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The Idea of a European Social Union: A Normative Introduction

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1.1 INTRODUCTION

The European Union is a union of countries that aspire to be welfare states. In all Member States, whatever their social policy tradition or level of development, there is large support for core ambitions of a modern welfare state: promoting general prosperity, sustaining social cohesion, protecting vulnerable individuals and supporting education. However different European welfare states are, their national tax and benefit systems have created, to varying degrees and with varying success, a capacity for social and economic stabilisation in periods of economic stress. These automatic stabilisers are intrinsically linked with the protection of vulnerable individuals.

The founding fathers of the European project were convinced that European economic integration would contribute to the development of prosperous national welfare states, whilst leaving social policy concerns essentially at the national level. History did not prove them wrong, at least until the mid-2000s. Yet, the experience of the protracted crisis that has hit Europe forces us to reconsider the question: how can the EU be a successful union of flourishing welfare states? Both on the left and the right of the political spectrum, despite conflicting views on the exact policy mix that is needed, many would argue that the crux is to implement the right kind of economic, financial and monetary governance at EU level. This book is inspired by a different position: yes, economic, financial, and monetary policies are crucial, but they cannot be isolated from the longer-term imperative to develop a social policy concept for the EU, that is, a basic consensus on the role the EU should play and the role it should not play in the domain of social policy. The argument

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presented in this chapter is not that the EU should become a welfare state itself. However, restoring the social sovereignty of the Member States, with the EU strictly confining its role to economic, financial, and monetary policy, is also not an option. We need a coherent conception of a 'European Social Union'. The project that led to the publication of this book started on the basis of this idea, which is not to say that all the contributors agree with the way I develop it here.

I use the notion 'Social Union' deliberately, for three reasons. First, it invites us to propose a clear-cut concept, in contrast to the rather vague notion of 'a Social Europe', which often surfaces in discussions on the EU. Second, it indicates that we should go beyond the conventional call for 'a social dimension' to the EU. It would be wrong to assert that the EU has no social dimension today. The coordination of social security rights for mobile workers, standards for health and safety in the workplace, and some directives on workers' rights, constitute a non-trivial acquis of 50 years of piecemeal progress. The EU also developed a solid legal foundation for enforcing non-discrimination among EU citizens. The notion of a European Social Union is not premised on a denial of that positive acquis. The next steps can build on that acquis. However, the next stage of development must respond to a new challenge, which is about more than 'adding a social dimension'. Third, the emphasis on a Social *Union* is not a coincidence. A European Social Union is not a European Welfare State: it is a union of national welfare states, with different historical legacies and institutions. As explained below, a union of national welfare states requires more tangible solidarity between those welfare states as collective entities. But its primary purpose is not to organise interpersonal redistribution between individual European citizens across national borders; the main mechanisms of solidarity that the EU now needs to develop are between Member States; they should refer to insurance logics rather than to redistribution, and to support for social investment strategies. I will touch upon specific aspects of social policy for which we may have to rethink the practical application of the subsidiarity principle, both within Member States and at the level of the EU. Yet, a 'union of welfare states' would apply subsidiarity as a fundamental organising principle. Solidarity between Member States necessitates a degree of convergence, but convergence is not the same as harmonisation. More generally, the practice of a Social Union should be far removed from a top–down, one-size-fits-all approach to social policy-making in the Member States.

The core idea of this introductory chapter can be summarised as follows: a Social Union would support national welfare states *on a systemic level* in some of their key functions and guide the *substantive development* of national welfare states – via general social standards and objectives, leaving ways and means of social policy to the Member States – on the basis of an operational definition of 'the European Social Model'. In other words, European countries would cooperate in a union with an explicit social purpose – hence, the expression European Social Union.

A Social Union, so conceived, is not only desirable but necessary – unless we would drop the idea that the integration project concerns welfare states with at least some shared aspirations. To make that analysis is not to say it leads to only one definitive version of a European Social Union: depending on the normative judgements that are brought to bear, a Social Union may be a more ambitious or a less ambitious project; it can be based on different conceptions of social justice. Nor is it to say that an operational concept of a European Social Union is already on the table. We are in uncharted territory: important issues have to be clarified. An exercise in clarification has to start from three sets of basic questions. *Why* would a Social Union become an existential necessity for the European project, if that was not the case 60 years ago? *What* does it add to the agenda of the EU? And *how* would that agenda be implemented?

Sections 1.2 and 1.3 focus on the *why* question, bringing together the contributions by Deakin, De Grauwe and Ji, Andor, Feenstra and Barnard in this volume combined with arguments which I have developed elsewhere in more detail.[1] In his contribution to this volume, Deakin returns to the Single European Act of 1986: the deepening of the internal market implied a step change in levels of labour and capital mobility. To prevent a regression in social standards, a pan-European floor of social rights would have been a logical corollary, but such a floor of rights did not emerge in the 1990s, except for health and safety at work. My emphasis in this chapter is on two successive developments, which clearly *necessitate* a basic consensus on the European Social Model today, whatever reservations there might have been at the time of the Single European Act: on the one hand, the consequences of monetary unification (notably the need for stabilisation, as explained in Section 1.2), on the other hand, the consequences of enlargement (notably the need to reconcile free movement and domestic social cohesion across a heterogeneous set of Member States, as explained in Section 1.3). My argument, at this point, is not that these developments force upon the Member States a unique,

1 See F. Vandenbroucke, 'The Case for a European Social Union. From Muddling Through to a Sense of Common Purpose', in B. Marin (ed.), *The Future of Welfare in a Global Europe* (Ashgate, 2015); F. Vandenbroucke, *Structural Convergence versus System Competition: Limits to the Diversity of Labour Market Policies in the European Monetary Union*. Paper submitted for the DG ECFIN Fellowship Initiative 2016–2017 (2017, forthcoming).

well-defined conception of social justice. To put it more bluntly, a basic consensus on the European Social Model may well be a consensus that does not correspond to my personal conception of social justice. The argument is that the debate about the future of our social model has now inevitably shifted, in part, to the European level, for functional reasons. However, that debate is not totally open-ended if we reconnect with the original inspiration of the founding fathers of the European project: the ambition to reconcile upward convergence in prosperity across the Member States with internal social cohesion in each of the Member States (my rendering of the founding fathers' belief), delineates the contours of the debate.

In Section 1.4, I argue that we need a 'theory of justice for the European Union', that is, a conception of justice that is based on a specific understanding of the point and purpose of the Union as a multi-tiered polity. Therefore, we must revisit the original inspiration of the founding fathers and the political legitimacy that was intrinsic to the European project. I believe these political legitimacy arguments are compelling and should appeal to people with a variety of political opinions. But it would be intellectually incorrect and politically counterproductive to consider the founding fathers' inspiration as dogma or to present arguments on political legitimacy as hard science. We must justify a return to ideas of the founding fathers and examine whether their ideas can be sustained or need amendment. We should not deny that we enter the realm of political choices.

Thus, the discussion of the *why* question starts with functional observations, indicates issues that must be addressed at the European level, and then ventures into the political. The answer to the *what* question – what is the agenda of a European Social Union? – definitely implies political choices. A key normative issue informing our political choices is how we define and demarcate 'European solidarity': defining and demarcating solidarity sets the agenda for a European Social Union. I explain this in Section 1.4. Section 1.4 does not provide definitive answers; it explores the issues at hand with reference to contemporary theories of distributive justice that offer a useful framework to conceptualise solidarity, insurance, and redistribution. Section 1.4 connects with the contributions by De Schutter and Ferrera in this volume. In order to focus on the underlying normative debate, my discussion of De Schutter's position takes it for granted that economic integration results in upward convergence of prosperity across Member States (which means that the optimistic hypothesis of the founding fathers is at least partially vindicated). I add a short Section 1.5, in which I briefly qualify that hypothesis. I conclude in Section 1.6.

This introductory chapter focuses on the why question and on the normative foundations of the what question. It does not elaborate upon the *how* question, but different chapters in this volume touch upon the how question (Deakin, Martinsen, Bekker, de Buck and Cerutti, Pochet and Degryse, and, from a legal perspective, Feenstra, De Baere and Gutman, Kornezov, Lenaerts and Guttiérrez-Fons). The emphasis on the legal constellation is not happenstance: a fundamental difficulty for a 'European Social Constitution' (using Ferrera's expression, in his description of the different components of a European Social Union in this volume) resides in the legal legacy of the initial division of labour created by the founding fathers: the Union's competences had to serve the purpose of economic integration, whilst leaving social policy concerns to the national level. However, as the reader will see, the assessment of the current legal constellation differs among the scholars who contributed to this book, with some being more optimistic than others (compare, for instance, the contribution by Kornezov with the one by and Lenaerts and Guttiérez-Fons). However, the difficulty is not just in the nature of the European Treaties, but also in the legal constellations of the Member States, as van der Schyff points out in his contribution.

Since this chapter is about normative foundations, it does not develop policy proposals.[2]

1.2 THE INCOMPLETE MONETARY UNION

1.2.1 *Traditional Textbook Analysis Revisited*

A Social Union is not only desirable but necessary, unless we drop the idea that the integration project concerns welfare states with at least some shared aspirations. The 'necessity' argument is partly based on the *functional* implications of a monetary union. These functional implications are twofold. First, a monetary union requires systemic support for the Member States, in the form of a fiscal stabilisation capacity. Second (but related), there is a limit to the

[2] Policy proposals are discussed in some of the chapters that follow. See also F. Vandenbroucke with B. Vanhercke, *A European Social Union. 10 Tough Nuts to Crack* (Friends of Europe, Brussels, 2014), available at: www.friendsofeurope.org/quality-europe/10-tough-nuts-to-crack/ (accessed 15 December 2016); F. Vandenbroucke and D. Rinaldi, 'Social Inequalities in Europe – The Challenge of Convergence and Cohesion', in Vision Europe Summit Consortium (eds), *Redesigning European Welfare States – Ways Forward* (Gütersloh, 2015), available at: www.delorsinstitute.eu/011-22215-Social-inequalities-in-Europe-the-challenge-of-convergence-and-cohesion.html/ (accessed 15 December 2016); F. Vandenbroucke, 'Automatic Stabilisers for the Euro Area and the European Social Model', *Tribune*, Notre Europe Jacques Delors Institute, 22 September 2016, available at: www.delorsinstitute.eu/011-23652-Automatic-stabilizersfor-the-Euro-area-and-the-European-social-model.html (accessed 12 December 2016); Vandenbroucke, *Structural Convergence versus System Competition*, n. 1 in this chapter.

diversity of national social systems that can be accommodated in a monetary union; therefore, monetary unification implies guidance with regard to the substantive developments of national welfare states in some specific domains. On the national level, stabilisation is a key feature of welfare states; stabilisation is generated by tax-and-benefit systems, in particular by unemployment insurance. Hence, there is an intrinsic link between our conception of automatic stabilisers at the Eurozone level and our conception of the EU's role in social policy. This link necessitates a careful discussion, which goes beyond the brief of this chapter; here, I focus on some essential insights.

Well-known economic theory explains the benefits and drawbacks of monetary unification in terms of trade-offs. Members of a currency area are confronted with a trade-off between symmetry and flexibility. Symmetry refers to movements in output, wages, and prices. Asymmetry may arise because of differences in productivity growth, or differences in inflation rates, which both may lead to asymmetry in the evolution of competitiveness. Asymmetry may also be the consequence of different patterns of industrial specialisation, which makes some countries more vulnerable to specific structural changes in the world economy than other countries ('asymmetric shocks'). Flexibility relates to wage flexibility and interregional and international labour mobility, which determine a country's internal adjustment capacity in case of an asymmetric development. Less symmetry necessitates more flexibility: the less symmetry there is between the countries of a single currency area, the greater the required capacity for internal adaptability in order for the monetary union to be beneficial. In this traditional textbook analysis 'adaptability' is understood mainly in terms of labour mobility and/or wage flexibility. There is a second trade-off: if asymmetric shocks can be absorbed through fiscal transfers between the Member States, then the need for internal flexibility is reduced. Fiscal transfers make it possible to alleviate the plight of countries hit by a negative shock. Obviously, fiscal transfers, even if they are not permanent but only temporary and reversible, require a readiness to organise solidarity among the members of the monetary union.

De Grauwe and Ji add two important qualifications to the traditional textbook analysis in their contribution to this volume. First, they argue that EMU should not only be equipped with a capacity to mitigate asymmetric shocks, but also with a capacity for intertemporal stabilisation, i.e. a capacity to smooth economic volatility over time, rather than only between countries. Smoothing business cycles over time requires the possibility to increase public debt in downturns, and decrease public debt in boom periods. In short, EMU needs to be equipped with a budgetary union that can also issue common bonds. Second, they argue that the trade-off between what budgetary union can achieve and what flexibility (or, 'structural reform' to increase flexibility, in the EU's jargon) can achieve depends crucially on the nature of the economic shocks. De Grauwe and Ji argue that when shocks are the result of business-cycle movements, the way to deal with them is by stabilisation efforts, not by structural reforms for more flexibility. They also provide evidence suggesting that the biggest shocks in the Eurozone were the result of business-cycle movements.

1.2.2 *Automatic Stabilisers in a Multi-Tiered Polity*

Analytically, the case for a euro area stabilisation capacity is compelling; politically it is an uphill battle in today's Europe. We therefore need a comprehensive exploration of different scenarios and a thorough understanding of how they can fit into the broader challenge of developing a European Social Union. In this volume, Andor presents arguments in favour of a European unemployment benefit scheme. I elaborate on this particular proposal, because it highlights issues of social convergence and issues of solidarity that are important to my overall argument in this chapter. One should note that the basic proposal comes in different variants: a European unemployment benefit scheme could either be a 'genuine' European unemployment insurance or a system of 're-insurance'. The difference between a genuine European unemployment insurance and re-insurance is twofold. First, in a genuine European scheme, individual citizens who are short-term unemployed receive an individual benefit from a European fund, whilst a model of re-insurance would operate with lump sum budgetary transfers between a European fund and Member States. Second, in a model of re-insurance, Member States would receive transfers on the basis of a trigger (based on the deviation of current short-term unemployment in the Member State from its past trajectory in that same Member State); in a genuine European unemployment scheme, there would be no trigger for the scheme to start disbursing money (any short-term unemployed individual in a participating Member State receives a benefit, independent of the level or growth rate of short-term unemployment in that Member State).

Unemployment insurance raises well-known issues of moral hazard. In essence, moral hazard occurs when a person (or an institution) takes more risks because someone else (or another institution) bears the costs of those risks. Moral hazard means that the insured individual can manipulate the liability that the insurer incurs, by influencing the frequency and/or the importance of the insured risk. In other words, the risk is influenced by behaviour and choice – or, in the case of institutional actors, influenced by deliberate policies – rather than being purely exogenous and beyond control.

Moral hazard can be reduced by a careful design of the insurance policy, but it can never be totally excluded: it is inevitable, to some extent, in any context of insurance. The possibility for Member States that benefit from a European unemployment benefit scheme (whether it takes the form of a genuine European unemployment insurance or re-insurance) to become lax with regard to the activation of the unemployed and (re)employment policies at large, generates an obvious risk of institutional moral hazard; this risk cannot be dismissed out of hand. Therefore, the quality of national activation policies is a matter of common concern in a group of countries organising a common unemployment scheme in one or other way. This caveat about institutional moral hazard is important for our thinking about fiscal stabilisation at the European level, but we should be aware that moral hazard is, in any system of insurance, a price to pay to obtain risk pooling and stabilisation. Hence, the objective is to mitigate the trade-off between stabilisation capacity and institutional moral hazard: for desirable levels of stabilisation capacity, institutional moral should be minimised.

In this respect, we can draw lessons from the experience with unemployment insurance and activation policies in existing multi-tiered polities, such as the United States, Canada, Germany, Switzerland, Austria, or Belgium.[3] Studying multi-tiered systems leads to interesting conclusions with regard to institutional moral hazard in an eventual European unemployment benefit scheme. First, such a scheme should incorporate financial mechanisms to avoid permanent transfers and minimise the possibility for any country to be, on average, a net beneficiary of the scheme. Second, in addition to such financial mechanisms, in order to fight different forms of institutional moral hazard when unemployment risks are pooled at the European level, Member States should comply with minimum requirements with regard to both the 'activation quality' and the 'stabilisation quality'[4] of their unemployment benefit system. That is the reason why a European unemployment benefit scheme requires a significant degree of convergence in the national

[3] F. Vandenbroucke and C. Luigjes, *Institutional Moral Hazard in the Multi-tiered Regulation of Unemployment and Social Assistance Benefits and Activation. A Summary of Eight Country Case Studies* (Centre for European Policy Studies, 2016), available at: www.ceps.eu/system/files/SR%20No%20137%20Moral%20hazard%20in%20multi-tiered%20reg%20of%20UB.pdf (accessed 15 December 2016).

[4] The extent to which incomes are smoothed when an unemployment shock occurs determines the stabilisation quality of unemployment insurance; the generosity of short-term unemployment benefits and the coverage of the system are key parameters in this respect. Segmented labour markets, in which a significant part of the labour force is poorly insured against unemployment, reduce the stabilisation quality; Deakin underscores the problem of labour market segmentation in his analysis of the Eurozone's problems.

regulation of unemployment, both in the genuine model and the re-insurance model. However, the governance method and the flexibility with which convergence is pursued in these models are very different, and the way in which they can respond to the challenge of institutional moral hazard also differs.[5] Re-insurance not only allows more flexibility and offers more scope to mitigate the risk of institutional moral hazard, it also seems a less complicated option. Politically, the re-insurance option may be more true to the idea that a European Social Union should be a 'union of welfare states', rather than a European welfare state.

It is by now generally accepted that design failures of EMU made it unstable and fragile: it lacked not only a banking union, but also a mechanism for fiscal stabilisation, as recognised by the Five Presidents' report on *Completing Europe's Economic and Monetary Union*.[6] Both with regard to banking union and fiscal stabilisation, the Five Presidents' Report signals an acute awareness that the EU needs to organise more solidarity in the Eurozone. The organisation of solidarity requires mutual trust. Solidarity on the basis of mutual insurance is a rational option, but even the most rational individuals will not engage in mutual insurance if they do not trust each other sufficiently. In the context of a European unemployment benefit scheme the 'minimum requirements' mentioned in the previous paragraph are key to create trust. But European solidarity requires mutual trust with regard to the quality of the social fabric in the Member States in a more general sense, including with regard to their capacity to deliver on competitiveness and sound public finances. Exposure to market forces has not in itself produced 'discipline' in the monetary union with respect to competitiveness and public finance. On the contrary, we witnessed asymmetrical developments and divergence, rather than symmetry and convergence. Relative competitiveness deteriorated significantly in some countries and improved in other countries, thus creating huge economic imbalances in the Eurozone. Since the invisible hand of the market does not deliver, EMU needs a visible hand that pursues symmetry, notably with regard to wage increases. Moreover, Member States need labour-market institutions that can coordinate wage increases: the visible hand must be effective.

5 See Vandenbroucke, 'Automatic Stabilisers', n. 2 in this chapter.

6 The report, published in June 2015, was drafted by the Presidents of five major EU Institutions: the European commission, The European Council, the European Central Bank, the Eurogroup, and the European Parliament. See J.C. Juncker, 'The Five Presidents' Report: Completing Europe's Economic and Monetary Union, Report in Close Cooperation D. Tusk, J. Dijsselbloem, M. Draghi and M. Schulz' (2015), available at: ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf (accessed 30 March 2016).

1.2.3 *Wage Coordination and the Social Model*

Arguing that a visible hand is necessary does not mark a departure from current EU *principles*, but rather from current *practice*. The Six-Pack and the Macroeconomic Imbalance Procedure[7] are deliberate attempts to strengthen the visible hand of European policy makers. But current practice has put a one-sided emphasis on adjustment in Member States with current account deficits and has not addressed the role of Member States with surpluses. Symmetry should be organised instead around a common benchmark, for instance, a 'golden rule' linking national wage increases to national productivity increases. Such a golden rule would avoid both excessive wage moderation in some countries and excessive pay increases in other countries. A further desirable departure from current practice is to acknowledge the positive results from coordinated wage bargaining within Member States, as Deakin emphasises in his contribution to this book. Instead of encouraging the decentralisation of collective bargaining, the EU should take steps to encourage and facilitate bargaining coordination; this presupposes a positive stance vis-à-vis social dialogue at large, one which has been little in evidence in recent years (on social dialogue in the EU, see the chapters by de Buck and Cerutti and by Pochet and Degryse in this volume).

Bearing in mind these observations on the importance of adequate unemployment insurance and the positive role of coordinated bargaining and social dialogue within Member States and across the Eurozone, we can now return to the long-term trade-off between symmetry and flexibility that is seen as essential to the sustainability of a monetary union. De Grauwe and Ji argue

7 The Six-Pack is a set of European legislative measures, bundled into a 'six pack' of regulations introduced in 2010–11, to introduce greater macroeconomic surveillance. The Macroeconomic Imbalance Procedure was part of the Six-Pack; it is a specific surveillance mechanism that aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place. For the legal basis of the Six-Pack, see: Regulation 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, [2011] OJ L 306/1; Regulation 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area, [2011] OJ L 306/8; Regulation 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, [2011] OJ L 306/12; Regulation 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, [2011] OJ L 306/25; Council Regulation 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, [2011] OJ L 306/33; and Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, [2011] OJ L 306/41.