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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 policy-makers 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. 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 (Emmanoulidis 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\(^2\). 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 (Emmanouilidis 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 (Emmanouilidis 2013b).

A clear example of this trend is represented by the partial implementation of the *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).

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\(^2\) 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.

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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\(^3\). 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

\(^3\) 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). 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 macroeconomic 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 scheme⁵. 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

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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 long-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.

April 2014

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