

Extract from:
David Rinaldi, "A new start for Social Europe",
Studies & Reports No. 108, Jacques Delors Institute, February 2016

PREFACE

by Nicolas Schmit

The European Union has been seriously hit by the financial and economic crisis that started in the United States. The slow recovery from the prolonged downturn "remains short of addressing the social challenges built up since the beginning of the crisis"⁴. Around nine million more people have been out of work compared with 2008. Poverty has increased and particularly child poverty.

What originally has been a financial crisis has transformed into a social crisis. But Europe's response to this challenge has been weak. Up to now, the announced "Social triple A" has hardly materialized in EU policies. The economic and social divergences between member states have widened dramatically thus putting Europe's political cohesion at risk. Fiscal consolidation policies have been implemented without taking any social stabilizers into consideration. The "horizontal social clause" of article 9 has completely been ignored.

The Luxembourg Presidency has put the relaunching of an active social policy as a major priority on its agenda. The stakes are very high, indeed. The European Union is losing its citizens. Therefore it is urgent to give Social Europe a new start, not just by words but by concrete political actions.

In order to foster a broad reflection and to outline policies, the Ministry of Labour, Employment and the Social and Solidarity Economy organized a high level expert seminar⁵ ahead of the Luxembourg Presidency. I want to thank the Jacques Delors Institute for having supported us so actively in this venture. The present report gives an insight into the richness of the debate of the seminar. I also express my gratitude to all the participants for their involvement and their

4. European Commission, *Employment and Social Developments in Europe 2014*.

5. See the programme of the seminar in Annex 1.

contributions. I hope that this report published by the Jacques Delors Institute will really help to give Social Europe a new start. The seminar helped us to prepare our Presidency in this very important field.

It is certainly not so easy to bring Social Europe back on the agenda, especially in a time of big upheavals. But we have to realize that unless we do not strengthen the social dimension of the European Union as well as a whole and more specifically in the euro-zone, overcoming challenges like those posed to us by the large influx of refugees, climate change, global terrorism but also technological change, will only become more difficult. Strengthening the social fabric and trust of the citizens equips individuals as well as societies with the necessary capabilities and self-confidence to face these challenges.

A new start for Social Europe should begin by giving this policy objective a concrete meaning. It should certainly relaunch Social Dialogue in Europe as well as at the different national levels. Social Dialogue is a central element of Europe's social model with all its diversities. We have to encourage Social Partners to negotiate and agree on innovative and forward looking solutions to adapt precisely our social model to the new economic and technological constraints.

Unfortunately Social Europe is not yet considered to be such a prominent European political issue. It is largely ignored by the media considering that social policy remains above all a national competence. This is not true anymore. The idea of limiting the social dimension mainly to nation-states has at least fallen the test of the crisis. Enhancing compliance with EU-economic and financial aims affects national welfare systems. Therefore Europe needs a new governance which includes a strong social dimension equivalent to the economic and fiscal one.

Four elements represent in my view essential building blocks for a Social Europe: common social standards, a socio-economic governance, employment and skills and a social investment agenda.

1. Common social standards for upward convergence

In the enlarged European Union socio-economic convergence has come to a halt. This has created strong tensions between member states. The right of free movement has been put into question although mobility is one of Europe's major acquis.

The President of the Commission has announced in his second annual work programme "a new pillar of social rights". This is certainly a quite interesting idea but it raises a lot of questions. What kind of social rights and what should be their legal value? The European Community member states adopted a Community Charter of the Fundamental Social Rights of Workers on December 9 in 1989, before the Maastricht Treaty and the Social Protocol. The Charter invited the Commission to "submit as soon as possible initiatives which fall within its powers, as provided for in the Treaties, with a view to the adoption of legal instruments for the effective implantation". This is still valid and the Commission could submit such proposals.

A more ambitious and clearer approach could be the adoption of a Social Protocol namely advocated by the European Trade Union Confederation. Such a Protocol would have a legally binding character and would be ratified at least by those member states wishing to do so. Enhanced cooperation in the social field should not be excluded but it should include all euro area members. It should first clarify the relationship between economic freedoms and fundamental social rights stating the pre-eminence of the latter. This is of utmost importance in the context of a fair mobility the Commission is referring to.

The principle that "the same work at the same place should be paid in the same manner" should also be anchored in such a protocol, putting an end to all kind of abuses in the field of posting. The obligation to introduce a minimum wage is also mentioned as an element of such a pillar. Up to now, 22 member states have a legal minimum wage, six rely on minimum wages fixed by collective bargaining. The major point is that the difference between the lowest (Bulgaria 215 €) and the highest (Luxembourg 1923 €) is considerable. The question of a minimum level defined by the median wage seems therefore more topical. The idea of a minimum income in all member states is also proposed in this context.

Since the ECCS, Europe is identified with common standards ensuring good and decent work. Fair working conditions have been central for workers' health and security but also for fair competition between companies within the single market. During the Luxembourg Presidency the EPSCO has adopted Council Conclusions on a "new Agenda for Health and Safety at Work to foster better working conditions".

Existing EU legislation has to be adapted because new risks at the workplace like carcinogenic substances, harassment or stress at work have to be tackled. A new strategy on promoting health and security taking into account the new forms of unemployment and work organization due to the digital revolution, should be worked out together with social partners.

By adopting new social standards, the diversity between member states should certainly be taken into account but the declared objective should be upward convergence. The establishment of social rights should be achieved in the context of a broad consultation process associating governments, the European Parliament as well as national Parliaments and the social partners and civil society. This would underline the shift in Europe's policy priorities and give a clear signal to citizens that economic progress is tied to social progress.

2. Social governance for an inclusive Europe

European Union's prime objective is to create conditions for stronger growth, more and better jobs and higher living standards. The European Union is also a Union of national welfare states which need at a European level broad social standards and objectives and a stronger socio-economic governance.

The governance put into place in the EU and more specifically in the euro area is nearly exclusively focused on economic and fiscal objectives. It is neglected that social imbalances pose a political and economic threat to the sustainability of the euro area. There is an obvious need for rebalancing the governance. Social imbalances have to be addressed with the same stance as budgetary and macroeconomic imbalances. Some small progress has been made in the context of streamlining the European Semester in 2015. These changes namely consist in limiting the "country specific recommendations" (CSR) which also include social objectives. Three employment indicators

have been moved to the headline indicators of the early warning within the Macroeconomic Imbalances Procedure. These are indeed small steps if social imbalances have their impact on macroeconomic and fiscal policies. This would lead to fully integrate the social dimension in the overall governance by transforming it into a “socio-economic governance”. Unemployment, poverty, inequality, skills mismatch but also a badly functioning health system or a shaky pension system are fundamental questions in the context of a deepening of the European Monetary Union.

Institutionally this means that different Council formations have to cooperate and to interact more intensively. The EPSCO should be much more involved and should therefore review its working methods and frequency of meetings. It can rely on valuable work done by the two committees, the SPC and the EMCO which feed their analysis and views into the process. Under the initiative of the Luxembourg Presidency the EPSCO Council adopted Council Conclusions for a governance favouring a more inclusive Europe.

Too often primary focus on social issues like pension or healthcare is given on financial sustainability and cost-effectiveness, even if these criteria should not be ignored. This has been pointed out by the SPC in its 2015 report. The involvement of social partners also remains weak as well as the democratic legitimation. For the euro-zone an enhanced economic and budgetary integration should automatically lead to a deeper social integration. Therefore the Luxembourg Presidency organized an informal EPSCO of the euro area. This obviously created some tensions with the non euro-zone member states, who nevertheless have accepted the Eurogroup of the Finance Ministers. A compromise could be that EPSCO Ministers regularly discuss euro-zone specific social issues and that those non-euro zone member states who wish to participate in strengthening the social dimension should be given the possibility to take part.

The Five Presidents Report on “The Nature of a Deep, Genuine and Fair Economic and Monetary Union”, despite mentioning the “social triple A”, runs short on how the governance should be effectively rebalanced and more integrated.

Employment issues largely depend on the macroeconomic context. There is no clear position on how Europe 2020 targets which have been widely missed, should be adapted and reconfirmed as the halfway review has not been accomplished. The question of the EMU's fiscal capacity has to be addressed.

Improving the governance in a more balanced way is not only essential for restoring trust in the European Union, but also to ensure socio-economic convergence and so the sustainability of the currency union.

3. An employment and skills agenda

High unemployment destabilizes not only national governments, it also threatens the cohesion of the European Union. Youth unemployment is certainly one of the most important concerns of Europeans. It is a major liability for Europe's future producing a "lost generation". Unemployment is falling too slowly. At the current pace of reduction, the 2007 pre-crisis rate of unemployment would not be reached before 2022.

The Youth Employment Initiative including the Youth Guarantee has been a valuable step to fight youth unemployment. But there is an urgent need to go beyond. The Presidency has focused the discussions on several topics: strengthening youth guarantee; fostering job creation also through supporting entrepreneurship; improving skills by developing vocational training. The idea of a new ERASMUS Programme for unemployed and less skilled young people has to be put into place and should get sufficient financial resources. Fighting youth unemployment has to remain high on the European Agenda and to be fully integrated in the different policies.

Labour market reforms are generally highlighted as the indispensable structural reforms to promote employment. They are often considered to produce above all more precarity. Many young people are suffering from precarious working conditions having a strong impact on their lives. This happens also in those countries where unemployment is low. Even in Germany one out of four employees under 35 years old is working under precarious working conditions. Therefore the concept of flexicurity has indeed to be reintroduced in European policy making. This type of reform has certainly to be adapted to the different national contexts. It is particularly important to give due consideration to the

security side. This means not only adequate unemployment benefits but above all efficient retraining programmes which have to be adequately financed. The role of the ESF has to be rethought in that direction. Social dialogue certainly has to be revitalized but this also means that collective bargaining has to be promoted in order to achieve a more balanced wage policy.

High investment in human capital becomes even more necessary as our economies transition through a major technological revolution. The digitalization will transform companies as well as ways of production. This also means a profound change in labour markets and skills demands. The digital economy will also have a dramatic impact on our social protection systems. It is therefore high time to deal with these changes and to ensure that these disruptive technological innovations will not generate more exclusion and more inequality. Europe cannot fail to embrace this revolution but at the same time this should be made compatible with our social values. This requires an adaption of labour legislation but above all investing in skills. These are the key structural reforms the European Union should focus on in a coordinated way because the digital economy ignores borders and the completion of a digital internal market is a high priority.

It would be wise to organize a working group of experts and social partners to deal with all these economic, social, cultural... impacts of these transformations based on artificial intelligence. The Luxembourg Presidency had convened a high ranking seminar on these topics which should be put on the EU agenda.

4. Promoting social investment

A major lack of investment has been identified as Europe's biggest economic weakness. The Strategic Investment Programme launched by the EU Commission is a right but insufficient response to improve productivity and support a fair and job creating growth. But there is not only a serious need to foster economic progress, this is equally true for social progress. Therefore promoting social investment should also be regarded as a key priority.

Unfortunately this is not clearly stated by the present EU Commission that has not revamped the Social Investment Package launched in 2013. It does not make sense to talk about a pillar of social rights without stressing the

importance of social investment. As Anton Hemerijck has put it, “the social investment approach in essence rests on policies to raise the human capital stock (from early childhood education and care, vocational training, education and lifelong learning) on one hand, and labour market policies, serving to make the most efficient use of human capital across the life course, on the other”⁶. In that context, the social economy should play a much more important role through social innovation. The Luxembourg Presidency has given high priority to the promotion of this sector by creating a European framework and facilitating access to financial resources. For the first time, EPSCO Council has endorsed this approach.

There should be a strong awareness that sharp fiscal consolidation or austerity policies not only exaggerated social hardship specially in the vulnerable countries but finally darkened the perspectives for a sustained recovery. These mistaken policies have been growth reducing and socially unjust. The main victims have been the young, the long term unemployed and the children. When over 40 million people in the European Union are suffering from food poverty, limited access to health services and associated health inequalities there is something wrong with the European Project as well as the European Social Model. Inequality has also risen dramatically generating major social costs but also impeding present and future economic growth. The European Union therefore needs a strategy to foster more egalitarian societies. That should be part of a Social Protocol whose aim should be to pave the way towards a proper European Social Union.

We have to develop a new social vision for Europe, that of a caring Union. The migration crisis has increased the fragilities of the European Union attacked by populism. It certainly is important to strengthen Europe’s competitiveness innovative capacities and economic stability but this cannot be successfully done without giving a new start for Social Europe, now! Bold action is requested, if we want European citizens to reconnect with the European ideals.

Nicolas Schmit
Minister of Labour, Employment and the
Social and Solidarity Economy of Luxembourg

6. A. Hemerijck, *The €-Crisis – Welfare State Conundrum in the Euro Area Crisis and the Transformation of EU Governance*, London, 2014