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.

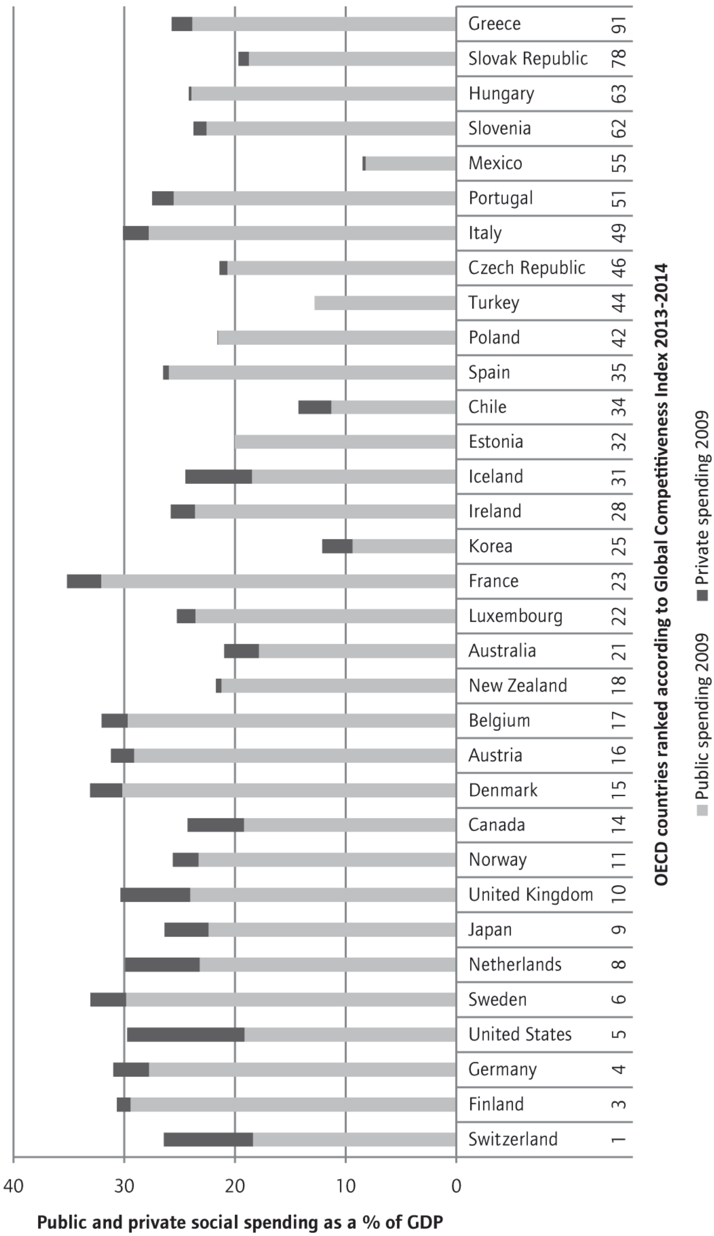
Relative to GDP, public spending increased significantly over the period of economic downturn, but more as a consequence of the fall in GDP than as the result of any acceleration in government expenditure. In fact growth in public spending was only slightly higher over the years 2008-2010 than in the 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.

Figure 1 Global competitiveness and levels of social spending



Source: World Economic Forum (2013), The Global Competitiveness Report 2013-2014.

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 mainstreaming 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

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[4] 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[5] and the UK[6], 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

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)[7]. 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 7): Can a more binding EU framework on minimum income protection raise the quality and efficiency of domestic social systems?

3.8 Strengthening social dialogue[8]?

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?

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 euroscepticism, 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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