

Briefing Paper for FES-Clingendael seminar

Jan Marinus Wiersma, Michiel Luining

Social Europe at a crossroads

By promising a '[social triple A](#)' the Juncker Commission has put social Europe high on the agenda. Its commitment formulated in this way should be considered as a reaction to growing criticism – and indeed resentment – in large parts of the population about the handling of the euro crisis. Promoting a more social Europe has become popular in many political circles. But what does that mean in practice? Is there a European agenda shared by all member states? Do they have the same concept of what it should be? Are they really prepared to hand over more competences to Brussels or come to a consensus among themselves?

We put these questions to experts from many parts of the European Union and published their answers in the European Union Social Europe section at [Clingendael.nl](#) (formerly at [EUforum.nl](#)). Their contributions partly form the basis of this briefing paper. We will briefly sketch the background to the debate, its history and the different concepts and will then try to identify how the North-South, East-West and EU member state balances/imbances affect the ongoing development of a social Europe. We will use the debate on the mobility package and on EMU – austerity and more competitiveness versus flexibility and fiscal capacity – to illustrate the different angles.

Background

In the past the European integration project could count on (relative) popular support and strong political legitimacy as it showed results benefitting the national welfare states that Europeans pride themselves on. There was and is a positive history of promoting social cohesion with generous EU funding. European free-market integration became – and was sold as – the means to build and pay for growing prosperity. Social policies were secondary to that and the member states kept control of their own social security systems. The basic idea was that through economic integration the EC countries would converge, which would also pay for more social cohesion within them. Despite past successes, this optimum was, however, never reached. On the contrary, since mid-2000 increased inequality and economic imbalances have threatened the European project. It is no longer seen as the protector of the national welfare state against the globalisation of the economy. Growth has not been the overall solution.

Although unemployment figures in the EU have generally declined [since 2013](#) and economic growth has picked up modestly, youth unemployment remains high, social exclusion is still widespread and income gaps between and within member states are widening. Many member states have not been able to build or sustain sufficient social protection. There are new concerns about the sustainability of pension schemes caused by very low interest rates due to European Central Bank policies. Many are calling for an end to – or demanding compensation for – the austerity measures and economic reforms mandated in the aftermath of the euro crisis, and not only in the debtor countries. National debates are focusing more and more on the question of how to preserve the social welfare state amid anxieties concerning EU mobility and the refugees Europe is confronted with. This adds to the existing distrust in the EU's ability to deliver on social issues. [The EU British membership renegotiation deal of last February](#) implicitly assumed that Europe threatens the welfare state: restrictions on benefits for EU migrants were agreed upon if a member state can show that EU migrants are putting excessive pressure on the functioning of its social services. Even though the deal as such is no longer valid, some inside the EU want this part to be implemented. Another new fact is

that the European Court of Justice [has changed](#) from an activist stance in granting social rights to a restrictive one.

Where does this lead us? It is obvious that the reactions are different in Portugal or the UK: in Lisbon they want more support from the EU; in Britain they wanted to protect themselves against certain parts of EU legislation. Some say that with Britain gone it will be easier to move forward with social Europe. That is to underestimate the divergent approaches to the issue and ignores the basic fact that the EU had only limited (and shared) competences. Some also complain that social Europe lacks visibility and that it is not sufficiently underpinned by concrete positive examples.

Europe's response

Only a few initiatives – relaunching the social dialogue, accelerating the Youth Employment Initiative and creating the Investment Plan for Europe (EFSI/Juncker fund) – have so far been undertaken by the European Commission (reiterated in the [State of the Union Address of 2016](#)). And it remains to be seen whether member states are willing to go further and take up the Commission's offer to assist them in aligning their social policies after Brexit. Most prominently on the Brussels agenda now is the proposal of a [European Pillar of Social Rights](#). Building upon the existing EU acquis, it would serve to guide national policies in a number of fields considered essential for well-functioning and fair labour markets and welfare systems, including rules on minimum wages and the protection of gender equality.

Social Europe, however, is a container concept that has many different meanings and interpretations. It ranges from protecting and promoting the 'European social model' to the whole of specific social policies introduced by the EU over the years. Some – mainly in North-Western Europe – want the EU to offer better protection of national systems, which should remain the core of social security in individual member states. Others – to be found more in the South – call, on the contrary, for a European role in financing common unemployment benefit schemes, for example. These visions are competing for priority in Brussels. The former is supported by the fact that the Treaties explicitly state that social security is an exclusive national competence. The latter points out that, nevertheless, the internal market and the European Semester are forcing the EU to intervene directly and indirectly in the social area, thereby setting precedents.

Most social regulations of the EU are basically products of the internal market. Creating level playing fields was and is a very important goal in this area: with regard to working hours or safety at the workplace and – more recently – tackling the negative impact of labour mobility. Besides the proposed European Pillar of Social Rights, the most recent important step by the European Commission was to proceed with the revision of the Postings of Workers directive, despite the opposition of 11 national parliaments that used the Yellow Card procedure in an attempt to block it.

The European Semester, with its focus on ensuring national macroeconomic reforms and fiscally responsible budgets, has an impact on social policies of member states – with its country-specific recommendations concerning budgets and socioeconomic adjustments. To compensate for that, the previous Barroso Commission already included some [social indicators in the European Semester](#), such as the rate of youth unemployment, long-term joblessness or changes in labour activity.

The general diagnosis of the EU

The EU institutions formulated a way forward in their [Five Presidents' Report of June 2015](#) with the promise to deliver a 'social triple A' to the EU. To achieve socioeconomic convergence, a comprehensive Banking Union with a European deposit guarantee scheme is deemed necessary, as are a fiscal capacity of the eurozone to absorb asymmetrical shocks and more attention to employment and social indicators within EMU.

The report endorses the diagnosis that the current social and economic set-up cannot deliver on the social needs and desires of citizens. It particularly entails the vision that an incomplete monetary union creates social imbalances. Several economists and former EU commissioner for Employment, Social Affairs and Inclusion [László Andor](#) come to the conclusion that a consensus on a fiscal facility, to serve during a period of national reforms and to tackle asymmetric shocks, is necessary. Member states themselves lack the monetary instruments in a currency union to stimulate their economies.

But flaws in the functioning of the internal market also need to be taken into account as suggested above. The free movement of labour has come under attack after the enlargements of 2004 and 2007 because of the violations of the principle of 'the same wage for the same job at the same place'. The (growing) income gaps, especially between East and West, have led to a huge increase in the number of posted workers competing with labour in the richer member states. This creates downward pressures often labelled as social dumping. [The revision of the Posting of Workers Directive](#) within the mobility package of the European Commission addresses that.

Moreover, there [appears to be a proposal in the pipeline from Juncker](#) to ask for more flexibility within the current budgetary and fiscal rules, as has recently happened *de facto* with Spain, Portugal and France, for example. Excluding certain expenditures from the rules, such as education and research, has also been proposed, along with expenses incurred due to exceptional events such as the refugee crisis or security threats.

Perspectives across member states

Member states may want to pursue a social Europe, but not all member states have responded enthusiastically to the EU's proposals: because they do not serve their direct interest, they have a different diagnosis or they have other priorities or favour setting additional requirements before such measures can be implemented. There seem to be divergent perspectives on what is considered social, and politically feasible. These differences appear to revolve around at least three dimensions.

1. Enforcing, revising or complementing the EU's current economic governance rationale

As regards the future of EMU and the European Semester, a fierce debate is raging showing a North-South divide. Creditor countries such as [Germany](#) and the [Netherlands](#), which have no problem with the 3% budget deficit and 60% GDP debt rules, oppose too much flexibility with regard to the budget and want the countries that have difficulty meeting the criteria to continue reforming their – less competitive – economies. They want a stricter and more straightforward implementation of the European Semester, without adding more indicators that leave room for manoeuvre. Germany sees itself as a role model and both Berlin and The Hague oppose a transfer union.

In the South of the EU one hears a different story. In [Greece](#) they want to get rid of the Fiscal Compact, and alongside [France](#) and [Italy](#) there is broad support for more flexibility in implementing the Growth and Stability Pact. The eurozone should introduce a fiscal capacity as an asymmetric shock absorber and develop a common unemployment benefit system. This capacity could take the form of a European unemployment security scheme as already proposed by the Slovak Presidency and which can count on support in [Portugal](#) and Italy. France favours the principle but has not indicated clearly in which form.

2. Strengthen the social dimension of the E(M)U or leave it to the member states

[Social indicators](#) have already been introduced in the European Semester such as the rate of youth unemployment, long-term joblessness or changes in labour activity, but there is no agreement on whether to go beyond that with more and more (binding) indicators. In Portugal one can find support for the latter and the [European labour unions](#) are demanding that social and environmental aspects

should be taken fully into account to correct the current economic governance. In [Italy](#) finding a new balance is not a priority, but instead more political integration should be promoted as the way to tackle social imbalances. [Spain](#) is divided and [Germany](#) shows no ambition for change. [The European business community](#) wants to avoid higher common standards. According to our expert contribution, [Sweden](#), outside the eurozone, is calling for an agenda that goes beyond the European Semester. The general view in [Poland](#) is that the EU should concentrate on growth and not on new social initiatives. In the Netherlands many are hesitant about giving the EU a bigger say on social policies.

3. Reinforcing or granting exceptions to the EU non-discrimination principle with regard to labour mobility

The free movement of people, in relation to labour and services, is under attack in a number of member states. The claims of EU migrants on social services in the countries where they have established themselves have had the contrary effect of a stricter application of the rules concerned and even reductions in their entitlements. Rights to social welfare and child benefits are being curbed. This of course leads to critical reactions in their countries of origin – all over the EU.

The controversial issue of posted workers has a strong East-versus-West aspect, since workers from the former communist member states benefit from the present arrangements in which they are cheaper than labour in the host countries because they pay their – much lower – social security contributions in their country of origin. One of the aims of the recent mobility package is to reverse this. An attempt by national parliaments mainly of the Eastern European countries to block these proposals on subsidiarity grounds has been rejected by the European Commission and the battle will continue in the European Parliament and the Council of Ministers. What the richer countries consider to be unfair wage competition is seen in most new member states as a temporary advantage offering extra jobs and higher incomes in order to catch up and develop a higher level of socioeconomic standards in their own country. The latter point of view has some support from pro-market forces and liberal parties in the older member states, but it is not the majority view there. The contributions on [Clingendael.nl](#) to this discussion illustrate these differences. One should, however, not forget that apart from being an East-West issue, there is also the basic cross-border conflict between workers and employers.

The actual consequence of introducing more strongly the principle of the same pay for the same work at the same workplace into the Posted Workers Directive would be a limitation of the mobility of workers, thereby violating an important principle of EMU. Labour mobility should and could be an important shock absorber within the monetary union – that is the official view of many EMU supporters, [particularly those opposed to a fiscal capacity](#) (fiscal union). So there is a contradictory element in the whole debate. Finally, there remains the open question of whether posting workers abroad is actually the right business model for the poorer economies of the EU; whether there are other ways to catch up with the more developed economies.

Conclusion

Given the divergent views on essential elements constituting social Europe, the introduction of major changes is unlikely. The support for the Five Presidents' Report is neither unconditional nor universal. It does not offer immediate answers. As regards the EU's economic governance in relation to an overhaul of the European Semester, member states oppose one another in different directions: with more binding social indicators or with stricter application of the present rules. Even though the debate has a strong North-South dimension, it is also being waged within member states along a left-right divide, with populist parties opposing both reforms and the EU itself.

The EU lacks the legal instruments to promote a strong social agenda. This recalls the problem of the [Europe 2020 ambition](#) of reducing unemployment and tackling poverty: only soft instruments such as benchmarking and voluntary coordination are available. Fear of unwanted interventions by Brussels in the national area of social security and unwillingness to change the EU treaties are real obstacles to altering that. In the absence of EU shock absorbers, the ECB has been giving breathing space to the weaker eurozone countries by pumping large amounts of money into their economies. But the debate will continue. As the eurosceptics gain ground, partly through their attacks on current EU policies, they might force the more traditional parties in an opposite direction, demanding a strong correction of the EU's market-oriented policies and a considerable strengthening of its social dimension.

It is conceivable that the various discussions on the E(M)U and labour mobility cannot be resolved in isolation, and that they need to be put into a larger socioeconomic context to overcome the existing deadlock.