n°2013-1306 gradually extended derogations so as to be more flexible about working on Sundays.

Similarly, at the request of the Civic Platform in Poland (Mitrus 2014a) (a liberal-conservative political party), Article 15110 of the Labour Code, which outlines situations when work on Sundays is permissible, was amended on December 12, 2013, so as to include work performed by means of electronic communication for employers located abroad or a branch of an employer located abroad. Furthermore, a bill was introduced, amending the Labour Code, concerning a ban on work on Sundays in commercial establishments. On January 29, 2014 this proposal was criticised by the government (Mitrus 2014b). Working on Sundays is considered by the government to strike a reasonable balance between the needs of employees, employers and clients; introducing a ban would cause a reduction of jobs in commercial establishments and in the undertakings that cooperate with them, such as the transport sector.

The choice to facilitate longer working hours may well be of dubious benefit in an employment crisis. In the context of a shrinking labour market, working more is for those who already have a job and does not help to create employment, but rather ignores the concepts of work sharing and social inclusion.

Pay cuts or a lack of financial compensation are not the only drawbacks of introducing longer working hours. Working time is also closely linked to health and safety issues, and long working hours are considered to have negative impacts on workers’ health and well-being (ETUI 2012). When it is claimed that because of the crisis facing the EU, it is necessary to increase working time in order to remain competitive compared to non-EU countries that are not subject to the same working time restrictions, flexibility is clearly being given priority over worker safety.

Overtime also remains a significant issue in working time discussions across Europe, as it is regarded by many employers as a vital element in achieving flexibility, and on the other hand by many workers as an important – though irregular – source of income. By reforming overtime in this way, the burden is placed on the workers: they can be asked to work more if needed, with all the consequences this can have on their health and well-being, but often at a lower rate than before.
Their security – financial security and health – is being undermined in the cause of flexibility.

1.2 Reduction of working hours

Whereas some reforms are intended to lengthen working time, others aim at temporarily reducing it. These two options might seem contradictory, but they can be explained by a difference in the context in which they are applied. Extending working hours is a solution that has been adopted by many Member States, for the most part in Eastern Europe, as many companies were attracted to relocate to these Member States with their cheaper manpower and more flexible labour legislation. By contrast, the ‘old Europe’ and Nordic Member States seem to be increasingly promoting the use of short-time working schemes in the face of economic downturns, with such a mechanism appearing a reliable solution for companies.

**Germany** has a long tradition of short-time working (Kurzarbeit) and used it extensively during the recent crisis. Short-time working was actually presented as the means that prevented Germany from sinking further into recession and facing the same unemployment levels as other Member States. Nevertheless, at the beginning of 2013 the government extended short-time working allowances from 6 months up to one year, with the measure set to remain in force until December 31, 2013 (PlanetLabor 2013c). Consequently, the extension of short-time working can be considered evidence that Germany has not yet overcome the crisis. This measure of frequently – if not permanently – extending short-time working schemes is dubious, as it undermines the temporary nature of such schemes. Although, moreover, short-time work avoids the need for employees to be dismissed, its use in the long-term may be detrimental to their situation.

Likewise in **Austria**, amendments to the Short-time Working Act came into force at the beginning of 2013 and were designed to make it easier for employers to have recourse to such schemes by, among other things, removing the obligation to gain the consent of the works council, so as to make the procedure less complicated and time-consuming.
In Luxembourg, during a meeting held on October 4th, 2013, the Council of Government adopted a governmental amendment of bill No.6594 concerning notably the prolongation of certain temporary adaptations of the Labour Code. This amendment aims to extend until December 31, 2014 the provision that allows for short-time working schemes of up to 10 months, in cases caused by structural factors.

In France, 2013 was a landmark year for reforms intended to extend the possibilities of reducing working time. France initially chose to promote overtime work by adopting the so-called ‘TEPA’ law in 2007, based on the counter-cyclical concept of ‘working more to earn more’. This policy was abandoned in 2012 when the new left-wing government took up office. The law adopted by the French Parliament in May 2013 is the result of a national cross-industry agreement adopted by social partners on January 11, 2013. However, it was not signed by all trade unions and had to face a barrage of criticism, with strikes denouncing social regression.

Short-time working has been merged into a system called ‘partial activity’. In the event of adverse economic conditions, supply difficulties, disaster, exceptional circumstances, or the transformation, restructuring or modernisation of a company, the employer can ask to place all or some of his employees in partial activity, if those employees are suffering a loss in pay due to the partial or total closure of the company or because working time has been decreased to below the legal threshold. In this case, workers are compensated by the employer by receiving 70% of their gross salary. Placement under this scheme can last for a renewable period of 6 months and does not constitute a change in the employee’s contract of employment: he can not, therefore, refuse it.

Besides, with the objective of preventing dismissals, the French government introduced at the same time a new type of agreement: the ‘employment guarantee agreements’. In the event of severe economic difficulties, it is possible for companies to temporarily adjust working time and pay. In return, employers have to maintain employment throughout the duration of the agreement. Recourse to this system is

supervised: the agreement has to be signed by a union majority (i.e. one or several union organisation(s) having secured at least 50% of votes at the professional election); it cannot last for more than two years; and it cannot reduce salaries below 1.2 times the minimum wage. Once the agreement is signed, employees have to give their consent and will be laid off on individual economic grounds if they refuse, meaning that the company will not be subject to collective redundancy regulations even if the numbers meet the criteria. Therefore, even if the purpose is to safeguard jobs and prevent employees from being dismissed, this mechanism is quite unfavourable to employees.

More generally, although short-time working has been praised as an efficient instrument in preventing dismissals and has therefore been promoted by many Member States during the crisis, its negative side effects have also been underlined.

As emphasised by Jean-Yves Boulin and Gilbert Cette (2013), this mechanism ‘may actually increase labour market segmentation, since short-time working schemes are generally backed by unemployment insurance funds, meaning that the money used for protecting insiders will not be available for active labour market policies’. In addition, this mechanism can only be sustained if it is meant to deal with a cyclical shock and not a structural shock. Short-time working can have adverse effects in the case of any structural crisis, impeding adjustments and leading to restructuring processes. Short-time working is not the right solution when it only serves to postpone the maturing of a structural problem, heightening the risk to workers’ employability when a company is no longer adapted to market needs.

Moreover, short-time working has direct short-term negative effects for workers as it reduces their purchasing power and as they are once more asked to be more flexible by contributing to the effort through their loss of earnings.

Some Member States, then, have decided to extend working hours, while others have chosen to reduce them; the question of which strategy is best remains unanswered.

In their paper (2013), Jean-Yves Boulin and Gilbert Cette compare France – which has been promoting the use of overtime for several
years – and Germany, known for its extensive use of short-time working schemes. Although the German strategy seems to have been effective, with few job losses, ‘would the German choice be socially sustainable in the case of longer and repetitive downturns?’ On the other hand, they point out that ‘the French strategy – encapsulated by the slogan “work more for more money” – which prevented the negotiation of work-sharing agreements until the recent national agreement of last January (2013) is potentially dangerous due to its unemployment and social exclusion consequences’.

1.3 Variable allocation of working hours

Because of the particular context of the economic crisis, employers complain that they have to switch from economic downturns to slow recoveries. This instability requires them to be even more flexible, especially when it comes to organising their employees’ work schedule. At the request of employers, therefore, several Member States have adopted measures intended to give the former more flexibility in arranging working time, without necessarily taking into consideration the workers’ position. One of the solutions adopted is to extend the reference periods used to calculate working time.

In Belgium (PlanetLabor 2013d), the social partners held a meeting in January 2013 to discuss the modernisation of labour law. Among other matters, they discussed the option of calculating working time on an annual basis. Weekly working time (usually 38 hours) has to be respected over a one-semester reference period. However, as the reference period is already annual in several sectors, since this was negotiated in a collective agreement or in the working regulations, the social partners proposed, in the social agreement for 2013-2014, that the one-year reference period be extended across the board.

In Poland (Mrozowicki 2013), new legislation amending the Labour Code and the Trade Union Act was passed by parliament on July 12, 2013 and came into force on August 23, 2013. As early as 2009, the Anti-Crisis Act had extended the reference period to twelve months. As is rather common with anti-crisis measures, these provisions were supposedly introduced on a temporary basis, but as they were renewed over the years, it became increasingly difficult to return to the initial
legislation. Poland is here the perfect example of this process: this twelve-month period has now been enshrined in law, since it was felt that it would help companies to cope with seasonality, decreasing orders and temporary financial difficulties.

A variable allocation of working hours is very useful for companies that enjoy greater flexibility. However, this flexibility is imposed on workers, who in return see their working conditions becoming less and less secure, as they have to adapt between periods when they are asked to perform overtime and periods when there is not enough work. Drawing on this, it seems that the win-win relation implied by the concept of flexicurity is only working for companies.

Throughout the crisis, working time has remained a sensitive issue. At the European level, negotiations between social partners were launched to revise the Directive in 2010 but reached a dead-end in December 2012, demonstrating that in the current context, it is unlikely that a compromise can be reached that would suit both employers’ and employees’ interests. In addition, reforming working time has indirect impacts on many other areas, such as workers’ health, safety and well-being, as well as living conditions and incomes.

Therefore, awareness should be raised concerning this trend: the prolongation – if not permanent adoption – of austerity measures supposed to be temporary, and which are of questionable effectiveness, given the length of the crisis.

2. **Changing forms of employment: more frequent use of atypical and flexible contracts**

Traditional forms of employment, usually considered full-time permanent contracts of employment with a unique employer, have decreased over the decades, and the crisis has accelerated fundamental changes in forms of employment. As Jan Buelens and John Pearson (2012) observed, although standard work undisputedly remains the major form of employment, atypical contracts seem to have gained a sustainable foothold in the labour market, confirming the trend that some allegedly temporary austerity measures are actually rooted in national legislation.
When it comes to ‘flexibilisation’ of the labour market – the watchword used by EU institutions during the crisis – atypical workers are first in line to suffer changes, if not dismissals, as their status is less protected than that of permanent workers.

Atypical work is a relatively broad notion. According to the definition used by the Dublin Foundation, ‘atypical work refers to employment relationships not conforming to the standard or “typical” model of full-time, regular, open-ended employment with a single employer over a long time span’².

For the purpose of this research, we will consider that fixed-term and part-time contracts, as well as new kinds of employment contracts, are all covered by the concept of atypical work. Temporary agency work contracts are obviously also atypical; however, since the deadline for the implementation of Directive 2008/104/EC on temporary agency work was set in December 2011, and some Member States implemented it late, most amendments in this area were made because of the transposition of the Directive, and not because of the crisis context³.

2.1 Reforming fixed-term and part-time work contracts

Directive 1999/70/EC was introduced mainly to improve the quality of fixed-term work by ensuring that workers with fixed-term contracts are not discriminated against when compared to workers with open-ended contracts, and to establish a framework that will prevent abuse involving successive fixed-term work contracts or relationships with the same employer.

To prevent abuse, clause 5 of the Framework Agreement that led to the Directive establishes that Member States have to implement one or more of the following measures:

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3. For more information on that topic, see Schömann and Guedes (2013).
— provide objective reasons justifying the renewal of such contracts or relationships,
— specify maximum total duration of successive fixed-term employment contracts or relationships, or
— indicate the number of renewals allowed for fixed-term contracts or relationships.

Since the beginning of the crisis, there has been an on-going trend towards lowering the threshold of these protective measures.

Although Member States still have to comply with the requirement of providing objective reasons, the solution found to partially circumvent this requirement has been to extend the list of objective reasons. Lithuania adopted a temporary provision in June 2010, making it possible to conclude fixed-term employment contracts for ‘newly created jobs’, including certain particular conditions such as a 2-year limit on their duration or prohibiting the conclusion of such a contract with former employees. However, in line with the current trend in a number of Member States, temporary anti-crisis measures are being extended. In this case, the expiry date of this temporary objective reason has been extended from July 31, 2012 to July 31, 2015.

In early 2013, Spain decided to take comprehensive measures to tackle its particularly tough situation regarding youth unemployment (55.2% of the youth population at the end of 2012). Among the one hundred proposed measures, a new ‘first job’ reason for fixed-term contracts has been introduced, purportedly making it easier to get a first job. It only affects jobseekers under the age of 30 with no work experience (or a maximum of 3 to 6 months). Working time must amount to at least 75% of a full-time job. This measure will remain in force until unemployment drops to below 15%.

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On March 5, 2013, the Slovene parliament adopted a new Employment Relationship Act. Among many other measures, this Act provides a new and broadly construable reason for concluding a fixed-term employment contract: the transfer of work.

Law Decree No.76 of 28 June 2013 in Italy (Ales 2013) established urgent measures for ‘the promotion of youth employment, for the enhancement of social cohesion and in relation to VAT and other taxes’. Under the new decree, it is possible to sign fixed-term and temporary contracts without giving a reason in two cases: for the first fixed-term contract if it does not last more than 12 months, and for all cases listed in collective agreements, including company agreements, signed by the union and employers’ organisations which are comparatively the most representative at national level. The ban on extending fixed-term contracts with no indicated reason is abolished.

Another lever used by many Member States to introduce more flexibility in the conclusion of fixed-term contracts is to extend the maximum length of the contracts or to allow multiple renewals.

Like several other Member States, Portugal (Darcy 2013b) had already adopted a temporary measure to extend the maximum duration of fixed-term contracts during the crisis. This temporary measure came to an end in July 2013. However, the National Assembly unsurprisingly decided to adopt another ‘extraordinary’ measure that allows fixed-term contracts to be renewed two more times, up to 12 months in addition to the current 3 year maximum, making it possible to have 4 year-long contracts.

These sets of reforms and their effects clearly help to limit the scope of the European Directive on fixed-term work, as they are intended to reduce the level of protection guaranteed by the ‘anti-abuse’ measures provided in clause 5.

As a matter of fact, part-time work is still often not voluntary\(^6\), and a study carried by Eurofound in 2011 (Eurofound 2011) found that this form of employment is not evenly distributed across the EU’s working population. There are important differences in part-time employment rates depending on factors such as age, sex, sector or occupation.

Therefore, measures have been taken to try to address these drawbacks. In early 2014, **France**, following the national cross-industry agreement adopted by social partners on January 11, 2013, and the law adopted by the French Parliament in May 2013, reformed its legislation on part-time work. From January 1, 2014, it will no longer be possible to engage part-time contracts for less than 24 hours a week. The objective of this reform is to grant workers more security and to try to avoid part-time workers ending up in precarious employment situations. However, young people under the age of 26 who are still in school can work fewer hours, and other derogations from this minimum duration can be made via an extended sectoral agreement or at the employee’s request by negotiating with the employer. Moreover, given the crisis context, the government has decided to postpone this new condition to July 2014, so as to allow time for the branches to negotiate on derogations. This bill is well-intentioned, but here again, the crisis is used as a pretext and takes precedence over any attempt to provide more security for workers.

In 2013, as part of the steps **Spain\(^7\)** has taken to fight youth unemployment, legislation concerning part-time employment for this category of the population was made less stringent. The hiring of young workers on part-time contracts is being encouraged. For companies recruiting people under the age of 30, without a job, with no (or less than 3 months) professional experience or coming from another sector, employers’ social security contributions will be cut for one year, or longer if training is ongoing, by 75% for businesses with more than 250 employees and 100% for smaller businesses. Working time cannot exceed 50% of a full-time job. In addition to their job (or within 6 months prior to hiring), the young beneficiaries need to attend training, regardless of whether it is

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specifically geared to the new job. This measure is aimed at improving training for young unskilled jobseekers and their chances of entering the labour market. This incentive may be extended for a further 12 months on the condition that the employee provides evidence of completion of the relevant training programme within the second year or within the six months immediately prior to renewal.

The rationale behind the adoption of the two European Directives on fixed-term and part-time work was to prevent such contracts from contributing to an even more segmented labour market, which would result in discrimination against those atypical workers. Nevertheless, with part-time work becoming more marginal and targeted to specific categories of the population, and fixed-term contracts used as a mere flexibility tool and not as the stepping-stone towards full-time employment they should in fact be, evidence shows that the reforms being adopted are further dividing up the labour market.

Furthermore, the position adopted by the EU institutions vis-à-vis fixed-term work is rather ambiguous. Their role should be to ensure that Member States comply with the content of the Directive. However, during the crisis, the EU did not really raise its voice against Member States that undertook to deregulate labour standards in this area. Quite on the contrary, the jurisprudence of the Court of Justice of the European Union, adopted over the crisis years, seems rather to encourage or help Member States to continue along the same lines.

Moreover, does the use of part-time work really encourage youth employment? The question is whether encouraging the use of part-time work, especially for a group of people already in a difficult and precarious situation, might not rather contribute to a rise in inequality by isolating these workers even more on the labour market.

8. See the case-law concerning the non-regression clause and the anti-abuse clause: Mangold, C-144/04 [2005]; Angelidaki, C-378/07 [2009]; Sorge, C-98/09 [2010]; Kücük, C-586/10 [2012].
2.2 Inventing more flexible employment contracts

Through adopting new types of contracts, Member States have often opened up ways of circumventing the legal framework of the Directives. Such contracts frequently offer less employment protection than standard contracts, by weakening, for instance, rights to unemployment or social benefits, severance pay, or by offering reduced wages.

In Poland, service contracts, also known as ‘trash contracts’, were adopted during the crisis (Pańków 2012). This particular type of contract is not covered by labour law, but by civil law. Many of them are also not covered by social security regulations.

Trade unions consequently asked for these contracts to be brought under the social security system. However, in October 2012, the Prime Minister announced his decision not to do so, stating his desire to maintain employment levels.

This decision appears to be quite surprising, as the 2012 Country Specific Recommendations for Poland, adopted under the European Semester, indicated that ‘the partial abuse of self-employment and civil law contracts which are not governed by Labour Law appear to be a cause of labour market segmentation and in-work poverty, which is among the highest in the Union’. Its recommendation was ‘to combat labour market segmentation and in-work poverty, limit excessive use of civil law contracts and extend the probationary period to permanent contracts’.

As a consequence of the Prime Minister’s refusal to change the legislation in this field, the 2013 Country Specific Recommendations stated that since ‘the use of revolving civil law contracts with significantly reduced social protection rights is widespread’, Poland should ‘combat in-work poverty and labour market segmentation through better transition from fixed-term to permanent employment and by reducing the excessive use of civil law contracts’.

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Recent concern has been raised in the United Kingdom about a particular form of contract called ‘zero hour contracts’, under which no specific working hours or pay is guaranteed, with workers staying at home until their employer calls them (Inman 2013). The Office for National Statistics’ Labour Force Survey released data according to which the number of workers on such contracts doubled between 2005 and 2012, up to 200,000 people now. However, it turned out that these figures were not exactly accurate and that many more workers were actually working under this type of contracts. At the end of 2013, the government therefore launched a consultation on the subject that will last 12 months (Gall 2013). Although the government was put under pressure to outlaw such contracts, the consultation document has, right from the outset, ruled out a complete ban on zero-hours contracts, saying they offer employers ‘welcome flexibility’ despite evidence of abuse of workers’ rights. To deal with this abuse, employers can be barred from using exclusivity clauses within zero hour contracts that prevent people working for another employer. Further efforts should also be made, regarding the fact that employees on zero hours contracts can be called into work at short notice and only paid for the hours they work, so that they can neither plan their time nor have a guaranteed income. Likewise, particular care should be taken to ensure that sick pay and holiday pay are included in the contracts, as in practice this is not always the case.

Another disputed invention coming from the UK is the introduction of a highly controversial new type of contract, whereby employees are given shares in exchange for waiving certain employment rights, including, notably, those related to unfair dismissal, redundancy and certain statutory rights to request flexible working and time-off for training. In March 2013, during debates at the House of Lords, Lord Pannick, an independent crossbencher at the vanguard of moves to abolish this new contract form, made this very relevant statement: ‘Employment rights were created and have been protected by all governments – Conservative and Labour – precisely because of the inequality of bargaining power between employer and employee. To allow these basic

employment rights to become a commodity that can be traded by agreement frustrates the very purposes of these entitlements as essential protection of the employee who lacks effective bargaining power.\(^{13}\) Nevertheless, after many debates and after rejecting the bill twice, the House of Lords finally approved the so-called ‘employee ownership bill’ allowing workers to give up some of their labour rights in return for shares in the company (Silvera 2013). But there have been slight concessions: employers will have to offer free legal advice to employees who agree to the system.\(^ {14}\)

These new forms of contracts are also often implemented supposedly with the idea of helping particular categories of workers, mainly those who have been affected the most by the recession, i.e. young and older workers.

To this effect, France and Spain both adopted ‘generation contracts’ in 2013, based, however, on different provisions.

In Spain, this contract cuts social security contributions by 100% for young entrepreneurs recruiting experienced people for their projects for the first year. This measure targets young self-employed workers under the age of 30 and encourages them to recruit long-term jobseekers over 45. It should, however, be noted that when trying to promote the employment of young workers, the Spanish government is mainly providing incentives by cutting social contributions. Although encouraging youth employment is a laudable and much needed objective, it is important to ensure that this shortfall in social contributions will not have negative effects.

In France, companies are being encouraged to hire young workers under the age of 26 on open-ended contracts, while companies with fewer than 300 employees are being given financial support to retain older employees.\(^ {15}\) For larger businesses, there is an obligation to negotiate an agreement on this issue. The agreement must include


\(^{14}\) For a detailed overview, see Prassl (2013).

commitments concerning the training and long-term integration of young people, the employment of older workers, and skill and knowledge transfer.

Despite these commitments, it remains questionable whether such ‘generation contracts’ will be efficient in fighting unemployment among young and older workers. The causes of such unemployment are numerous, and retaining older workers in a company is not the only solution. Particular efforts are yet to be made in order to provide easier access to training and to promote skill development, as well as taking into consideration the stress caused by the reorganisation of work.

Atypical work reforms adopted since 2008 tend to show a change of objective. Previously, atypical work was promoted as a tool for implementing the concept of flexicurity. This type of work was put forward as a solution to various problems: it could contribute to reducing labour market segmentation and to creating new jobs. To this end, a fair balance had to be struck between these flexible forms of employment and greater security for workers.

Yet, since 2008, the balance has indisputably shifted towards more flexibility and more precarity in the employment relationship. Reforms in the field of atypical work have made a major contribution to undermining workers’ security, which is giving cause for concern that the concept of flexicurity is actually turning into ‘flexicarity’, – i.e., more flexibility leading to more precarity. Finally, reforms of atypical employment have been adopted in parallel to reforms in employment protection and in particular to legislation on dismissals, as well as reforms concerning conditions of court access, leading to an even more precarious situation for workers.

**Conclusions**

It is thus clear from this article (and from the other research cited in it) that EU Member States are using the crisis as a justification for the adoption of such radical reforms. Basically, Member States seem to think (or are told by EU institutions) that no way to exit the crisis will be found if strict employment forms are maintained and, *a fortiori*, if social legislation remains too protective.
Following this line of thought, the concept of flexicurity is nothing but a facade. By deregulating working time and employment contracts, Member States are choosing to ignore the issue of workers’ security. Consequently, the debate as to the effectiveness and relevance of the flexicurity concept has real significance, and the calls to reshape this notion are justified and urgent.

Based on the observations made in this paper, the effectiveness of such reforms must be called into question. These new measures contribute above all to ensnaring workers in situations of precarity. As Bernadette Ségol, General Secretary of the ETUC, stated during the ILO’s 9th European Regional Meeting in April 2013, ‘flexible labour markets [are] not the solution if they simply [give] rise to precarious jobs’ (ILO 2013).

In November 2013, the ETUC took decisive steps to react to this situation, which has gone on for too long. The ETUC has called for ‘A new path for Europe’ and has presented its plan for investment, sustainable growth and quality jobs. In this plan, the EU is invited finally to respond to the alarming economic and social situation by giving up on austerity policies that have so far proven ineffective.

During the crisis, the EU has adopted a rather ambiguous position. It has activated several instruments to shape labour market reforms and to meet the objectives of the Europe 2020 strategy in the field of employment, innovation, education, poverty reduction and climate/energy. To ensure that the Member States properly respect these objectives, a system of economic governance has been put in place to coordinate policy actions between the EU and national levels. This economic governance is organised by means of the European Semester, a six-month period aimed at coordinating Member States’ policies to ensure compliance with the objectives set by the EU. This six-month period ends with the publication of Country Specific Recommendations (CSR), intended to guide the adoption of new reforms in Member States. As a result, it appears that most of the reforms implemented by Member States are often dictated by the EU itself, in contradiction with its own core principle. Furthermore, the reforms have not lived up to the expectations raised by the European institutions, particularly given the catastrophic unemployment rate in the EU (especially among young people), the increase in long term unemployment, the increase in the number of precarious jobs, particularly with the relaxing of rules on
temporary contracts, the rise of in-work poverty caused by wage cuts and the worsening of working conditions (European Commission 2012 and 2013). Such developments clearly run counter to certain European and international concepts such as the quality of employment and decent work. They violate international norms such as Article 7 of the Revised European Social Charter on the right of young workers to protection and undermine the meaning and consistency of the European Social Model. The predominant principles today seem to be growth, competitiveness, flexibility and productivity, watchwords of a neoliberal Europe, instead of the promotion of the European values anchored in the Lisbon Treaty (Art.2.3): ‘the sustainable development of Europe based on [...] a highly competitive social market economy, aiming at full employment and social progress, and a high level protection and improvement of the quality of the environment’.

While waiting for the EU to decide to finally react to these blatant violations of its own core principles, all eyes and hopes are fixed on international standards and institutions such as the ILO or the European Committee on Social Rights (the main supervisory body for the Council of Europe’s [Revised] Social Charter), which regularly make influential decisions that contribute to the protection of workers. In a context of globalisation, companies are attracted towards the social and fiscal lowest bidder, and international labour law standards are able to restrain this backwards race. With the benefit of the hindsight and experience that are available to us, it is now quite clear that the time has come to move away from austerity policies.

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17. See for instance the decisions of the ECSR in 7 collective complaints by Greek trade unions, alleging that recent reforms in relation to remuneration and working conditions, as well as recent pension reforms, are in breach of several articles of the European Social Charter (Collective complaints Nos.65-66/2011 and 76-80/2012 – all information available at: http://www.coe.int/t/dghl/monitoring/socialcharter/Complaints/Complaints_en.asp) (Accessed 01.06.2014).
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Future prospects
Facing the E(M)U challenge: a new policy package through a new political deal

David Natali

As shown by this edition of *Social developments in the EU, 2013* was characterised by a mixture of highs and lows. The low-points were the apparent stalemate of the institutional and governance reforms and the rise of anti-European political movements. The high-points included the lively intellectual and political debate on the future of economic and social governance that developed in the run up to the European elections of May 2014. All in all, the events of 2013 confirmed the generalised perception of the urgent need to reform E(M)U economic governance and its interplay with the still insufficient social dimension.\(^1\)

As stressed by many contributors (Vandenbroucke *et al.* in this volume), Social Europe is necessary – for functional, economic and political reasons – if we are to find a way out of the crisis. This concluding chapter provides some further reflections on the future of the European Union and the highly complex problems to be tackled by policymakers. If Europe is to be rescued, a new deal must be struck between economic integration and social protection, and between supranational institutions and Member States.

The key question which we address here is: what is the right strategy to tackle the problems of the EU? To answer this, we first need to look back at the origins of the European Union and at the main phases in its development. Previous chapters (see Degryse *et al.* and Hemerijck) have shown the importance of a historical approach in analysing the

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1. Here we are using the acronym E(M)U to represent the persistent ambiguity of the debate on the revision of the integration project. Some analysts focus on the EU, others on the more limited eurozone. This is part of the on-going confusion surrounding what to do to rescue European integration.
EU. This is useful in order to trace the long-term evolution of both the ideas and the institutions that have characterised EU integration. In order to know where we should go next, it is important to know where we have come from.

European integration has in fact been characterised by different phases, each marked by a specific paradigm. The latter (sets of norms, goals, and instruments) consists of two main elements: a policy framework that defines the economic and social ambition of the project, and a political framework that provides a model for the interaction of national and supranational political institutions.

As we show below, the evolution over time of the integration project has been characterised by two distinct phases. The first of these emerged from the Treaty of Rome, and proved effective – at least until the 1970s – in providing economic growth for Member States and social protection for their citizens through a process of convergence. The second phase emerged from the Maastricht Treaty and has been much less effective, as demonstrated by the recent economic crisis and the gradual divergence of the Member States’ economic and social performances. Both its policy and political dimensions are fragile. There are policy problems relating to the persistent fragility of economic growth, high unemployment, and the increased divergence between the North and the South. The political tensions concern the lack of legitimacy of the EU and the apparent fragility of popular support for a more in-depth integration. The hypothesis put forward in previous chapters, and endorsed in this concluding contribution, is that Europe needs a new paradigm, to be achieved by means of an in-depth revision of both its policy and political components. It is not just a matter of adding a social chapter to the broad system of economic and monetary governance, but of carrying out an in-depth revision.

Section 1 below looks at the paradigms that have historically shaped the integration process: the post-war paradigm (set up with the Treaty of Rome) and the paradigm underlying Monetary Union (based on the Maastricht Treaty). Section 2 looks at the current flaws in the E(M)U project inherited from Maastricht and the need for reforms. Section 3 sheds light on the prospect of a new compromise, the persisting weakness of support for a reinvigorated social dimension, and a new consensus for a fairer and more mutually-supportive Europe.
EU integration as a two-dimensional process

The evolution over time of European integration has been characterised by changing policy and political frameworks. The two dimensions are in fact part of a paradigm\(^2\), setting economic and social policy goals, as well as the political dynamics and the source of legitimacy of the institutions involved in the project. As put it by Scharpf (1999), we look at output and input legitimacy. Output legitimacy derives from a recognition that rules have effectively solved problems; input legitimacy builds on the idea that political choices are derived from the preferences of citizens. Both policy and political frameworks are based on a division of labour between the EU and the Member States. This section summarises the two paradigms that have inspired the EU so far.

The post-war consensus

In the words of Ferrera (2005), the EU project, when it was launched in the 1950s, was not intended to challenge the national welfare state. On the contrary, it consisted of a virtuous interaction between open economies – integrated through the Single Market – and a closed area of solidarity defined at the national level. The idea was akin to the division of labour exemplified by the famous ‘Keynes at home, Smith abroad’ slogan (Gilpin 1987). The policy framework underlying the Treaty of Rome was meant to favour Member States’ economic competitiveness through the completion of the single market. The benefits of economic growth and wellbeing were expected to help reinforce the national roots of the welfare state. And this did happen, at least until the 1970s. Ongoing economic growth granted increased legitimacy to the European project and provided the resources needed by national welfare states to further integrate European societies (Natali 2012: 221). At the European level, as stressed by Hemerijck in this volume, market integration contributed to economic prosperity, while at the national level ‘Keynesian economics and Beveridgean social insurance (...) made modern capitalism fit for mass democracy’. In the meanwhile, budgetary and monetary policy still fell within the competence of the Member States.

\(^2\) Paradigms consist of a coherent causal and normative framework and the set of instruments to implement it (Hall 1993).
In terms of a political framework, European politics was marked by a key role for technocrats, operating through regulatory instruments. EU policymakers implemented the market-making strategy using EU legislation aimed at increasing competition and equal opportunities. Supranational institutions worked in a context of ‘integration by stealth’ (Majone 2005). In the words of Pascal Lamy, ‘this was Monnet’s approach: The people weren’t ready to agree to integration, so you had to get on without telling them too much about what was happening’ (Ross 1995: 194 quoted in Majone 2010). European institutions thus received output legitimacy derived from the effectiveness of regulations. By contrast, Member States’ political institutions received both input and output legitimacy. National institutions involved political participation by and representation of the people to address problems of redistribution (input legitimacy). Decisions on budgetary and welfare policies resulted in political conflicts and compromises. Such decisions also gained output legitimacy due to the long-term economic prosperity and the improved protection against social risks (Figure 1 below).

![European integration paradigms](image)

The virtuous interaction between economic integration at European level and the welfare state at national level peaked in the 1970s (at the end of the ‘golden age’ of welfare). Since then, such an interaction has
become much more difficult to achieve. In the 1980s, the need to re-lau-
ch the European project resulted in a new, ambitious project: to com-
plete the single market and then create the EMU. At that time, the
idea was to revise the old compromise between economic integration
and social cohesion. Reinforced protection under the four fundamental
freedoms and stricter control of budgetary and macro- and micro-
economic policies should have been accompanied by new impetus for
defining social Europe (Natali 2012). None of these attempts, however,
helped to save the old paradigm (see Pochet 2005 for a detailed review
of these attempts).

The Maastricht consensus

At the beginning of the 1990s, the European project set out the end of
the post-war compromise as we knew it. The Maastricht Treaty of 1992
provided a new paradigm to reshape interaction between the EU and
the Member States. The Monetary Union represented a new step in the
integration process and an in-depth revision of the policy package
agreed on after WWII (Degryse et al. in this volume).

The EU became more ambitious for the liberalisation of capital
transactions, the full activation of the single market for persons, goods,
services and capital, and the strengthening of competition policy. The
launch of the EMU then added more tools to complete the currency
union, through convertibility of currencies and the elimination of
margins of fluctuation and the irrevocable locking of exchange rate
parities. Verdun (2013: 24) has spoken of an ‘asymmetrical EMU’, with
full integration of monetary policy (a true monetary union) but still
limited integration of economic policies (a less developed economic
union). The new policy paradigm was inspired by the Delors report of
1989 (ibidem).

The Maastricht consensus also largely destabilised the previous division
of labour between supranational and national institutions. The new
paradigm saw a key role of the EU in monetary policy, with more
explicit influence in the field of budgetary policy (and indirectly in the
area of social policies). This means that the key policy objectives of the
integration process have been set in terms of strengthening the internal
market, improving monetary stability (e.g. low inflation), increasing
long-term viability of public budgets, and emphasising the need for structural reforms to boost competitiveness. Indeed, if compared to the policy aims of the ‘post-war consensus’, this was a quantum leap. The new paradigm was thus framed in terms of ‘Smith at home and abroad’ (Natali 2012). In the meantime, Member States have seen a much reduced autonomy in the fields mentioned above: monetary policy has been shifted to the supranational level, and budgetary policy and welfare states have been put under pressure by the (stringent) guidelines proposed by the EU.

These trends have not been accompanied by a full and coherent package of institutional reforms, consistent with the revision of the political framework of the integration process. The EU has started to interfere with redistributive policies, thus going beyond the regulatory fields of competence which characterised the ‘integration by stealth’ phase. On the one hand, no additional sources of input legitimacy have been added through the Treaties. On the other, output legitimacy started to weaken in the shadow of turbulent economic contexts and cyclical downturns. Citizens started to show signs of mistrust towards their national political institutions (Figure 1).

The political framework introduced through the Maastricht Treaty was a sort of patchwork: a combination of even more technocracy and some intergovernmental features. The prime example of the move towards a more technocratic approach is that of the status of the European Central Bank (ECB). The latter had a constitutional status granting it full independence. In the words of Majone (2010), national parliaments of the eurozone Member States have lost any control over monetary policy, while the European Parliament has no authority in this area. The ECB is free to operate in a political vacuum. As for the intergovernmental features, the EMU Treaty of 1992 recognised the need to promote more integration in monetary and economic policy (EMU), as well as in other fields, but it interpreted integration as increasing coordination between Member States’ governments (Amato et al. 2013: 29). In the words of Bardi (2013), since Maastricht it has been generally agreed that the EU’s policy decisions would be legitimised by a sum of national legitimacies transmitted through intergovernmental institutions.
The EU challenge: how to set up a new policy framework by means of a more legitimate political compromise

Neither the policy nor the political framework underlying the Maastricht consensus have delivered what the EU leaders expected. Contributions to this volume (namely Hemerijck, and Vandenbroucke et al.) have stressed the main flaws in the new integration paradigm.

The first policy problem has been the asymmetry in the design of EMU. The lack of fiscal powers has proved a major flaw. Monetary integration and the increased stringency of budgetary coordination have eliminated two key instruments that Member States used previously to address economic shocks: currency devaluation and public (welfare) spending. Economic shocks cannot entirely be absorbed by national policies alone, given the constraints imposed by the single monetary policy and since devaluation cannot be used to help remedy the situation. Many have thus stressed the need for a eurozone fiscal capacity, as a form of insurance.

Weak economic coordination is the second shortcoming of the current policy design. Insufficient macroeconomic coordination and misaligned wage and productivity developments translate into significant competitiveness divergences, with high deficits in current accounts in some countries and high surpluses in others (see Fichtner in this volume). If left unaddressed, this situation results in prolonged economic divergence.

A related problem concerns the balance between economic and social policy coordination. Since the Maastricht Treaty, many attempts have been made to improve this balance, but with limited results. The supposed balance between the economic and social dimensions has not materialised: the European social dialogue has seen both progress and setbacks, and EU social legislation has not advanced very much, while the attempt to achieve soft coordination through new modes of governance has been partially successful. What has become increasingly evident (especially since the Great Recession) is the different pace of integration in the economic and social dimensions, and the predominance of neo-liberal orthodoxy in EU policymaking (Vandenbroucke et al. in this volume).
All the policy tensions mentioned above have clear political implications. Pure technocratic policies are no longer appropriate for the EU. This is true of the ECB and its increased role in monetary and economic policy. While some commentators have given a positive reading of this trend, others see it as a perpetuation of the misguided institutional assumptions behind the Maastricht Treaty (Majone 2010). The bank’s role as a fully independent body is the result of a lack of mechanisms for economic governance (e.g. more advanced economic policy coordination). Until these failings are fully addressed, the ECB, by default, will continue to exercise authority over the entire domain of monetary policy (ibidem, 7).

The rise of intergovernmentalism is at the origin of further tensions. Key decisions taken since the crisis have been the result of intergovernmental agreements and are perceived to be imposed by the stronger Member States (namely Germany) (Bardi 2013). As a consequence, output legitimacy no longer works, while input legitimacy is still weak\(^3\).

Some authors have spoken of a ‘dyscrasia’ between the Member States and the European political process. While policy decisions are in the hands of European institutions and bodies (e.g. the ECB) – which are as remote from citizens’ control as possible – politics remains at the Member State level (Matarazzo 2013)\(^4\).

**What strategy for a new paradigm?**

Europe thus needs a new policy framework, abandoning the ‘Smith at home and abroad’ strategy, but it also needs a new political compromise that goes beyond the old ‘Monnet method’ and the more recent revival of intergovernmentalism. The two sides of the challenge need to be addressed together.

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3. The Convention of 2002/2003 tried to address this problem by means of a European Constitution. The aim was to reinvigorate the Community method and to increase the input legitimacy of the EU. However, its failure following the referendums in France and the Netherlands blocked progress in this area, with some minor exceptions (Amato 2014).

4. This leads to the ‘policy without politics’ phenomenon: poor policy-making and weak democratic accountability (Schmidt 2012 quoted in Matarazzo 2013).
In the following sections we shed light on the outcomes of the intense debate between stakeholders and analysts: two paths for a new policy and political strategy. The minimalist path is a very pragmatic approach to addressing present problems: it seems feasible but may not turn out to be particularly effective. The second path is more ambitious and innovative: it needs more political support and courage but may – and this is the risk – become impossible to achieve.  

Two paths for a growth-oriented policy strategy

The minimalist path to growth
One line of action is highly pragmatic. It takes account of the evident (both political and legal) limits that make it very difficult to effect a quantum leap towards a more federal Union with powers in the area of economic and social policy. The idea is thus to take a ‘step by step’ approach, consistent with the recent trend of coordination of economic and social policies. An interesting insight comes from Thillaye (2013a and 2013b), who has provided a comprehensive study of the potential for enhanced coordination. In this scenario, the ‘Smith at home and abroad’ framework is not abandoned, but revised.

A first opportunity comes from the ‘horizontal social clause’ introduced by the Treaty of Lisbon (Article 9 TFEU). This clause has not yet contributed to enhancing the social dimension of Europe. It could, however, be more systematically invoked, and, in parallel, the social pillar of the EU’s Impact Assessment procedure could be strengthened. This would require the mainstreaming of the EU’s social objectives into all policy areas and through all different tools (regulation and coordination).

A second instrument is the European Social Dialogue. This could serve as a platform for progress in wage setting and coordination in this area among E(M)U Member States, and for the establishment of new, pan-European programmes (such as minimum wage regulation or an

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5. We are not referring here to the more radical proposals for a gradual limitation of EU competencies in economic and social policies, which would in fact undermine the EU project (see De Beer 2013).
6. See Marlier and Natali (2010) for an in-depth analysis of these instruments.
unemployment scheme for the EMU members). The latter exercise has proved to be very difficult, but new attempts could build up a common understanding of cross-national issues. One option could be to formally involve social partners in the discussion of wage developments within the Macroeconomic Imbalance Procedure, as was discussed at a recent meeting of the Council’s Employment Committee in the presence of social partners (Thillaye 2013a). This is also envisaged by the Commission in the Communication on a social dimension of the EMU (European Commission, 2013).

A third route could then be the recalibration of the European Semester and a more balanced implementation of the Europe 2020 agenda for smart, sustainable and inclusive growth. As argued elsewhere (Sabato et al. 2014), the EU should deliver an assessment of the impact of these on the achievement of the Union’s long term objectives of convergence and sustainable development. Recommendations based on the Stability and Growth Pact and the Macroeconomic Imbalance Procedure (MIP) have often been detrimental to a true social protection and investment strategy. To deliver what has been promised in terms of poverty reduction and investments in education, for instance, a more explicit focus on the coordination process has to be achieved. The Social Protection Performance Monitor (SPPM), set up by the Social Protection Committee and endorsed by the Council in October 2012, provides EU policy-makers and leaders with a set of social indicators consistent with reinforced coordination. This could be a good complement to the ‘convergence and competitiveness’ agreements to be signed between Member States and the EU, to help with structural reforms and pro-growth strategies (Vandenbroucke and Vanhercke 2014).

All these measures (summarised in Figure 2) can be easily activated and could provide short-term improvements to social policy coordination. There is a risk, however, that they might perpetuate an ‘invisible’ and ineffective strategy that would not change the policy or political inertia of the EU.
Figure 2  Options for renewing the EU integration paradigm

<table>
<thead>
<tr>
<th>Paths for a new paradigm</th>
<th>Level</th>
<th>Policy framework</th>
<th>Political framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimalist path</td>
<td>EU level</td>
<td>market making (shared budgetary control)</td>
<td>intergovernmentalism</td>
</tr>
<tr>
<td>(Smith at home and abroad)</td>
<td></td>
<td>more effective economic and social coordination</td>
<td>differentiated integration</td>
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<td></td>
<td></td>
<td>conditionality</td>
<td>(indirect) input and output legitimacy</td>
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<tr>
<td></td>
<td>MS level</td>
<td>welfare production (shared budgetary control)</td>
<td>input and output legitimacy</td>
</tr>
<tr>
<td>More ambitious path</td>
<td>EU level</td>
<td>market making (shared budgetary control)</td>
<td>federalism</td>
</tr>
<tr>
<td>(Smith and Keynes at home and abroad)</td>
<td></td>
<td>EMU fiscal capacity (taxation)</td>
<td>second chamber at EMU level</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EU investments</td>
<td>president of the EU</td>
</tr>
<tr>
<td></td>
<td></td>
<td>shared welfare production (EU automatic stabilisers)</td>
<td>input and output legitimacy (in a federalist system)</td>
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<tr>
<td></td>
<td>MS level</td>
<td>shared welfare production</td>
<td>input and output legitimacy (in a federalist system)</td>
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<td></td>
<td>shared budgetary control</td>
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The more ambitious path to growth
As stressed by the previous chapters, a more ambitious strategy means providing E(M)U with all the instruments it needs to address asymmetric shocks and create an integrated monetary union, with more stringent tools at its disposal than simple budgetary and economic coordination. This is what Henning and Kessler (2013) have underlined as the key characteristic of the US federalist system: the federal government does not provide any guarantee for state public debts, but it intervenes through growth-oriented investments to help those states that suffer a sovereign debt crisis and consequently implement austerity measures (quoted in Amato 2014). In this case, the policy framework can be summarised by the slogan ‘Smith and Keynes at home and abroad’.

7. Member states’ room to manoeuvre to follow Keynesian policies largely depends on their budgetary conditions, e.g. public debt and deficit level.
Two largely complementary measures are often proposed as a way to make the EU policy-mix more balanced and more favourable to economic growth: providing more financial resources to the EU (and eurozone) budget, and giving EU institutions some powers in the area of redistributive policy. The chapters in this volume have already provided a detailed assessment of some of these initiatives: the setting-up of a minimum income programme, a pan-European unemployment insurance scheme, etc. The latter scheme in particular would require active involvement of the social partners, who would play a key role in improving legitimacy and effectiveness (Figure 2 above).

Many have stressed the need to improve EU resources for growth and have proposed the implementation of a new pan-European Corporate Income Tax at EMU level. Here the focus would be on establishing an EMU budget of around 0.5 - 1% of the 18 members’ GDP. This would, in the short-term, increase the resources available for growth-enhancing measures, while combating so-called fiscal optimisation. A further possibility would be to stimulate investment through the European Investment Bank and investment projects, but, as stressed in the introduction to this volume, this kind of approach also needs time to be rightly implemented and produce effects on growth. Financial support would also strengthen the EMU’s social dimension by gearing Member State funding, for instance, towards ‘the modernisation of vocational training systems or increased effectiveness of labour market policies’. In general, education and training, R&D, technological innovation, environmentally sustainable modes of production and consumption, active ageing and lifelong learning strategies, care services (in particular, child care), and other services aimed at improving people’s quality of life are all key areas on which resources should be concentrated (Sabato et al. 2014). ETUC (2013) has proposed a coherent set of measures to boost investment in Europe: through the investment plan for sustainable growth and quality jobs, the European trade union movement has provided a list of priorities for an alternative policy path.

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A recent essay by Boitier et al. (2013) clearly demonstrates the potential effect of more growth-oriented investments both at EU and national levels. Average growth in the EU in the next two decades could double, from about 1% to 2% of GDP, with consequences for the labour market – an increase of about 15 million workers in the EU labour force by 2030.

Two paths for a more legitimate political framework

In the same way as we see two possible approaches to the policy framework, we also see two possible paths ahead for the political framework: one minimalist approach, based on the legal and political status quo, and a more ambitious path, pursuing a more ground-breaking strategy towards making the EU more democratic and effective.

The minimalist path (back to the Member States)
The more pragmatic approach is somewhat sceptical as to the prospect of a more politicised and federal EU (Hurrelmann et al. 2013). Much of the literature has cast doubts on federalising trends, and sees the scenario of a more in-depth cooperation between Member States as more realistic than a European federation.

This is the case of the ‘republican’ approach to democratic legitimacy put forward by Bellamy (2013). In the view of the author, the republican account regards democratic ‘inputs’ as of intrinsic worth, and as the only legitimate means for pursuing and preserving citizens’ rights and interests (Scharpf 2012). Republicans contend that the democratic legitimacy of states depends on these being representative of a people; politicians and their policies should thus be accountable to citizens. Bellamy applies this approach to the European context and concludes that the EU is legitimate if it represents the Member States and their ‘national citizens’, rather than a hypothetical European ‘people’. In line with this ‘republican’ logic, the future EU is expected to work by means of intergovernmentalism and will be based on a differentiated process of integration at different levels.

This is what Buras (2013) calls the ‘silent revolution’, which has occurred since the sovereign-debt and institutional crisis. Different groups of countries have entered into deals, using EU or international law, to
address specific problems, such as public debt (through the ESM) and migration (via Schengen) (see also Fernandez 2013). This could also be a possible path to follow in the near future: a less ambitious Europe, with sectoral networks (made up of regional institutions, NGOs, etc.), which would work from the bottom up to build a ‘Europe of excellence’ in fields such as environmental protection, research, etc. (Zielonka 2014). If applied to the E(M)U context, such an approach could imply the splitting-up of the eurozone and the setting-up of a new monetary system for the southern periphery (Amato 2014).

This politico-institutional scenario would be largely in line with a policy path giving priority to coordination between national institutions rather than further integration. Member States would remain the main source of political dynamics and conflicts, while EU institutions would become progressively weaker.

**The more ambitious path (towards a federal EMU)**

Many analysts and stakeholders have designed a much more ambitious strategy to rescue Europe (Versini 2014). Here we are referring to those who have called for a new ‘grand plan’ for a more federalist type of integration (see Giddens 2013, Tsoukalis 2013). Two hypotheses have been proposed: on the one hand, a strengthening of the legislative power, with a second parliamentary chamber; on the other, the strengthening of the executive power, with a stronger President of the Union or even a merging of the roles of President of the Commission and President of the European Council into one figure.

A group of French intellectuals, including Palier and Piketty, have proposed the introduction of a parliamentary chamber for the eurozone. This chamber would be made up both of MEPs from the 18 countries belonging to the eurozone and of a selection of national parliamentary members. Such a system would address the democratic deficit of the EMU and increase the legitimacy of the EMU institutions, in a context in which multinationals could be asked to pay EMU taxes, or Member States would have to pay a fee. In other words, these would be the first steps towards a true federation.

An alternative scenario would be that of a stronger President of the European Council. This figure would be elected by an assembly of
representatives of both the European Parliament and the Member States’ parliaments. As an alternative, others have considered merging the two Presidents, of the Council and the Commission, into one figure: the President of the Union (Duff 2006). The latter would be head of the EU executive. He or she would be appointed following European elections in which candidates would compete against each other. Then the President of the Commission could also take on the role of President of the European Council.

These two approaches, reinforcing the legislative and the executive power, would lead to more EU competence in the field of economic and social policy. For Giddens (2013), among others, political integration should address the major risks of climate change, social insecurity and migration flows. While all this seems reasonable, the main problem relates to its feasibility. In the wake of the recent European elections, a more fragmented parliament and the growing wave of anti-Europe sentiment seem at odds with such a grand plan (Garbasso 2013).

Whatever the strategy, who will support it?

In the above sections, we have summarised the set of options (and others could have been mentioned) discussed in the European and national debates. Some of these, especially the most ambitious, would need huge political support to become real steps towards a more effective and legitimate E(M)U. This is the crucial point to be addressed by stakeholders and political forces.

The recent European elections have confirmed the growth of anti-European forces and the weakness of the more traditional political parties. The results open up new scenarios for the future, some of which would seem to offer more risks than opportunities. This is a challenge for politicians, but also for the trade union movement and for social partners in general. As emphasised above, one of the few points common to both the minimalist and the more ambitious plans for Europe is the need for strong social partners able to move beyond the status quo and to provide ideas and organisational resources to the EU.

April 2014
References


All web page links were checked on 11 June 2014.
Chronology 2013
Key events in European policy

Cécile Barbier

January

1st January: Ireland takes over the Presidency of the Council of the European Union. In its view, the main priority for the Union should be to stimulate job-creating growth. Such growth will only be possible if it is based on economic stability.


3 January: The International Monetary Fund (IMF), in a document submitted to the annual meeting of the American Economic Association (AEA), examines the link between errors in growth forecasts and fiscal consolidation during the crisis. According to this document, ‘forecasters significantly underestimated the increase in unemployment and the decline in domestic demand associated with fiscal consolidation’ (http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf).

8 January: The European Commission’s report on Employment and Social Developments in Europe 2012 is alarming. In 2012, five years on from the onset of the crisis and the return to recession in Europe, unemployment has reached record highs, household income is declining and there is an increased risk of poverty and exclusion. (http://ec.europa.eu/social/BlobServlet?docId=9604&langId=en).
11 January: Implementation of the fiscal compact. Article 13 of this treaty states that: ‘the European Parliament and the national Parliaments of the Contracting Parties will together determine the organisation and promotion of a conference of representatives of the relevant committees of the European Parliament and representatives of the relevant committees of national Parliaments in order to discuss budgetary policies and other issues covered by this Treaty’. The Presidents of the national parliaments of the Benelux and three other founding countries (Germany, France and Italy), meet in Luxembourg to begin working on the organisation of this conference.

23 January: The British Prime Minister, David Cameron, describes the relationship between the United Kingdom and the European Union, recalling that ‘we have the character of an island nation – independent, forthright, passionate in the defence of our sovereignty. We can no more change this British sensibility than we can drain the English Channel’. In the view of the British Prime Minister, ‘at the core of the European Union must be, as it is now, the single market [...] rather than the single currency’. He announces the organisation of a referendum on the United Kingdom’s membership of the European Union by the end of 2017, if he is re-elected.

24 January: World Economic Forum at Davos. ‘Merkel supports Cameron in asking for a more liberal Europe’. ‘David Cameron has already spoken of competitiveness. This is the key question for Europe’. ‘Europe represents 7% of the world’s population, 25% of the world’s GDP and 50% of the world’s social spending. We will only be able to defend our social system if we are innovative’. ‘Free trade is essential for growth. Germany can agree to the European Union signing bilateral trade agreements with Canada, Japan and the Asean (Association of southeast Asian nations) countries. Despite many failed attempts, it would also be good to start negotiations with the United States. Agriculture is certainly an obstacle, but not an insurmountable one.’ http://www.lefigaro.fr/conjoncture/2013/01/24/20002-20130124ARTFIG00694-merkel-soutient-cameronpour-une-europe-plus-liberale.php?pagination=4.

28 January: 40th anniversary of the European Trade Union Confederation (ETUC), set up on 8-9 February 1973. On its anniversary, the ETUC confirms its strong belief that a Social Contract for Europe would lay

29/30 January: The ‘European Parliamentary Week’ assesses the ‘democratic dimension’ of the European Semester.

February

1st February: The European Ombudsman rejects a complaint against the European Central Bank, brought in 2012 by the Corporate Europe Observatory (CEO). According to CEO, the ECB President’s membership of the Group of Thirty, a pressure group representing and serving private financial interests, is incompatible with the independence, reputation and integrity of the ECB. CEO therefore called on the ECB to ask its President to withdraw from the group. The Ombudsman rejects the allegation brought by CEO, but indicates that given the inadequate responses given by the ECB to the complainant, the latter was correct to raise concerns about the matter. The Ombudsman makes two suggestions. He advises the ECB to improve its transparency by mentioning the President’s membership of the Group of Thirty on its website. Moreover, taking account of the ECB’s enhanced responsibilities and public visibility, it should take appropriate steps to raise further the quality of its communication with the public. Case: 1339/2012/FOR.

7-8 February: The European Council reaches agreement on the Multi-Annual Financial Framework for 2014-2020. This involves an amount of €60 billion euros in commitment appropriations (CA), i.e. a reduction of 3.4% in the global expenditure ceiling compared to the Multi-Annual Financial Framework (MAFF) for 2007-2013, and of €908.4 billion euros in payment appropriations (PA), compared with €942.78 billion euros in the Multi-Annual Financial Framework for 2007-2013.

The European Council also adopts a set of trade policy principles – without much publicity, since most attention is focused on the MAFF negotiations. These principles entail the development of many free trade agreements between the Union and its partners. According to the European Council conclusions: ‘It is estimated that an ambitious trade agenda can lead in the medium term to an overall increase of 2% in growth and to the creation of two million jobs’. EUCO 37/13 et EUCO 3/13.


14 February: The growth figures published by Eurostat reflect the ever-increasing impact of the crisis on the euro area economy. The euro area and the EU27 have both seen a reduction in growth in the fourth quarter of 2012 compared to the previous quarter (with a drop in GDP of 0.6 and 0.5% respectively). 24/2013

15 February: Message from the OECD to the G20: structural reforms are more important than ever if we are to see a return to strong, balanced growth. Economic Policy Reforms. Going for Growth 2013, OCDE (http://www.oecd.org/eco/growth/going-for-growth-2013.htm).


The European Trade Union Confederation (ETUC) regretted the lack of specific and additional funding (http://www.etuc.org/a/10863).

22 February: The Latvian Prime Minister Valdis Dombrovskis announces a formal request to the European Commission to join the euro area.
25 February: The European Commission launches, in line with its action plan to combat tax fraud and evasion, two public consultations on specific measures to improve tax collection and to ensure a better respect of tax obligations throughout the Union. The first of these relates to the drawing up of a European taxpayer’s code, setting out the rights and obligations of taxpayers and tax administrations. The second concerns an EU Taxpayer Identification Number (TIN), which would make it easier to identify taxpayers in the Union (http://ec.europa.eu/taxation_customs/common/consultations/tax/2013_eutin_en.htm).

28 February: The Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council ‘heard a presentation of the work programmes of the Employment Committee and of the Social Protection Committee’. According to its work programme, the Social Protection Committee (SPC) will be working on the financing of social protection systems and the effectiveness and efficacy of social protection expenditure. As part of the European Semester, cooperation will continue between the SPC and the other committees (EMCO, the Employment Committee, the Economic Policy Committee (EPC), and the Economic and Financial Committee (EFC)), in line with the 2012 recommendations of the (General Affairs) Council, Press Release, 6794/13.

March

5 March: A report from the European Court of Auditors questions the effectiveness of European Social Fund (ESF) expenditure in favour of older workers. Basing themselves on 6 of the 117 ESF operational programmes, representing 222 million euros and involving 4 Member States (Germany, Italy, Poland and the United Kingdom), the Court’s external auditors find that neither the Member States nor the Commission are in a position to establish the specific amount spent on older workers, nor even how many older workers have found a job after having benefited from an action financed by the ESF, ECA/13/7 (http://europa.eu/rapid/press-release_ECA-13-7_en.htm).

13 March: The European Parliament rejects the Multi-Annual Financial Framework (MAFF) adopted by the February European Council. The resolution, however, adopted by 506 votes to 136, gives ‘a strong mandate to its negotiating team to conduct negotiations on an

14 March: Ahead of the European Summit scheduled for 14 and 15 March, the European Trade Union Confederation (ETUC) organises a European Trade Union action on 14 March against austerity and for jobs for young people (http://www.etuc.org/14-march-2013-%E2%80%93-european-trade-union-action).

14-15 March: The European Council holds a debate on the economic and social situation in Europe, and sets the orientations for the economic policy of the EU and of the Member States for 2013. The focus should be on the implementation of decisions taken, and on their reflection in the National Reform Programmes and the Stability and Convergence Programmes of the Member States. The latter must reconcile short-term measures, responding to the need for productive public investment, with the pursuit of fiscal discipline, EUCO 2313.

16 March: The Government of Cyprus accepts a loan from the European Union and the International Monetary Fund of 10 billion euros, in return for a tax on all deposits in all banks.

19 March: The Parliament of Cyprus rejects the plan.

20 March: The European Commission presents two new Communications on the next steps towards a deep and genuine Economic and Monetary Union (EMU). In the words of Olli Rehn, Commission Vice-President responsible for Economic and Monetary Affairs and the Euro, ‘With these two Communications, the Commission is building on the major steps forward taken in budgetary policy coordination, by enhancing the framework for better coordinated structural reforms. Our aim is very clear: to help Member States design, decide and implement better, earlier and faster reforms for growth, competitiveness and job creation’, IP/13/248 (http://europa.eu/rapid/press-release_IP-13-248_en.htm).
**21 March:** Threatening to cut, on 25 March, the credit line keeping the Cypriot system afloat, the European Central Bank (ECB) puts pressure on the government to agree with the EU and the International Monetary Fund (IMF) on implementation of a special programme. (http://www.ecb.europa.eu/press/pr/date/2013/html/pr130321.en.html).

**21 March:** The Scottish Prime Minister, Alex Salmond, announces a referendum on Scottish independence, to be held on 18 September 2014.

**25 March:** Among the conditions to be met by Cyprus, in order to receive the 10 billion euro loan, the Eurogroup and the IMF require a contribution from uninsured deposits of more than 100,000 euros. This is the first time that savers have been asked to contribute; a ‘bail-in’. *Eurogroup Statement* (http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/136487.pdf).

**25 March:** The British Prime Minister, David Cameron, confirms the national preference in the United Kingdom vis-à-vis European workers established in the country, particularly in terms of access to the national health service, to social housing or to unemployment benefits. To respond to the crisis, he wishes to introduce a new system which would give priority to British nationals in the area of social rights. (http://www.number10.gov.uk/news/immigration-speech-cameron/).

**27 March:** As early as 2011, the British journal *The Lancet* had sounded the alarm, highlighting the disastrous impact on health of the policies followed in Greece, a finding repeated in a new publication. (http://www.thelancet.com/journals/lancet/article/PIIS0140-6736%2813%2960102-6/abstract).

April

**4 April:** The International Labour Organisation (ILO) has declared its readiness to support the European Commission in its plans to assist Member States in implementing mechanisms favourable to youth guarantees. The ILO sees these systems as a way to reduce youth unemployment, while voicing some uncertainty as to the efficacy of such a measure, the cost of which is said to be between 0.5 and 1.55 of national GDPs, at a time of recession and fiscal restraint. (http://www.ilo.org/

5 April: The Portuguese Constitutional Court rejects a number of measures in the State budget for 2013. It rules that abolition of the 14th month salary-payment paid to civil servants and retired people, as well as a measure introducing a levy on unemployment and sickness benefit, are incompatible with the Constitution. In the words of the President of the Court ‘Laws should comply with the Constitution, rather than the other way round’.

7 April: Following the decision by the Portuguese Constitutional Court, the European Commission publishes a press release taking note of the decision of the Portuguese government and trusting that ‘consensus’ will be reached on these reforms, MEMO/13/307 (http://europa.eu/rapid/press-release_MEMO-13-307_en.htm).

10 April: The European Commission publishes the findings of the in-depth reviews carried out as part of the Alert Mechanism of the Macro-economic Imbalance Procedure (MIP). It finds that eleven countries have imbalances which are not excessive, i.e. Belgium, Bulgaria, Denmark, France, Italy, Hungary, Malta, the Netherlands, Finland, Sweden and the United Kingdom. In two Member States, however – Spain and Slovenia – it feels that the imbalances are excessive, IP/13/313 (http://europa.eu/rapid/press-release_IP-13-313_en.htm).

11 April: According to the European Commission report on industrial relations, published solely in English, ‘the involvement of workers’ and employers’ representatives (the ‘social partners’) in government reforms is vital, as solutions found through social dialogue tend to have wider acceptance in society, to be easier to implement in practice and to be less liable to give rise to conflict. Consensual agreements involving the social partners therefore help to ensure the long-term sustainability of economic and social reforms’, IP/13/321 (http://europa.eu/rapid/press-release_IP-13-321_en.htm)

14 April: Election in Croatia of the 12 MEPs, prior to the country joining the EU on 1 July 2013. Only 20.79% of the Croatian population voted.
26 April: In its annual report, the Court of Justice of the European Union refers to the links between the Treaty establishing the European Stability Mechanism (ESM) and the Charter of Fundamental Rights. According to the Court, when Member States establish a stability mechanism such as the ESM treaty, where the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) do not grant the Union any specific competence for the setting up of such a treaty, they (the Member States) are not implementing Union law, so that the EU Charter of Fundamental Rights which guarantees effective judicial protection to all individuals, does not apply.

May

13 May: The EU Agriculture and Fisheries Council adopts unanimously and without discussion the Two-pack made up of two European Union regulations (n° 472/2013 et n° 473/2013). PRESSE 187

23 May: The Vice-President of the European Central Bank, Vítor Constâncio, refutes the narrative in favour of strengthening fiscal consolidation. According to the ECB Vice-President, ‘this is the “it was mostly fiscal” narrative, which can be easily connected to two of the others: fiscal indiscipline led to economic overheating, wage and price increases implied loss of competitiveness, and this then led to the balance of payment crises’. ‘Although this is an internally coherent narrative’, he continues, ‘it is not correct’ (http://www.ecb.europa.eu/press/key/date/2013/html/sp130523_1.en.html).


28 May: The OECD announces the setting up of a high level expert group to continue the work of the Stiglitz-Sen-Fitoussi Commission on measuring economic performance and social progress. (http://www.oecd.org/std/statisticsexpertstocontinueworkofstiglitz-sen-fitoussicommissiononmeasuringprogress.htm).
29 May: As part of economic governance, the European Union publishes its country-specific recommendations, as well as a recommendation for the euro area, IP/13/463 (http://europa.eu/rapid/press-release_IP-13-463_en.htm).

June

1st June: 15th anniversary of the European Central Bank (ECB).

20-21 June: The Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) adopts conclusions (solely available in English) on social investment, and reaffirms that ‘social policy instruments should be responsive to the needs of society and its citizens, adequate to respond to crises, and incentivise active participation in the labour market and society’.

21 June: The Economic and Financial Affairs Council (Ecofin) adopts recommendations addressed to the 23 Member States on the economic employment policies set out in their national reform programmes, as well as opinions on their budgetary policies, as set out in their national stability or convergence programmes.


27 June: The Parliament, the Council and the European Commission reach a political agreement on the multi-annual financial framework for 2014-2020 amounting to 960 billion euros, less than the 1,000 billion euros made available by the ECB to banks between December 2011 and the end of February 2012.

27-28 June: The European Council focuses on youth employment, strengthening competitiveness, growth and employment, and completion of economic and monetary union. The emphasis is placed on youth
unemployment, with confirmation of a budget of 6 billion euros concentrated in the first two years of the budgetary framework (2014-2015). It will be targeted on young people in European regions where the under-25 unemployment rate is higher than 25% of the active population.

Referring to the social dimension of Economic and Monetary Union (EMU), the conclusions of the European Council state that ‘as a first step, it is important to better monitor and take into account the social and labour market situation within the EMU, notably by using appropriate social and employment indicators within the European semester.’ The recommendations made as part of the European Semester are approved by the European Council, EUCO 23/13.

July


9 July: The Economic and Financial Affairs Council (Ecofin) formally adopts the country-specific recommendations, as well as the recommendation for countries in the euro area (http://eur-lex.europa.eu/OJHTML.do?uri=OJ%3AC%3A2013%3A217%3ASOM%3AEN%3AHTML).

22 July: Eurostat reveals that public debt has grown more strongly over the past five years in Member States which have applied the budgetary austerity measures prescribed by the Troika (European Commission, European Central Bank (ECB) and International Monetary Fund (IMF). In Greece, it increased from 136% of GDP in the first quarter of 2012 to 160% of GDP, i.e. to the same level as before the restructuring of public debt. Over the same period, it grew from 73% to 88% of GDP in Spain, and from 112% to 127% of GDP in Portugal. Ireland saw a rise from 106% to 125% of GDP in one year. Italy saw an increase in its public debt from 123% to 130% of GDP. The average debt in the European Union reached 85.9% of GDP in the first quarter of 2013, as opposed to 85.3% in the last quarter of 2012. Newsrelease

26 July: The European Commission releases the results of an evaluation to identify excessive burdens, overlaps, gaps or inconsistencies which may have appeared since the adoption of three EU Directives regarding information and consultation of workers, IP/13/747 (http://europa.eu/rapid/press-release_IP-13-747_en.htm).

August

29 August: The Portuguese Constitutional Court partially condemns the draft law to dismiss civil servants. According to this draft, civil servants who are non-active can re-train and receive 63% of their salary for a six-month period, followed by 50% for the next six months. If they have not been re-assigned at the end of a year, they can be dismissed (http://www.tribunalconstitucional.pt/tc/imprensa02-bd2301.html).

30 August: Eurostat publishes the unemployment rates for July 2013: 12.1% in the euro area and 11% in the EU 28. Among the Member States, the lowest unemployment rates were recorded in Austria (4.8%), Germany (5.3%), as well as in Luxembourg (5.7%), and the highest in Greece (27.6% in May 2013) and Spain (26.3%), Newsrelease 126/2013 (http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-30082013-AP/EN/3-30082013-AP-EN.PDF).

The annual inflation rate for the euro area is estimated at 1.3% in August 2013, down compared to the month of July, when it stood at 1.6%, Newsrelease 127/2013 (http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-30082013-BP/EN/2-30082013-BP-EN.PDF).

September


11 September: President of the European Commission José Manuel Barroso delivers his State of the Union address before the European

**11 September**: On Catalan national day, a human chain of 400,000 people span the region to demand the independence of Catalonia.

**25 September**: A number of International Monetary Fund (IMF) departments publish a study calling for greater fiscal integration in the euro area. According to the study, the creation of an unemployment insurance scheme for the euro area would require a revision of the treaties or the concluding of a fiscal compact-type of international treaty (http://www.imf.org/external/pubs/ft/survey/so/2013/CAR092513A.htm).

**26 September**: The IMF announces that it has made available the sum of 770 million euros for Ireland. This amount falls under the international assistance plan, which began at the end of 2010 and should finish at the end of 2013 (http://www.imf.org/external/np/sec/pr/2013/pr13361.htm).

**27 September**: Cyprus receives a payment of 1.5 billion euros from the European Stability Mechanism (ESM), as foreseen by the euro area, for recapitalisation of its banking sector. This loan will be repaid in two instalments in 2029 and 2030. Cyprus has now received a total of 4.5 billion euros in ESM financial assistance out of a total amount paid by the euro area of 9 billion euros (http://www.esm.europa.eu/press/releases/esm-disburses-1.5-billion-to-cyprus.htm).


October

**2 October**: ‘REFIT – Fit for growth’ – the Commission takes ambitious next steps to make EU law lighter. Basing itself on the outcome of the Eurobarometer 79, the Commission justifies its initiative by asserting that 74% of Europeans believe that the EU

4 October: A working group of the European Commission’s Directorate General for Employment, Social Affairs and Inclusion publishes a document on the ‘automatic stabilisers’, based on the US model. It examines, in particular, possible arrangements for introducing unemployment insurance at a ‘central’ European level.

15 October: The Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council agrees on the need to strengthen the social dimension of EMU. According to the EPSCO Council, the indicators used should be further refined and analysed on the basis of current instruments. The scoreboard should be applicable to all Member States, but without triggering automatic recommendations, Doc. 14693/13 (http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/lsa/139022.pdf).

16-17 October: Implementation of the fiscal compact. As set out in Article 13 of the Treaty on Stability, Coordination and Governance (TSCG), the Interparliamentary Conference on economic and financial governance of the European Union is organised by the Lithuanian Council Presidency in Vilnius, at the seat of its Parliament (Seimas).

17 October: The Dutch Parliament publishes an English version of the document setting out its vision, according to which the legitimacy and support for the EU’s decision-making process should follow a bottom-up approach.

24 October: Adopted at the Tripartite Social Summit, the joint declaration of the ‘European social partners’ calls upon the Commission and the Council to better consult the national social partners when drawing up the National Reform Programmes (NRPs) (http://ec.europa.eu/europe2020/pdf/2014/socjointcontrib_ags2014.pdf).

24/25 October: The European Council underlines that closer coordination of economic policies should be focused on policy areas where positive effects on competitiveness, employment and the functioning of the EMU are most prominent. The European Commission is asked to provide a first overview of the implementation of country-specific recommendations

November

4 November: The European Commission publishes a study which finds that European citizens coming from another Member State do not make greater use of social welfare benefits than nationals of the host country (http://ec.europa.eu/social/BlobServlet?docId=10972&langId=en).

12 November: The Maltese parliament amends its Citizenship Act to allow for the sale of Maltese nationality (and therefore of a European passport) for the sum of 650,000 euros. The revised text states that the names of third country nationals purchasing citizenship in this way will be kept secret, and that they will be under no obligation to reside, set foot in, work or invest in Malta, nor in any other EU Member State.


15 November: The European Commission presents a new package of budgetary surveillance announcements, covering 13 euro area Member States and 3 non-euro Member States, with a special focus also on the euro area as an economic entity in its own right, IP/13/1082 (http://europa.eu/rapid/press-release_IP-13-1082_en.htm).

19 November: Refocusing EU Cohesion Policy. Following the Parliament’s adoption of the cohesion policy, the European Commission declares that: ‘Programmes will have to be consistent with National Reform Programmes and should address the relevant reforms identified through country-specific recommendations in the European Semester. If necessary, the Commission can ask Member States – under the so-called ‘macro-economic conditionality’ clause – to modify programmes to support key structural reforms. As a last resort, it can suspend funds if economic recommendations are repeatedly and seriously breached’, MEMO/13/1011 (http://europa.eu/rapid/press-release_MEMO-13-1011_en.htm).

20 November: The European Parliament adopts a non-legislative resolution in which it calls for a reform of the European treaties in order to bring to an end the migration of MEPs between Brussels and Strasbourg, P7_TA-PROV(2013)0498.

20 November: The Council of Europe’s European Committee of Social Rights (ECSR) indirectly criticises a judgment of the European Court of Justice. Following the introduction in Sweden of the ‘Laval law’, named after a ruling of the EU Court of Justice, the ECSR concludes that Sweden is violating the revised European Social Charter in a number of respects, and particularly for posted workers. Complaint No. 85/2012 (http://www.coe.int/t/dghl/monitoring/socialcharter/news coeportal/cc85admissmerits_EN.asp?).

21 November: The European Parliament adopts a resolution on ‘Strengthening the social dimension of the Economic and Monetary Union (EMU)’. By 302 votes in favour, 242 against and 6 abstentions, an amendment was introduced at the request of the European People’s Party (EPP), declaring that implementation of the social dimension ‘is subject to the subsidiarity principle and can be best achieved through the best practice method and the peer review method at European level’, P7_TA-PROV(2013)0515.
21 November: According to Eurostat, social protection expenditure in the EU 28 fell slightly, from 29.7% of GDP in 2009 to 29.4% in 2010 and 29.1% in 2011. In 2011, the two main sources of funding of social protection at EU 28 level were general government contributions from taxes, making up 40% of total receipts and social contributions at 56% (Eurostat December 2013), Newsrelease 174/2013 (http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-21112013-AP/EN/3-21112013-AP-EN.PDF).

26 November: According to an OECD study on pension reforms, most OECD countries will have a retirement age for both men and women of at least 67 years by 2050. This represents an increase from current levels of about 3.5 years on average for men and 4.5 years for women. In the opinion of the OECD, keeping down the costs of running personal and occupational pension schemes is critical. Governments need to urgently address this as part of their efforts to promote private pension systems (http://www.oecd.org/pensions/public-pensions/pension-reforms-on-track-but-the-challenges-of-adequacy-and-inequality-in-old-age-remain.htm).


27 November: Grand coalition – CDU-CSU/SPD – agreement in Germany. The agreement calls upon ‘euro states [to] conclude binding and enforceable, democratically authorised, contractual agreements for reform with the European level’ in order to meet, in particular, competitiveness objectives (http://www.london.diplo.de/contentblob/4101342/Daten/3818068/Coalitionagreement2013.pdf).

28 November: According to a report drawn up at the request of the European Trade Union Confederation (ETUC), the Austrian Trade Union Federation (ÖGB) and the Austrian Federal Chamber of Labour, the European Commission and the European Central Bank are, due to their involvement in the Troika, breaching the primary law of the EU, since the Treaty of Lisbon also includes the Charter of Fundamental Rights (http://www.etuc.org/a/11795).
29 November: Following the amendment of the Maltese Citizenship Act (12 November 2013), a parliamentary question asks the European Commission how to explain to EU citizens the huge difference in amounts charged for selling EU citizenship and residence permits in various Member States. It also asks the Commission for its opinion on all the short-term and long-term risks (financial, criminal, security etc.) concerning the sale of citizenship and residence permits, O-000135/2013 (http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+OQ+O-2013-000135+0+DOC+XML+V0//EN).

December

3 December: According to the most recent Eurostat data, social protection expenditure, after a rise between 2008 and 2009 (as a result of the economic crisis), fell slightly in the EU28, from 29.7% of GDP in 2009 to 29.4% in 2010 and 29.1% in 2011. In 2011, the two main sources of funding of social protection at EU28 level were general government contributions from taxes, making up 40% of general receipts, and social contributions at 56%. The highest ratios of social protection as a percentage of GDP were in Denmark, France and the Netherlands (at least 30%), and expenditure per capita was seven times higher in Luxembourg than in Romania, Newsrelease 174/2013.

4 December: The austerity measures adopted in Europe are undermining human rights. A report drawn up by the Council of Europe’s Commissioner for Human Rights, Nils Muižnieks, emphasises that austerity measures have undermined a series of basic rights: the right to education, to access to health care, but also the right to participation and to collective bargaining. In the course of one year, the European Committee of social rights identified 13 Member States in breach of the European Social Charter, Article 1 of which stipulates that States signing up to the Charter must undertake to adopt policies aiming to attain full employment (https://wcd.coe.int/com.instranet.InstraServlet?command=com.instranet.CmdBlobGet&InstranetImage=2407768&SecMode=1&DocId=2088892&Usage=2).

4 December: The European Commission submits a proposal for a Council Recommendation on a quality framework for traineeships for

5 December: According to Eurostat, in 2012, 124.5 million people in the EU, or 24.8% of the population, were at risk of poverty or social exclusion, compared to 24.3% in 2011 and 23.7% in 2008. Reducing the number of people in the EU at risk of poverty or social exclusion is one of the headline targets of the Europe 2020 strategy, Newsrelease 184/2013.

9 December: Meeting in the Eurogroup, the Finance Ministers of the euro area welcome the return to growth within the area (http://www.eurozone.europa.eu/newsroom/news/2013/12/imf-confirms-euro-areas-improving-growth-prospects/).

10 December: For 2014-2020, the Members of the European Parliament propose that the European Globalisation Adjustment Fund (EGF) be used to support workers made redundant and self-employed persons whose activity has ceased, P7_TA(2013)0572.


12 December: The European Parliament adopts a resolution on the European Central Bank (ECB) annual report. The resolution emphasises the disparity between interest rates and SMEs’ access to financing across the euro area, and asks the ECB to address the problem. Finally, the EP asks the ECB to publish the summary minutes of the Governing Council meetings, including arguments and voting records, P7_TA-PROV(2013)0601.
19 December: The Portuguese Constitutional Court unanimously declares the draft budget invalid. This draft foresees cuts of almost 10% in civil servant pensions greater than 600 euros per month. These measures are anti-constitutional and in breach of the ‘principle of legitimate expectations’.


20 December: The President of the Eurogroup publishes a statement following the ruling of Portugal’s Constitutional Court. In it, he takes note of the Court’s decision and states that the Portuguese adjustment programme has been successful in ‘improving competitiveness and rebalancing the economy to more export-led growth’ (http://www.eurozone.europa.eu/media/503048/20131220-EG-statement-PT.pdf).

20 December: The rating agency Standard & Poor’s (S&P) announces the downgrading of the European Union’s long-term rating from AAA to AA+. S&P does not change its medium-term rating, since the outlook for the Union is stable. The agency explains that ‘EU budgetary negotiations have become more contentious, signalling what we consider to be rising risks to the support of the EU from some Member States’.

Chronology drawn up by Cécile Barbier.
### List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AEA</td>
<td>American Economic Association</td>
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<tr>
<td>AGS</td>
<td>Annual Growth Survey</td>
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<td>BEPGs</td>
<td>Broad Economic Policy Guidelines</td>
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<tr>
<td>CA</td>
<td>Commitment Appropriation</td>
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<tr>
<td>CCI</td>
<td>Convergence and Competitiveness Instrument</td>
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<tr>
<td>CEC</td>
<td>Commission of the European Communities</td>
</tr>
<tr>
<td>CEEP</td>
<td>European Centre of Employers and Enterprises providing Public Services</td>
</tr>
<tr>
<td>CEO</td>
<td>Corporate Europe Observatory</td>
</tr>
<tr>
<td>CJEC</td>
<td>Court of Justice of the European Communities</td>
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<tr>
<td>CJEU</td>
<td>Court of Justice of the European Union</td>
</tr>
<tr>
<td>CSR</td>
<td>Country-specific Recommendation</td>
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<tr>
<td>DG</td>
<td>Directorate General</td>
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<tr>
<td>DG ECFIN</td>
<td>Directorate General for Economic and Financial Affairs</td>
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<tr>
<td>DG EMPL</td>
<td>Directorate General for Employment, Social Affairs and Inclusion</td>
</tr>
<tr>
<td>DIW</td>
<td>Deutsches Institut für Wirtschaftsforschung</td>
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<tr>
<td>EAPN</td>
<td>European Anti-Poverty Network</td>
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<tr>
<td>EaSI</td>
<td>Employment and Social Innovation Programme</td>
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<tr>
<td>EBA</td>
<td>European Banking Authority</td>
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<tr>
<td>EC</td>
<td>European Community</td>
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<tr>
<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>ECOFIN</td>
<td>Economic and Financial Affairs Council</td>
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<td>ECSR</td>
<td>European Committee of Social Rights</td>
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<td>EDP</td>
<td>Excessive Deficit Procedure</td>
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<tr>
<td>EEC</td>
<td>European Economic Community</td>
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<tr>
<td>EES</td>
<td>European Employment Strategy</td>
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<tr>
<td>EESC</td>
<td>European Economic and Social Committee</td>
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<tr>
<td>EFC</td>
<td>Economic and Financial Committee</td>
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<tr>
<td>EFSF</td>
<td>European Financial Stability Facility</td>
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<tr>
<td>EGF</td>
<td>European Globalisation Adjustment Fund</td>
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<tr>
<td>EGMI</td>
<td>European Guaranteed Minimum Income</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<tr>
<td>EIGE</td>
<td>European Institute for Gender Equality</td>
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<td>EMCO</td>
<td>Employment Committee</td>
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<td>EMF</td>
<td>European Metalworkers’ Federation</td>
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<td>EMIF</td>
<td>European Minimum Income Fund</td>
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<tr>
<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>EP</td>
<td>European Parliament</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>EPC</td>
<td>European Policy Committee</td>
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<tr>
<td>EPP-ED</td>
<td>Group of the European People's Party (Christian Democrats) and European Democrats</td>
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<tr>
<td>EP</td>
<td>European Policy Committee</td>
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<tr>
<td>ESDE</td>
<td>Employment and Social Developments in Europe</td>
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<td>ESF</td>
<td>European Social Fund</td>
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<tr>
<td>ESM</td>
<td>European Stability Mechanism</td>
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<td>ESU</td>
<td>European Social Union</td>
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<td>ETUC</td>
<td>European Trade Union Confederation</td>
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<tr>
<td>ETUF-TCL</td>
<td>European Trade Union Federation of Textiles, Clothing and Leather</td>
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<td>ETUI</td>
<td>European Trade Union Institute</td>
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<td>EU</td>
<td>European Union</td>
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<td>EWL</td>
<td>European Women's Lobby</td>
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<td>FN</td>
<td>Front National</td>
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<tr>
<td>FPÖ</td>
<td>Freiheitliche Partei Österreichs/Freedom Party of Austria</td>
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<tr>
<td>FRA</td>
<td>Fundamental Rights Agency</td>
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<tr>
<td>FTT</td>
<td>Financial Transaction Tax</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GMI</td>
<td>Guaranteed Minimum Income</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>LLL</td>
<td>Lifelong learning</td>
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<tr>
<td>MAFF</td>
<td>Multi-Annual Financial Framework</td>
</tr>
<tr>
<td>MEP</td>
<td>Member of the European Parliament</td>
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<tr>
<td>MIP</td>
<td>Macroeconomic Imbalance Procedure</td>
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<tr>
<td>MISSOC</td>
<td>Mutual Information System on Social Protection</td>
</tr>
<tr>
<td>MS</td>
<td>Member States</td>
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<tr>
<td>NAP</td>
<td>National Action Plan</td>
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<tr>
<td>NEET</td>
<td>Not in Education, Employment or Training</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
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<tr>
<td>NRP</td>
<td>National Reform Programme</td>
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<tr>
<td>OCA</td>
<td>Optimum Currency Area</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>ÖGB</td>
<td>Österreichischer Gewerkschaftsbund</td>
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<tr>
<td>OJ</td>
<td>Official Journal</td>
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<tr>
<td>OMC</td>
<td>Open Method of Coordination</td>
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<td>OMT</td>
<td>Outright Monetary Transactions</td>
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<tr>
<td>OSE</td>
<td>European Social Observatory</td>
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<tr>
<td>PA</td>
<td>Payment Appropriations</td>
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<td>PISA</td>
<td>Programme for International Assessment</td>
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<tr>
<td>R&amp;D</td>
<td>Research &amp; Development</td>
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<tr>
<td>SGEI</td>
<td>Services of General Economic Interest</td>
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<tr>
<td>SGP</td>
<td>Stability and Growth Pact</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<td>SPC</td>
<td>Social Protection Committee</td>
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<tr>
<td>SPPM</td>
<td>Social Protection Performance Monitor</td>
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<tr>
<td>SSM</td>
<td>Single Supervisory Mechanism</td>
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<tr>
<td>TEPA</td>
<td>Loi en faveur du Travail, de l'Emploi et du Pouvoir d'Achat</td>
</tr>
<tr>
<td>TEU</td>
<td>Treaty on the European Union</td>
</tr>
<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
</tr>
<tr>
<td>TIN</td>
<td>Taxpayer Identification Number</td>
</tr>
<tr>
<td>TSCG</td>
<td>Treaty on Stability, Coordination and Governance</td>
</tr>
<tr>
<td>TTIP</td>
<td>Transatlantic Trade and Investment Partnership</td>
</tr>
<tr>
<td>UKIP</td>
<td>United Kingdom Independence Party</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations Organization</td>
</tr>
<tr>
<td>UNICE</td>
<td>Union of Industrial and Employers’ Confederations of Europe</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added Tax</td>
</tr>
<tr>
<td>WAVE</td>
<td>Women Against Violence Europe</td>
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<tr>
<td>WW</td>
<td>World War</td>
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</tbody>
</table>
List of contributors

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**John Morley** has worked on economic, employment and social policy issues as a European Commission official, national government economic adviser, university lecturer in economics and statistics, and as an independent expert. In the European Commission he helped develop the Delors White Paper on Growth, Competitiveness and Employment, and the subsequent Lisbon Strategy, and launched the Employment in Europe Reports, Employment Week events, LEDA programme on local development, and the MISEP, SYSDEM, ERGO and ELISE networks. He was Special Professor at the University of Nottingham, UK, from 2004-2011, and has taught at Duke University and elsewhere.

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**Isabelle Schömann** joined the European Trade Union Institute (Belgium) in 2002 as a labour lawyer, to coordinate the NETLEX, the ETUC network of trade union labour lawyers, as well as the Transnational Trade Union Rights Expert Network (TTUR) (http://www.etui.org/Networks/The-Transnational-Trade-Union-Rights-Experts-Network-TTUR). A senior research officer since 2005, her fields of research cover European labour law, comparative labour law and corporate governance, and European social dialogue. She graduated (DEA) from the University Paris I, Panthéon-Sorbonne in 1994 (France) in labour and social law and European labour law and was formerly a research fellow in the unit of Prof. Günther Schmid, labour market policy and employment, at the Social Science Research Center in Berlin 1994-2002 (WZB - Germany).

**Frank Vandenbroucke** studied economics in Leuven and Cambridge (UK) and received his D.Phil. in Oxford. He was Minister for Social Security, Health Insurance, Pensions and Employment in the Belgian Federal Government (1999-2004), and Minister for Education and Employment in the Flemish Regional Government (2004-2009). He is now a full time professor at the KU Leuven. He also teaches at the Universities of Antwerp (UA), where he holds the Herman Deleeck chair, and the University of Amsterdam (UvA), where he holds the Joop den Uyl chair. His research focuses on the impact of the EU on the development of social and employment policy in the EU Member States.

**Bart Vanhercke**, Master of Science in Sociology, is Director at the European Social Observatory (OSE). He was appointed, for the academic year 2013-2014, Associate Professor at the Institute for European Studies of Saint-Louis University (FUSL). He is also finalising a PhD at the University of Amsterdam (Amsterdam Institute for Social Science Research, AISSR) on ‘The hard politics of soft policy coordination’. His current research and publications focus on the social dimension of the new European economic governance, a topic on which he also works as an associate member of the academic staff at the Centre for Sociological Research (CESO) of the University of Leuven.