Social Europe 2019

Social Europe Report

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The year 2014 was an important watershed for the European Union. After half a decade of crisis, a new European Parliament was elected and a new Commission took office. When they had the chance in May 2014, many European citizens voiced their disapproval of the political direction the Union has taken in recent years. It seems clear that the EU not only needs new people at the helm but also a new policy direction for the five-year term until 2019.

Following the very successful *Roadmap to a Social Europe* eBook, which was produced with a variety of European partners last year, Social Europe, the Hans-Böckler-Stiftung and the Friedrich-Ebert-Stiftung ran a new project setting out a fresh social policy agenda for the next five years. “Social Europe 2019” brought together leading experts and decision-makers to discuss relevant issues. The contributions to this vital debate are collected in this eBook.

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PART I

Why The EU Should Focus On Realistic Social Policy Projects

by Jan Zielonka

Inequality is back at the centre of the public discourse. Is this good or bad news for the European Union? Most contributions to this Social Europe 2019 series suggest the latter; namely, the observed rise of inequalities in Europe is driven by EU policies to a large extent.

Some blame the EU for embracing the neo-liberal agenda of deregulation, marketization, privatization, and cuts to social services. According to this view, the EU became an agent of globalization or if you wish Americanization. Others blame the EU for acting as an agent of Europe's creditor states imposing policies on Europe's debtor states, amounting to slashing social services in the latter. The Fiscal Compact Treaty is a symbol of these policies.

There are also those who argue that EU policies in the field of social justice evolved more by default than by design. Namely, the EU was never given meaningful legal powers and financial resources to tackle inequality.

These arguments may well be right as well as wrong to some degree. The fact remains that for an actor which is supposed to embody a community of equals striving for ever greater convergence, inequality represents a major challenge that may possibly lead to its demise. The European social model was the EU's calling card. Citizens were made to believe that the EU would make the "Stockholm consensus" prevail over the "Washington consensus," not just in the north, but also in the east and south of Europe. They are now clearly disappointed, and many of them are backing anti-European politicians promising easy solutions for Europe's complex social problems.

What are the EU's options for the next five years? Friends of the Social Europe project usually suggest upgrading EU powers and resources in order to forge a meaningful social policy. They admit that social issues have at times been handled badly, but they insist that the EU is not the only actor to be blamed for the rise in inequalities. In their view several member states, especially in the south, have not adjusted their welfare systems to ever changing social and economic circumstances. They point to vested corporate interests behaving with little regard for sustainable development that is based on investments in human capital, skills, and life learning.

They warn that sizable and ever growing welfare gaps within and between EU member states are likely to cause conflicts with damaging economic and political implications. In their view, the EU may well have its faults, but they argue that the predatory behaviour of some multinational firms is better tackled at the European rather than national level. Moreover, the handling of social policies by national governments is suboptimal from an economic governance perspective. After all, in the EU we have free movement of goods, capital, services, and labour; these are the very factors determining social policies. Giving more power and resources for social policies to the EU would allow more rational redistribution, hopefully resistant to global and local partisan pressures.

It is hard to question these arguments, but the proposed solution is problematic for a variety of reasons. All redistributive policies are politically sensitive and require strong legitimization. The EU lacks sound democratic legitimizing instruments; those are chiefly in member states. The point is not only to strengthen powers of the European Parliament, but to make a system of European participation, representation, and contestation robust enough to cope with contentious redistributive decisions and their effects.

Moreover, transferring powers and resources to the EU does not necessarily represent a rational move from the socio-economic point of view. Different models of capitalism may demand different welfare regimes and Brussels has a tendency to apply a "one-size-fits-all" solution to all problems. It would be naïve to think that the Nordic welfare model would suit such different socio-economic actors as Poland, Romania, Italy, Ireland, and Cyprus.

Nor would it be easy to convince creditor states to share their wealth with debtor states. Financial solidarity within the EU was meagre even in better times. The current EU budget represents a mere 1% of member states' annual income and any substantial increase is not in sight. Nor are there signs suggesting that Germany and other creditor states are willing to soften the rules of the Fiscal Compact. In fact, most decisions taken by them in recent years have had their own electorate in mind. History does not offer many examples of rich states allowing poor states to tell them what to do with their money. The neo-liberal propaganda is indeed ferocious, but it is not responsible for all of Europe's failings in the field of social policy.

This is not to suggest that the EU should renounce its responsibility for handling inequalities. However, raising expectations on which the EU is unable to deliver is a dangerous policy. If member states, especially the affluent ones, do not intend to transfer their powers and resources to Brussels, there is no point pretending that the EU can handle inequalities.

The EU should therefore moderate its pretentions and scale down its promises in this field.

In my view, the EU is not in a position to tackle social issues in a comprehensive manner, let alone act as a quasi-state in charge of redistributive policies. This is not only because of its limited powers, legitimacy, and resources. This is also because of its limited intellectual capacity. The EU has never proposed a plausible solution for reconciling the interests of 'insiders' and 'outsiders' with respect to labour market reform; for merging the interests of local low skilled workers with the growing number of immigrants; for combining the goal of competitiveness with that of social cohesion; or for redressing long-standing social contracts in individual countries. This means that the EU should better concentrate on some selected social projects where it could make a tangible difference, however small.

The following two examples illustrate what kind of projects I have in mind. First, the EU could create an agency for vocational training and life-long learning. Most specialists on welfare agree that education has an important impact on social inclusion/exclusion, but the EU is doing little in this respect. The life-long learning program run by the European Commission bundles together various projects with fancy names: Comenius, Erasmus, Groundtvig, Jean Monnet, and Leonardo da Vinci. The Erasmus higher education program is best known and better funded than other projects, creating the impression that the EU is more interested in investing in its future elites than ordinary citizens, especially those in trouble. The point is not to diminish the successful Erasmus program, but to create a specialized agency targeting those most affected by the current economic crisis. (This group increasingly includes university graduates).

Another tangible, but modest project proposal concerns poverty reduction. So far, the European Commission was not even able to make member states agree on a single indicator to express the target on the reduction of the number of people at risk of poverty. However, the EU could create a specialized agency to identify and address extreme cases of poverty.

In both cases I am suggesting tackling social problems through independent European agencies and not through the usual brinkmanship between member states and the European Commission. Academics know the case of DG Research and Education handling money in a typical corporatist manner with little regard for the quality of research. Things changed when leading European academics pushed for the creation of the European Research Council, which gets money from member states and administrative support from the Commission, but which is independent from them.

Similar solutions could be applied to social policy issues. An autonomous European agency for combating extreme cases of poverty should envisage active participation not only of national and European bureaucracies, but also of cities, regions, NGOs, and firms. For instance, European megacities are not only engines of growth in Europe, but also major providers of social goods. However, they are largely marginalised within the EU decision-making system, which is controlled by states, however small and dysfunctional.

In the final analysis, however, social justice is not only a matter of institutional engineering, but also of political and social struggle. Unless Europe's citizens are prepared to demand certain actions from the EU our visions of Social Europe 2019 will remain futile.

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It‘s Now Or Never: More Social, Less Europe in 2015!

by Johannes Schweighofer

To put it bluntly: Europe, more precisely, the European Union, has not delivered for decades now. The Union safeguards the interests of the employers and the mandarins in Brussels and 27 other capitals. Basically, this kind of integration is not in the interest of workers, trade unions, consumers et cetera. In the current state of affairs, more Europe means less social cohesion. Therefore, disintegration (a “core Europe”, see below) could be in the interest of workers, at least to some extent.

The main reason for that is the highly ideological, “neo-liberal” and “ECOFIN/lobbies driven” agenda of economic policies: more structural reforms and austerity all over Europe, less regulation, no Financial Transaction Tax, no EU-financed investment program, et cetera. In this respect, demanding more Social Europe is a rather naïve and unrealistic position. Speaking about a “European Social Union” is, given the current political climate, nothing more than wishful thinking. Just take a quick look at meetings of the Social Question Working Party or the Employment Committee of the EPSCO council, a rather disillusioning experience. Europe does not give the feeling of community, solidarity, (social) security – all deep rooted emotions that the nation states and the regions do deliver, at least as far as globalisation allows and politicians stand up for them.

But sometimes history “jumps”: who thought in the winter of 1988 that the fall of communism and the collapse of the Berlin wall would be realised within one year? Nobody! It currently does not look that way but maybe the fall of the neoliberal wall is within reach. In any case, Europe is at a crossroads.

The Labour Market And Institutional Challenges Ahead!

- ***Secular Stagnation, deflation and high unemployment***

For years to come, “secular” stagnation is a realistic scenario (with a probability of, let´s say, 60%). If the forecasts are not over-optimistic (as usual), the Euro area will reach the production level of 2008 next year. So we’ll have had 7 years of zero real growth on average! Overall inflation rates are down to 0.3% and several member states already have entered a deflationary period. In order to bring global savings and investments into equilibrium, real interest rates should be below zero. But the combination of low inflation rates and the zero lower bound of nominal interest rates is an insurmountable obstacle. Maybe the era of high growth rates is over for a long time. Unemployment will rise in countries with lower rates (like Germany, the Netherlands and Austria) and will become structural in nature in the periphery (Greece, Spain, Portugal). Therefore, the social situation in the Euro area will get far worse, maybe in some kind of dramatic way for some countries.

- ***Overstretching***

Politically, it was the right thing to do. But seen from a systems theory point of view, the complexity of the Union after the enlargement of 2004 has increased dramatically to the point of almost being dysfunctional. In this respect, enlargement has been a failure. Beyond that, many new member states have learned to see Brussels as a kind of new Moscow. The "overstretching argument" would also fit the EMU as not being an optimal currency area and without complete integration of fiscal policies.

- ***In 2019, the EU will have less than 28 member states***

This scenario comes into being with a likelihood of, let´s say, 33%. The centrifugal forces in the Union are all too obvious. Just to name UKIP and the British referendum in 2017, Scotland (they made it only just), Catalonia, Presidency election in France with Marine Le Pen potentially winning, and other euro-sceptical political forces all over Europe. The most important driving force regarding euroscepticism is that the European Union does not deliver for ordinary people and this is water on nationalists' mills.

- ***Kick the Brits out of the Union***

What are the social and employment costs of British EU membership? British governments in the last two or three decades have been against almost every social progress, were it the working time directive, the posted workers directive, employment goals in the European Employment Strategy or whatever. Therefore, it would be in the interest of all when Great Britain and their allies would participate in the Single Market only (this is what they are obviously aiming for).

- ***The "Youth Guarantee" – Failing Europe, it's a shame!***

The European Youth Guarantee is a good example of how Europe is failing: Firstly, young people need primarily good-quality jobs, which are just not there in countries such as Spain, Portugal or Greece. This was the main reason why a country like Spain argued against the Youth Guarantee in the Council negotiations. Secondly, €6 billion in two years is not enough – we would rather need €21 billion, as the ILO says, or even more. Thirdly, almost two years after the EPSCO council made the decision on the guarantee (in February 2013), only a small amount of money has been used for programmes so far. There are two main reasons for this failure: over-bureaucratic procedures in Brussels on the one hand and a lack of resources for even co-financing such small sums as 10%-20% of the total on the other. All in all, in the eyes of the young unemployed, this "Youth Guarantee" must be a great disaster!

- ***Social democratic parties have to make a quality decision – to be or not to be***

Last, but not least: if social democratic parties in government such as in France, Germany, Italy, Denmark, Sweden and other countries are de facto riding the neoliberal agenda and paying only lip service to more Social Europe, then their historical end will be near, actually very near. Syriza, Podemos and other groups will continue their historical mission.

What has to be done? The high productivity, high wage innovation road beyond GDP

They might sound somewhat radical but I would consider the following steps towards more social cohesion necessary:

- Find a core-group of like-minded countries for more Social Europe. You could maybe start with Luxembourg and Austria.
- Work on a clear division of labour between the EU and the national levels. All structural policies in the area of education, labour markets and labour law, technology and innovation and the like are national competences. Value added from Brussels could come in the area of security, energy and environment, monetary and fiscal policy and the like. Aim for pro-active economic policy coordination (versus the rather restrictive version currently used), taking the Euro area as a whole – NOT individual member states – and recognise positive and negative spill-over effects in a pro-growth approach aiming mainly for qualitative growth. That means not just more products but products that improve the quality of life on a broad basis.
- Aim for a "high productivity, high wage" agenda which goes beyond GDP: In this respect, it is not cost-competitiveness that matters primarily but innovation, skills and competences. This means, for example, that the member states must get rid of the problem of having some 20% of adults not being able to solve even simple

everyday problems (see PIAAC results). At the EU level, environmental standards should be set on a medium-term perspective and the main aim would be to foster green innovation via continuous pressure on the innovative capacity of enterprises.

- Implement true employment policies, i.e. demand management where monetary and fiscal policies serve the interest of high-quality employment. ECOFIN ministers fundamentally misunderstand investment as they only see the initial costs which come to the fore; they are not able to see the long-term pay-off of good investment projects. As a Eurozone-wide counter-cyclical stabilisation capacity a European Stabilization Mechanism should be developed. In any case: the best social programme is good economic policies.
- As high inequalities in incomes and wealth are bad for growth, fight rising inequalities by setting standards for European minimum wages (60% of average national wage levels) and minimum income schemes. At EU-level, a social investment package could be stimulated and coordinated.

The only thing missing are the political actors that would carry such an ambitious program. But maybe history jumps again! Who knows what happens in 2015?

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Saving Social Europe: Going Beyond The EU's 'Governing By The Rules And Ruling By The Numbers'

by Vivien Schmidt

During the euro's sovereign debt crisis, European leaders have been obsessed with rules, numbers, and pacts, including the so-called 'Six-Pack,' the 'Two-Pack,' and the 'Fiscal Compact,' each more stringent on the nature of the rules, more restrictive with regard to the numbers, and more punitive for member-states that failed to meet the requirements. In the absence of any deeper political or economic integration, the EU ended up with 'governing by the rules' and 'ruling by the numbers' in the Eurozone. Austerity policies focused on rapid deficit reduction along with pressures for structural reform – often shorthand for reducing labour rights and protections – have wreaked havoc on 'Social Europe,' in particular in countries on the periphery.

Slowly but surely, however, under pressure from deteriorating economies and increasing political volatility, EU leaders have been changing the rules by which they have been governing the economy. But they have not done this formally. Instead, EU leaders have been informally and incrementally reinterpreting the rules without admitting it in their discourse to the public. This has helped to slow the economic crisis but not to end it.

Such reinterpretation of the rules 'by stealth' has done little to reduce public disaffection. Nor has it done anything for Social Europe – as poverty, misery, and inequalities rise across Europe, as unemployment stays unsustainably high in Southern Europe in particular, and as both skills and hopes are lost for an entire generation of unemployed (or underemployed) youth. It has also helped fuel the rise of the extremes, in particular on the right. That said, reinterpreting the rules by stealth has enabled EU actors to bring about incremental changes that have kept the European economy alive - if not well, as deflation threatens and growth remains elusive.

The European Central Bank (ECB) has moved from 'one size fits none' rules for monetary policy, which exacerbated (rather than reduced) member-states' economic divergences, to 'whatever it takes' (in the famous phrase of the ECB President Mario Draghi in July 2012). The pledge to buy member-state debt if necessary and more recently the move to quantitative easing has brought the ECB close to a lender of last resort (LOLR) in all but name.

But although the apparent ‘hero’ of the crisis, the ECB’s push for strict conditionality through austerity and structural reform as a *quid pro quo* for its intervention to stop market attacks has contributed to the Eurozone’s economic slowdown and social misery.

In the meantime, the Council has largely continued to govern by the ‘one size fits one’ rules of intergovernmental negotiation that have given the most powerful member-state (i.e., Germany) outsized influence to impose its preferences for ever-stricter rules. But even though Germany has kept up a discourse focused on austerity and structural reform, it has intermittently agreed to instruments of deeper integration and added growth to its stability discourse as well as, most recently, flexibility; it claims the latter is already embedded in the rules. France and Italy have of late pushed for even more flexibility, politicizing the budgetary oversight process of the ‘European Semester’ without, however, actually contesting the stability rules and numerical targets. Such politicization is part of a game to legitimize themselves to national constituencies by ensuring ever more flexible rules-reinterpretation while using the EU’s outside pressure to keep up the domestic push for reform. But this turns the EU into the scapegoat, grist for the populists’ mill.

In all of this, the EU Commission has taken on the role of enforcer. In its discourse, the Commission has consistently emphasized its strict and uniform enforcement of the ‘one size fits all’ rules of budgetary oversight, with austerity and structural reform for all those found in danger of ‘macroeconomic imbalances’ or an ‘excessive deficit’ in the European Semester’s assessment process. In its actions, however, the Commission has actually allowed for increasing flexibility in applying the rules and calculating the numbers. While such rules-reinterpretation by stealth has been beneficial, it has had the perverse effect of ensuring that Southern Europeans continue to feel oppressed even when accommodated while Northern Europeans continue to feel deceived, regardless. Moreover, it makes the Commission – and by extension the EU – seem to be the bad guy, responsible for impairing the functioning of national democracy by giving national governments no option but to follow rules and apply numbers that don’t work.

Finally, even though the European Parliament (EP) continues to have almost ‘no size at all’ in terms of setting policy, its critiques of Council and Commission action along with its successful push to have the appointment of Commission President linked to the winning party in the EP elections has guaranteed it an increasing presence, if not yet influence over policy.

So where does the EU go from here? Incremental changes to rules are not the bold kinds of actions required to move Europe beyond the crisis once and for all. But they are for the moment all that is possible. In what follows, therefore, I make a few recommendations for further reinterpreting the rules along with EU actors' roles.

To begin with, to restore the institutional balance in the EU as a whole, Eurozone governance needs to become like most other areas of EU legislation, which means it should mainly use the Community Method for legislation. This would mean giving the EP more 'size,' by being brought into all Eurozone decision-making, while reducing the intergovernmental dominance of the Council in Eurozone governance. The Council itself should become a more open and transparent arena for political debate about the rules. Moreover, the ECB should limit its focus to Euro-related issues of monetary governance, leaving economic policy orientation to the other institutional actors, while doing all the necessary as quasi lender of last resort and bank supervisor.

As for the Commission, the very fact that it now has a clear double accountability – to the EP (through the appointment of the leader of the winning party in EP elections as Commission President) as well as to the Council – is a potential game changer. The new Commission now has greater legitimacy to go beyond the role it has played through much of the crisis. It has been the 'enforcer' of the European Semester in a centralized exercise imposing hard and fast, sanction-triggering numbers (however flexibly interpreted). It should become the 'enabler' or 'advisor' within a more decentralized system of supervision and support, by opening up the process to national actors – not only experts but also members of parliament, NGOs, labour representatives, and other stakeholders.

By empowering local actors, the European Semester could help generate more workable kinds of 'structural' reforms, fine-tuned for each member state's political economy. Within this context, moreover, why not make accomplishment of Europe 2020 goals focused on investment in education, training, and R&D as well as on reducing youth unemployment and poverty count for delaying deficit reduction? Were the rules themselves to become more positively flexible within such a decentralized process, the European Semester itself could become a boon for social Europe.

In the absence of bold action, saving Social Europe will require a lot of imaginative reinterpretation of Eurozone roles and rules. Let's hope that EU actors are up to it.

A longer discussion of the issues raised herein will appear as a chapter entitled: "Forgotten Democratic Legitimacy: "Governing by the Rules" and "Ruling by the Numbers" in an edited book by Mark Blyth and Matthias Matthijs, The Future of the Euro (Oxford University Press, forthcoming)

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Why Brussels Needs To Read Karl Polanyi

by Kurt Huebner

The project of European integration is going to run into walls. In political terms, it has become evident that its active as well as its passive support is decreasing. To some degree this loss in faith is tied to the social implications of years of austerity policies that were imposed on many nation-states in the EU. Persistently high rates of unemployment and a reduction of real household incomes are no reasons to be supportive of a project that is widely seen as elite-driven as well as mainly in the interest of export sectors.

Electorates in relatively better-off member states, on the other hand, are no longer willing to act as guarantors of crisis-ridden neighbours. Moreover, and at least as relevant, is the rise of political parties and movements across Europe that see the return to the nation state as a recipe to solve all kinds of problems, also ones that are not in any way tied to the EU. In economic terms, the project of European integration is facing a long-run period of stagnation or at least of very low economic growth. Neither Brussels nor the member states seem to be prepared to work against such a path or to be prepared for dealing with the underlying forces of shifting towards a low growth path. The investment initiative of the Juncker Commission can, at best, be a drop in the ocean. In terms of legitimacy, European integration has lost a lot of its appeal, and this is not only reflected in decreasing participation rates in European elections but even more in the emerging new form of economic governance. This contradicts basic rules of democratic self-control by potentially taking away substantial political sovereignty in the budget process.

Dealing with all those issues is a Herculean task. One of the necessary but insufficient conditions to move the project of European integration onto a forward-looking, socially inclusive and economically balanced path is a change in the dominating political-economic discourse, and consequently in the policy course. Over the last ten to fifteen years or so, the European Commission and its key directorates have been filled with commissioners as well as an administrative strata who exploit the Brussels playing field for a rather simplistic version of market orthodoxy. One of the havens of unfettered liberalism has been DG Trade where in the last few years Karel De Gucht has followed an already well-established liberalisation project that forgot all about the many potentially damaging interplays between financial markets and social inclusion on the one hand and openness for goods and services on the other. DG Trade set the pace for a political discourse in which more openness and more market access is seen as the key motor for efficiency gains and growth.

This discourse willingly forgets everything about the historical and not so historical lessons that well-functioning markets need to be deeply embedded as has been famously shown by Karl Polanyi in his *Great Transformation*. Not too long ago, a US-American pair of Europeanists argued that the EU could have entered a phase of re-embedding markets, mainly owing to the actions of the European Court of Justice. Nothing could be further from the truth. The financial crisis of 2008 and then the crises of Eurozone economies actually revived liberalisation orthodoxy in the Commission, and in particular DG Trade accelerated its policy offensive. To be clear: even though all empirical simulations of currently negotiated trade and investment agreements only hint at small direct GDP gains overall it still can pay off if one can come up with international agreements like TTIP or CETA. Those bilateral agreements provide the opportunity to structure and re-organise global trade and investment flows in an optimum manner.

Truly European-inspired trade and investment agreements need Polanyian embedding that does much more than only asking for the non-violation of basic ILO standards as well as the acceptance of equally general environmental rules. Bringing Polanyi back into town requires a substantive vision of a global economy that needs institutional safeguards in order to avoid crisis and unequal distribution of benefits and costs. Such agreements need to be designed as trendsetters in organising and moderating global flows of goods and services as well as various forms of capital and labour in a way that satisfies all criteria for a socially, economically and environmentally sustainable growth path.

Let’s be realistic. The new Commission is on a different path that only pays lip service to embedding, if at all. Bringing back Polanyi to Brussels is an uphill battle but it is worth it.

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How Social Europe Is Destroyed – And What Can Be Done To Rebuild It

by Fabian Lindner

Once upon a time, the European Commission dreamt of making the European economy 'smart' – by investing in education, research and innovation -, more 'sustainable' – by moving Europe into a low-carbon economy, – and 'inclusive' – by boosting job creation and reducing poverty. That was in the year 2010: the Commission's "Europe 2020 Strategy". Then the carnage began. The same Commission that purred about smart, inclusive, sustainable growth helped impose heavy austerity on Europe and led the continent into a depression that now has lasted longer and has cut deeper than the Great Depression of the 1930s.

Some numbers say more than a thousand words. Between 2008 and 2012, government spending on education was heavily cut, especially in Europe's crisis countries: by 17% in Greece, 13% in Portugal, 10% in Ireland, 8% in Spain and 6% in Italy. We do not know, of course, whether all the young people who have become unemployed substituted their costly teachers and professors for the internet and began teaching themselves. But it seems safe to say that such cuts are not likely to make young Europeans smarter. What about sustainability? Government spending on environmental protection was cut even more between 2008 and 2012: by 36% in Ireland, by 30% in Portugal, 25% in Greece, and by 16% in Spain. In Italy, at least, expenditure on the environment increased by 4%.

As most readers know, the 'inclusion' part of the Europe 2020 strategy was the goal missed by the widest margin. While employment has recently slightly increased in the EU's 28 member states, it still is 2% below its level of 2008 – with even bigger employment losses in the crisis countries. Most of new employment is precarious part-time employment and more and more people withdraw from the labour market altogether since they do not see any future for themselves.

Is Europe in any way helping the unemployed? Quite the contrary. While the crisis is a classic demand side crisis in which firms fire their employees because they cannot sell their products and have to cut back on production, the Commission tries to increase the labour supply by cutting back on workers' rights, decreasing employment protection, de-centralising collective bargaining and encouraging atypical and precarious employment. All those laws are implemented – often with dubious legal backing – to cut wages and prices and make Europe 'more competitive'. Never mind that this strategy backfires even in purely economic terms: decreasing incomes and prices leads to an increase in real debts, thus more defaults, lower demand and more unemployment.

But why is there such a discrepancy between what the Commission wanted in 2010 and what it did – and achieved – in 2014? The short answer is: Ideology combined with a lack of democracy. Ideology is deeply embedded in the European treaties that determine European economic governance. According to those treaties, and much of European law built on them, the 'social' is almost always dominated by the market. The free flow of goods and services, of capital, and of persons is paramount; the ECB shall not fight mass unemployment but maintain price stability; and the primacy of fiscal policy is to reduce deficits and debt, not to secure growth and employment.

From the Maastricht Treaty onwards, there is an austerity bias in European law. 'Europe 2020' is a good illustration of this wider principle: While you can read many nice words about smart, inclusive and sustainable growth, all those lofty goals are not backed up by any concrete policies. But fiscal retrenchment is. A hardening of the Maastricht criteria and the introduction of the 'Fiscal Compact' to reduce government debt have become enshrined in law with many concrete measures foreseen to sanction governments that do not adhere. *To put it another way: If a quarter of your population is unemployed and without hope, Europe does not care. But beware of having a deficit that is one percentage point too high: The wrath of Europe shall be upon you*.

This situation is likely to be a result of having very little democracy at the European level. This is so for a simple reason: The EU 'constitution' – its treaties – do not only contain what normal constitutions contain, i.e. a codification of fundamental rights and obligations of citizens and general rules of how government institutions shall interact and reach decisions. They also contain concrete policies that in normal democracies parliaments would decide upon and would be subject to change when circumstances and majorities alter.

Not so in Europe. The treaties are harder to change than many national constitutions. For instance, in Germany before 1999, the Bundesbank's independence was subject to an ordinary law that the Bundestag – the German parliament – could have changed by a simple majority. On the other hand, to change the ECB's independence – and its policy goals – would require unanimity among all 28 European member states! That means, once you have enshrined policies in the European treaties, there is almost no chance of changing them later on. This is one of the reasons why Europe tends to be stuck with bad policies.

What can be done about this? Sometimes you have to break a law to keep your country from being broken. This is why many countries – for instance France, Italy and Spain – should just shrug their shoulders when the Commission asks them to balance their budgets. Only then will governments be able to increase spending on education, the environment and public infrastructure – all those things that can make Europe really social, in 2020 and beyond. Otherwise, weird political alternatives will increase their audience. We know where history led us in the last Great Depression. Better not to repeat it.

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Why We Need A European Solidarity Union

by Michael Roth

"Europe is heaven on earth, the promised land, as soon as you look at it from the outside. [...] Europe appears in a different light, but always as paradise, as a dream of mankind, as a stronghold of peace, prosperity and civilisation."

Here, Wim Wenders impressively describes Europe's promise of hope. He is right, and we are made especially aware of it once more when we look around our neighbourhood. Refugees from beyond the Mediterranean Sea are putting their lives at risk because they hope to be safe from persecution and enjoy a life in dignity in Europe.

Yet, from the inside things are not looking so good at present: solidarity in the EU seems damaged, the sense of justice is shaken and social cohesion is too weak. Many citizens are asking themselves: is Europe going to lose its sense of solidarity and social justice in the face of the crisis?

We have to counter this impression. Social cohesion and solidarity were always Europe's trademark and guarantors of the EU's credibility – both within the Community and in the outside world. However, neither can be taken for granted. They have to be lived and cultivated constantly. We have to be self-critical and admit that, while we strove in the light of the crisis to regain our credibility by returning to sound finances, we have allowed the welfare state to be cut back in several member states – especially at the expense of the young, the unemployed, the sick and the socially vulnerable.

There is no doubt that we need a competitive Europe to perform well in a globalised world and to foster our wealth and prosperity. We are bound by our excellence in Europe. This excellence, which consists of economic strength and a certain level of social security, brings with it a responsibility. If principles of the social market economy are thrown overboard, sustainable economic success will not be possible.

Our European model is based on the internal cohesion of our societies, both from the inside and from the outside. This well-balanced approach between economic and social interests needs to be secured – despite the crisis! We need an EU that is not just politically and economically strong, but also socially just. There is a good reason why economic and social cohesion are set down as goals in the EU treaties. They are essential if we are to achieve our goal of a better standard of living for all Europeans.

It is clear that the economic and monetary union also has a social dimension. It is necessary for two reasons: economically speaking, an appreciable economic recovery with a marked fall in unemployment is needed to reduce public debt. In political terms, the majority of people will not support reform policies if social equality is left by the wayside. At worst, entire societies and political systems can become unstable because reforms are not accepted by citizens.

The most pressing problem is the dramatic rise in youth unemployment. It is through this that the economic and financial crisis has given rise to a severe crisis of confidence. If the young generation comes to think of Europe as part of the problem and not part of the solution, we will not only be depriving people of their prospects, but also driving them into the arms of those who ultimately want to dismantle the EU.

We have to achieve better coordination, also in those spheres within the EU which go beyond financial policies in the narrower sense. It is not enough to merely look at budget figures or public debt. At the same time, let us do away with the myth that we need or want Europe-wide harmonisation of national social welfare systems. So, how can we make existing strategies with ambitious Europe-wide goals and guidelines and existing coordination mechanisms more binding? How can we finally implement the commitment under Article 3 of the Treaty on European Union with a view to achieving a "social market economy, aiming at full employment and social progress"?

When it comes to solidarity and internal cohesion, Europe will have to deliver even more in future. Europe must finally be seen once more by people as a social corrective, as an answer to people's needs in their everyday life. If we succeed in achieving that, then perhaps more Europeans will soon look to Europe with the same measure of hope as Wim Wenders. A genuine "solidarity union" can lend Europe a new appeal – both within the Community and in the outside world.

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Is California A Model For Europe?

by Philippe Pochet

The new European Parliament must turn its attention to numerous pressing issues. I shall refer here to three of them: the socio-ecological transition, growing inequality, and EMU.

The socio-ecological transition will require policy action geared simultaneously to the short, the medium and the long term. This means devising an appropriate policy mix deriving from different paradigms – technology, regulatory approaches, free markets, consumer behaviour – and involving different groups of actors.

It is a question of developing and stepping up technological innovation and, above all, ensuring its implementation. Such progress must be fostered and carried out by rigorous action on the part of governments to guarantee high standards for fostering innovation while at the same time speeding up the changes in individual and collective preferences that are required to establish more sustainable behaviour patterns. Paying lip service to these aims must give way to determined action. Nor can the requisite transition be tackled in the absence of a clear focus on the question of inequality.

European debates on the most appropriate policies refer to different examples, the most frequent being the Scandinavian model and, currently, the German model. I would propose that we take a look, for a change, at California, a state that has taken decisive steps – albeit fraught with contradiction – towards a green economy.

In California we encounter a conviction that the technological innovations delivered by Silicon Valley will enable the development of clean energy at reasonable cost. While this may be to some extent naïve, it is a fact that no solution to climate problems will be found in the absence of technology and innovation. Concurrently, Governor Jerry Brown has launched some ambitious emission-reduction targets and demonstrated his commitment to use of the regulatory instruments that will be required to achieve transition – but above all to achieve leadership in the enforcement of new standards (to be generalized later).

Progress in this direction calls for new taxation to put in place the infrastructure for the future. Such ambition is in striking contrast to the cautious – not to say negative – attitude of the Commission and the employers represented by BusinessEurope which reflects the (mistaken) idea that climate targets represent a burden on the competitiveness of the EU economy. Meanwhile, in terms of consumer habits and preferences, organic – and above all local – products are making headway. Even Wal-Mart now boasts an organic range of products no more expensive than the traditional ones.

Further downstream, universities are setting an example of specific goals, for example, Berkeley's target of zero waste by 2020 and zero emissions by 2025. Links are forming between pressure groups lobbying to improve food quality and those focusing on working conditions, or between students of environmental issues and residents of poor districts like Richmond (15 km to the north). Without over-idealizing the Californian experience, it does show that things are moving in a way that should inspire progress in Europe too.

At this point we come up against the question of inequality, my second focus here. Inequality is on the increase throughout Europe without having become the priority item on the political agenda as in the United States. In conjunction with the environmental transition, this issue becomes particularly complex. Because adoption of a middle-class-American way of life will also boost consumerism, probably in areas involving high CO2 emissions (luxury foods, private cars, travel, etc.), there is a need to consider other more collective ways of improving wellbeing for all; that means also addressing consumer practices and dramatically decreasing the ecological footprints of the richest.

The reduction of working time and development of quality public services or services of general interest are paths to be explored – but here we move even further from the traditional European agenda. Are we to believe that we can exit the crisis only through more growth? Though this may well appear to be the only solution in the short term, it amounts to a refusal to contemplate the more thorny issues vital for the medium term, including the question of unemployment and the green transition.

One interesting way forward, proposed by Eloi Laurent, would be to establish a link between green transition and social protection, seeing transition as a new form of social risk, a specific part of the social security net. Social protection based on solidarity is also a means of keeping huge sums of money from the financial markets. The alternative is, in Piketty's stark formula, ever accumulating and explosive inequality, bringing us back to the alternative indicators – 'beyond GDP' – that the Commission not so long ago expressed a wish to promote.

The third and more traditional issue is the need to create a monetary union that does not make social policy its adjustment variable and destruction of the institutions of solidarity its ultimate goal. This means placing the emphasis on solidarity and complementarity rather than on competition and similarity ('let's all be exporters!'). It means that social insurance formulae should be put in place to mutualize the risks inherent in monetary union, asymmetric shocks and unequal globalization. This is the debate between a world that is open but also protective and a world closed in on itself, or the current model that is open but destructive.

The role of the European institutions and particularly the Commission should not be to play the punitive schoolmaster but to open up new paths into the future. The social question, while key to all three challenges discussed here, requires a new articulation entailing innovative alliances and the need to reformulate the social agenda accordingly.

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Why We Need Movement Of Free People

by Frank Hoffer

When Franklin Roosevelt outlined his essential four freedoms in 1941 he was convinced democracy could only be defended and advanced beyond the remaining 11 democracies by replacing classical liberalism with a comprehensive concept based on freedom of expression, freedom of worship, freedom of want and freedom from fear.

Real freedom cannot exist if one of these four is violated. When ordinary people lack employment and income security and when economic hardship forces them to accept whatever is offered on the labour market, they lack substantial freedom. They are then merely free to lose. In developing this further, Amartya Sen argued that the ultimate success of societal development should be judged against the legal and material freedom people enjoy to fully develop their capabilities.

Such a concept of inclusive freedom is fundamentally different from the exclusive freedom of market liberalism based largely on contractual arrangements and purchasing power, where money allows one to command and forces the other to surrender, where harsh economic dependency is disguised behind contracts between formally equal parties. Inclusive freedom instead is based on socio-economic security enabling all to participate as independent citizens in society. For inclusive freedom trade unions and other collective organisations of free women and men are indispensable as they are the backbone of any vibrant civil society and the only way to make rights and freedom a reality in daily life before and behind factory gates.

Providing basic income security for all in need, pursuing policies of full employment and keeping inequality within a reasonable range require regulations and institutions for quality public services, universal welfare state provisions, comprehensive collective bargaining coverage, public investment and sufficiently progressive taxation. The vast majority of Europeans supports this European vision of inclusive and comparatively equitable societies offering a quality of life for most people unmatched by any other region of the world.

That’s why all mainstream politicians don’t quarrel about these objectives but rather the methods of achieving them. Political leaders that promise to take away workers’ rights, advocate stagnating or even declining wages and pensions, destroy public services while giving tax-benefits to the very rich and bailing out those responsible for the biggest financial crisis since 1929 have no chance at the ballot box. Therefore the protagonists of exclusive freedom have resorted to the creation of supranational institutions and global governance to unleash ‘structural forces’ that impose regressive distributional policies on national governments and disempower national democratic decision-making processes. In this process in particular, the European Union transformed from the visionary dream of a peaceful, open and democratic Europe to the most powerful international heavy artillery to subordinate national policies under the imperatives of free markets. Not surprisingly, in parallel with this transformation the European idea lost its popularity and a right-wing protest vote has reached unprecedented heights.

Even one of the greatest achievements of the European integration, the right of people to live and work in any of the EU members states meets growing popular resistance, because instead of liberating people it is used as a weapon against acquired rights and social standards in nation states.

A Europe where free people can move as they like is wonderful. It offers choices and opportunities for individuals; it creates colourful diversity; it helps immunise societies against narrow-minded nationalism; and it makes economic sense. On a continent whose countries have been at war with each other for most of its history, peace should never be taken for granted. Mutual understanding, respect and cross-fertilisation must be a constant effort. Open borders and movement of people are indispensable for this, but it must be under conditions that people can be welcomed and are not used as a force to lower wages and working conditions.

Open borders between countries with very different standards of living increase the supply of labour in potential destination countries. If supply is virtually unlimited the determination of wages and working conditions cannot be left to the forces of supply and demand without creating massive downward pressure, which then feeds understandable hostility towards migrants, in particular among low income earners as they are most likely competing with migrants.

Therefore good and fair labour market regulations are essential for the European dream to survive and in order to enhance our freedoms. The principle of the same remuneration for the same work at the same place needs to be ensured through an appropriate labour market design:

1. The same employment and social rights apply to all workers independent of their nationality or citizenship;

2. A universally applicable minimum wage of approximately 66% of the national median in all EU member states;

3. Posted workers enjoy the same wages, working conditions, social benefits and legal rights as do local workers;

4. Social benefits and in particular pension entitlements are fully portable between employers and between different countries;

5. Freedom of association and collective bargaining are guaranteed, promoted and incentivised;

6. Easy and efficient mechanisms for legal extension and universal applicability of collective bargaining agreements are applied by governments to ensure fair competition;

7. Contracting companies are liable for labour law compliance, including by their subcontractors;

8. Companies violating labour law regulations are excluded from any public contract and their names are published;

9. Enforcement of labour law and legally binding collective agreements are supported through effective and sufficiently resourced labour inspections;

10. Individual workers and workers' organisations enjoy free of charge access to due legal process to enforce collective bargaining agreements.

11. Direct labour contracts without limit of time must be the legal norm and business models using agency work, contract labour, temporary contract and bogus self-employment need to be subject to tripartite surveillance.

But can Europe afford this? Surely it can. What Europe cannot afford and cannot survive is a system that moves people freely across borders as cheap labour for the sake of profit maximization instead of enabling free citizens benefiting from the opportunities of an open Europe.

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Reinvigorating Social Europe: The Four Areas Of Conflict

by Björn Hacker

After years of prioritising the reinforcement of economic instruments to meet European budgetary targets, the debate on Social Europe has lately enjoyed something of a renaissance. This is no mere bolt out of the blue and its protagonists come from well beyond the usual circle of advocates among the enthusiasts for Europe in academia, the trade unions and left-wing parties.

Austerity has triggered a backlash. Cutbacks, new budgetary control measures and interventions in the policies of euro member states have yielded limited economic benefits, while interrupting economic cycles and exacerbating the debt burden. Indeed, in the areas of employment and social security they have given rise to upheavals that are so far-reaching and extensive that the social question has re-emerged on the European policy agenda. High youth unemployment is only one outcome manifest at the tip of an iceberg made up of a large number of misguided EU social policy goals and intentions, stagnating income inequality and rising socio-economic divergences.

Critical voices pointed early on to the dangers of a one-sided crisis management confined to budgetary policy and warned of irreparable harm to the European Social Model. The Italian presidency of the European Council warned (in 2014) of the collapse of social cohesion if a new balance is not reached between financial policy goals, on one hand, and growth and social policy goals, on the other. And the new President of the European Commission, Jean-Claude Juncker, has given assurances in his policy guidelines that he will “never lose sight of the social dimension of Europe” and pay heed to “social fairness” in the implementation of structural reforms – to this end he has proposed the introduction of a social impact assessment.

But where to start with a new effort at Social Europe? Four areas of conflict can be identified with regard to the EU’s social dimension: claims of national sovereignty against European policy approaches; an integration mode based on market creation against one based on market shaping; a supply-side against a demand-side economic policy; and an unjust against a just distribution of wealth and poverty.

These four areas of conflict display the key criteria in accordance with which a Social Europe can function or will remain impossible. The impression is inescapable that at present the insistence of the member states on national sovereignty, a primarily market-creating mode of integration, continuing supply-side reforms and the apparent acceptance of an increasing gap between rich and poor leave no room for a social integration project. But the deterioration of the economic and social situation has demanded a toll from austerity policy as the contributory cause. This is the spreading – and taken up recently by politicians of every stripe – demand for a social dimension for the EU. However, this will be no more than a fig leaf for "business as usual" unless policy-makers have the courage to revisit the core elements of integration by changing track in the four areas of conflict identified. The conditions for a successful Social Europe can be clearly described and there are more than enough starting points for its realisation:

Liberal Reform Convergence Makes An EU Social Policy Framework More Likely

Welfare liberalism, permanent austerity and diffusion of ideas ranging from 'flexicurity' to the youth guarantee have contributed to a hybridisation of welfare states. The once rigid path dependencies are no more and even Europe's intractable pension systems are tending to turn in the same direction. It is not uncommon for a welfare state today to combine a universal health care system with Bismarckian pension insurance and a liberalised labour market.

In contrast to the academic debate on models in the 1990s and 2000s, when a European Social Model remained a normative goal and the differences and path dependencies of welfare states were emphasised, the market liberal *pensée unique* has cleared the ground for institutional and reform policy similarities. This, ironically, has made it easier to come up with common solutions in subdomains of social security on a European basis. Basic elements of the same policy area can easily be discerned in all 28 member states. Thus there is no reason why the agreement on a new, more binding Open Method of Coordination in a revised Europe 2020 Strategy, with clearly formulated social protection targets and furnished with sanctions, should founder on differences between welfare states. Even the establishment of a European unemployment insurance as a basic macroeconomic governance and social policy model no longer appears improbable.

Social Inequalities Endanger Economic Integration

The conflict about the dominance of the single-market freedoms in the ECJ rulings on Viking, Laval, Rüffert and Luxembourg – pertaining to the problems of social dumping within the framework of posting of workers and cross-border freedom of service provision – has, just like the worries about the privatisation of services of general interest in recent years, made it clear that a single market furnished only with uniform regulations on competition and guaranteed open borders is incomplete. If doing business on a common basis is a declared aim in Europe, labour and social protection provisions cannot remain solely at national level. There they are exposed to heightened pressure and are either supported or taken under the wing of national protectionism, which in turn endanger economic goals.

This can also be seen in the monetary union: a common monetary policy without extensive fiscal and political agreements is a precarious structure. The global financial crisis as an exogenous shock was sufficient to lay bare the internal deficits and imbalances of the Eurozone. In the political realm, given the interrupted economic cycles, high unemployment and growing risk of poverty there is every justification to demand a correction. Alongside the budgetary surveillance beefed up in the crisis one should also keep an eye on developments with regard to employment and social affairs that are problematic for the functioning of the monetary union.

In order to moderate the subordination of social policies to the demands of increasing market integration a social impact assessment would make sense for all EU legislative projects. Furthermore, social policy actors such as the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) of the national labour and social affairs ministers but also committees such as the European Economic and Social Committee should concern themselves more closely with the impact chain of market creating integration. In order to strengthen a market shaping integration approach, a set of social minimum standards and target figures – depending on national economic development – should be agreed as a European regulatory framework. This would be monitored within a procedure to counter social imbalances that should be included in the European Semester (as has already been discussed at least in a European Commission non-paper in 2013). The most sustainable solution would certainly be the adoption of a social progress protocol with a social clause demanding equal status for social rights and economic freedoms.

The Eurozone Crisis Can Be Overcome Only Through Demand Measures

In the crisis, austerity policy has become disenchanted with its one-sided supply-side orientation. Instead of the success hoped for by imposing such strict constraints, policy-makers have had grudgingly to admit that all the austerity paradigm has managed to achieve is the accelerated collapse of economic cycles in crisis countries. Only from a demand-side perspective is it possible to explain how the vicious circle made up of lower incomes, lower consumption and investments, collective redundancies and company bankruptcies, falling tax revenues and higher debt ratios came about.

Greece's debt ratio illustrates this spiral effect well: in the crisis the public debt ratio rose from 113 per cent of GDP in 2008 to 175 per cent in 2013. Collapsing output caused the debt to increase in relation to GDP – austerity failed to achieve its principal aim. Furthermore, despite the guarantee issued in 2012 by the European Central Bank that it would do everything in its power to sustain the Eurozone, the low interest rate policy has not led to investment activity and rising growth. The Troika's structural reform policies may be able to boost the competitiveness of markets in crisis countries, but they are unable to do anything about the credit crunch or reluctance to invest and consume. This would only be possible by means of a banking union, which does not shrink from transnational transfers.

What is to be done? Already under discussion are exceptions and flexibility with regard to government spending on investment under the terms of the Stability and Growth Pact. Another interesting measure might be to include national investment rates in the scoreboard of the macroeconomic imbalance procedure. Even better would be to allow a European – or at least one coordinated by Europe – investment programme, like the "Marshall Plan" envisaged by the German Trade Union Confederation, the DGB. Germany can be seen as an excellent example, having used a government-backed "car-for-clunkers" premium and a building refurbishment programme to stimulate demand, enabling the German economy to weather the global economic crisis of 2008/9 very well.

The Injustice Debate Demands A Political Response

The increasing tendency of a widening social divide in Europe and increasing inequalities of income and wealth offer many starting points for new political demands. Given the electoral successes of right-wing nationalist parties in European elections, it is a matter of urgency to implement policies capable of reigning in increasing divergence processes in the EU. This will, however, not happen without targeted support for disadvantaged regions and new transnational equalisation mechanisms. It also entails that, at the next review of the multi-annual financial framework, the member states renounce the notion of »*juste retour*«.

However, anyone who wishes to prevent not only the EU's economic and social disintegration but also its political division, increasingly exploited by radical voices such as Marine Le Pen, will also have to give up thinking in terms of red lines. The increasingly evident division of society into a wealthy few and a large low-income majority condemned to eke out their working lives in drudgery and their old age in penury represents a golden opportunity for politicians to make fairness and probity more palatable to the majority of voters by means of specifically targeted taxes and social contributions.

One does not have to elevate Thomas Piketty into a saint, but the hype surrounding his work can be harnessed to lend new impetus to projects for an inheritance and wealth tax – why not coordinate these efforts at the European level? – as well as for a European financial transaction tax, which seems to be at risk of coming to grief in committee meetings in Brussels. It is astonishing that in Europe hardly any politician has taken this up.

The appointment of the new European Commission offers an opportunity, together with the new European Parliament, to replace the faded appeal of austerity, marketization and risk individualisation with new approaches to an EU social dimension. Social policy and economic prosperity are not only closely interconnected but, are also not opposites. Social democrats in particular should recall their history and recognise how a socially just society is also economically more productive. And what was true for the labour movement in the nineteenth century with regard to the establishment of the national welfare state is fully justified for the creation of a European Social Model in the twenty-first century.

The ideas presented here can be found in more detail in the author's publication: Social Europe as a Field of Conflict. Four Challenges and Opportunities to Shape the European Social Model, published by Friedrich-Ebert-Stiftung in October 2014.

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A Binding Social Agenda For The European Union

by Anna Diamantopoulou

The 2014 European Parliament election results revealed a reality that is uncomfortable and challenging both politically and socioeconomically. At the political level, we are witnessing in practice the rise of euroscepticism, nationalism and anti-Europeanism.

At the socio-economic level, inequalities among and within Member States are evident, demonstrable and rising. Considerable institutional deficiencies, high rates of unemployment, slow growth and a gradual weakening of Europe's geopolitical power and significance (compared to other strategic players), are clear, present and undeniable threats.

Despite the aforementioned problems the EU still represents at a global level the European dream; it embodies peaceful coexistence, democracy, human rights, a social state and relative welfare.

The European Social State is one of the EU's most important achievements. All models, the Anglo-Saxon, the centralising, and the southern European, have in their nucleus the basic principle of (at least) a minimum protection of social cohesion.

The economic crisis Europe faced in 2009 endangered, weakened (and still threatens) social cohesion in many countries while it brought to the surface the brewing conflict between north and south. The protection and reform of the welfare state is a national responsibility and priority. Undeniably though, within a monetary union there is a direct interdependence of monetary policy as well as economic and social policy.

The European Commission in the near future should be in the position to propose a binding social agenda (BSA). An agenda that embeds, links and integrates a multitude of policies within a well defined, coherent and comprehensive context and desired targets, in the following areas:

European Labour Conditions: Define the minimum standards for European Labour Conditions taking into account all new forms of labour (e.g. teleworkers, part-time workers) including the following:

- 'A guaranteed wage floor'

- basic social security services
- equal training opportunities

Demographic policies: Demographic change (ageing populations, low birth rates, changing family structures and migration) is one of the major factors shaping Europe's future. Hence, it is imperative to review, re-examine and tailor existing EU policies to prepare for the future. Policies should support demographic renewal by offering incentives and creating better conditions for families while improving reconciliation of working and family life through a "family care strategy", in which childcare has a prominent role. Furthermore, an awareness campaign to explain and communicate the strategy and its benefits to the citizens is an essential step for its acceptance and success.

Re-design of immigration policy: Both the economic crisis and the instability in the Mediterranean region and the Middle East have increased both legal and illegal immigration flows to Europe and we keep witnessing human tragedies in the Mediterranean Sea. It is necessary, to ensure protection of fundamental human rights throughout the European territory, for Europe to review the entire institutional framework of EU immigration and asylum policies by re-examining the Dublin II Agreement. In addition, the adoption of a selective immigration policy of key professionals based on a needs-assessment basis as a European policy is complementary and worthy of consideration. We should also be troubled and concerned by the apparent lack of success of multiculturalism policies as implemented so far in Europe.

European Health Insurance Card: A symbolic and tangible act (very much like the euro) of significance and benefit. Let us envision what Europe would be like if each citizen carried in his/her pocket euro notes and the European Health Insurance Card. This is something that people understand and relate to as they experience it in their daily lives. Almost 200 million Europeans already have the European Health Insurance Card (EHIC), according to the latest figures available (2013). This represents more than half of the insured population in the EU. The number of EHIC holders is steadily increasing, with 8 million more citizens carrying it in 2013 compared to the previous year (+4%). Therefore, let's build on solid ground with an innovative, strong awareness campaign to communicate to European citizens in all corners of the EU the availability and benefits that a cardholder is entitled to.

Improve pension portability: Improve pension portability to facilitate EU worker mobility by setting and implementing minimum requirements for the acquisition and preservation of pension rights for citizens who go to work in another Member State. It is a fair and just policy for people who move from sector to sector or from country to country.

Improve social cohesion: A plethora of voices from Member State premiers via academics to analysts and politicians strengthens the tidal wave to move away from the doctrine in which recovery is primarily seen as a result of fiscal consolidation to a new fiscal adjustment programme. This would not be indiscriminately based on spending cuts alone but incorporate growth-enhancing policies and measures directed towards supporting the unemployed and people on lower incomes. This proposal not only enhances social cohesion but also contributes to the success of the fiscal adjustment programme itself. Institutionally, the aforementioned proposal could be facilitated if Ministers of Employment and Social Affairs participated in and contributed to crucial Ecofin decision-making meetings.

The sacred cow: Perhaps this is the time to sacrifice the sacred cow of subsidizing training programmes and allocate a substantial component of the available funds to a bold and “blanket” way of creating and strengthening an ecosystem of entrepreneurship by funding start-ups and providing necessary training and skills formation.

Towards 2019, and within this 5-year cycle, Europe should be equipped with an agenda and an accompanying roadmap in its quiver to respond effectively to the major global challenges ahead, especially on issues that impact on social equality and solidarity. We should move from well-intentioned, non-threatening wishes and generalities to binding commitments and policies for all! Until now we have proceeded with the European social agenda in a kind of soft and neutral way without strong supporters, foes and opponents. Hence progress may have been hampered. Only binding commitments to implement agreed policies can reverse this course and guide us towards our common future.

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PART II

Changing Course Towards A Social Europe

by Reiner Hoffmann

Joseph Stiglitz, who won the Nobel Prize in 2001 for his work on how markets work inefficiently, was once asked about his opinion on austerity measures.

“It reminds me of medieval medicine,” he said. *“It is like blood-letting, where you took blood out of a patient because the theory was that there were bad tumours. And very often, when you took the blood out, the patient got sicker. The response then was more blood-letting until the patient very nearly died.”* He drew the conclusion: *“What is happening in Europe is a mutual suicide pact!”*

Jospeh Stiglitz is right. The manner in which the crisis is dealt with is likely to be of far-reaching significance to Europe and to the rest of the world. Therefore, it’s about the correct decision on the future direction: On the one hand a Europe based on the logic of commerce and competition or on the other hand a Social Europe that tackles the crisis in solidarity and does not leave the young out in the rain when the going gets tough!

I believe that even the Germans do not live on an isolated island of the blessed. We cannot remain indifferent to how the people in those countries who are affected the most by the crisis are suffering. In the long term, things will only go well for us if they are going well for our neighbours too.

Undoubtedly, we do not need an over-regulated EU which wants to ban the serving of olive oil in dipping bowls or wants to regulate the physical appearance of fruit and vegetables. What we need are better regulated financial markets and we need banks which serve the real economy and are useful for industry. We do not need banks rewarding managers with substantial cash-bonuses for short-term gains, filling up balloons with air and then letting it out again – and getting the European taxpayer to pick up the bill.

Ten Eurozone countries have committed to introducing the proposed European Union financial transaction tax (FTT) by 2016. The FTT and steps towards the creation of a European banking union are major developments for dealing with the current problems. However, it’s not enough! We need further EU action on combating tax avoidance and tax evasion. A competitive approach to cutting company taxes we cannot and will no longer afford in Europe.

What worries me is how little discussion appears to focus explicitly on the human costs of economic crises. The crisis management strategy adopted by politicians, comprising austerity mandates and cuts in wages, pensions and welfare payments, has not only led to a downward spiral in economic terms, but is also having a devastating impact on citizens. Social risks are increasing and individuals and families suffer constant worry. Unemployment – particularly among the young – is sky-high, living standards are falling and signs of the crisis range from soup kitchens in Athens to Portugal's crowds protesting in the streets against austerity.

If unemployment were a country it would be, with 19,2 million inhabitants, the fifth biggest in the EU. In the US, Greece, Italy, Spain, the UK and elsewhere in Europe there were more than 10,000 additional suicides from 2007-2010, a figure that is well above historical trends, with the biggest rises concentrated in the worst performing economies. Greece is in the middle of a public health disaster: HIV, TB, and malaria epidemics will now cost more to control than they would have been to prevent. An increase in infant and child mortality has been observed in Portugal. In Italy, the education system is collapsing - literally. In about half of Italian school buildings, including universities, pieces of plaster are falling off the ceiling, water penetrates walls and floors are giving way. And the youth unemployment rate in Spain has increased to over 50 percent.

Austerity has undermined citizens' confidence in the EU and created high levels of insecurity. Across the 28 EU-nations, the 2014 European Parliament election results painted a picture of dissatisfaction, frustration, fear and apathy. The voter turnout remained low at 43%, the bottom of a long downward trend. The strong electoral performance of the Eurosceptic and far right parties – in particular in France and the UK, where the far right put both the centre-right and socialists to shame – resulted in these parties obtaining more than 20% of the seats in the new European Parliament.

The European election results clearly reveal that Europe is ill (to steal the title of an essay by Perry Anderson in the *London Review of Books*). The symptoms of this illness are apparent – but what can we do to bring Europe out of intensive care? To relieve Europe from the consequences of neoliberal arbitrariness and lack of commitment?

Special weight must be given to German politics. The coordinates in the new grand coalition have shifted from centre-right to centre-left. This is an important change of direction. The grand coalition is marginally more pro-European and less keen on forcing austerity onto the Eurozone.

There is a big difference between therapeutic fasting and strangulation of the patient. The one contributes to recovery; the other leads in the best case scenario to a coma. Andreas Fischer-Lescano, Professor at the Centre of European Law and Politics (ZERP) at Bremen University, presented a legal opinion on the EU's austerity policy. According to him, the EU's austerity policy is unlawful. The European Commission and the European Central Bank are, owing to their involvement in the troika, breaching the primary law of the EU, since the Treaty of Lisbon also includes the Charter of Fundamental Rights. EU countries which approve of the memoranda of understanding in the governing council of the European Stability Mechanism (ESM) are bound to abide by fundamental and human rights, argues Fischer-Lescano, who says the crisis does not render EU law inoperative.

At a national level, constitutional courts objected to this approach , Fischer-Lescano says, citing Portugal as an example. It is therefore important in future to stop decisions affecting everyone being taken in backrooms with no transparency or democratic accountability. The European Parliament has to take action. Decisions must be taken in the interest of all and the troika should be restructured, with a central role to be played by democratically elected institutions. Social dialogue is essential to secure fairness.

A plan for social and ecological change (Marshall Plan) would give hope to people – especially the young – who are losing their jobs and are being thrown into poverty. We cannot allow a whole generation to be robbed of its future. Rescue packages for banks have been created by governments all over the globe. That was probably unavoidable in order to escape even worse circumstances. But at the same time youth unemployment threatens to undermine the very fabric of our society. We do not want and we do not need starry-eyed idealism. The aim is not only to offer economic stimulus in times when regular fiscal policy in Europe is constrained by debt brakes and fiscal treaties, but also to make the European economy more resilient and viable in future.

This is what the DGB's Marshall Plan is all about:

"Europe's ability to compete in the future hinges on investments in the present. Europe has all the resources it needs for this: people, knowledge, innovative power, capital, modern infrastructures, intact public and private-sector institutions, highly developed industrial and service centres, social security systems, a common market and a common currency. All of these things unite Europe. We have to work together to bundle these strengths and use them to transform our societies."

***Reiner Hoffmann** is the Chairman of the German Trade Union Confederation DGB.*

Why We Need More Social Europe

by Colin Crouch

Globalization makes international collaboration more urgent; but it also makes it less likely to happen. Marketization requires social policy, not only to combat the negative effects of markets, but also to support the market with things it cannot provide for itself; but marketization and social policy are usually seen as opposed projects.

For Europeans, confronting these two dilemmas is currently being made even more difficult by the insistence of the British and a few others that the European Union should become little more than a loose trading bloc. This direction of thinking, reinforced by the success of racist and xenophobic parties in the European parliamentary elections, has to be contested and reversed. Concretely, this means that we need a European Social Union, coalescing around the social investment welfare state.

Globalization in a world of competing nation states leads to economic power being wielded at a level that is beyond the reach of democracy, and therefore to dominance of our lives by transnational corporations. We should not seek to deal with this problem by reversing globalization, as that leads to protectionism, economic inefficiency and intensified antagonism among states. Strengthening transnational democracy is needed, but this is very hard, as it requires not just formal institutions but popular sentiment that accepts shared interests across national boundaries.

Sadly, the main impact of globalization on public opinion is exactly the opposite: to strengthen mutual hostility among people in different parts of the world and to encourage politicians to excite nationalist ideologies. This is by no means limited to Europe, as recent developments in India, Japan, the Islamic world and elsewhere show. A powerful, totally cynical manipulation of this tension comes when neoliberals ally themselves with the nationalistic cause, speaking on behalf of national sovereignty when their aim is to prevent political action from reaching the international levels where global economic power can be contested. Europe has at least made a start on building the necessary transnational identities through such institutions as the European parliament. The attack on these institutions has to be repulsed as necessary preparation for a renewed European social policy.

The complex relationship between marketization and social policy also has to be balanced at the European level. There is now a danger of a division of labour, whereby the EU deals with market-making and competition policy, while nation states have sole responsibility for social policy. This must be resisted for two reasons. First, achieving an acceptable balance is difficult enough without it becoming a conflict between different levels of subsidiarity. Second, if European institutions become solely responsible for market-making, they become insensitive to any kind of policy knowledge other than textbook economics. We see this already in the destructive effect of competition policy on countries' abilities to maintain areas of social policy outside the market, and in the assault of the European Court on Nordic collective bargaining.

Frank Vandenbroucke (2014) has recently argued for a European Social Union, by which he does not mean an attempt to produce a single form of welfare state for all EU members, but a means of guiding national welfare states so that they are not used for 'beggar my neighbour' competition, but find their own ways to become examples of the 'social investment welfare state' (Hemerijck 2012; Morel, Palier and Palme 2012). This points to an important way forward, as it advances a European social policy competence while not attempting the old kind of harmonization.

Something of this kind was embodied in the Open Method of Coordination, but that tended to degenerate into allowing all countries to describe what they were doing without any serious pressure to conform to agreed priorities. The social investment welfare state now needs to be adopted as a priority, with countries being seriously questioned about whether their current social policies are really consistent with that concept.

Such an approach would achieve two, ostensibly opposite but in fact mutually compatible, goals. First, adding the achievement of a social investment welfare state alongside the market-oriented priorities of the competition directorate, the European Court, and the narrow goals of austerity policies for countries in difficulties would protect Europe from the neoliberal hegemony that is threatening to overwhelm it. But second, countries would not be left free to pursue regressive and economically unhelpful social policies as was happening in much of south-west Europe in the years before the Eurocrisis. Development of knowledge within the Commission and other EU institutions of the constructive role that social policy can, and in many countries does, play would have a healthy impact on how the Union develops in the coming years.

It can be contested that none of this will help combat the xenophobia sweeping through Europe. However, it is wrong to interpret the rise of the far right as something that results from European integration; similar movements have become powerful in Norway and Switzerland, outside the

EU, as well as in other parts of the world that I have mentioned. *The issue is globalization, not Europe*. And part of the new xenophobia can be explained as a reaction to Islamic terrorism, which is itself another reaction to globalization. Social policy at any level cannot claim to hold the answer to all these ugly developments in today's world – though it remains true that a population that has the security of a strong welfare state should be less prey to the fears and uncertainties that give the far right a major part of its appeal.

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The Three Challenges of Social Europe

by Iain Begg

Because of the depth, intensity and duration of the series of crises that have affected the EU over the last five years, fire-fighting and action to reform the institutional framework for economic governance have dominated the policy agenda. It is little surprise, therefore, that 'social Europe' has lost traction, although, as Bart Vanhercke has argued, rather more has gone on 'under the radar' than is sometimes acknowledged.

Gradually, the acute phase of the crisis is passing, though multiple economic fragilities and political risks persist. By contrast, the social legacy of the crisis is increasingly being recognised as a major new policy challenge that will have to be confronted. In parallel, the EU will have to contend with long-run transformations resulting from ageing of the population and from societal change.

As findings from the NEUJOBS project show, the transitions in prospect will require a comprehensive policy response. Although there has been a spate of EU initiatives in response to evident social challenges such as youth unemployment or the incidence of poverty, it is unrealistic to expect these interventions to make much of a difference rapidly, even if they can be thought of as the right direction to take. Moreover, as I explain elsewhere, there are too many respects in which EU policy is prone to be tangential to the real policy debates and of too little consequence to have much impact.

Thus, although a social dimension is prominent in the Europe 2020 strategy, the strategy as a whole seems to have been side-lined compared with the more pressing business of the eurocrisis or because of the degree of policy attention commanded by the European Semester. Also, as the EAPN (in its response to the 2014 public consultation on the future of Europe 2020) and others have stressed, there is an imbalance within the strategy between measures aimed at growth, competitiveness and jobs and the apparently much lesser weight given to social cohesion.

Looking beyond the immediate problems associated with the aftermath of crisis and even of the medium-term aims of Europe 2020, three broad facets of social Europe deserve attention. The first is that low and erratic economic growth has become a fundamental challenge, not just because it restricts the resources potentially available for the welfare state, but also because it calls into question the role of the state in mitigating risks. It cannot be efficient for the state to step back too far from social matters because of the need for fiscal consolidation. Macroeconomic and fiscal sustainability, in other words, appear to be a constraint on social sustainability. Yet in some ways the reverse is also true, insofar as adaptation of the social model is necessary for a more sustainable macroeconomic position, a proposition central to the logic of social investment as a supply-side policy. It is clear, though, that the pace and direction of welfare state reforms varies significantly among EU Member States, potentially storing up future problems. These will be all the more serious to the extent that they are concentrated in those countries facing the greatest difficulties in dealing with the new demands engendered by the crisis.

Second, social change calls for reappraisal of how policies are funded, targeted and delivered, as well as of the model that underlies them. For example, an ageing population will place new demands on the health and long-term care sectors, much of which is met by the provision of social services of general interest (SSGI). However, these services face constraints over and above funding. NEUJOBS research has shown that the workforce in these sectors – predominantly female – is itself ageing, with the implication that ensuring a future supply of labour will have to take account not just of a growing demand for such services, but also a high rate of replacement of existing workers. There are several plausible ways of meeting this demand, but they pose further social challenges. Examples studied in the NEUJOBS project include how to facilitate active ageing, effective work-life balance policies to reconcile work and parental and other care obligations, immigration and the inclusion of the most disadvantaged groups, including ethnic minorities such as the Roma.

Third, as a paradigm, rather than just a list of policy preferences, social investment appears to offer a way forward for a revived European social model. But in developing its practical application in the EU, the legal and institutional framework would benefit from some clarification. There is ambiguity about the degree to which the approach acknowledges rights alongside obligations. There will also be issues around the means by which social policy interventions are delivered. For SSGI, for example, the balance between public and private provision and the associated impact on access to services will have to be addressed.

A more social Europe has, in the past, been viewed through the lens of distributive politics and, latterly, as part of the debate around austerity policies. But long-term transformations also have to enter the discussions and become part of the narrative of defining what the EU is for.

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The Real Social Challenge Is Kickstarting Growth

by George Pagoulatos

It is impossible to meaningfully address Europe's social challenges for the short, medium and longer term without addressing the central challenge of economic growth. We are now in a situation where adverse longer-term trends are nested in a highly unfavourable current and medium-term economic environment.

What are the longer-term dynamics? Over the next few decades, economic growth will be slowing down in the developed economies of the EU. Ageing, rising health and pension costs, the cost of cleaning up the environment in advanced, service-based economies that are inherently not prone to high rates of growth; such macro-trends will be negatively affecting longer-term economic growth, unless reversed. In addition, following the 2008 crash, the financial sector is not likely to re-emerge as a driver of growth as it did in the fast-growth episodes up to 2008. There will perhaps be fewer unsustainable bubbles, but also less growth.

These long-term trends threaten to take their toll in a European and Eurozone economy that already finds itself in a situation of great vulnerability, after 6 years of continuing Eurozone crisis. An average unemployment rate of little below 12% disguises intolerable levels of joblessness, long-term unemployment and youth unemployment in the crisis-stricken Eurozone South.

The Eurozone is already facing a lost decade, lagging behind every major global economy. Policies of front-loaded fiscal consolidation have left welfare states in the economically weaker countries severely underfunded. According to the OECD, the number of people living in households without any income from work has doubled in Greece, Ireland and Spain, and has risen by 20% or more in Estonia, Italy, Latvia, Portugal, and Slovenia. Fertility rates have dropped further since the crisis, deepening the demographic and fiscal challenges of ageing.

There are long-term implications from these trends regarding people's long-term health, education and upward mobility from low-income families. It is also highly likely that many of the people unemployed for a long period of time will never again be able to gain proper access to the job market and build a normal career track. The enduring effects of the crisis are threatening to consolidate vicious cycles of low growth, high debt, austerity, declining productivity and stagnation. These developments carry heavy implications for the future growth prospects of the European economies, for future prosperity, and for the sustainability of pension systems and welfare states. They must be urgently reversed.

What is needed is a policy mix that would assist fiscal consolidation, economic adjustment and structural reforms in the economically weaker countries, starting from a higher average inflation rate in the Eurozone. A nominal GDP growth rate around 1% or below means that the debt burden, public and private, in the highly indebted Eurozone economies will be growing further, eventually becoming unserviceable. An average inflation of 0.5% in the Eurozone also means that the economies of the Eurozone South are forced to rely on deflation in order to restore cost competitiveness vis-à-vis the core.

The Eurozone economy needs an urgent countercyclical stimulus, which should be provided via an EU- or EMU-wide investment stimulus. There is now a large investment gap in the Eurozone, including Germany as well as the crisis economies, as a result of public investment spending cuts, private sector deleveraging, and the credit crunch. Close to zero interest rates present a once-in-a-generation opportunity for massive investment to generate the infrastructure and productive capacity that would allow the European economies to grow and to successfully compete globally for the next decade. The Juncker plan, in that respect, has been underwhelming, as it presupposes an overoptimistic leverage ratio of private sector participation to deliver its headline effect. Investing in European public goods such as trans-European networks and infrastructures (energy, telecoms, digital networks reaching remote areas where the private sector is not inclined to invest) would enhance Europe's growth potential and deepen the single market.

A true recovery programme is necessary – and urgent – in the Eurozone member states that are currently suffering intolerably high unemployment, at over 25% in Greece and Spain. Productivity-enhancing structural reforms in these countries must be combined with large-scale investment in education and research, new technologies, networks, health, energy, environmental sustainability and the business environment, all of which would strengthen longer-term competitiveness.

Apart from being an explosive socio-economic and political problem, long-term unemployment is a terrible waste of human capital, undercutting the productive capacity and future growth potential of the economy as well as eroding welfare state capacities. It is vital to maintain the employability of the unemployed, especially the long-term unemployed, by making sure that active support and training is extended and social safety nets are funded, to avert marginalisation.

Prolonged unemployment and exit from the labour market in crisis countries has led to further divergence on the now overambitious 75% employment target (persons aged 20 to 64 in employment) of the Europe 2020 agenda. The EU must seek to raise the employment rate, especially in member states at the lowest tier (Bulgaria, Greece, Hungary, Ireland, Italy, Portugal, Romania, Slovakia and Spain). The employment rate should be enhanced by better policies of skill-building and life-long learning, social policies to support full participation of women in the labour market, and a dynamic immigration policy, integrating larger number of immigrants into the labour market. National structural reforms will need to carry the brunt, but without a supportive macroeconomic environment and policies at European level, they become socio-politically unattainable.

Addressing the social challenges of 2019 means tackling the growth challenges of 2015 and beyond. Restoring an environment conducive to growth, that will be able to stabilise the spending side of social welfare, support its revenue side, provide sufficient safety nets and productively reintegrate the losers of market competition, is the key challenge of today.

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How To Create A Real European Social Market Economy

by Stefan Collignon

Europe’s citizens are torn between the European integration project, which requires market liberalization and competition rules promising greater welfare, and national welfare states, which are the framework for redistributive policies and provide social protection. Yet, the European Union is not averse to social welfare. The European model aims for “a highly competitive social market economy” (art 3, TFEU) but it’s anybody’s guess what that means.

A (not so) Benign Myth

Many commentators such as Fritz Scharpf point to “the asymmetry between policies promoting market efficiencies and policies promoting social protection and equality”. However, attempts to Europeanize social policies are constrained by differences in economic capacities, divergences in national policy preferences and the diversity of national welfare models.

While Europe still promises improved living standards in the poorer countries by raising economic efficiency and allowing individuals to move freely to regions with higher earning potential, European legislation is often seen in rich welfare states as outside interference with cherished national systems, leading to social dumping and lower social standards. However, while the nation state has been the framework for achieving greater social justice, the view that it still guarantees the protection of welfare in Europe has become a benign myth that hides the often destructive effects of national governments protecting the selfish interests of powerful elites.

In defining a European social market economy, it helps to distinguish between competitiveness and competition. Competitiveness is the battle cry of many policy makers, often dressed up in questions like „what kind of bitter medicine is needed to restore the EU’s competitiveness?” They explain Europe’s crisis by macroeconomic imbalances caused by lack of competitiveness in mainly southern member states of the Euro Area. Their remedy then consists in harsh austerity policies with the aim of reducing spending, increasing national savings and improving cost competitiveness, so that current account surpluses serve to repay “national” debt. (It does not always work out that way: for example, unit labour costs have increased in

Greece because austerity has lowered GDP by 30 percent since the beginning of the crisis, which has translated into lower productivity.)

The obsession with competitiveness has caused near-fatal damage to the Euro. It is wrong. The fallacy of the argument consists in thinking that a monetary union is some kind of fixed exchange rate system, where countries go bankrupt when they run out of foreign currency. The reality of a monetary union is that no member state can ever “run out of money”, because money is provided by the European Central Bank on equal terms to all banks in the union. Euro debt is no “foreign debt” for member states. What matters for debt sustainability, nationally and individually, is not balanced current accounts between member states, but balanced economic growth in the currency area.

The macroeconomic imbalance theory, with its policy implications for competitiveness, confuses economics with politics. Economically, the currency area is the nation; politically it is not. This is the core of Europe’s crisis. The governments of supposedly “sovereign” states act as they believe their voters wish them to act. But national constituencies only represent a small part of the whole population, while their acts have consequences that affect everyone. Take the resistance of the German government to bailout crisis countries or take the uncoordinated policies of the old Karamanlis and the new Tsipras governments in Greece: they all caused havoc in the financial markets that nearly brought down the Euro (Syriza might still succeed in killing it off if it persists in its sovereign-ist nationalism). To preserve European welfare, nation states ought to cooperate. But there are reasons why they don’t.

The Whip Of Scarce Money

Competition ought to be distinguished from competitiveness. The Merriam Webster dictionary definition says competition is “the effort of two or more parties acting independently to secure the business of a third party by offering the most favourable terms”. This can be interpreted in two ways. A nasty reading sees competition as the opposite of cooperation when competitors strive for goals that exclude the other and therefore create winners and losers. However, most economists since Adam Smith have recognized competition as a source of prosperity for all, because it lowers monopoly rents, breaks down regional inequalities, fosters innovation, introduces new products into old markets and causes good management.

This philosophy has successfully inspired the creation of the single European market. However, competition is not without problems, for it raises issues of social justice, namely who is gaining most and are the losers compensated? In a social market economy, no one ought to become worse off.

If a market economy is based on competition, it must fulfil certain conditions. Most importantly, money must be scarce. In the aggregate this implies that most markets, with the exception of the money market, are "buyers' markets": That "the customer is king" means that who has money is in command. To secure business, suppliers must offer "the most favourable terms" and that pushes them to improve the quality of their products and services, increase productivity and raise economic efficiency. Thus, in the long run, the scarcity of money is the whip that generates the sustained improvement of welfare and prosperity.

Democracy v Kleptocracy

While necessary for generating competition, the scarcity of money is not a sufficient condition for a *social* market economy. Money imposes either/or choices. If I manage to get your order and your money, my competitor will lose out. Money, therefore, creates winners and losers. In theory, losers can be compensated if the system as a whole generates net gains, but that implies that the winners have to give up some of their advantages.

However, in a "free", unregulated market economy, the winners can successfully resist this redistribution. They become rent-seeking agents who will distort the functioning of the market mechanism. Traditional elites control the state apparatus by setting up *extractive* institutions in which "small" groups of individuals do their best to exploit the rest of the population. These rent-seeking elites destroy the market system by corrupting officials and creating kleptocrats which serve their interests because they demand less redistribution than the equalized compensation of all losers would require. The extent to which they can do so depends on their power in markets and in politics.

Only the countervailing power of democratic politics can prevent this deterioration of "free" markets into crony capitalism. For democracy is an *inclusive* institution, in which all citizens have the *equal right* to participate in the process of decision making, hence in determining the extent of redistribution and compensation. A well-functioning democracy is therefore a source for legitimating market economies.

An Intergovernmental Galaxy

But here is Europe's problem: while the single market with the single currency will improve wealth creation in the medium and long run, it will also increase inequality and generate winners and losers. Yet, there is no European government that could legitimately compensate the losers of European integration. The awful haggling over net contributions to the EU budget is only one of the visible failures of serving the interests of *European* citizens who have simultaneously *European* and *national* interests.

The European market economy is regulated by an intergovernmental galaxy of national governments and bureaucrats, with a very small "umpire superstructure": the European Commission. The crux of this governance is that tiny coalitions have veto power to block all initiatives that would force them to give up unfair gains and privileges. These privileges are often anchored in the interests of local elites, although they are usually dressed up as "national interest". The EU is therefore increasingly behaving as an *extractive institution* that violates the fundamental norms of justice and fairness.

The integration of the European market is not sustainable in the long run without "*inclusive institutions*" that can compensate losers in the single market. But if it fails, the benefits of a large market disappear. Small may be beautiful and quaint, but it does not ensure the prosperity and social welfare Europeans are accustomed to. As James Madison recognized already 227 years ago, only a federal government with full democratic control can successfully withstand the pressures from national states which are hijacked by partial interest.

The Fallacy Of Nationalism

The single most important contribution to revive Europe would be starting a wide debate about who are the winners and losers in the single market; who are the extractive elites that resist a fair distribution of advantages and privileges? How is the idea of sovereignty (mis)used as an instrument to protect these elites? What mechanisms must be designed to create a fair system of distributing the net gains from integration? How can one overcome the veto power and "agency capture" of national governments by local pressure groups? The European social market economy – with new institutions – must emerge from these debates. Without them, it will fail.

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Reducing Inequality: Social Europe And Cohesion

by Michael Dauderstädt

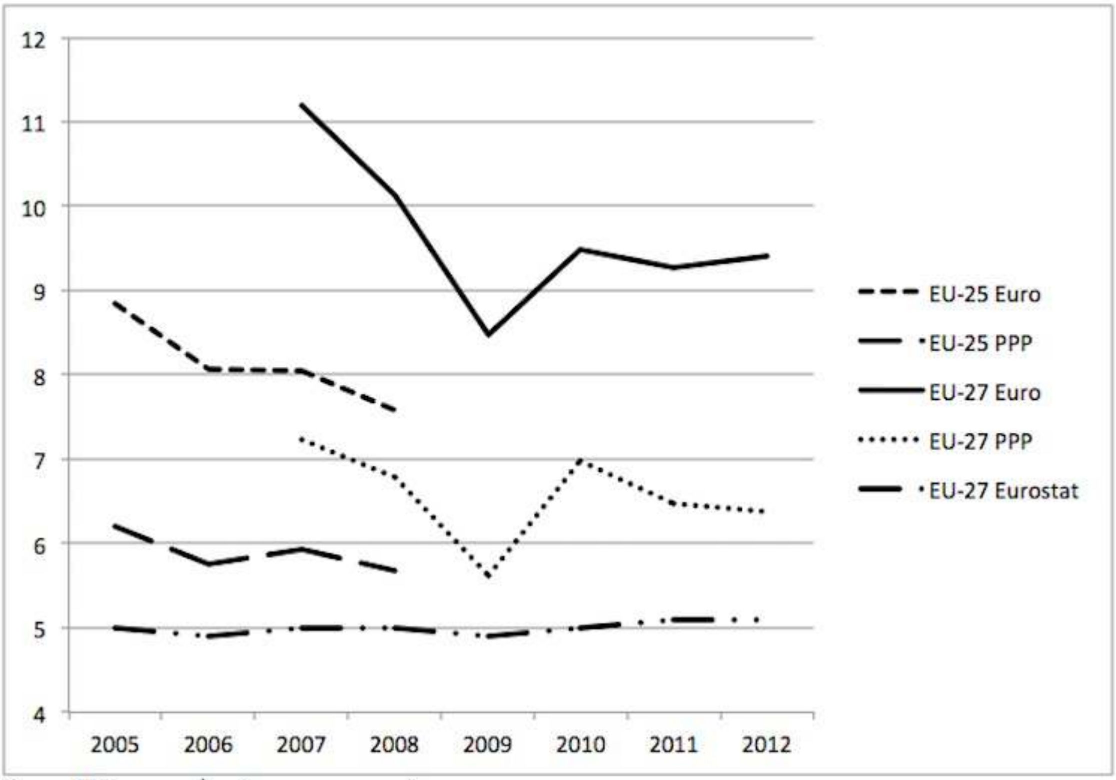
'Social Europe' implies for most experts the development of national welfare states and their protection against the forces of globalization and international competition as most contributions to the present project show. This emphasis has its strong merits as peoples' welfare depends to a large extent on the growth of their national economies and on the capacities of their governments to redistribute income and provide public goods and services. European integration was supposed to improve growth and state capacities, but has often failed to do so.

But, if we consider Europe as a whole, the task of reducing inequality and making Europe more equitable becomes more complex. Inequality in Europe has two dimensions: (i) disparities between the member states of the European Union (EU) measured in terms of per capita income; (ii) disparities within countries often measured by the ratio between the incomes of the richest and the poorest quintiles (= 20 percent) of the population (quintile ratio S80/S20). A more social Europe requires both, reducing inequality within and between countries.

Inequality in Europe

In order to achieve an appropriate estimate of inequality in the EU as a whole we need to take both dimensions of inequality into consideration. This is possible by assessing the S80/S20 ratio for the EU as a whole, which has been done for the years 2004-2012 (Dauderstädt and Keltek 2014). As figure 1 shows, this ratio ranges between 9 and 10 (in terms of exchange rates) or between 6 and 7 (in terms of purchasing power). Due to the large disparities between countries it is much higher than the average S80/S20 ratio of member states which is around 5 (a value, which Eurostat reports falsely as the S80/S20 ratio of the EU; lowest curve in figure 1). By comparison, other major economies, according to the UN Human Development Report, have mostly lower values of 4.9 (India), 7.3 (Russia), 8.4 (United States) and 9.6 (China).

Figure 1: Development of inequality in the EU



Note: PPP = purchasing power parity. Source: Dauderstädt and Keltek 2014

But Europe's high inequality, systematically underestimated by the EU, has been falling for many years thanks to catch-up growth in the poorer countries and despite often increasing inequality within member states. On average the economies of the poorest 15 countries have grown in nominal terms (at current prices) three to four times as rapidly as those of the 12 richest member states. As a result, in 2008 they had an average per capita income of almost three-quarters of the EU average, while in 2000 it had been below two-thirds. The per capita income of the richer countries remained at around 30 per cent above the EU average. In the same period income distribution within countries has deteriorated only slightly in the EU on average, from an S80/S20 ratio of a little under 5 to 5.1. In some countries inequality has fallen (for example, in Poland, Portugal and the Baltic states), while in others (for example, Greece and Spain) it has risen sharply.

The Consequences of the Crisis and Austerity

Crisis and austerity have curbed this convergence process, however. After inequality rose again during the great recession of 2009 and the subsequent brief recovery, things are now going sideways in the context of generally weak growth. The global financial crisis and the recession triggered by it have affected EU countries differently. Between 2008 and 2009 growth fell on average by 6.4 per cent in the 12 richest member states and by 8.2 per cent in the 15 poorest member states. This largely explains the resumption of rising inequality. Especially countries with high external debts, such as the Baltic states, plunged into deep depressions, although they differed in length and severity. The GDP falls in the Baltic and other post-communist countries were dramatic, but fairly short (see Table 1).

Table 1: Crisis and recovery: central and eastern Europe and the GIPS countries (percentage change in per capita income)
Source: Dauderstädt and Keltek 2014

	2008-2009	2009-2012
Latvia	-18.1	+ 26.7
Lithuania	-16.8	+ 31.0
Estonia	-14.0	+ 25.0
Poland	-14.7	+ 22.2
Romania	- 15.4	+ 12.7
Hungary	-13.3	+ 7.7
Czech Republic	-8.1	+ 7.4
GIPS:		
Greece	-1.4	-16.1
Ireland	-10.7	-0.3
Portugal	-1.9	-1.9
Spain	-4.6	-2.2
New member states (CEE)	-10.9	+16.3
12 richer member states	-6.4	+10.5

The subsequent euro crisis, which was triggered primarily by the EU's disastrous reaction to Greece's unexpectedly high debts, stopped the economic recovery that started to emerge in 2010 dead in its tracks, especially for the GIPS countries (Greece, Ireland, Portugal and Spain), which at first had not been so hard hit (see Table 1). In contrast to the generally even poorer new member states from Central and Eastern Europe, they were unable to return to growth because of the implementation of drastic austerity policies. Nevertheless, the relatively good growth performance of the poorer countries of Central and Eastern Europe (CEE), despite the crisis in those euro countries implementing austerity policies, was enough to cause inequality in the EU as a whole to fall again slightly or at least not to rise further.

The future development of inequality and cohesion in the EU will depend on the extent to which the east and the southeast continue to grow and the euro crisis countries emerge from the pit of austerity. Inequality in the EU will be determined more by the catching-up of the poorer member states than by improving the income distribution within countries. A return to growth, above all in the GIPS countries, is key here. But it is primarily inequality within countries that causes concerns and political repercussions. Wage growth in line with productivity growth, fairer and more efficient tax policies, and better targeted social spending are necessary to reduce inequality within member states. However, reducing disparities between countries would mitigate pressures on the richer welfare states because rising incomes in poorer countries would weaken low-wage competition and immigration.

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A New Social Agenda For The Next Five Years

by Erika Mezger

"Today Europe is boredom… it is submerged by numbers and without soul. As long as Europe cares more about fishing rights than human beings swimming in our seas Europe has no soul." (Renzi 2014)

The same Prime Minister of Italy states rightly: "Europe is the answer, not the problem". So what has to be done to make sure that the social integrity of Europe will be further developed and strengthened? Based on the findings of the current mid-term review of the EU 2020 strategy, some guidelines are needed to frame and refocus the policy agenda.

There is increasing divergence in the performance of Member States and increasing social inequalities. And the social consequences are clearly visible.

Inequalities are underplayed greatly in the original strategy. Poverty is of course quite prominent but this is a more specific and limited issue. Inequality in the mid-term review document is mentioned as "increased difficulty of addressing the challenges facing the European Economy" – thus purely a pragmatic political concern. One issue of inequality is that it can put at risk social cohesion but more importantly it threatens the existence of the market economy – see Marx, Keynes and now Piketty etc.

In order to tackle this issue, the EU has to embrace the case that inequalities are bad for capitalism. It could for instance introduce an inequality goal as part of the European Semester (ES). The EU is a vital player in the potential redressing of inequalities. Wealth and inheritance taxes can only be dealt with in the global context as is the case for tax havens. This is also very close to home – how can we permit Lichtenstein and Luxembourg to carry on in this regard?

In this context the **social dialogue** is essential in maintaining some balance in the distribution of income and wealth. Agreements about wages and working conditions based on social dialogue – the dialogue between organised labour and organised employers – are likely to have a better outcome for distribution than atomistic capitalism.

The focus of the debate around risks of poverty and social exclusion has almost exclusively been upon the income dimension. For many “at risk groups” but particularly young people, isolated older people and the long-term unemployed, public policies must become more concerned with promoting involvement in civil society and social engagement. In some ways this amounts to refocusing and renewing the principles behind the **Social Investment Package** (SIP/2013) and the Beyond GDP Initiative.

Social progress demands greater attention to support for families with children, especially through investment in affordable and high quality childcare. Early investment in the well-being of children is crucial for their development and transition into adulthood. A suite of family policies building on universally available support to families with children is the foundation of the most successful systems.

The welfare and future productivity of **children** is the most important strategic long-term issue for Europe. It is the only sustainable means of dealing with the enormous competitive challenges facing Europe and that which will guarantee real social inclusion via social investment.

Europe is not on track to reach the **employment** goals of EU 2020 either. Achieving the goal of EU 2020 demands greater involvement of women, people with disabilities, migrants and older people in the EU workforce. Much remains to be done to enable and promote working by those aged 60 and over.

Poor health is a major barrier to participation in the workforce but has attracted less attention than it deserves. It is a difficult area involving healthcare professionals, employers, and public employment services but there are examples of promising practice and successful initiatives. There also appears to be a need for clearer discussion of both the mechanisms and merits of service provision in public, non-for-profit or private sectors. This requires a more coherent policy on **(social) services** of general interest.

Youth unemployment is tackled by the Youth Employment Package (2012) which included the Youth Guarantee, the European Alliance for Apprenticeships, the Quality Framework for Traineeships, and measures to reduce obstacles to mobility among young people. The aim is that all young people under 25 get a good-quality offer of a job, an apprenticeship, a traineeship or the chance to continue their education within four months of leaving formal education or becoming unemployed. There is an urgent need to efficiently roll out the youth guarantee programmes, and a personalised approach and preventive measures are an essential part of them. In at least eight Member States, where youth unemployment is particularly high and where there are serious implementation problems, more decisive action is needed. If the monitoring by the ES (Economic Semester) and sending country specific recommendations (CSRs) to the eight countries will help to improve delivery is at the very least questionable.

A recent paper shows that CSRs issued in the context of the ES are often not very specific and frequently not implemented. Small countries appear to overreact but only in terms of process not outcome. Preferring process to outcome is maybe the main criticism – and it is the most annoying aspect of the EU as a whole.

To give Europe its soul back “something different” seems to be needed.

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Social Europe Needs A Positive Vision

by Robin Wilson

In his magisterial *One Hundred Years of Socialism*, Donald Sassoon described how, under the influence of the 19th century German leader Karl Kautsky, the European social democrat movement embraced a mechanistic scheme by which the immanent crisis of capitalism would somehow issue in a transition to socialism. This conveniently offered a reassuring fatalism about the future and a legitimation of cautious reformism in the meantime.

The crucible of war, factory occupations and the rise of fascism led the imprisoned Italian communist leader Antonio Gramsci to the sober conclusion, however, that following such a crisis 'morbid symptoms' would appear. Radical change in Europe – 'The People's Home!', 'a National Health Service' – stems from popular hope, not fear. If only more on the contemporary European left had understood its 20th century history they would not have been so shaken when the biggest crisis of capitalism for three quarters of a century did not automatically lead to a left-wing revival.

Indeed, quite the contrary, with the same deflationary austerity - whose imposition in pre-war Germany fuelled the rise of Nazism - being dogmatically re-presented, in the manner of medieval medical leeches, as the only remedy for the crisis and with the main challenge to that discourse – outside of Spain and, partly, Greece – coming from the populist radical right. This new authoritarianism is not just manifested in anti-system leaders like Marine Le Pen of the *Front National* but in the nationalistic 'illiberal democracy' trumpeted by office-holders like Viktor Orban in Hungary, Recep Tayyip Erdoğan in Turkey and of course Vladimir Putin in Russia.

'Social Europe', in that context, has proved far from an enduring *acquis* and in hindsight more a brief, western-European historical interlude in which the moderate Christian-socialist Jacques Delors sought, as European Commission President, to balance the drive towards the 'single market', in which national democratic regulation was cast as illegitimate 'state aid' – without, crucially, reregulation at a European scale of the transnational genie now out of the bottle.

Indeed, so far has the discourse been transformed by the loss of regulatory instruments that the left is now fighting a rearguard action against the proposed Transatlantic Trade and Investment Partnership (TTIP), hoping to remove the investor-state dispute settlement clause. This would give transnationals the power to sue mere democratically elected governments for having the temerity to believe those national levers of regulation remained in their hands.

The commemorations this year of the onset of the first world war remind us of just how debilitating was the split in the European left as 'national' socialist parties followed 'their' competing imperialist powers. The demise of internationalism as a founding left-wing value, while apparently unproblematic in the *trente années glorieuses* of Keynesian demand management and expanding welfare states, is now, a century on, really coming home to roost.

True, the European Parliament elections last year for the first time saw a genuine transnational personalisation of the contest, in the shape of Martin Schulz as social democratic candidate for the Commission presidency, but the Party of European Socialists remains a thin carapace over the national parties, some of whom – again particularly in Spain and Greece – have been hopelessly tarnished by their association with austerity in office, while others – especially in south-eastern Europe – have been tainted by corruption.

The European left desperately needs a political project which can take the form of a portmanteau banner behind which all can rally and which can resonate in the European public sphere, yet can be subject to further national, regional and local specification. The 'Good Society' discussions, involving intellectuals and activists from across the continent and supported since the onset of the crisis by the Friedrich-Ebert-Stiftung, have provided a helpful umbrella for that project to emerge.

Reregulation at the European level involves key measures to place a precarious labour market on a more secure foundation, notably a Europe-wide minimum wage, the extension of the already-agreed youth guarantee to adults and the outlawing (as in the Netherlands) of zero-hours contracts. Measures such as these can stem a race to the bottom – including the exploitation of immigration in the enlarged EU by cowboy capitalists and the political exploitation of that in turn by the populist xenophobes.

Reregulation also entails constraining overblown financial capital through the long-awaited financial transactions tax. And it requires an ecological modernisation of industrial capital, driven by replacing the ineffectual, market-based carbon-trading scheme by an effective EU-wide carbon tax.

The revenues arising can be the nucleus of the fiscal capacity essential to give Social Europe real meaning. The new Commission President, the centre-right's Jean-Claude Juncker – tainted by his association in office with the beggar-thy-neighbour tax practices of his native Luxembourg – has advanced a €315 billion investment package but with utterly implausible assumptions as to the multiplier effects of a very modest public pump-prime.

Fiscal and monetary policy must be taken off the leash if Social Europe is to become more than rhetoric. The economically illiterate fiscal brakes on member states must be removed to allow borrowing for public investment and measured fiscal consolidation. And the mandate of the European Central Bank must be liberated from pursuit of the scourge of non-existent inflation to become a lender of last resort with a commitment to full employment across the eurozone.

Most enticing in this context is Giacomo Corneo's idea, advanced at the latest Good Society discussion in Berlin, of rethinking a transition to socialism as the accumulation of *public* capital through sovereign wealth funds. As Henning Meyer has extended it, a European fund could be a powerful symbol of stability and force for recovery.

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Daunting Challenges On The Road To A Social Europe

by John Palmer

Any serious "Roadmap to a Social Europe" must be unflinchingly honest about the immense challenges travellers will face on the road. To get from where we are today to a sustainable economy generating quality jobs, eliminating poverty and radically reducing the obscene wealth gap in modern European society, will demand political courage, intellectual imagination and a capacity for popular mobilisation not seen for more than a generation.

The debate about a Social Europe alternative to an *über-financialised*, neo-liberal capitalism focuses almost exclusively on an alleged policy deficit on the left. But there has been a torrent of alternative economic, environmental and social policies proposed in recent years. The most worrying deficit is moral and political rather than policy.

The route to a Social Europe does not begin from a point of our choosing. The European Union economies are still only emerging from the deepest world capitalist crisis since 1929 (or maybe since before 1914). The tentative recovery remains feeble and is potentially vulnerable to collapse.

The enormous debt burden, which so many European Union governments incurred when they were persuaded to "bail out" the banks, is still growing. So large is this debt overhang that it could yet abort the nascent recovery and even trigger a new downturn.

Euro-area/EU governments persist with their destructive "austerity" strategy – despite clear evidence that it is not working. Only the emergency action taken by the European Central Bank, which has flooded the system with cheap credit, has prevented a slide into outright depression.

But ultra loose monetary policy has not so far restored the "animal spirits" of investors without whose active intervention any recovery will remain suspect. The insight of John Maynard Keynes that dependence on loose monetary policy to overcome a depression is *"like pushing on a piece of string"* has been validated again.

The political and trade union forces of the labour movement are in a sadly weakened condition. Moreover, European social democracy seems to have lost its political bearings and a sense of what its mission really is. Many centre-left parties have lost much of their mass membership base as well as the unquestioning support of a loyal electorate.

More generally, both the centre-left and more radical parties further to the left, have failed to engage the wider public. In particular they have been unable to relate to the new social movements which have shown a remarkable ability to bring vast number of people into the streets demanding change.

Class remains an appallingly disfiguring feature of society. The grotesque wealth inequalities between the ultra rich "1 per cent and the rest" now threaten to become even more intolerable, as Thomas Piketty has warned in his recent magnificent study.

One of the clearest and most comprehensive statements of what needs to be done to transition to sustainable growth, quality jobs and social justice can be found in the 2014 Memorandum Group of European socialist and Green economists. Many of their proposals are also echoed by other economists and policy experts.

At the heart of their alternative strategy is the demand for a European audit of "unsustainable debt" leading to some outright debt cancellation and "an orderly rise in wages." It also calls for much tougher regulation of a bloated and unaccountable financial system and taxation on the wealth and incomes of the richest.

Of course at a Euro-area/EU level there is also an urgent need for a European Social and Green New Deal spearheaded by a massive programme of investment, particularly in the hardest hit southern European economies. This should be financed by collectively guaranteed European credits.

The success of radical new parties of the left in the European Parliament elections – notably Syriza in Greece and Podemos in Spain – shows some promise for the future. But a political breakthrough across Europe to reverse austerity demands a broad coalition of progressive forces – backed by popular mobilisations. And, yes, the way forward will also require closer European integration.

There can be no evading an all-out confrontation with the ideological evangelists of austerity – not least in Berlin. But some in the German coalition may now better understand the enormity of the risk being taken with the present strategy.

In Britain, alas, Prime Minister Cameron's pantomime campaign to block Jean-Claude Juncker as Commission President was designed only to remove many of the limited protections for workers provided by EU law. The chilling reality is that if the left cannot tap the anger and alienation of so many people in our societies, then the hard right and the neo-Nazis now emerging from the shadows behind them may think their hour is coming.

John Palmer *was the European Editor of The Guardian and then Founder and Political Director of the European Policy Centre. He is a Visiting Practitioner Fellow at Sussex University's European Institute and a member of the Council of the Federal Trust in London.*

The Inequality Of Life And Death

by Göran Therborn

There is no more urgent social task in rich countries than to tackle vital inequality: the inequality of life, health, and death. European welfare states have handled many social issues posed by industrial capitalism. They have been most successful in dealing with old age poverty, much less so with child poverty. Inequalities of child development, of educational opportunities, and of adult life-course chances are enduring.

However, there is nothing like the failure even of generous, universalist welfare states to reduce inequalities of life itself, i.e. of life and death expectancy. The best historical data available, from England and Wales, show that the gap of years on the earth between people of different social classes actually widened from the years starting just before World War I and then again from the mid-1990s.

Currently, the gap continues to widen in a number of countries. In the UK for instance, between Glasgow and the London borough of Chelsea and Kensington by more than a year between 2004-6 and 2009-10 to twelve years, and among the London boroughs by four years from 1999-2001 to 2006-8. In Sweden, the gap between groups of low and high education grew from 2-3 years in 1986 to five years in 2007. Class differences of life expectancy beat or equal national ones.

On an international average level, the global gap in 2010 between the rich country group and the UN set of “least developed countries” was 27 years, between Sierra Leone and Japan. Between two parts of the Glasgow conglomeration it was 28, between Calton in the eastern periphery of the central city and the leafy suburb of Lenzie. Between the most prosperous Swedish municipality of Danderyd, a northern suburb of Stockholm, and the poor one of Pajala, in the far north, the average male life expectancy shortens by 8.6 years, slightly more than the life expectancy gap between Sweden and Egypt.

Most of this widening gap is driven by longer lives among the upper and upper middle classes. However, in the USA and even in a well-organized society like Finland, there is currently an absolute decline of the life expectancy of the most disadvantaged. Death rates at ages 35-64 increased considerably for the poorest fifth of Finnish women between 2004 and 2007, i.e., before the crisis, and from 1988 to 2007 they soared among singles and unemployed men as well as women.

Why are low-status men and women dying early? The first serious answer is: because being put down and controlled from above produce stress hormones which weaken your immunity defence and make you much more vulnerable to a number of diseases. This was discovered already in the 1970s and 1980s by industrial stress researchers, from the long bygone times when there was a public interest in what in Germany was called "*Humanisierung der Arbeit*" (humanising work).

It has later been corroborated by large-scale longitudinal studies of employees of the central government bureaucracy in London's Whitehall and of the city of Helsinki. Controlling for smoking, alcohol, and obesity, the results are clear: the lower you are within a jobs hierarchy (of permanent employment in this case), the earlier you tend to die. Both studies have been conducted twice, in the late 20th century and in the early 21st century. Hierarchical vital inequality increased over time among men in both cases and stayed stable among women.

There is now a solid body of evidence that unemployment produces premature death. Already by 2010, the financial crisis had caused 8000 more suicides in the EU, compared to what would have happened if the pre-crisis trend had continued. A large longitudinal study of unemployed people in Sweden in late 20th century, with controls for pre-unemployment health, found an increased death rate of 2.47 percentage points over a time span of 10-17 years.

Translated into an estimate of premature deaths in the EU from the increase of 9.5 million in unemployment during the crisis would mean about 235,000 premature deaths by 2020-25. This figure is, of course, a "guesstimate", but a six-digit premature death toll is the best available evaluation of the human costs of the Anglo-Saxon bankers' crisis.

To tackle this, and the underlying structural inequality of elementary life chances, is thus without any doubt the crucial task of 2015-19. The fundamental reason why even generous welfare states have so far failed to narrow the life-expectancy gap is that in contrast to other cases of exploitation, degrading and disadvantage, the victims do not have the best knowledge and therefore have not been able to develop strong social movements against this literally lethal discrimination. The processes involved are gradual and long-term, and are still not fully understood even by the medical experts who have spotted them and their effects.

What is required, then, is cooperation between, on the one hand, medical and other academic experts, and, on the other, trade unions and civic movements in order to make it a social and political scandal that low-status people should have much shorter lives than more privileged ones. This is a violation of the most elementary human rights and human dignity.

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PART III

Policy Priorities For A Social Europe

Interview with Marianne Thyssen

In 2012, the Four Presidents Report mentioned a European unemployment insurance as a possible mechanism to achieve greater fiscal stability at the EU-level. What do you think about that?

In his political guidelines, President Juncker stated that he wants a deeper and fairer Economic and Monetary Union (EMU). The Commission's Blueprint for a Deep and Genuine Economic and Monetary Union and the Communication on the Social Dimension of the EMU state that, in the long term, an autonomous Euro area budget could be foreseen, providing fiscal capacity with a stabilisation function to support adjustment to asymmetric shocks, shocks that impact on regions differently.

This Commission will continue to reform the EMU. Enhancing the convergence of economic, fiscal and labour market policies among Member States is the key answer to many problems.

Mr Juncker will report on this matter to the European Council in June of this year. Our Work Programme for 2015 also announced that the Commission will present legislative and non-legislative initiatives in the course of this year.

Why have so few funds of the youth guarantee been released to date? What do you think works well, what needs to be improved?

For me, it is really unacceptable that today almost every fourth young person on the labour market cannot find a job. Despite being the generation with the highest educational attainments ever, today's young people have paid the highest price for the crisis. The Youth Employment Initiative (YEI) was adopted to address these unprecedented levels of youth unemployment, with some regions of the European Union facing a particularly difficult situation. Promoting youth employment is definitely one of my highest priorities.

In 2014 most Member States received country-specific recommendations on further reforms needed to implement the Youth Guarantee and to improve the functioning of their labour markets.

The European Union actively supports Member States in implementing the Youth Guarantee. With regard to EU financial support, the Youth Employment Initiative, with a budget of 6.4 billion euros for the next few years, and the European Social Fund, are of key importance.

These instruments will not be sufficient to fully roll out the Guarantee schemes but they provide important support, which has to be used swiftly and aimed at the best possible result.

So far, the Commission has undertaken a number of steps to support Member States in the programming and implementation of the Youth Employment Initiative, including frontloading the initiative. In addition, the Commission intends to launch – very soon – an additional proposal to increase pre-financing payments to Member States under the YEI. This measure is intended to address difficulties some Member States may have to implement the YEI on the ground due to lack of liquidity. I am determined to speed up the implementation of the YEI and to make this work.

Labour mobility within the EU is hotly debated at the moment in many member states. What is your view on this issue?

The Commission announced that it would present towards the end of 2015 a mobility package, focussing on social security coordination and on posting of workers.

The overall aim is to contribute to more efficient and fairer labour mobility. I am deeply convinced that labour mobility is an opportunity, not a threat. Free movement of workers and of services is a pillar of the internal market and we need to continue facilitating it. The internal market has for decades contributed to growth and jobs across the EU – in East and West, in North and South. All Member States stand to gain from it. We should not give up on the internal market now that we need it more than ever to get our economy back on track.

However, we cannot turn a blind eye on problems. The internal market must be fair and must be perceived as fair. This is why we need to analyse and report objectively on mobility flows and their consequences on national labour markets and social security systems, both in sending and receiving countries. We need a correct picture of the situation, based on facts and figures.

We also want to support public authorities in preventing errors, abuse and fraud. A timely and quality transposition of the newly adopted Enforcement Directive on Posting is crucial and we will continue to work intensely with the

Member States in this regard. The proposed EU Platform to fight undeclared labour will help to avoid social security fraud. It is even not excluded that we need to go beyond enforcement and also take another close look at some key provisions of the existing rules. We may have to adjust or update them.

What are your key priorities for your term in office?

My top priority is to contribute to the Commission's commitment to put Europe back on the path of sustainable job creation and economic growth. The new investment plan presented by President Juncker, aiming to mobilise over €315 billion of additional public and private investment over the next three years pursues these very objectives. As recommended in the Annual Growth Survey for 2015, our economic and social policy should be based on boosting investment, advancing structural reforms and pursuing fiscal responsibility.

The employment and social situation continues to be a serious concern. In order to reverse the high levels of unemployment, my goal is to focus on people's skills and to promote apprenticeships and entrepreneurship, with a particular attention on the long-term unemployed and young people.

For the latter, the implementation of the Youth Guarantee continues to be a top priority to facilitate school-to-work transitions. Labour mobility across the Single Market can also help tackle the current imbalances in unemployment levels among Member States. The objective is to develop a dynamic and integrated EU labour market, instead of 28 diverging ones, while preventing abuses and distortions.

Finally, we need to keep working to reduce the rising trends in poverty and social exclusion. Social protection has a key role to play and therefore we need to continue modernising our social security systems to make them more effective and efficient.

Marianne Thyssen *is a Belgian Politician and Commissioner for Employment, Social Affairs, Skills and Labour Mobility in the Juncker Commission.*

European Social Policy For The Next Five Years

by Andrea Nahles

For generations, Europe was a project of hope. To my parents' generation, after a time of war and hostility, Europe represented the hope of achieving economic progress together in an atmosphere of peace and friendship. To my generation, Europe symbolised a place of hope and freedom following the Cold War. We criss-crossed fading borders and took part in exchanges at school and university. It is a wonderful experience to pay for things in euros, both at home and abroad.

During the crisis, many people did not see a Europe of hope, offering them protection and opportunities. Their experience was rather characterised by unemployment and an uncertain future. In many countries people had to pay a high price to save the euro. As a result, millions of our continent's young people in particular became disillusioned with Europe or even rejected it outright.

The European Parliamentary elections served as a wake-up call. The results showed us just how disillusioned people are with Europe. This disillusionment is something that we as committed Europeans need to fight; showing people that the European project pays. For decades, Europe has been a guarantor of peace and general prosperity. But above all Europe is a social community that unlocks opportunities and creates prospects for the future. Our key task between now and the next elections in 2019 is to make sure that people realise this once more. We want people to say yes to Europe again!

This requires us to focus particular attention on young people, as it is they who will determine what direction the European Union develops in. Do we want a Europe that only pursues a rigorous savings policy? Or do we want a Europe that also invests in future opportunities? For me, the answer is clear: Social peace, prosperity and equal opportunities do not just materialise out of thin air. We need to create the right conditions for these aims. This means, for instance, to invest in good education and training.

This is why we have joined our European partners in committing to the Youth Guarantee, which requires that all young people under 25 be provided with a good-quality offer within four months of them becoming unemployed or leaving formal education. This offer should be for a job, continued education, an apprenticeship or a traineeship. This guarantee now needs to be implemented swiftly.

In this context, it is the countries that have borne the brunt of the crisis that most need to be shown solidarity. The EU Youth Employment Initiative is providing these countries with EUR 6 billion for the next few years, which is an important first step. If we can work together to ensure that this funding reaches people quickly and in a targeted manner, then we can talk about additional compensatory and support measures in Europe.

A significant and symbolically important contribution to this initiative will also come from Germany: In crisis-hit countries especially, there are many young people who wish to come to Germany. With the MobiPro-EU programme, we are now providing major support to young Europeans who wish to undertake training in Germany. And every young person who comes to Germany to learn and work is a great asset for our country.

We know that Europe's economic rationale must change. We need more stimuli for growth and employment. Also, we in Germany have to ask ourselves how we can contribute to reducing economic imbalances in Europe. And it is here that the new federal government is setting an example by introducing the minimum wage: we are putting a stop to wage dumping, a practice under which many millions of people in Germany, as well as our neighbours, have suffered.

We are also stimulating domestic demand in Germany; low wages in particular will rise significantly, by several billions of euros in total. This is also allowing us to tangibly reduce imbalances between ourselves and our partners in Europe. The introduction of the minimum wage was met with a great deal of relief by our neighbours. This proves that social policy in the Member States is the precondition for a Social Europe.

In the next years we want to achieve more social progress in Europe. The efforts of many Member States to introduce minimum social protection systems or labour market reforms should be encouraged and monitored by us at the European level. Consolidation requirements and the fight for modern social and education systems that are viable for the future must not be contradictory. Therefore it is also important to maintain the scope for investments and to recognize that it takes time for reforms to become effective. What is important is more coherence and balance in European policy.

Andrea Nahles *is the German Labour and Social Affairs Minister*

Streets, Avenues And Highways To Strengthen Social Europe

by Laszlo Andor

The EU is slowly recovering from a long period of financial instability and economic sacrifice that has pushed up unemployment to record-high levels and also resulted in a dramatic rise of poverty in the more 'peripheral' EU countries and regions. Exiting the social crisis and making the European social model more resilient will remain a major task in the coming years.

But how to build solidarity in Europe at a time of legislative fatigue and growing welfare chauvinism? How to restore the material base of the national welfare states and ensure the integrity of employment and social standards?

The 'streets' of stronger employment and social standards

Europe's social *acquis* allows for incremental amendments and requires occasional maintenance. Significant innovations are also possible, as evidenced by the Council recommendation on establishing a Youth Guarantee. In this vein, the functioning of the Single Market and EMU could be improved by new 'social standards' (applicable across the Union) or 'national social floors' (with levels adapted per country).

For example, agreement could be sought on a guaranteed wage floor in each country, based upon a coordinated approach towards minimum wages at EU level and ensuring that the levels are set above the poverty threshold and represent decent pay for the work undertaken. Guaranteed national minimum wages would help sustain internal demand while also improving the situation of posted workers and helping to fight social dumping.

Second, a guaranteed minimum income (at different levels per country) could be an effective way of ensuring adequate income support and fighting poverty while providing for activation incentives where relevant. Such a 'national social floor' would also indirectly define the minimum performance expected from national automatic fiscal stabilisers in times of economic crisis.

Thirdly, the period during which jobseekers can export national unemployment benefits to another Member State could be extended from the current minimum of 3 months to 6 months. This would increase unemployed people's chances to fill labour shortages in other Member States.

The 'avenue' of social economy, social entrepreneurship and impact investment

More can be done to help European companies adapt their business models towards achieving better social and environmental outcomes. First, employee share ownership and other forms of employees' financial participation in their companies could be promoted in order to broaden capital ownership. European legislation and related practical tools could be particularly useful in promoting employee co-ownership of companies operating in more than one national jurisdiction.

Second, the EU could further promote the application of metrics that evaluate companies' social and environmental impacts: many useful methodologies and reporting standards exist and the challenge now is to work with the financial sector to promote their wider use.

Third, cooperation and learning between social enterprises across countries could be strengthened, also with support from EU funds. A lot will also depend on what use national and regional authorities make of their Structural Fund allocations and whether they develop financial instruments that can support start-up and development of social enterprises (and continue to develop such instruments for microfinance).

The 'highway' of automatic fiscal stabilisers at the EMU level

The recent financial crisis caused such great social damage primarily because of the inherent bias of the current model of the monetary union towards internal devaluation at the time of crises. The Maastricht model of the EMU was not sufficiently "Economic", and it is definitely not "Social". There is a need for automatic fiscal stabilisers at the level of the EMU, and the mandate of the ECB could also be examined by elected political leaders.

A basic European unemployment insurance scheme, serving to partially pool the fiscal costs of cyclical unemployment, would be in my view the best possible automatic stabiliser at the EMU level because it makes a direct link between reducing imbalances in growth and helping the innocent victims of recessions and financial crises. It would help uphold aggregate demand during asymmetric cyclical downturns and provide a safety net to national welfare systems.

The European Commission has been exploring the topic since 2012, and Professor Sebastian Dullien has undertaken some pioneering work in this area. The Dullien model is about creating a commonly funded core of unemployment insurance among eurozone countries, while leaving possible top-ups and extensions for the Member States. This common core responding to cyclical as opposed to structural unemployment would be sufficient to protect domestic demand and the welfare of the newly unemployed in countries experiencing a downturn.

In a 1-2 decade horizon, all Member States would have periods of net contribution and all would have periods of net benefits. There would be no one-way streets, and conditionality would play a role. Social partners would need to participate in the governance of the system.

A fair, rules-based and predictable transfer mechanism at the EMU level will have to be acceptable also for the ‘surplus countries’, in order to stabilise the single currency. Adopting an insurance model will increase the chance of agreement, whenever the political debate on this question takes place.

I am convinced that the idea of a basic European unemployment insurance scheme is not wishful thinking but ‘thoughtful wishing’. This is the highway that would lead us to a more resilient economic model with higher level of social cohesion.

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Policy Priorities For A Social Europe

by Brigitte Unger

Europe currently lacks two essential features necessary for it to become a Social Europe. One is democracy, the other is generosity. Policy priorities should therefore include the creation of a democratic Europe with European citizens and democratic decision-making which aims at generous spending rather than at sober austerity.

Europe's democratic deficit is twofold. Firstly, it lacks European citizens – the 'demos' – indeed an essential ingredient for power – 'cratie' – to become 'democracy': the power of the people. Germans, Italians, Austrians or the British do not identify themselves as Europeans but rather as national or even local citizens. This lack of a European identity throughout its member states is to a large extent due to cultural and language barriers and a lack of common communication forms.

Newspapers in the Southern countries reported about the tragic effects of the financial crisis such as mass youth unemployment and discussed the problems of banks too big to fail. Newspapers in the North hardly mentioned these problems: in countries such as Germany or the Netherlands one had the impression there was no crisis at all. Here criticisms of too large banks absorbing the public sector's money as they were 'too big to fail' fell on deaf ears, as it supposedly did not hold true for their own banks (even though the balance-sheet of Deutsche Bank is almost the size of the German economy and accounts for almost one fifth of EU Gross Domestic Product). European member states experienced the financial crisis very differently – both in economic terms and in the way it was communicated. Europe needs one critical communication channel which people understand – not mere Eurospeak, inventing new words such as cohesion, benchmarking or austerity.

The second democratic deficit of the EU is its lack of democratic decision-making. This latter aspect has been criticized by a number of authors such as Streeck, Scharpf, Crouch and even has its own term: 'post democracy'. It implies that non-elected institutions such as the European Court of Justice, the European Commission and the European Central Bank govern Europe rather than elected representatives in the European Parliament.

In his latest book, ‘Democracy in Crisis,’ of August 2013, Yannis Papadopoulos claims politicians that are elected have almost nothing to say in politics. Politics is not being done by politicians anymore; in an age of globalization the political process has been hollowed out.

With this, the content of politics has changed dramatically. Income and wealth have hugely drifted apart, financial markets have grown at the cost of the sphere of real production, and a financial crisis is combated with austerity programmes rather than generous spending programmes to stimulate the economy. All these issues have not been decided on by EU citizens or EU politicians, but rather by non-elected post democratic institutions which follow the interests of the most powerful group – the financial markets.

A generous Europe is needed to recover from some of the major disasters of the financial crisis. The Southern countries, notably Greece and Portugal, urgently need money for their people to spend, not money to repay their banks’ debts to Northern countries’ banks. The income distribution between the North and the South and within almost all European member states needs to be reformed. Never in the history of mankind has the income distribution been as uneven as today. This has to be changed. More spending on goods and services is needed in order to stimulate the EU economy. This is only possible if lower income groups receive more. Rich people do not spend enough and are more inclined to save their money, again contributing to an ever bigger increase in the importance of financial markets.

The EU could help stimulate the EU economy by halting austerity and relying on Keynesian spending programmes. The introduction of the Financial Transaction Tax would reduce speculation in financial markets and bring in tax revenues of about 20-50 billion Euros. Ten member states will introduce this tax in 2016 (yet evidently an EU-wide and global Financial Transaction Tax would be more effective). The EU should insist on closing loopholes in tax systems — at least within Europe. This would help EU countries to increase their tax revenues, in particular corporate tax income. The EU could also issue guidelines for a fair income and wealth distribution.

Aristotle once claimed in ‘Politics’, Book VII: “a person’s wealth should not exceed five times that of another person”. This wealth relation has been completely destroyed when – like today – some individuals earn more than ten countries of this earth combined and accumulate wealth bringing the relation closer to 1:1,000,000,000.

A Social Europe needs solidarity – which is much easier among more equals than among very unequals. Therefore, democratically legitimate generous spending programmes financed by the culprits of the financial crisis – the financial markets — and by the very rich would be a first step in the right direction towards a Social Europe.

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The Three Policy Changes Europe Needs

by Engelbert Stockhammer

The European economy is still in crisis. Real incomes in the Euro area are below the level of 2008 and unemployment is in the double digits in the southern European countries. While the crisis has originated in the USA, it is Europe that has fared worse. The European economic policy regime and European institutions, far from shielding the European population from the storms unleashed by a financial system gone wild, have contributed to a deepening of the crisis.

The mix of constrained national fiscal policy on the one hand and liberalised financial services and European monetary policy on the other hand has proven counterproductive. Worse, the austerity policies imposed by the Troika have trapped those countries that have suffered most in the crisis in a state of depression. These reforms and high unemployment undermine the legitimacy of the EU and ultimately its political stability. To gain the trust of its citizens, Europe will have to radically change its economic policy. I will outline three elements of the necessary changes.

Rejuvenate Fiscal Policy: Deficits In The Recession Countries And Taxes For The Rich

The crisis has demonstrated that fiscal policy can be an effective tool to stabilise collapsing output and to create jobs. Government multipliers are higher in recessions than in periods of solid growth. To make use of this, countries in recession have to be able to run budget deficits in the first place. But that is not what the EU has done. Rather, it has tried to circumscribe the room for manoeuvre of national governments, while the European budget is too small to make a difference. National governments are to have constitutional debt brakes, but a European stimulus package worthy of that name has never materialised.

Markets have proven to be unreliable means of guiding production decisions. Investment is needed in areas such as green technologies, housing, child-care and education. In a recession much of that should be deficit-financed to stimulate demand, but there are also areas where taxation should be increased to guarantee a fair system. Multinational corporations presently avoid taxation by transferring profits to tax havens, many of them within the EU, like Luxembourg and Ireland. The super-rich park their wealth offshore to avoid paying their legal share. Like the financial transactions tax, these are all areas where a European initiative would be welcome.

A Monetary Policy That Supports Job Creation

The Euro crisis does have its roots in part in the separation of fiscal policy, which takes place at national levels, and monetary policy, which is now conducted at the European level. Central banks are lenders of last resort – both for the private (banking) sector and for the public sector. The ECB, however, is trying to only serve the banking sector. It should also step in to support public debt of the member states, as Europe is dealing with a debt overhang in many countries. The low inflation target of the ECB is counterproductive. If inflation rates stay low, the real debt burden (both for households and for governments) will be more difficult to deal with.

Wages Policy: Creating A Floor For Wages

European integration has in the past aimed at creating a competitive economy. But the wealth created has not trickled down. Globalisation, financialisation and welfare state retrenchment have put a downward pressure on wages. Indeed, wage growth had already stalled in many countries before the crisis, and real wages have been falling since. Europe has contributed to this by creating a setting that invites countries to compete by means of wage restraint, thus encouraging a race to the bottom in a futile quest for competitiveness. If all countries pursue this strategy of wage restraint, who is going to buy what has been so competitively produced? Consumption propensities arising out of wages are higher than those out of profits; wages are the main source of consumption demand and the European economy overall is wage-led.

Wage restraint can create export-led growth in some countries for some time, but not in all countries all the time. The neoliberal growth model relies either on increasing debt to fuel consumption. Or it creates a model that relies on export surpluses, which results in international imbalances. The conditions imposed by the Troika in those countries hit worst by the crisis have strengthened these developments. The Troika has asked for what is euphemistically called ‘internal devaluation’, which means reduction in minimum wages, weakening of labour law and an undermining of collective bargaining. A system of national minimum wages, say at two thirds of the national median wage, could create a useful wage floor and collective bargaining should be strengthened rather than weakened.

European has to get serious about a European social model or it will disintegrate.

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The Social Investment Package And The Europe 2020 Policy Agenda

by Anton Hemerijck

The European welfare state and the European Union (EU) find themselves caught up in a double bind in the aftermath of the global financial crisis. On the one hand, domestically, EU members are politically bound by widely cherished national social contracts on welfare provision, which in hard economic times are especially difficult to renege upon. On the other hand, at the supranational level, the (reinforced) rules-based macroeconomic governance structure of the EU, giving priority to low inflation and budget consolidation, commits its members to a long-term project of negative market integration, which in a downturn implies intrusive austerity-based reform of their welfare systems.

This is especially pertinent for the so-called 'Troika economies'— the eurozone countries of Greece, Ireland, and Portugal (and to a lesser extent Spain), which under the surveillance of the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) have been forced to drastically cut minimum wages, pensions, education, health and old age care expenditure and deregulate their labour markets and wage bargaining structures. Whenever and wherever stagnation prevails, mass unemployment and rising poverty and inequality are the breeding grounds for Europhobic political extremism.

Between rising anti-establishment populism and the EU's intrusive imposition of fiscal austerity, a 'political-institutional vacuum' has emerged at the heart of the European integration project, between the Northern 'core' economies and the embattled Southern 'periphery/' This also the case within national political arenas between mainstream parties and Eurosceptic populist movements. This political vacuum, brought home with a vengeance by the results of the elections to the European Parliament, especially the victory of the far-right National Front in France, considerably jeopardises solutions to overcoming the incomplete architecture of the Economic and Monetary Union (EMU).

By 2014, as the existential economic crisis of the euro somewhat abated, the new policy imperative for Member States and the EU more generally became to manage the social aftershocks of the global financial crisis. On average, 12% of the eurozone workforce is jobless, a quarter of economically active young Europeans are unemployed, and inequality and poverty levels are rising. Without a long-term strategic focus on improving human capital and capabilities, expanding employment opportunities, and easing labour-market and life-course transitions for individuals and families, the EU risks becoming entrapped in permanent stagnation. Deep economic crises are often moments of political truth; so the history of the 20th Century teaches us. While the social aftershocks of the euro crisis are putting grim economic and political strains on national welfare states and EU institutions, this could also engender more positive consequences, as the unsettling of beliefs sometimes inspires ground-breaking policy recalibration.

Social Policy In The Aftermath Of The Euro Crisis

The aftermath of the euro crisis has, I believe, ushered in a period of transition. Since the onslaught of the sovereign debt crisis, we have observed impressive 'economic governance' change, including the introduction of the Six-pack and Two-pack as well as the Euro Plus Pact, reinforcing stricter EU control of Member State public finances. A number of fiscal backstops have been introduced *ad hoc* under significant pressures from bond markets. In October 2011 the European Financial Stability Facility (EFSF) was ratified and its successor, the more permanent European Stability Mechanism (ESM), became fully operational in 2013. The new 'European Semester' feeds into Member States' national reform programmes (NRPs) and is meant to speed up recovery. By the summer of 2012, the ECB committed itself 'to do whatever it takes' in the words of Mario Draghi, by announcing the purchase of eurozone government bonds in the secondary market in an attempt to stave off new speculative attacks. Coined as Outright Monetary Transactions (OMT), this instrument in effect turned the ECB into a 'lender of last resort'. Meanwhile, a Banking Union has been under construction. These examples go to show that the E(M)U's macroeconomic policy regime in recent years has undergone a major – although half-hearted, haphazard and incremental – change.

Although the new monitoring procedures charting real economic performance are welcome, to date the overriding policy recipes have remained ruggedly pro-cyclical, potentially defeating the purpose of sustainable and inclusive growth as laid down in the Europe 2020 agenda. I agree that the glass is more half-empty than half-full. But I also believe that the macro change away from a single focus on inflation targeting and deficit and debt reduction by pro-cyclical market deregulation and retrenchment should be taken very seriously by social actors in national and EU policy-making arenas who are anxious to mitigate social hardship and foster long-term social and economic progress in tandem.

There are a small number – admittedly too few – 'silver linings' to build on for such an endeavour, more consistent with Europe 2020 strategic objectives than the current policy of permanent austerity. These are: (1) the wave of reconstructive welfare reforms under constrained macro-economic conditions over the past decade in most Member States; (2) the strong and renewed efforts by the European Commission for upholding and encouraging the shift towards productive and active welfare states, exemplified by the launch of the 'Social Investment Package' in February 2013; (3) the rekindling of the debate about the social dimension of EMU in recent years.

The onslaught of the euro crisis calls into question whether different varieties of welfare capitalism can really be made to operate under a single currency union. Since the late 1980s, a majority of European governments have come to enact a wave of social reforms to make their social policy systems more efficient and employment-friendly. Alongside retrenchments, there have been deliberate attempts to rebuild social programmes and institutions and thereby accommodate welfare policy repertoires to the new economic and social realities of the knowledge-based economy. The overall extent of change has varied widely across EU Member States. With their tradition of high quality child-care and high employment rates for older workers, the Scandinavian countries performed particularly well throughout the past quarter century, both in terms of efficiency and equity. In the period leading up to the financial crisis, we also observed, however, reconstructive change in countries such as the Netherlands (social activation), Germany (dual earner family support), France (minimum income protection for labour market outsiders), the United Kingdom (fighting child poverty), Ireland (much improved education) and Spain (negotiated pension recalibration).

In the process, European welfare states did not become the sort of lean entities that European central bankers and fiscal policy authorities in Frankfurt and Brussels hoped EMU would deliver; instead they became 'active welfare states' at higher-than-before levels of employment, some even with a competitiveness bonus attached to the new policy mix! The experience in welfare recalibration in Austria, Finland, Germany, and the Netherlands, moreover, shows that a common currency can be made perfectly compatible with generous and inclusive welfare provision and balanced budgets.

What about the Southern members of the Eurozone? Alongside domestic reform failures, I associate reform fatigue in the pension-heavy and segmented welfare systems of Southern Europe with the adverse effects of the incomplete governance structure of EMU. This perversely confronted Italy, Portugal and Spain with extremely low interest rates which in turn disincentivised the reform momentum from the late 1990s onwards. In other words, today's poorly performing Mediterranean welfare states are not necessarily structurally incapable of effective welfare recalibration under the umbrella of a single currency.

The Social Investment Package Could Be A Game Changer

A second silver lining, inspired by the experience of proactive and reconstructive welfare state recalibration, has culminated in the launch of the 'Social Investment Package for Growth and Social Cohesion' by the European Commission in early 2013. An emphasis on the productive function of social policy stands out as the distinguishing feature of the social investment perspective, highlighting policies aimed at preparing individuals, families and societies to respond to the new risks linked to a competitive knowledge economy - by investing in human capital and capabilities from early childhood through to old age. The extensive background documentation of the Package makes a strong case for social investment no longer being dismissed as 'fair weather' policy when times get rough, which is what happened with the Lisbon Agenda. The overall message boils down to not allowing human capital to go to waste through semi-permanent inactivity, as was the case in the 1980s and 1990s in many continental European welfare systems.

Given the ageing predicament, European welfare states are confronted with a formidable social investment challenge. A careful reading of the package reveals a quiet paradigm revolution. On various occasions, DG Employment, Social Affairs and Inclusion explicitly distances itself from the traditional stable money, fiscal austerity and structural reform paradigm by arguing that active social policies 'crowd in' economic growth and competitiveness, high productivity job creation and tax revenues, thereby reducing long-term fiscal pressures. In the context especially of demographic ageing, attention should not only be paid to social expenditure and the costs of ageing populations, but also to exploring and exploiting new sources of revenue from high-quality childcare in promoting talent, reducing early school dropout rates, and improving employment opportunities for adult family members, especially mothers. The 'Social Investment Package' in effect and at long last breaks away from the negative theory of the (welfare) state by underscoring the key importance of activating social services as core providers for dual-earner families and labour markets.

It is important to underscore that the social investment agenda is in essence a supply-side strategy and therefore cannot serve as a real alternative to effective macro-economic policy. Under current conditions, to the eurozone member countries of the Mediterranean in dire fiscal straits and suffering social malaise, the social investment message is entirely lost. Fiscal consolidation, prescribed by the Troika, separate MoUs, and the reinforced SGP, requires them to slash active labour market policies and retrench preventive health care programmes – a strategy which we know, in the long run, critically erodes job opportunities and thereby undermines the capacity of the economy to shoulder the ageing burden. This is where the third and final silver lining of the rekindling of the debate about a genuine 'social dimension' of the EMU, in line with the social investment prerogative, gains importance.

Over the past two years, the absence of a Eurozone-wide counter-cyclical stabilisation capacity has slowly but surely come to be recognised as a critical design flaw in EMU architecture. To the extent that capacitating welfare provision adds to economic competitiveness and social progress, it is in the interest of European policy-makers to support domestic authorities in maximising the return on social investments. What is therefore needed is a balanced macro-economic coordination process inciting governments to pursue medium-term budgetary discipline and long-term social investment reforms by giving greater breathing space and tangible support to Member States that opt for social investment strategies based on well-defined Europe 2020 ambitions (while making maximum use of mutual learning).

A number of proposals have already been put forward, some emphasizing a structured solidarity 'interstate insurance' instrument using Eurobonds, designed to protect Member States from self-fulfilling solvency crises but coupled with strong conditionality requirements to pre-empt moral hazard. Others argue for a European unemployment insurance scheme to mitigate asymmetric and symmetric business cycle shocks. I prefer a macro-economic demand stabilisation device that incentivises Member States to pursue supply side social investment reforms in sync. In the context of the European Semester, it is essential for embattled countries opting for a social investment strategy to receive the support necessary to enable them to move forward by taking on reform ownership. Conditional social investment contracts, bolstered perhaps by specially designed social investment project bonds, could be based on generous access to structural funds at low interest rates. Another strategy would be to discount social investments in national budget accounts, thereby exempting them from SGP deficit requirements.

Conclusion

The three silver linings – the recent wave of proactive and reconstructive welfare reforms, the renewed endorsement of the social investment perspective by the Commission, and the rekindling of the social dimension of

EMU – certainly do not constitute silver bullets for overcoming the deeper fault lines of austerity deflation, intergovernmental drift, and raging national welfare chauvinism with which the EU is confronted today. They are merely hopeful seeds of policy redirection at an early stage of gradual transformative change towards a more robust and sustainable European social market economy, as laid down in the Lisbon Treaty.

The decisive factor, ultimately, will be the political resources and institutional backing that the EU is able to muster behind a novel macroeconomic policy regime that can make high and robust social investment returns viable for the entire eurozone. More than ever before, the eurozone is in need of a substantive political consensus on the social order that a monetary union should serve. This should not take the form of a precursor of a 'European welfare state' in the making, but rather of a systemic support structure at the EU level for active welfare state sustainability at the national level. It would be based on a strong political commitment to a 'caring and capacitating' European social market economy as a common purpose, on a par with the complementary prerogatives of price stability and fiscal discipline over the economic cycle and of free market competition.

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Social Progress In Europe Depends On Economic Reform

by Kristian Weise

The social challenges in Europe are clear and will not be easily overcome over the next half decade: 25 million Europeans are unemployed, with unemployment rates at surreal levels in several Mediterranean countries and youth unemployment robbing a generation of their chance to determine their own fate. At the same time, several countries see stagnating or falling wages (not least due to so-called internal devaluation), rising inequality, and public services that have been crippled by austerity.

More than ever, the European Union must have an ambitious social agenda with measurable objectives of social progress. The EU cannot solely focus on economic, competition and trade policy – what several heads of state, most notably David Cameron, want it to be relegated to – but must have a strong social dimension. If not, we will have cooperation in the monetary and fiscal sphere but downward competition when it comes to wages, labour market standards and welfare arrangements.

However, and though it might appear counterintuitive, social progress and a truly successful social dimension of the EU depend first of all on economic policy-making and reform of economic governance. In the current context of low growth, or stagnation or outright depression, depending on where in Europe you are, isolated social policy initiatives will only be tinkering at the margins. It is indeed still the economy, stupid! If growth, employment and positive wage developments are not re-established at higher levels, there will basically be no scope for social policy and progress.

Social Progress, Benign Investment Policies And Fiscal Coordination

The core need for change is the prevailing philosophy determining fiscal policy and the EU's framework for economic governance. With the changes to the Stability and Growth Pact as well as with the introduction of the Fiscal Pact, the EU has increased its surveillance of the public finances of its member states. But, as has been proven several times over the last couple of years, these vehicles of austerity have prolonged the crisis and subdued growth.

The EU must rethink its economic governance. Rather than obsessing with fiscal consolidation and limiting its member states' autonomy to pursue different economic policies, it should develop new tools for coordinating fiscal policies and investing together. A European Investment Pact, with a few clear principles, could provide the framework for this and give Europe the policy alternatives needed to break with the crisis, rising unemployment and social collapse.

In an ideal situation, such a pact would replace the present austerity regime. But it could also have an impact as either a protocol to the present agreements or as a new pact that complements existing arrangements.

For a European Investment Pact to work it should have a few but clear principles. The following four principles would be the most important ones:

1) An explicit exemption of public investment in infrastructure in the broadest term, including certain technologies and similar growth-enhancing arrangements, as well as one-time investments in research, development and education, from the Fiscal Compact's rules for structural deficits (of 0.5 per cent of GDP) and the strengthening of compliance with the Stability and Growth Pact's rules for yearly deficits (of 3 per cent of GDP).

2) A clarification regarding the acceptable level of public deficits, which should only apply during 'normal circumstances'. There should be various criteria to determine these. They could be related to drops in GDP in the EU as a whole and in a group of member states, stagnating growth and persistent unemployment.

3) A commitment to coordinate fiscal policy to a larger extent than so far. Economic downturns should be prevented through more expansive fiscal policy from all countries at the same time, just as possible over-heating of the economy should be prevented through adequate consolidation in all countries. This commitment should also mean that all countries do not necessarily move in the same direction at the same time – one group of countries can expand while another one consolidates its public finances.

4) A commitment to investing together in the objectives of the EU2020 strategy and future strategies. It is estimated that common and coordinated investment by a group of EU countries enhances the growth effect of such investments by close to a factor of two. Hence, when growth is expected to be low and unemployment high, the EU-countries would counter that prospect by investing together.

A European Investment Pact or a similar change in policy would ensure that the economic governance and coordination in Europe moves from simple surveillance of individual countries' public finances to using common strengths and acting together. This would enable the EU to steer the European economies safely through different economic cycles, not least crises and recessions. In the present context it would offer much needed support to growth and job creation.

If the regime is not changed it will be impossible for many EU countries to pursue the most appropriate and suitable policies. It will, for example, be impossible for a country to finance investment in research, education and infrastructure through debt for a period of time even though the economic and social gains of such policies would be obvious. Insisting that budgets should always be balanced – except in very severe emergencies – is akin to saying that governments should have no investment function in the economy. Neither to support growth, to achieve social goals nor to develop welfare institutions.

Hence, the EU must institutionalise benign investment policies and fiscal cooperation.

A New Mandate For The ECB

In the same vain, the European Central Bank (ECB) should be given a new and extended mandate. Today, the sole aim of the central bank is to ensure price stability and low inflation. Growth and employment, however, are not to be found in its mission statement. This is in stark contrast to the US, where the Federal Reserve has both an unemployment and an inflation target. The ECB could benefit from including the pursuit of stable growth and full employment in its mandate and its mission. And, if it were to be really ambitious on social progress, it could include an objective of real wage growth at an aggregate EU-level.

As an addition to these new mandates, the inflation target of the ECB should be adjusted. The current aim is to maintain "price stability" and thereby keep inflation within a 0-2 per cent range. However, during periods of low growth, where the risks of deflation are more prominent, it would be appropriate to have an inflation target of exactly 2 per cent a year instead.

Socially Balanced Wage Developments And More Secure Employment

The labour market is the most direct determinant of the social condition of the majority of people. However, fierce wage competition within the EU and subsequent downward pressure on wages has increased inequality in individual member states and meant that the middle class has been hollowed out in several countries. Indeed, allegedly successful countries like Germany have seen an increase in workers who are unable to live on their salaries, also known as the 'working poor'.

To improve the spread of social progress through the labour market, EU member states should cooperate on the following issues: Strengthening minimum wages, either by law or collective bargaining, and making an extra effort to ensure decent wages or what is often called a 'living wage'. Improving opportunities for concluding collective agreements, not least across boarders and involving workers in more than one member state. And counteracting the development in many countries by which the labour market is made more 'flexible' but the result is that new groups of low wage, precarious and casual workers are created.

Europe will not achieve social progress unless the economic objectives of the European union and the underlying philosophy of economic policy-making are changed. What is needed is a fitness-and-diet type of approach, where social health is achieved through several reconfigurations of core policy priorities rather than a cure-all panacea of one or two social policy initiatives. These changes will be difficult to get. But the citizens of Europe are in dire need of them if they are to see any social progress in the next years.

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How A Health Impact Fund Could Help The EU's Global Social Agenda

by Thomas Pogge

Imagine the first Ebola outbreak in 1976 had been in a rich part of the world. Somewhere near London, Brussels, Osaka, Sydney or Chicago. No doubt, pharmaceutical companies, building on early research into the disease, would have worked very hard to develop effective remedies and to do the required clinical trials to get them approved for marketing. Ebola would not have had a chance to stage a second major outbreak — let alone another dozen.

In fact, of course, the first outbreaks were in the Sudan and in Mobuto's Congo (then Zaire), and subsequent ones occurred in other impoverished areas of Africa, not places where pharmaceuticals can be sold at patent-protected hundredfold mark-ups. And even with the latest, much larger outbreak — some 20,000 cases with 8,000 deaths — the urgently needed trials are conducted not by pharmaceutical companies but by the NGO *Médecins Sans Frontières* and by publicly funded agencies such as the U.S. Centers for Disease Control and Prevention.

Ebola's flourishing is further favored by the fact that pharmaceutical companies have little interest in the two classes of medicines most likely to work against infectious diseases: vaccines and antimicrobials. Vaccines are not lucrative because they tend to be purchased in bulk by large buyers who can bargain down the price. Antimicrobials are not lucrative because they often either become ineffective as a resistant strain of the disease becomes prevalent or else are prescribed only rarely precisely to avoid such emergence of drug resistance.

It is easy to blame pharmaceutical companies for the problem. Their single-minded pursuit of profits leads them to pass up important challenges and to focus instead on medically unnecessary me-too drugs, on the expensive development of lifestyle drugs (e.g., against hair loss and impotence), and on maintenance drugs for which they can extort well into the six digits per annum. But it would be fairer and more productive to blame ourselves first and foremost for regulating the pharmaceutical industry in such a way as to give it all the wrong incentives. Companies go after profits; if we want them effectively to promote human health and justice in health care, then we must align their incentives with these goals.

How can we do this? In past work with Aidan Hollis, I have proposed creation of the Health Impact Fund (HIF). The HIF is a pay-for-performance scheme that would offer innovators the option to register any new medicine, thereby undertaking to make it available at or below manufacturing cost during its first 10 years on the market (roughly matching the effective patent life of conventionally rewarded medicines). The registrant would further commit to allowing, at no charge, generic production and distribution of the product after expiry of this reward period. In exchange, the registrant would participate during that decade in fixed annual reward pools divided among all registered products according to each drug's measured health impact. The size of these pools could be chosen to incentivize an appropriate number of important R&D projects. At $6 billion annually, one-third of one percent of global military spending, the HIF might support some 25 new medicines at any time, with 2 or 3 entering and leaving each year.

The HIF would foster the development of new high-impact medicines and, in particular, turn the now-neglected diseases of the poor into some of the most lucrative pharmaceutical R&D opportunities. It would avoid the bias that currently favours maintenance drugs by fully rewarding health gains achieved by preventative and curative products. It would also discourage the development of me-too drugs by rewarding them only insofar as they produce health gains beyond those achieved by their similar predecessors.

The HIF would promote access to registered medicines by limiting their price to the lowest feasible cost of manufacture and distribution. Registrants would often benefit from selling to the very poor at extremely low prices—even below cost—because of the increased health impact they would thereby achieve.

The HIF would motivate registrants to care not about mere sales but about health gains. Registrants would focus their marketing on patients who can really benefit from their product, regardless of their socioeconomic status. Registrants would have a stake in ensuring that their medicines are widely available, competently prescribed, and optimally used.

Additional dramatic efficiency gains would arise from avoiding deadweight losses (no mark-ups) and counterfeiting: with the genuine item widely available at or below cost, making and selling fakes is unprofitable. The HIF would also avert much costly litigation: generic firms would lack incentives to compete, and registrants would lack incentives to suppress generic products. Registrants might therefore not even bother to file for patents in many countries.

Targeting infectious diseases in particular, the HIF could offer, specifically for registered antimicrobial drugs, an additional E-reward based on their preserved global efficacy. While health-impact or H-rewards are sensitive to the *number* of patients served and to the *health gain* a product achieves for each patient (relative to the treatment s/he would otherwise have received), E-rewards are sensitive to the *percentage* of patients susceptible to the medicine and to the *health gain* it brings to the average susceptible patient (relative to no treatment at all). Thus, an innovator could receive substantial E-rewards for a product that is used only rarely, in cases where other treatments fail. E-rewards pay for the protection we all enjoy by having an efficacious product in reserve.

Seeking to raise the sum of the two rewards, innovators would want to discourage low-value uses of their product (where the expected loss in E exceeds the expected gain in H plus any permissible price mark-up). E-rewards might last an additional 5-10 years beyond the 10-year period of H-rewards so as to give the innovator an incentive to continue its efforts to provide the medicine at a low price and to preserve its efficacy.

The reward scheme might be complemented by a new intergovernmental agency for infectious diseases, organized perhaps as a corporation on the model of the Global Fund. Harvey Rubin and his collaborators at the University of Pennsylvania have recently proposed such an agency under the name of Global Governance Structure for Infectious Disease (GGSID). This agency could oversee and coordinate worldwide efforts in basic research, vaccinations, surveillance, diagnostics, infection control, general antibiotic stewardship and other public health measures focused on infectious diseases. It would control the use and licensing of all antimicrobials and administer the E-reward scheme and the supplementary efforts. It could be financed through user fees on all non-human uses of antimicrobials worldwide and on all human uses of any (including generic) antimicrobials in high-income countries. With human antimicrobial expenditures at over $30 billion, $3 billion could easily be raised just from the latter funding source.

At a relatively low cost of $9 billion each year, such an expanded Health Impact Fund would greatly strengthen our arsenal of vaccines and antimicrobials, thereby ensuring a rapid and effective response to new infectious diseases (which emerge at a rate of about four *per annum*) and to new, drug-resistant strains of old ones. Millions of lives would be saved, especially among the world’s poor. And all human beings would be much better protected against the ever-changing threats from infectious diseases.

Confronting ever-rising health care costs by tying reward to performance, the HIF would pay for itself many times over: through lower prices for advanced medicines and by averting disease with its associated costs of medical treatment and lost productivity. It would save millions of people each year from death or serious illness. It would be an exemplary global public good to which all nations could contribute and from which all would benefit.

We had promising Ebola medicines decades ago and we let them sit on the shelf, undeveloped. Let us not do the same with the HIF idea. With a few leading developing countries, including India and Brazil, let Europe take the lead in piloting the HIF reward mechanism and then promote its implementation through the G20.

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