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A EUROPEAN SOCIAL UNION: 10 TOUGH NUTS TO CRACK

by Frank Vandenbroucke
with Bart Vanhercke

Background report for the *Friends of Europe* High-Level Group on 'Social Union'

Spring 2014

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Author: Frank Vandenbroucke
Co-Author: Bart Vanhercke
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Corresponding author: frank.vandenbroucke@kuleuven.be

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Foreword

This *Friends of Europe* background report has a dual function; it is intended as a stimulus to widen the debate about the European Union's social policy options once a new Commission and Parliament are in place, and it is also a basis for discussion by the 30 or so senior experts who make up the *Friends of Europe* High-Level Group* on the topic. This High-Level Group of authoritative and representative voices is comprised of social partners, independent experts and high profile political actors.

The report is authored by Frank Vandenbroucke, who chairs the High-Level Group. It is published as his personal view of the social challenges that confront the EU, and their possible solutions. His assessment of the "Ten Tough Nuts to Crack" makes disturbing reading, and is an important contribution to the social policy debate.

Frank Vandenbroucke needs no introduction in EU circles, having served as Belgium's Minister for Employment, Pensions and Social Affairs and as Deputy Prime Minister. No longer engaged in active politics, Frank's activities include a professorship at the Universities of Leuven, Antwerp and Amsterdam. The report's co-author, Bart Vanhercke, is Director of the European Social Observatory (OSE) and affiliated at the University of Leuven.

Friends of Europe's High-Level Group aims to place the social dimension of EU policymaking in a wider context by bringing together senior experts from a wide range of professional backgrounds and political affiliations. This report hopes to fuel their deliberations, but is not intended as a blueprint for their conclusions.

It is intended that the High-Level Group should deliver a set of policy recommendations in its own report this autumn, in time to help define the EU social policy agenda for the coming five years and beyond.

Giles Merritt
Secretary-General
Friends of Europe

Geert Cami
Co-Founder & Director
Friends of Europe

(*) The full list of the High-Level Group's members is available at pag. 105

EXECUTIVE SUMMARY

The European Union and its Member States are failing to deliver on the fundamental goals of the European project: the simultaneous pursuit of economic progress and social progress - both within countries through the progressive development of welfare states, and between countries through upward convergence across the Union.

In reality, average real household incomes per head EU28 were lower in 2012 than they had been in 2004, with divergence between countries in the Eurozone instead of convergence. Although a recovery is now announced, the legacy of the crisis in social and budgetary terms, the risk of persistent low economic growth for several years, and the challenge of demographic ageing, makes the pursuit of economic progress and social cohesion even more challenging.

With the EU being held largely responsible by public opinion for the current state of affairs, there is rising euroscepticism in many Member States, and decreasing interest in European elections. Hence there is an urgent need to review the scope and purpose of the Union's social objectives, and the way they can be pursued and achieved.

That is why *Friends of Europe* – an independent think-tank for EU policy analysis and debate – has launched a high-level Group on a 'European Social Union' aimed at bringing these concerns to the top of the political agenda. A final report will be produced by the autumn of 2014, which will include a set of recommendations for the incoming European Commission and European Parliament.

That report will focus primarily on the EU's employment and social policies, and will not dwell on other concerns such as macro-economic policy and financial markets, banking supervision, furthering internal market integration, external trade policy, taxation and environmental issues etc. – important as it will be to maintain compatibility with them. Moreover, the aim is to provide a roadmap rather than a detailed agenda on specific social policies.

This background report focuses particularly on the Eurozone problematic since constitute a crucial challenge for the social significance of the European project, but the report by the Group should provide a balanced message for citizens in the

Eurozone and those living in other Member States since all European countries face major challenges in terms of the future of their welfare states, whether they belong to the Eurozone or not.

I. Five years of economic crisis: An unsettling legacy

A recovery of the European economy is announced, but the jury is still out regarding its robustness and scope. The major social setbacks of recent years need to be tackled. A series of challenges are identified, as addressed below.

Labour markets, welfare and social investment

Employment rates in the EU were lower in 2012 than 8 years earlier, including in EU15 as a whole when we exclude Germany, with the employment gap between southern EU15 countries and others growing larger.

GDP per head was only marginally higher in 2012 than in 2004. In EU15 excluding Germany it was no higher than 8 years earlier; in the southern EU15 Member States, and in 7 of the 13 new Member States it was lower.

Changes in household income per head show a different pattern from GDP per head. There was a significant fall in real household income per head in 2008-2010 (in line with the fall in GDP per head) but with an even bigger decline in the subsequent two years, reflecting the decline in average earnings along with the rise in unemployment.

Data on material deprivation, as measured by financial stress and lack of access to basic goods and services, adds to the disquiet on living standards. While the proportion of the population affected declined markedly from 2005-2008, it rose from under 13% in 2008 to over 15.5% in 2012.

Young people have been particularly hard hit by the recession, with the youth unemployment rate increasing to around 23% in the EU in 2012, and over double that rate in Greece and Spain. While these figures may, in some cases, overstate the problem, the number of young people not in employment, education or training - the so-called NEETs – is also very high in a number of countries.

Huge disparities in rates of child poverty across the Eurozone and non-convergence and even divergence during the crisis years, signal excessive social imbalances in the Eurozone, partly due to divergences in economic growth.

In the years before the recession, there was already a gradual divergence in GDP per head between EU15 countries who were member of the Eurozone. As the Eurozone countries entered recession, these disparities first narrowed. From 2009 to 2012, however, countries with the highest levels of GDP per head recovered more quickly and disparities widened again.

Public spending increased significantly relative to GDP over the period of economic downturn, but as a consequence of the fall in GDP rather than acceleration in government expenditure. Growth in public spending was only slightly higher over the years 2008-2010 than in the preceding four years, and less in both the EU15 excluding Germany and in the EU13.

In a recession, welfare states should act as automatic stabilisers in support of aggregate demand and to address financial poverty. In the first stage of the crisis, this was the case, albeit to a varying extent between countries. From 2010 onwards, however, the automatic stabilisers became increasingly constrained, notably in countries with high levels of sovereign debt.

Public investment was reduced considerably over the crisis period. Even in the two years 2008-2010, when measures were taken to counter the deflationary effects of the global recession, general government fixed capital formation declined in real terms across the EU, and by even more over the subsequent two years. The result was an overall reduction of public investment in the EU of 15% over the 4 years 2008-2012.

The same occurred with investment in developing and maintaining human capital, covering spending on education, child care and health.

Growth in government expenditure on education was maintained in most countries over 2008-2010 but was largely cut back in the following year. As a result real public expenditure on education was lower in 2011 than in 2008 in 10 Member States, with expenditure on tertiary education often cut more than on education overall.

In terms of government expenditure on childcare, the available data show that, in the years before the onset of the crisis and in 2008-2010, there had been an expansion in real terms in nearly all Member States. In the following two years, however, expenditure was reduced in real terms in most countries, being lower in 2012 than it had been in 2008 in 10 Member States.

Government expenditure on health increased in real terms in most countries over the two years 2008-2010, though not in the Baltic States, Bulgaria, Ireland, Greece, Slovakia and Hungary, where it had already been reduced in the preceding period, as it had in Portugal, with further reductions in 2011.

Social spending and Europe's economic performance in the world

With the European Union facing ever expanding global economic challenges and opportunities, concerns are often expressed about the effect of EU social spending on its competitiveness even though social spending in the United States is nearly as high as in Finland, Germany, the Netherlands, and higher than in many other European countries, when public and private social spending are combined.

An Appendix to the report shows little sign of any significant deterioration in the competitiveness of the EU relative to other developed economies, when measured in terms of export shares. However, the continuing competitiveness of Germany in export markets relative to other EU countries, especially relative to the larger EU15 Member States, underscores the divergence in economic performance that has been evident since the crisis began.

In fact there is no correlation between social spending and competitiveness ranking among the Organisation for Economic Co-operation and Development (OECD) countries. In Finland, Germany, and the Netherlands, social spending is around 30% of GDP, but they still figure in the top 10 of the Global Competitiveness Index of the World Economic Forum. The Swedish level of social spending is even higher, but that does not prevent it from being 6th in the ranking.

A map of the social performance of European welfare states

If there is no evidence that social spending per se hinders countries in their continuous battle for competitiveness, it is nevertheless the case that some European countries seem to be much more effective and efficient than others in the organization and allocation of their social spending.

The huge disparity in the performance of European welfare states, associated both with differences in the effectiveness of investment in human capital and differences in the effectiveness of social protection, underlines the need for a Europe-wide agenda for reform, with the view to improve the performance of European welfare states.

The human capital asymmetry: disparate levels of educational achievement

Differences in educational achievement are large across the Union with, for example, more than one in three Spaniards aged between 25 and 34 years having no more than lower secondary education against less than one in six in Germany. There is no simple causal relationship that explains employment in terms of educational attainment but it is notable that Greece, Italy and Spain all combine low employment rates with weak PISA scores for the educational achievement of their 15 year old students.

This is a challenge that the European Union has recognized, with a reduction in the number of early school-leavers being one of the headline targets in the Europe 2020 agenda. Yet, while the European Commission has developed a comprehensive education agenda, education still fails to receive the attention it deserves at the highest levels of European decision-making and in the setting of budget priorities.

Increased labour migration

While the free movement of labour has been a feature of the EU since its inception, levels of migration have risen markedly over the past decade, notably with the entry of the Central and Eastern European countries. The flow of people of working age to EU15 has slowed since the crisis, but remains significant, especially from Romania and Bulgaria into Italy and Cyprus.

Before the onset of the recession, men and women living in the EU15 from the EU12 countries that joined the EU in 2004 and 2007, tended to have higher employment rates than those born in the country concerned. During the crisis, however, their employment has tended to decline by more, or increase by less, notably in Ireland and Spain.

Freedom of movement is a defining feature of the European project and constitutes an important right for all Europeans; migration can answer tenacious problems in labour markets and play a positive economic and social role. In general, however, European welfare states fail with regard to the integration of migrants in their societies. Poverty rates reported by our welfare states are significantly higher for residents who are not national citizens of these welfare states than for their national citizens. From the opposite perspective, there are growing concerns about the dramatic demographic loss in some Member States.

The social investment imperative

Social investment – inclusive investment in human capital – is as crucial for Europe's success as research and technological investment, infrastructure investment, or physical capital investment. Moreover, the assessment of the benefits and costs of all such investments are subject to the same judgemental rules – requiring both a long view and a wide view in order to measure their full impact and not just their initial incidence.

The need for a long view with respect to social investment reflects the reality of human existence - with major investments in care and education in the earlier stages, substantial compensating economic returns in the central productive phase of life, and the drawing down from accumulated reserves towards the end.

The need for a wide view reflects two concerns: the inter-dependence between social and other investments since the success of the latter depend to a large extent on the quality of the associated human resources, and the spill-over costs of social failure – whether in education, health, or social integration – which can place a serious and long-term debilitating and disruptive burden on economies and societies that are affected.

Obviously, with regard to social outcomes, increases in investment in education and child care are no panacea; welfare states also differ with regard to the effectiveness of their social protection systems, which underscores that the redistributive role of social protection remains important per se. Welfare state performance depends on the complementarity of effective investment in human capital – by means of education, training and child care – and effective protection of human capital – by means of adequate transfer systems and health care.

II. Why a basic consensus on the European Social Model is a necessity

Ten years ago the quest for an operational description of the European Social Model might have been dismissed as 'interesting' but not strictly necessary given the capacity of Member State governments to compromise and 'muddle through'. Today, when everything 'European' is seemingly up for question in many Member States, it is an existential conundrum for the Union.

The report first distinguishes those arguments applying specifically to the Eurozone, and then considers the arguments that apply to the EU as a whole.

A social dimension for the Eurozone

Three basic reasons are identified as to why EMU needs a social dimension: these are functional, political and economic.

1. Functional arguments

The functional argument fits into a broader debate on the consequences of monetary unification given that members of a currency area face a trade-off between symmetry and flexibility that has inevitable long-term social consequences.

Flexibility implies choices that are not socially neutral: there can be a 'high road' approach to labour market flexibility, based on a highly skilled and versatile labour force, or a 'low road' approach based on labour market deregulation. Less flexibility necessitates more symmetry, which implies a degree of social convergence, which limits the diversity in social systems that can be accommodated in a monetary union.

There is also a further trade-off between absorbing asymmetric shocks through budgetary transfers between members of a monetary union, and the need for flexibility. In this respect, the absence of interstate fiscal transfers is seen as a serious flaw in the overall Eurozone design.

Since flexibility, symmetry, or budgetary transfers, are not socially neutral choices, the long-term tradeoffs implied by monetary unification inevitably requires participating countries to establish a consensus on the social order that the monetary union has to serve.

2. Political arguments

Social divergence within the Eurozone undermines the credibility of the European project and makes it difficult to take the further steps necessary to consolidate the Eurozone in the longer term. Many agree that the longer-term consolidation of the Eurozone requires some degree of 'fiscal union' but the sustainability of a fiscal union between countries ultimately requires mutual trust with respect to each other's internal social fabric.

3. Economic arguments

High levels of youth unemployment and child poverty reflect an investment deficit in a vicious circle of underperforming labour markets, child care, education systems and transfer systems. Such 'bad equilibria' create objective problems with regard to the economic symmetry required among the members of a monetary union.

In other words, excessive social imbalances threaten the monetary union as much as excessive economic imbalances. There is thus a need to both manage the trade-off between symmetry and flexibility and to rebuild the stabilisation capacity of welfare states.

A social dimension for the EU28: restoring regulatory capacity

The somewhat haphazard process of progressive European integration has led to a loss of regulatory capacity, which needs to be restored at either European or national level. In the words of one analyst, it has 'eroded both the sovereignty (the legal authority) and autonomy (de facto regulatory capacity) of member states in social policy'.

As regards the regulatory capacity of member states, a long-standing concern is that economic integration without social harmonisation would lead to social dumping and a 'race to the bottom'. Such fears, as with those over 'welfare tourism', may not be well-founded empirically, but are nevertheless causing considerable social and political tensions and, even if there is no large scale social dumping, blatant cases of illegal work and exploitation do occur.

The most highly developed EU countries are confronted by a conflict between the desire of businesses to see their economies opened up to migrant workers in order to meet their labour market needs, against internal political opinion that often appears to be opposed for a variety of reasons, from competition over jobs to wider social upheavals. Hence the extent to which Member States can uphold social standards in a context of free movement is an important issue.

Judgments by the Court of Justice with regard to trade union actions defending local minimum wages raise concerns that have to be answered. They require a clarification with regard to legal issues, notably in the context of posted workers, and with regard to the application of the subsidiarity principle in social policy.

The case of health care also illustrates how internal market rules can lead to unanticipated outcomes through Court of Justice interpretations of basic Treaty provisions.

In short, there is no tidy separation between market issues (belonging to the supranational sphere) and social issues (belonging to the national spheres). This inspired the introduction of the ‘horizontal social clause’, via the Lisbon Treaty, in the European legal architecture; that clause requires all EU actions to take into account ‘the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health’ (Article 9 TFEU). So far, however, this does not appear to have played much of a role, for instance in the design of macroeconomic adjustment programmes.

A shared notion of solidarity

European integration must be based on a shared understanding of solidarity at both a pan-European level and within national welfare states. The pan-European notion of solidarity refers, not only to economic convergence and cohesion on a European scale, but to individual rights such as free movement. Solidarity within national Member States, on the other hand, refers particularly to social insurance, income redistribution and the balance of social rights and obligations.

This dual perspective illustrates why solidarity is inevitably a complex and multidimensional notion in the European context, and why consecutive enlargements as well as monetary unification have made it even more demanding and difficult to handle.

Conceptually, solidarity can take the form of mutual insurance or redistribution but in practice it is often a mixture of both. Both aspects presuppose reciprocity, but with different emphases. When solidarity is defined as mutual insurance, reciprocity is embedded in contribution-based entitlements. When solidarity entails redistribution, it implies a propensity to cooperate and share with others. In all cases, reciprocity requires a sense of common goals and values among those concerned. There is no way back: reciprocity in the EU requires both shared values and a sense of common purpose.

That underlines why the success or failure of the Eurozone requires the long-term trade-offs implied by monetary unification to be matched by agreement on the social order that the monetary union has to support, including the mutual obligations that the countries have to meet in support of social investment.

The necessity of a European Social Union

The damaging effects of the crisis need to be addressed by more resolute EU level action to promote sustainable growth, employment and social investment. Pragmatic observers sometimes justify the current 'muddling through' policy approach as ultimately successful, but it looks increasingly risky given the continuing erosion of the political capital needed to support continued European cooperation.

The success of the Eurozone is crucial to the EU's future. Monetary unification obliges participating countries to establish a basic consensus on the social order the monetary union has to serve. Such a consensus must also cover Member States' mutual obligations, i.e. what they may demand from one another and what they owe each other. European solidarity implies reciprocity. The social dimension of the EU as a whole needs to be strengthened: deepening the mutual understanding of the social goals to be achieved through market integration and the mobility of people, services, goods and capital, while maintaining the principles of social regulation that serve those goals.

Europe needs a Social Union that can support national welfare states on a systemic level in key functions such as macroeconomic stabilisation, and also guide the development of national welfare states on the basis of general social standards and objectives. That would leave decisions on the ways and means of social policy to the Member States. In other words, European countries would cooperate in a union with an explicit social purpose: hence the expression 'European Social Union'.

III. The EU's social dimension five decades on

This part of the report provides a detailed presentation of the 'state of play' of Social Europe after more than five decades, underlining the way that a call for a 'European Social Union' builds on, rather than denies, the positive social acquis that exists. However, it also raises the vexed question as to the extent to which the idea of a 'European Social Union' can be fitted into the existing governance framework. Here the report discusses four variants of the day-to-day EU social policymaking: the traditional Community method; the EU distributional mode; policy coordination; and social dialogue.

IV. Towards a European Social Union: 10 tough nuts to crack

This year offers a window of opportunity to debate the social dimension of European integration afresh. European elections will take place in May, bringing many new Members of the European Parliament to office. In November, a new European Commission will take power. In December the European Council will have a new president. Recent initiatives in the social field, including the Social Investment Package, the Social Dimension of EMU and the proposal with regard to contractual arrangements, provide the opportunity to think through the development of a truly effective a 'European Social Union'. However there are 'tough nuts to crack' along the way.

Tough nut 1: Is social convergence necessary?

In the long run, EMU is not sustainable without a basic consensus on the social order it has to serve, and without a concomitant degree of convergence on fundamental social goals. However today we see divergence in the Eurozone instead of convergence. In this respect it is important to note that we have deliberately avoided the term 'harmonisation' as a policy objective. Obviously the European aspiration is upward convergence, but it has to be reconciled with the legitimate diversity that characterises European welfare states.

Question: is upward convergence a necessity, in the Eurozone, and in the EU at large – to be reconciled with the legitimate diversity that characterizes the EU?

Tough nut 2: Social investment as a common agenda?

If there is agreement on the need for convergence, at least in the above terms, the next question concerns the direction of convergence and the way to pursue it.

The concept of social investment has emerged as a social policy perspective in response to fundamental changes in our societies with a focus on policies that 'prepare' individuals, families and societies to adapt to various transformations, rather than simply 'repairing' damage caused by market failure, social misfortune, poor health or prevailing policy inadequacies.

It focuses particularly on early childhood education and care, preventing early school leaving, lifelong learning, affordable child care (as part of an active inclusion strategy), housing support (fighting homeless), accessible health services and helping people live indepen¬dently in old age. It presupposes an appropriate complementarity between 'protecting human capital' by means of the traditional instruments of social protection (cash benefits, health care) and 'developing human capital', by means of education, training and activation.

Question: Do we see 'social investment' as the basis for a 'pact' for setting long-term goals in a spirit of reciprocity, extending the European Commission's Social Investment Package?

Even with agreement on a common orientation, there are issues of sovereignty. National welfare states have become semi-sovereign: the fundamental political question is whether we think sovereignty can be regained by limiting the role of the EU, or whether regaining sovereignty requires the common definition of social objectives at the EU level and the acceptance of solid European instruments to promote convergence in the agreed direction.

We might label such a process as one of 'shared sovereignty'. Obviously, the next question is what 'shared sovereignty' means exactly, and how the common orientation proposed in the preceding tough nuts can be made operational. The following tough nuts (3 to 7) are about policy instruments. However, answering them will shed light on an overarching question:

Question: What type of role do we see for the European Union in this process of shared sovereignty?

Tough nut 3: Mainstreaming social policy objectives in the overall governance architecture of EMU

Excessive social imbalances such as current levels of youth unemployment or child poverty threaten the monetary union as much as excessive economic imbalances. A first step towards convergence is therefore to fight such excessive social imbalances, notably within the Eurozone. This requires the social dimension to be mainstreamed into all EU policies, notably into macroeconomic and budgetary surveillance, rather than being developed as a separate 'social pillar'.

Question: Do we agree with mainstreaming social policy concerns in the macroeconomic and budgetary surveillance of EMU, and – if yes – what should be the role of the different policy strands?

Tough nut 4: Enhanced compliance in exchange for more solidarity?

The performance of welfare states is firstly a responsibility of the Member States. On a pan-European level, however, there is a common interest in having well-performing welfare states, an aspiration that cannot be achieved without reform, on the basis of current evidence. Under these conditions, contractual arrangements might complement the existing macroeconomic surveillance framework with a constructive surveillance of employment and social policies (together with mainstreaming the social dimension into macroeconomic and budgetary surveillance). Such contracts need to be seen by Member States as an effective way of achieving solidarity with respect to commonly agreed structural welfare state reforms, rather than as a means of imposing policies in a 'top-down' fashion.

This does raise questions, however, with regard to the work of the European funds. There is a need to avoid contractual arrangements overlapping with existing cohesion policy programmes with a clear social commitment in order to ensure that, together, they strengthen – rather than merely substitute – efforts at EU level in employment and social policies.

Question: Can contractual arrangements between the EU and the Member States contribute to a constructive surveillance of employment and social policies alongside the surveillance now in place for economic policies? Can contractual arrangements and cohesion policy operational programmes become consistent and complementary policy tools? Can we instantiate 'solidarity in reform' in this way?

Tough nut 5: A stabilisation mechanism for EMU?

EMU badly needs a European counter-cyclical stabilisation capacity to restoring that which had previously been provided by national welfare states. Since the 'Four Presidents' took on board the idea of equipping the EMU with a shock absorption capacity, the idea has gained legitimacy. Some proposals emphasise asymmetric shocks and propose 'interstate insurance', triggered by economic indicators. Others argue in favour of a European Unemployment Insurance scheme that would answer both to asymmetric and symmetric business cycle shocks.

Question: How does the Group assess the political (as opposed to technical) feasibility of such schemes?

Tough nut 6: An agreement on minimum wages to support sustainable mobility?

The French and German governments have made proposals regarding minimum wages and issues of cross-border mobility, giving support to the idea that more cross-border mobility would be a positive development if organized with respect to existing social regulation.

Question: Could a binding EU framework on minimum wages support national social policies and ensure that cross-border mobility can be encouraged without jeopardizing existing social arrangements?

Tough nut 7: Increasing the effectiveness of minimum income protection by EU initiatives?

Proposals have also been tabled with regard to minimum income protection, notably by the European Anti-Poverty Network (EAPN). Such a European framework would give substance and political salience to social rights in a 'caring Europe'. However, any binding agreements on minimum incomes would have to be introduced flexibly and gradually, and in unison with a degree of convergence in activation measures and minimum wages (not in an absolute sense, but relatively to median wages in Member States). Moreover, even a scheme of moderate ambition would require a significant budgetary effort by poorer Member States. Nevertheless, in a number of Member States it is urgent to enhance the effectiveness and efficiency of minimum income protection.

Question: Can a more binding EU framework on minimum income protection raise the quality and efficiency of domestic social systems?

Tough nut 8: Strengthening social dialogue?

Strengthening social partner capacity and social dialogue structures, especially in Central and Eastern Europe, is a prerequisite to revamping this governance tool.

Questions: What could be the most fruitful ways forward for the European social dialogue: building on existing arrangements, including the sectoral dialogue; working through the European Semester; broadening the Macroeconomic Dialogue? Should the EU support national social dialogue in a more direct way (e.g. enhanced capacity building efforts through the Funds)? And, on which particular issues should it focus?

Tough nut 9: Improving the EMU's democratic legitimacy through better social governance?

Developing and maintaining a basic consensus on common objectives of social policy, and mainstreaming them into macroeconomic and budgetary policy, requires governance procedures that are seen as legitimate, notably at the level of the Eurozone. One might imagine the different Council formations, including Employment, Social Policy, Health and Consumer Affairs (EPSCO), meeting at the level of the Eurozone. Similarly, the new European Parliament could (and arguably should) organize dedicated 'Eurozone' sessions for discussion and decision, with the social partners in the Eurozone taking the initiative to start negotiations for EU18.

Question: Would better Eurozone governance in this way improve both the legitimacy and quality of social governance, or would it simply increase the risk of creating a two-speed Europe?

Tough nut 10: Education as the pan-European social investment priority

European welfare states are confronted with a formidable human capital challenge: namely the huge disparity in levels of educational achievement within the EU. If there is one domain in which upward convergence should be our ambition and a matter of common concern, it is here.

Obviously, an education agenda must go hand in hand with an agenda to create employment, notably for young people.

Question: Do we believe that more success in quality education for all young Europeans should be a number one priority within a credible European social investment strategy? How far do we see tangible pan-European action being developed in this area?

V. From a sense of survival to a sense of common purpose

There is a need for more resolute EU-level action to promote sustainable growth, employment and social investment. The social impact of the ongoing adjustment processes is unsettling. The European Union must be seen as caring for the social conditions of its citizens.

Europe needs a Social Union that would support national welfare states on a systemic level in key functions such as macroeconomic stabilisation, and guide the development of national welfare states through general social standards and objectives. That would leave the ways and means of social policy to the Member States on the basis of an operational definition of the European social model. In other words, European countries would cooperate in a union with an explicit social purpose: hence, the expression 'European Social Union'.

We should avoid three misunderstandings.

First, a European Social Union should not be a parallel and separate social pillar to be added to the existing pillars. The social dimension should be mainstreamed into all EU initiatives because social policies are very often affected by policies pursued in other areas. The same holds for the social dimension of the EU at large.

Second, a Social Union should not be a top-down ‘one size fits all’ approach to social policy-making in the Member States. A balanced approach to macro-economic coordination is needed: a combination of greater room for manoeuvre and tangible support for Member States that opt for social investment strategies and policy guidance based on clear objectives, well-defined social outcomes, and making maximum use of mutual learning. A European Social Union is not a European Welfare State: it is a Union of national Welfare States.

Third, positive reforms are needed. The social achievements of over half-a-century of European integration and welfare state development should not be underestimated. However, European citizens need a reformist perspective that gives the social acquis a credible future: creating a European Social Union that builds on that acquis through a social investment pact.

As the signs of economic recovery strengthen we can look forward to Member States no longer being guided mainly by day-to-day crisis management. Without a sense of common purpose, however, it will not be possible to overcome the legacy of the crisis; to combat mounting euroscepticism; or to offer young people the kind of optimistic prospects their parents once enjoyed. Moving from a ‘sense of survival’ to a ‘sense of common purpose’ is a basic condition for building a Social Union.

INTRODUCTION: PURPOSE AND SCOPE

The European Union and its Member States are failing to deliver on two of the fundamental goals that have been part and parcel of the European project since the Treaty of Rome of 1957, namely the simultaneous pursuit of *economic progress* on the one hand, and of *social progress and cohesion* on the other, both *within* countries (through the gradual development of the welfare states) and *between* countries (through upward convergence across the Union).

The founding fathers of the European project optimistically assumed that these objectives could be reached by supranational economic cooperation (namely trade liberalization, the 'four freedoms' of the single market), together with some specific instruments for raising the standard of living across the Member States (which were later brought together in the EU's 'economic, social and territorial' cohesion policy [2]). Economic integration was to be organized at the EU level, and would boost economic growth; domestic social policies were to redistribute the fruits of economic progress and upward economic convergence, while remaining a national prerogative.

Indeed, through the Treaty of Rome "*Member States agree upon the need to promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation […].They believe that such a development will ensue […] from the functioning of the common market, which will favour the harmonisation of social systems*" (Article 117). In other words: drawing on the Spaak (1956) report, there was a genuine belief in the spontaneous harmonisation of social systems [3]. The Ohlin Report – which together with the Spaak report provided the basis for the Treaty of Rome - explains the logic behind this belief: 'when account is taken of the strength of the trade union movement in European countries and of the sympathy of European governments for social aspirations, [this will] ensure that labour conditions would improve and would not deteriorate' (Ohlin, 1956: § 210)'.

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[2] In fact, the attention to regional policy in the Rome Treaty was minimal (namely in the Preamble). The first Commission Communication on regional policy was not published before 1965. The Lisbon Treaty added 'territorial' cohesion to the principles of economic and social cohesion.

[3] The Spaak Report (of which only an abridged unofficial English translation is available) stipulated : '*La tendance spontanée a l'harmonisation des systèmes sociaux et des niveaux de salaire, ainsi que l'action des syndicats en vue d'obtenir un alignement dans les conditions de travail seront favorisées par la création progressive du marché commun*' (Spaak, 1956 :65).

And yet, the European Union and its Member States is failing to deliver on both progress and convergence: in 2012 real household income per head was lower in the EU28 than it had been in 2004. Moreover, where the European project was supposed to be deepening, i.e. in the Eurozone, we witnessed divergence instead of convergence. As the EU has ceased to be the veritable 'convergence machine' it used to be, the EU has been increasingly held responsible by public opinion for failing to deliver on these essential goals: hence rising euro scepticism in many Member States and decreasing participation rates in European elections.

Although a recovery is now announced, the legacy of the crisis in social and budgetary terms, the possibility of persistent low economic growth for a number of years, and the challenge of demographic ageing are bound to make the simultaneous pursuit of *economic progress and social cohesion* even more challenging.

In such a context, it is essential that we review the scope and purpose of the Union's social objective. That is why *Friends of Europe* – an independent think-tank for EU policy analysis and debate – has launched a High-Level Group on a 'Social Union', starting from the conviction that the EU should find better ways to reconcile its economic and social ambitions. The Group will try to take the social dimension out of its 'specialist-only' corner and bring it to the attention of a wider group of high-level (EU and national) policymakers, as well as stakeholders and independent experts. The Group will work over a period of 10 months (January-October 2014) and meet three times under Chatham House rules. The goal is to produce a final report by the autumn of 2014, which will include a set of recommendations for the incoming European Commission and European Parliament.

In terms of scope, the report will be largely confined to questions and proposals that are directly related to the EU's employment and social policies. This implies that it will not dwell on issues such as macro-economic policy and financial markets, banking supervision, furthering internal market integration, external trade policy, taxation and environmental issues etc., even if we are fully aware of their

[4] There is no doubt that European integration created a 'convergence machine' (integrating more than a dozen poor countries and helping them become high-income countries), to use the words of Gill and Raiser (2012).

importance with respect to social goals. Within the realm of the EU's employment and social policies, moreover, we intend to provide a broad roadmap rather than a detailed agenda, which is why we will not at this stage address specific policies such as health and long-term care, pensions and housing, although that does not preclude their development during the process.

This background report puts a lot of emphasis on the Eurozone problematic, which may seem disproportionate from the point of view of readers living in Member States outside the Eurozone. The problems of the Eurozone constitute a crucial challenge for the social significance of the European project, but the final report by the Group has to provide a well-balanced message for both citizens living in the Eurozone and citizens living in other Member States. As a matter of fact, all European countries face major challenges in terms of the future of their welfare states. This is true whether they belong to the Eurozone or not. In the face of global and intra-European migration, the global redistribution of income, the need to drastically reduce emissions… the position of any individual country looks rather bleak, and creates a presumption in favour of international, and thus European, co-operation.

This report is organised as follows.

Part I contrasts the aspiration to progress and cohesion with key social and economic facts about our performance over the years 2004-2012. In this Report, we do not enter the debate on the causes of the crisis, or on the merits and demerits of the policy responses thus far. Hence, the reader will not find a position with regard to, for instance, the macro-economic and fiscal policies advocated by the European Commission and pursued by the Member States. What may transpire from the document, is a belief that Europe's current predicament follows from a combination of structural problems (among others in the nexus education-employment), design failures in the Eurozone, and – at least during some crucial years – too much of a 'one-size-fits-all' approach to budgetary consolidation in the Eurozone. However, we do find it important not just to point to social problems and aspirations, but also to the underlying economic fundamentals; that is the reason why, in Appendix 2, an analysis is added on the position of Europe in world trade.

Part II explains why a basic consensus on the European Social Model is a necessity rather than a luxury; such a consensus must also cover an understanding of European solidarity as reciprocity.

Part III then provides a 'state of play' of Social Europe after more than five decades. An impatient reader may wonder why we insert an elaborate description of the current social dimension of the European Union in this report. The reason is, first, to underscore that our call for a 'European Social Union' cannot be premised on a denial of the positive acquis that already exists; secondly, an important question is to what extent the idea of a 'European Social Union' can be fitted into the existing governance framework. The reader, who is already well-versed in the current functioning of the EU and short of time, may decide to focus only on sentences in bold.

Part IV proposes ten 'tough nuts to crack': Difficult problems to solve, on which we have to make up our mind.

Part V summarises and concludes with one key question: Can the European Union move from a sense of survival to a sense of common purpose?

I. FIVE YEARS OF ECONOMIC CRISIS: AN UNSETTLING LEGACY

Economic and social developments in Europe: 10 worrying observations

At the moment of writing this report, a recovery of the European economy is announced but the jury is still out with regard to the robustness and scope of that recovery, and it is certainly too early to say that 'the crisis is over'. Meanwhile, we are confronted with the legacy of the protracted economic downturn in all Member States, whether inside or outside the Eurozone.

In Appendix 1 we present facts and figures with regard to social and economic developments in the EU between 2004 and 2012, which show that this legacy is deeply worrying, both with regard to the aspiration to progress and with regard to the ambition to support national and pan-European cohesion. We summarize these observations here since space limitations do not allow us to include all that can be learned from the excellent analyses in the European Commission's reports on 'Employment and Social Developments in Europe' concerning the impact of the crisis and the strengths and weaknesses of European welfare states, and what can be learned from the publications by Eurofound, on working conditions and job quality[5] .

1. In many European countries, employment rates were lower in 2012 than 8 years earlier, including in the EU15 as a whole, when we exclude Germany. This was particularly the case in the four southern EU15 countries, where, Portugal apart, employment rates were well below the EU average before the crisis: the 'employment gap' between these southern EU15 countries and the other EU15 countries became larger, signalling the divergence which we further illustrate below.

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[5] See the references in the bibliography. We refer the reader notably to Chapters 2 and 3 of European Commission (2013e), on social trends and dynamics of poverty and exclusion, and social protection systems confronting the crisis; and to the chapters on convergence and divergence and on effectiveness and efficiency of social expenditure in the forthcoming European Commission (2014).

2. Overall, GDP per head was only marginally higher in 2012 than in 2004. In the EU13 (the new Member States), it was higher on average but lower in 7 of the 13 new Member States. In the EU15 excluding Germany, GDP per head in 2012 was no higher than 8 years earlier (and in 2013, it was slightly lower). In the southern EU countries, including Cyprus, it was lower, especially in Greece, where it was 13% lower.

3. The change in household income per head, which is a more relevant indication of the change in living standards, shows a very different pattern to that of GDP per head. While there was a significant fall in household income per head in real terms in 2008-2010 (along with the fall in GDP per head), there was an even bigger decline in the subsequent two years, reflecting the decline in average earnings along with the rise in unemployment which occurred. Average income per head across the EU was, therefore, around 6% less in 2012 than before the crisis began and below the level in 2004. In Greece, income per head was 30% below the level before the onset of the crisis and 20% less than 8 years earlier, while in Italy it was 12% lower.

4. The percentage of people who are materially deprived adds to this disquieting observation with regard to living standards. Material deprivation is measured by an index of nine items relating to financial stress and the enforced lack of a list of durables. All persons living in a household that, at the moment of the interview, is deprived on at least three out of nine items are considered to be materially deprived. The items on the list refer to the ability to (1) pay the rent, mortgage or utility bills; (2) keep the home adequately warm; (3) face unexpected expenses; (4) eat meat or protein regularly; (5) go on holiday; (6) buy a television, (7) a washing machine, (8) a car, and (9) a telephone.

In the EU13, the proportion of the population identified as materially deprived, declined markedly during the economic boom years 2005-2008 (from nearly one in two of the population to a little more than one in three), but then stagnated; in the EU15 the proportion of the population identified as materially deprived was stable during the years of growth, and increased from 12.8% in 2008 to 15.6% in 2012. There was a marked increase in the relative number of people materially deprived in Greece, Spain, Italy and Ireland as well as the three Baltic States over the crisis period. (On the other hand, the indicator also shows a reduction in Portugal, where real income declined, and an increase in Malta where it rose;

thus illustrating the caution needed in interpreting these survey results.)

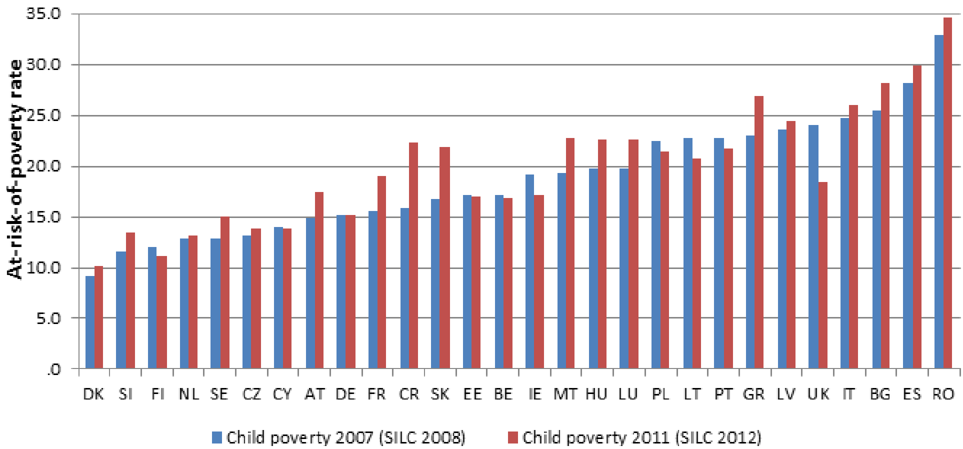
5. Young people were hit particularly hard by the recession which hit the EU in 2008. This emerges first of all in unemployment figures. The youth unemployment rate increased to around 23% in the EU in 2012 and was at much the same level in mid-2013. The biggest increases were in Greece and Spain, where well over half of young people aged 15-24 in the labour force were unemployed in 2012. By mid-2013, the rate in Greece had risen to 59% and in Spain to 56%. The rate was also around 50% in Croatia and 40% in Cyprus. (As explained in the Appendix, the way these figures are often presented may overstate the problem of unemployment among young people, because most young people aged 15-24 are not part of the labour force but still in full-time education; however, the proportion of young people aged 15-24 that are neither employed nor in education and training - the so-called NEETs – is also very high in a number of countries).

6. In a number of Member States, the crisis has had a huge impact on families with children. We focus here on observations with regard to financial poverty experienced by individuals who are less than 18 years old. Some explanation and caveats are necessary. Although it is a crucial parameter in the assessment of welfare state performance, the 'at-risk-of-poverty rate' is a rather crude headcount: it simply measures the share of individuals in households with an income below the poverty threshold, and does not account for the depth or severity of the poverty faced. The poverty headcount defines poverty in relation to the level of income in the welfare state where an individual happens to be living: it is a relative measure. If we use floating poverty thresholds, as is normally the case, the threshold changes every year. In a number of countries the floating poverty threshold decreased during the crisis years, reflecting a decrease in median household income: this has a favourable impact on the poverty headcount, although financial needs may have increased in both poor and non-poor households. A different perspective is created by anchoring the threshold in time, for instance based on the values observed in 2004 or 2007.[6]

[6] We base these measures on the European Statistics on Income and Living Conditions (EU SILC); EU SILC 2008 refers to incomes in 2007. EU SILC 2012 refers to incomes in 2011; the Irish data in EU SILC 2011 refer however to incomes in 2011.

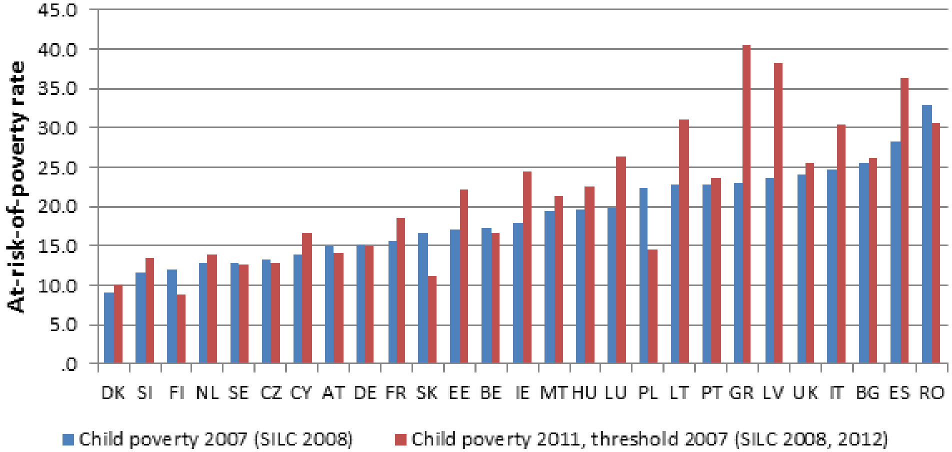
There is a huge disparity in child poverty across EU member states, as can be seen in Figure 1-A: in 2011, the at-risk-of-poverty rate was 34% in Romania and 10% in Denmark. During the second half of the 2000s, child poverty rates displayed a tendency to converge in the EU, both when measured on the basis of floating thresholds and (to a lesser extent) when measured with a threshold anchored in 2004. In some countries where child poverty rates were initially high, such as Poland, Lithuania, Portugal, the UK and Estonia, they declined both with the floating and the fixed threshold. In some countries, where they were traditionally low, such as Finland and Sweden, they increased when measured on the basis of a floating threshold. Simultaneously, there are some notable exceptions to this pattern, such as Denmark (low initial poverty rates, no increase) and Spain, Italy and Greece (high and increasing child poverty rates). Within the Eurozone, there was no convergence of national poverty rates. On the contrary, during the crisis years the Eurozone displayed a growing dispersion and divergence of child poverty rates calculated with a threshold anchored in 2007. This is illustrated in Figure 1-B. For instance, in 2007, 28% of Spanish children lived in a household with an income below the Spanish poverty threshold; in 2011, 36% of Spanish children lived in a household with an income below the Spanish poverty threshold of 2007.

Figure 1-A: At-risk-of-poverty rates for individuals less than 18 years old (floating poverty thresholds)



Data retrieved from Eurostat website; data for Ireland based on Statistics on Income and Living Conditions (SILC) 2007 and 2011

Figure 1-B: At risk-of-poverty rates for individuals less than 18 years old, anchored in time



Data retrieved from Eurostat website. Data for Ireland 2011 are based on the SILC 2011 statistics for poverty anchored in time; data for Ireland 2008 are based on SILC 2008

We use 'convergence' and 'divergence' in a technical sense here. When it comes to poverty rates as we define them, neither 'convergence' nor 'divergence' are per se desirable. If convergence pertains because poverty rates increase in countries where poverty was initially low, we are not describing a satisfactory state of affairs. However, the huge disparity of levels of child poverty in the Eurozone, and the non-convergence and even divergence (during the crisis years, when anchoring poverty thresholds in time) signal 'excessive social imbalances' that should be a common concern. We return to this observation in Section 2.

7. Part of the explanation for the divergence with regard to 'child poverty anchored in time', is due to divergence with regard to economic growth. In the years preceding the recession there was already a gradual divergence in GDP per head between the EU15 countries who were members of the Eurozone. While most member countries enjoyed reasonable rates of fairly continuous economic growth over the period from the formation of the single currency area up to the onset of the recession, this was not the case for Italy, whose GDP per head [7] declined from 2% above the EU average in 2001 to 7% below in

2007. As the Eurozone countries went into recession, the disparities in GDP per head narrowed significantly as those countries with the highest levels of GDP per head were affected most. From 2009 to 2012, however, the countries with the highest levels of GDP per head recovered more quickly and disparities between countries widened again, and more markedly than before the crisis.

While future developments in this respect are uncertain, the tendency towards divergence in GDP per head which was evident before the crisis, instead of the convergence which was hoped for, could turn out to be the norm in an economic area where there is a lack of an adjustment mechanism for correcting imbalances in growth performance.

Chapter five of the European Commission's most recent report on *Employment and Social Developments in Europe* is dedicated to '*Convergence and divergence in EMU – employment and social aspects*' (European Commission, 2014:. 279-319). It shows how the con¬vergence in employment and social developments in the Eurozone over the period 1999 to 2007 was largely halted by the crisis; simultaneously it points to underlying elements of economic divergence – or at least, lack of convergence – which were already present before the crisis.

8. Public spending increased significantly relative to GDP over the period of economic downturn. This, however, was a consequence of the fall in GDP rather than of any marked acceleration in the growth rate of government expenditure, which was only slightly higher on average over the two years 2008-2010 than over the preceding 4 years. Indeed in both the EU15 excluding Germany and in the EU13, it was less. Over the two years 2010-2012, expenditure was reduced in most countries, especially in Greece and Ireland, though in the last it reflects the substantial support given to banks in the previous two years. Over the 4 years 2008-2012 therefore, the growth of government expenditure exceeded 2% a year only in 7 Member States and in no country was it more than 3% a year. In other words, considered over the entire period and across the board, there is no clear indication of 'automatic stabilisation' by means of accelerated public spending.

[7] To make levels of GDP per head comparable across countries, we measure it in PPS (Purchasing Power Parities).

When a recession occurs, welfare states normally act as automatic stabilizers, both with regard to macro-economic demand and with regard to financial poverty. Analyses that are more fine-grained than the summary indication on the basis of overall public spending in the previous paragraph, do show that in the first stage of the crisis, European welfare states did play such a stabilizing role, albeit to a varying extent. From 2010 onwards, the automatic stabilizers became increasingly constrained, notably in those welfare states with very high levels of sovereign debt. In the first stage, the transfer systems mitigated the impact of the crisis on poverty; but in some countries the poverty-reducing impact of the welfare state was increasingly constrained when austerity measures took effect. Poverty reduction by transfers first increased in these countries – as one should normally expect – but then levelled off.

9. Public investment has been reduced considerably over the crisis period. Even in the two years 2008-2010 when measures were taken to counter the deflationary effects of the global recession, general government fixed capital formation declined on average in real terms across the EU as well as in most Member States. It declined by even more over the subsequent two years. As a result, there was an overall reduction of public investment of 15% over the 4 years 2008-2012 across the EU and one of 60% or more in Ireland, Greece and Spain.

10. The same observation holds for investment in human capital. Investment in human capital is normally equated with spending on education and child care. However, health care is essential in 'maintaining' human capital. We therefore start our survey of public investment in human capital with data on health care.

Government expenditure on health increased in real terms in most countries over the two years 2008-2010, though not in the Baltic States, Bulgaria, Ireland, Greece, Slovakia and Hungary (where it had already been reduced in the preceding period, as it had in Portugal). There was a more widespread reduction in 2011, especially in Greece where it was cut back by over 20%, taking the overall reduction over the period 2008-2011 to 28%. There was also a substantial reduction over this period in Latvia, Slovakia, Ireland and Estonia.[8] Government

[8] The social impact of the ongoing 'internal devaluations' in some Eurozone Member States is arguably more severe than that of the pre-Maastricht version. Some observers are very critical about the current situation. For instance, Greer states that the outlook for countries that have signed a Memorandum of Understanding is unsettling, in that the Economic Adjustment Programmes are likely to be badly implemented, be neutral or negative for growth, be detrimental to equity and the poor, have unpredictable policy consequences, and will allow incumbent elites to preserve their positions (Greer, 2013). Stuckler and Basu (2013) conclude that in Greece, austerity measures in health care are leading to a public-health disaster to the extent that 'austerity kills'.

expenditure on education, widely considered to be important for future economic growth, has followed a similar pattern to spending on healthcare. Growth was maintained in most countries over the two year 2008-2010 but it came to a halt or expenditure was cut back in the following year. Real public expenditure on education, therefore, was lower in 2011 than in 2008 before the crisis in 10 Member States, most especially again in Latvia, Greece, Ireland and Estonia (though not Slovakia) and also in Romania.

The relative number of people with tertiary education is commonly regarded as an important indicator of the growth potential of economies. Government expenditure on tertiary education, however, has been cut back during the crisis period in the majority of Member States and in many cases more so than expenditure on education overall. This is especially so in the countries which have been hit hardest by the recession – in Greece, Ireland, Italy, Portugal and the three Baltic States.

The provision of childcare by Governments is widely considered to be essential to make it possible for women with young children to pursue a working career and, accordingly, to be an important element in any policy for reducing child poverty as well as to ensure equality of opportunity between men and women. Although there are no EU-wide data on Government expenditure on childcare as such, the ESSPROS (European System of Social Protection Statistics) data shows that in the years before the onset of the crisis, there was an expansion of expenditure in real terms in nearly all Member States. There was also a widespread expansion over the two years 2008-2010 when GDP declined virtually throughout the EU. In the following two years, however, expenditure was reduced in real terms in most countries. In 2012, real expenditure on child care was lower than it had been in 2008 in 10 Member States, including all three Baltic States, Greece, Portugal and Cyprus.

Social expenditure and Europe's economic performance in the world

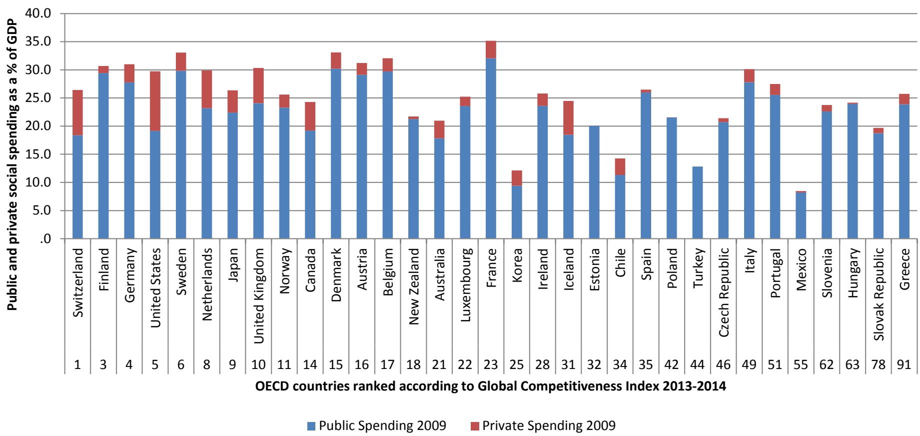
The extended duration of the European crisis, relative to the United States, is seen by many observers as the result of design failures in the Eurozone and

– related to this – political and institutional constraints that make it difficult to solve typical 'collective action' problems at the EU level. As a consequence, the burden of adjustment was borne by a subset of countries that had to organize internal devaluations. These internal devaluations implied considerable cuts in public expenditure, including cuts in social expenditure.

From a rather different perspective, expenditure cuts have been justified by some analysts as fundamentally unavoidable, as they consider the level of social spending in those countries – or even in the EU at large – as detrimental to global competitiveness *per se* and thus unsustainable. In the latter approach, the contrast between Europe and the United States is predominantly one between high-spending and insufficiently flexible European social systems on the one hand, and a flexible economy with less social spending on the other hand. We cannot do justice to these conflicting perspectives, but some summary data may provide a starting point.

Figure 2 ranks the OECD countries (on the horizontal axis) according to the World Economic Forum's Global Competitiveness Index 2013-2014. On the vertical axis we display public and private social spending as a percentage of GDP (the latest year for which such comparable data are made available by the OECD is 2009).

Figure 2: Global competitiveness and levels of social spending



When public and private social spending is aggregated, social spending in the United States is nearly as high as in Finland, Germany, the Netherlands, and higher than in many other European countries. The difference between the United States and these European welfare states is related to the private/public mix, rather than to the level of social spending (Adema et al. 2011). If we consider public social spending a cost factor that impacts upon international competitiveness, private social spending is, prima facie, also a cost factor.

Figure 2 also shows that there is, among OECD countries, no correlation between low levels of social spending and a high score in the competitiveness ranking. In Finland, Germany, the Netherlands and the UK (which has also an important share of private spending) social spending is high, around 30% of GDP, but they are in the top 10 of the Global Competitiveness Index. The Swedish level of social spending is even higher, but that does not prevent Sweden from being 6th in the ranking.

Among the ten most competitive countries in the world, five are from the EU15. So conceived, among OECD countries there is no relationship between competitiveness and social spending per se (we excluded highly competitive countries with very low levels of social spending such as Singapore and Hong Kong from the figure, as there are no comparable OECD data on social spending available). As noted by De Grauwe and Polan (2003), we can assume simultaneity in the relation between competitiveness and social spending, i.e. causality is likely to run in both directions. Thus, countries that are highly competitive generate a lot of value added and attain high levels of GDP, which allows them to spend more on social needs. Conversely, high levels of social spending may influence the productivity of workers and, through this channel, affects the competitiveness of nations.

From the above we can conclude that social spending per se does not hinder countries in their continuous battle for competitiveness. In fact Appendix 2 shows that, on the basis of trade shares, there is little sign of any significant deterioration in the overall competitiveness of the EU relative to other developed economies. On the other hand, the Appendix does highlight the continuing competitiveness of Germany in export markets relative to other EU countries, especially relative to the larger EU15 Member States, which underscores the divergence in economic performance which has been evident since the crisis hit.

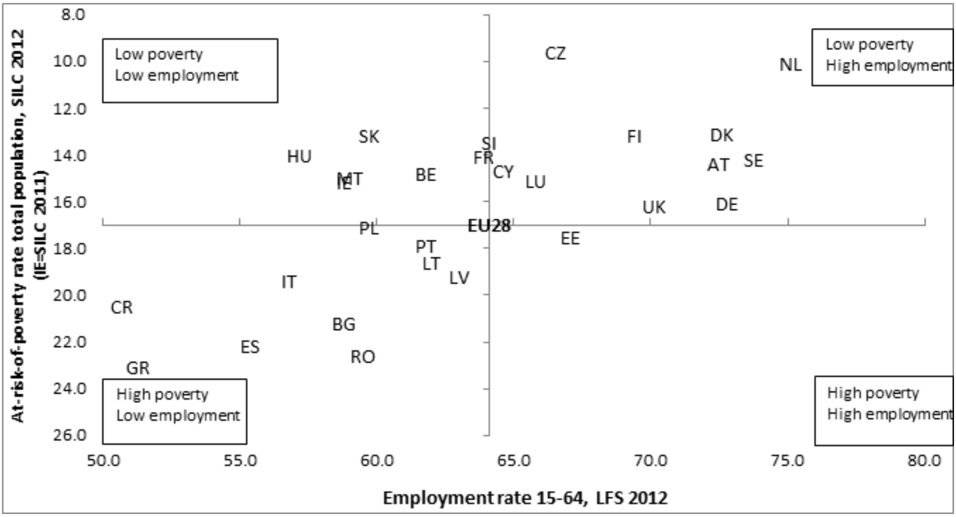
The Appendix also examines the share of services in total exports and shows that, unlike developments in our domestic economies, there is only a gradual tendency for the share of services in trade to increase over time, with by far the larger part of export earnings continuing to come from the export of goods.

A map of the social performance of European welfare states

In the preceding section, we noted that high levels of social spending can be compatible with competitiveness. However, some countries seem to be more efficient in the organization of their social spending than others with high disparities between national welfare states. A comparison of our Figure 2 with Figures 3 and 4 below suggests that countries like Sweden, the Netherlands, Denmark achieve low levels of poverty, high employment rates, a high share of people with secondary education or more and a good score in the competiveness index, while a country like Italy, which has more or less the same level of social spending (see Figure 2), performs worse on all these counts.

The concern that some social expenditure is used inefficiently, therefore carries much more weight than the idea that high levels of social spending and competitiveness contradict each other. Recent research shows significant differences between Member States in the effectiveness of their spending in different social policy areas, and significant differences in the cost-efficiency with which policies are delivered (see European Commission, 2014, Chapter 6). There is still a considerable scope for reform in a number of Member States, with a view to improving the performance of their welfare states, as Figure 3 illustrates.

Figure 3: A map of the performance of European welfare states



Data retrieved from Eurostat website

Figure 3 maps European welfare state performance on the basis of two key performance indicators: their employment record (on the horizontal axis), and their poverty record (on the vertical axis). The strong record of Northern welfare states, with regard to both employment and poverty, has been linked to their long-term orientation towards 'social investment', i.e. activation, investment in human capital, and capacitating social services such as child care (Hemerijck, 2013). In the next subsection, we present some data on differences within Europe with regard to educational achievement. Obviously, investment in education and child care are no panacea; welfare states also differ with regard to the effectiveness of their social protection systems. For instance, Greece does not have a system of minimum income assistance, and minimum income protection in Italy is generally considered to be inadequate.

Cash transfer systems are highly fragmented in a number of welfare states. In some welfare states, pensions play a considerable role in the social protection of families with children, a phenomenon that seems associated with the inadequacy of their cash benefits other than pensions and with the presence of multi-generational 'extended families' (Vandenbroucke et. al., 2013). Given the necessity to reform pension systems to prepare for demographic ageing, the social model on which these 'pension-heavy' welfare states rely is very vulnerable.

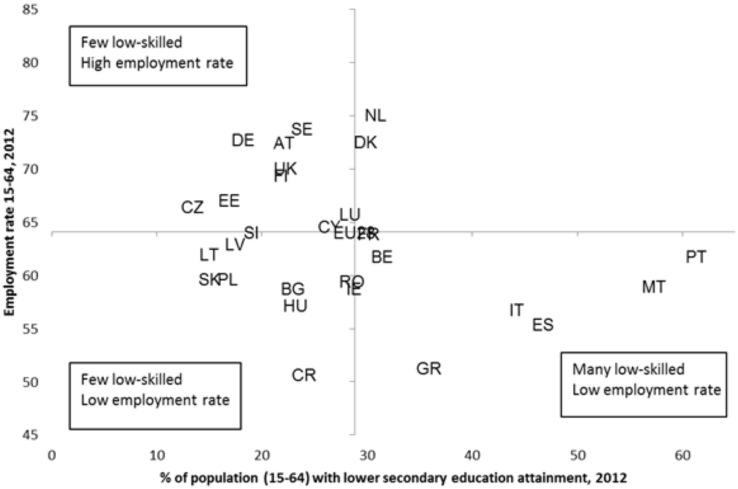
Welfare state performance depends on the complementarity of effective investment in human capital – by means of education, training and child care – and effective protection of human capital – by means of adequate transfer systems and health care. The redistributive role of social protection remains important per se (Cantillon and Vandenbroucke, 2014).

The human capital asymmetry: Disparate levels of educational achievement

Although one should resist easy recipes that suggest that there is a 'silver bullet' to improve welfare state performance, in a number of countries both poor social outcomes and lack of competitiveness go hand in hand with inadequate investment in human capital. In this respect, European Member States display very different profiles with regard to the educational achievement of their population. We illustrate this in Figures 4, 5 and 6.

Figure 4 combines two series of data for 2012: on the one hand, the employment rate of the population in the age bracket 15 to 64 and, on the other, the share of the population with only lower secondary education attainment. The southern EU Member States combine a high share of people with no more than lower secondary education and low employment rates. This mapping also illustrates rather different educational legacies in the EU15, on the one hand, and the new Member States on the other hand: the New Member states are in the south-western quadrant of the figure, with typically a relatively low share of people with only lower secondary education, but rather low employment rates.

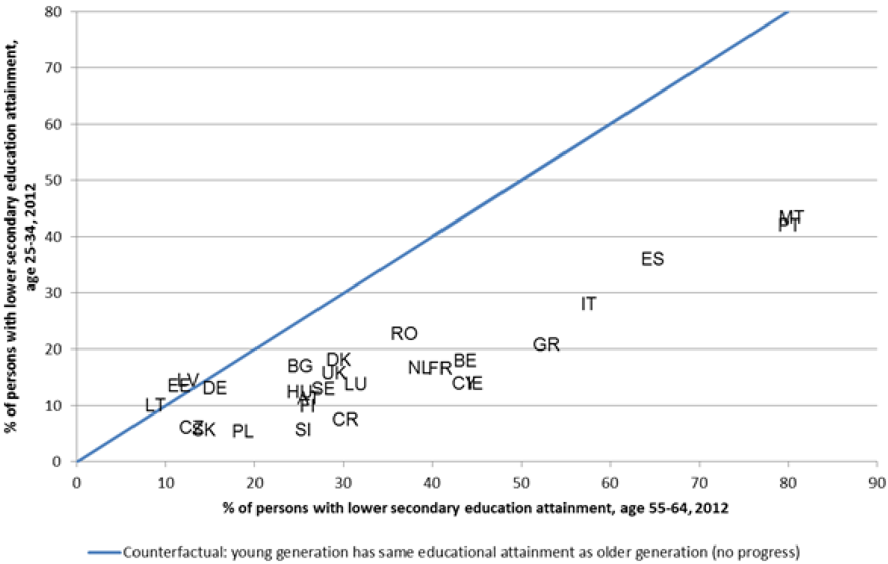
Figure 4: Employment rates and formal educational achievement



Data retrieved from Eurostat website

It might be objected that statistics on levels of educational attainment for the *whole* population between 15 and 64 years old are misleading with regard to progress in education, since they include people who left the education system more than 40 years ago. Figure 5 adds information by comparing the educational attainment in the generation between 25 and 34 (on the vertical axis) with the educational attainment in the generation between 55 and 64 (on the horizontal axis). The vertical distance between the blue line and the actual position of countries in the figure shows the progress made in terms of educational attainment between the younger and the older generation (in terms of the share of people with no more than lower secondary education). That progress is impressive in countries like Spain, Italy and Greece; however, the share of people with no secondary qualification remains very high in these countries (their position on the vertical axis is comparatively high).

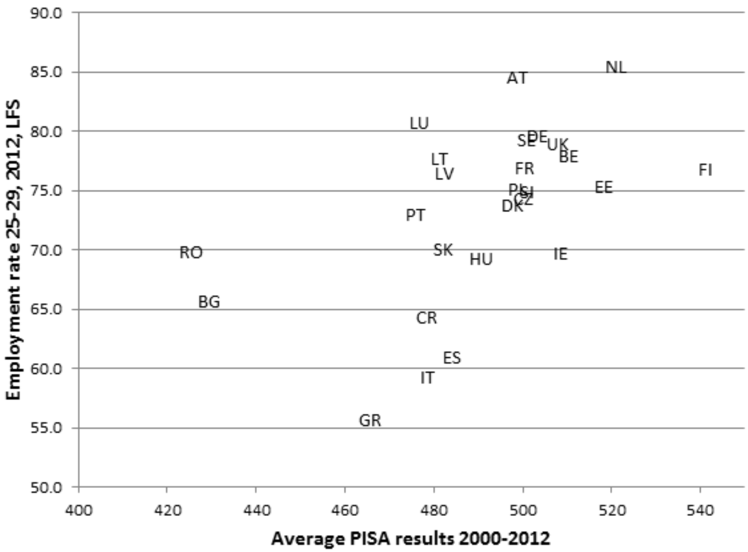
Figure 5: Progress in educational attainment over generations



Data retrieved from Eurostat website

Figure 6 further illustrates the huge disparity in the effectiveness of investment in human capital, in today's younger generation. It combines two series of data: on the one hand, the employment rate of people in the age bracket 25-29 in 2012, on the other, the average PISA results attained by 15-year-olds between 2000 and 2012 in the fields of mathematical and scientific literacy, and reading. PISA measures the actual skill level of young students.

Figure 6: Educational achievement measured by PISA and employment rates



Employment data retrieved from Eurostat website; PISA data from OECD

Figure 4, 5 and 6 not only illustrate the particular deficit of Southern welfare states – compared to other EU15 welfare states – with regard to education and employment; they underscore the huge education agenda the whole EU is confronted with. More than one in three Spaniards in the age cohort between 25 and 34 years have no more than lower secondary education; in Germany this applies to less than one in six young people.

We do not suggest that there is a direct connection, let alone any simple causal relationship, that explains employment in terms of educational attainment. But leaving aside outliers such as Bulgaria, Romania and Luxembourg, one cannot but be struck by the apparent correlation. Greece, Italy and Spain, for example, combine low employment rates with very weak PISA scores. This constitutes an exceptionally important societal agenda, at least if young people in Italy, Spain and Greece are to be offered real prospects. The European Union certainly recognises the challenge: in the Europe 2020 agenda, reducing the number of early school-leavers (which is high in these countries) is singled out as one of the *headline* targets. The European Commission has developed a comprehensive agenda on education, training and skills, and issued excellent Recommendations on the modernization of education systems [9]. However, the question remains as to whether this educational agenda carries sufficient weight at the highest levels of European political decision-making and in the setting of budgetary priorities; on the basis of the spending data presented in the previous section, the answer seems negative. That is not to say that the quality of education systems can be measured in a simplistic way by the level of public spending on education; but it seems very hard to improve education systems significantly whilst disinvesting.

Increased labour migration

We cannot do justice to the many aspects of labour migration and mobility, which have become increasingly important for Europe, both in terms of intra-European migration and mobility, and in terms of immigration from other regions in the world. There have been significant changes in immigration flows, not only in terms of their country of origin and destination [10], but also in terms of their motive[11]: temporary migration has become more prominent, notably labour flows that rarely lead to permanent settlement let alone social integration. Galgoczi and Lescke (2012) underscore that post-2004 intra-European labour mobility constitutes a historically new phenomenon in a number of respects. Different forms of labour mobility coexist: commuting, short-term, circular or more permanent migration, but various 'functional equivalents' of migrations such as (bogus) self-employment and posted work also play an important role.

In this section we focus on the data provided in Appendix 1, which concern residents living in another country than their country of birth (hence, they do not include posting and commuting). These data first of all illustrate that migration within the EU has risen markedly over the past decade, most especially since 2004 when the Central and Eastern European countries entered the EU. The flow of people of working age, particularly young people aged under 35, from these counties to the EU15 has slowed down since the crisis hit but it remains

[9] See for example the European Commission (2012e) Communication on 'Rethinking Education'; the European Commission(2013h) Education and Training Monitor; the Commission analysis of PISA (European Commission, 2013f), and the European Commission (2013g) Survey of Adult Skills (PIAAC); and the 'Mind the Gap report on education inequality across EU regions (NESSE, 2012; European Commission, 2012d).

[10] While 'mature' (Western) immigration countries transformed their migration status in the third quarter of the 20th century, 'New' immigration countries (Southern countries and Nordic latecomers) became receiving countries in the 1990s. 'Future' immigration countries in Central and Eastern Europe are currently both the source and origin of immigrants (Kaczmarczyk et al, 2012).

[11] Although the flow of asylum-seekers into the EU has increased since 1989, family unification and labour migration remain the predominant reasons for immigration.

significant into some countries, especially from Romania into Italy and Cyprus. The number of people of working age born in the EU10 and living in the UK, therefore, increased 4-fold in the 4 years 2004-2008, and those living in Ireland rose by three times in the three years 2005-2008. Similarly, those born in Bulgaria and Romania living in Spain more than doubled in the 4 years 2004-2008 as they did in Italy between 2005 and 2008.

Over the four years of the crisis 2008-2012, there was some net outward migration of those born in the EU10 from Ireland, but the number living in the UK continued to increase if at a slower rate. There was also a slow-down in net migration of Bulgarians and Romanians into Spain, but not into Italy or Cyprus, where the number increased substantially over these four years. The data in the Appendix also show that inward migration into the EU15 from other regions in the world was equally significant for a number of countries over the period 2004-2012, most especially for Spain (from North Africa) and Sweden. Inward migration into the EU13 countries, apart from Cyprus, remains small.

The outflow of Romanians and Bulgarians to other EU countries has been substantial in recent years, especially of women and particularly of those with low education. In 2012, 13% of those aged 20-34 from these two countries lived in another EU country, 15% of women and 19% of those with no education beyond basic schooling.

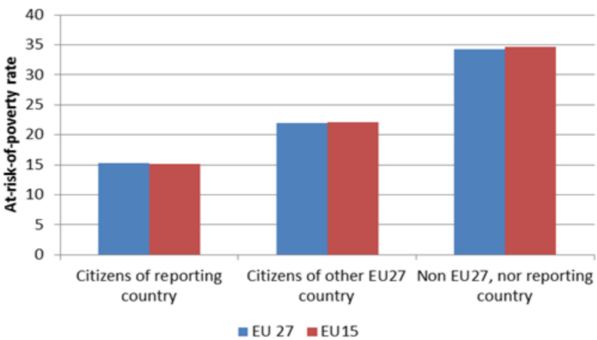
Before the onset of the recession, men and women living in the EU15 from the EU12 countries which entered the EU in 2004 and 2007 tended to have higher employment rates than those born in the country concerned, the only two exceptions being Austria and Sweden. The same was the case in the southern Member States for migrants from outside the EU, but not in the other EU15 countries. The relatively higher employment rates for migrants in southern Member States can be related to the comparatively weak education profile of the nationals in these Member States; simultaneously, migrant often occupied jobs of low quality and/or for which they were over-educated.

Over the crisis period, however, there has been some tendency for the employment of those born outside the country to decline by more, or to increase by less, than for those born in the country. This is particularly so in Ireland, where the employment rate of those from the EU10 declined by much more than for those born in Ireland between 2007 and 2012, and in Spain, where the rate of those from Bulgaria and Romania fell by considerably more than that of those born in Spain. EU10 migrants acted, at least partially, as labour market buffers.

Freedom of movement is a defining feature of the European project and constitutes an important right for all Europeans; past experience has shown that migration can remedy bottlenecks in labour markets and play a positive economic and social role. However, in general, European welfare states fail with regard to the integration of migrants in their societies. A recent survey (de la Rica et al, 2013) confirms large gaps in labour market outcomes between natives and migrants in most countries, both in terms of employment and wages, and large gaps in educational outcomes. Migrants often occupy relatively weak or vulnerable positions in labour markets; we return to this observation in section 2.2, where we discuss the issue of social dumping. Poverty rates reported by welfare states are significantly higher for residents who are not national citizens of these welfare states than for their national citizens, as shown in Figure 7 (for a survey of poverty and social exclusion among migrants in the EU, which also underscores the important differences between Member States in this respect, see Lelkes and Zolyomi, 2011).

From the opposite perspective, there are growing concerns about the dramatic demographic loss in some Member States. European Member States need to develop a shared vision on labour migration within the EU. Fundamentally, it seems that intra-European migration today goes hand in hand with problems of under-utilization and poor development of human capital.

Figure 7: Poverty risks differentiated by citizenship



At-risk-of-poverty rate for the total population, differentiated by citizenship; based on EU SILC 2012, retrieved from Eurostat website.

The social investment imperative

The observations in the previous sections underscore the need for a consistent social investment strategy. Social investment emerged gradually as a social policy perspective in the 1990s in response to fundamental changes in our societies with a focus on policies that 'prepare' individuals, families and societies to adapt to various transformations, such as changing career patterns and working conditions, the emergence of new social risks and population ageing, rather than on simply generating responses aimed at 'repairing' damage caused by market failure, social misfortune, poor health or prevailing policy inadequacies.

The social investment concept is not new, but the fundamental societal trends that led to the development of this approach are even more relevant and important today than they were ten years ago, not least because of adverse demography This, in turn, implies an urgent need for a reform-oriented agenda and a dynamic public sector (Vandenbroucke et al. 2011; Morel et al. 2012; Hemerijck 2013).

Such an agenda involves:

- high-quality childcare;
- investment in training and schooling, at all levels of education;
- support for the combination of paid work and family life;
- later and flexible retirement, in accordance with life expectancy;
- seizing the opportunities presented by migration, through among other things proper integration into education and the labour market;
- minimum income protection and, in general terms, capacitating service provision.

The Social Investment Package, launched by the European Commission (2013a,b) in February, following a European Parliament (2012) Resolution on this topic, presents a similar argument and provides an interesting common orientation for EU Member States with its focus on early childhood education and care, preventing early school leaving, lifelong learning, affordable child care (as part of an active inclusion strategy), housing support (fighting homelessness), accessible health services and helping people live independently in old age.

Social investment is as crucial for Europe's success as research and technological investment, infrastructure investment, or physical capital investment. Moreover, the assessment of the benefits and costs of all such investments are subject to the same judgemental rules – requiring both a long view and a wide view [12] in order to measure their full impact and not just their initial incidence.

The need for a long view with respect to social investment simply reflects the reality of human existence - with major investments in care and education in the earlier stages, substantial compensating economic returns in the central productive phase, and the drawing down from accumulated reserves towards the end.

The need for a wide view reflects two concerns: the inter-dependence between social and other investments since the success of the latter depend to a large extent on the quality of the associated human resources, and the spill-over costs of social failure – whether in education, health, or social integration – which can place a serious and long-term debilitating and disruptive burden on economies and societies that are affected.

The wide view also emphasizes complementarity between social investment and social protection. It would be naïve to deny tensions between principles of social protection and principles of social investment and the emphasis on activation that is associated with it. As already said, welfare state performance depends on the complementarity of effective investment in human capital and effective protection of human capital. Security against the adverse effects of illness, disability, and unemployment, old age, divorce and child-bearing is of value to citizens – which is important per se - but it is also of value to society at large, on which the burden of poverty and social instability would fall if there were no social protection.

[12]We borrow the terminology used by the seminal work Cost-Benefit: A Survey, A.R. Prest and R. Turvey (1965).

II. WHY A BASIC CONSENSUS ON THE EUROPEAN SOCIAL MODEL IS A NECESSITY

Whereas ten years ago the quest for an operational description of the European Social Model might have been dismissed as 'interesting' but not strictly necessary, today it is no less than an existential conundrum for the Union. We distinguish arguments applying specifically to the Eurozone from arguments applying to the EU as a whole.

A social dimension for the Eurozone: Functional, political and economic arguments

There are three reasons why the EMU (now comprising 18 Member States[13]) needs an additional social dimension: these are functional, political and economic.

There is first and foremost a *functional* argument, which fits in to a broader debate on the consequences of monetary unification and more particularly the fact that members of a currency area are confronted with a long-term trade-off between symmetry and flexibility. In textbooks on monetary unions, the need for flexibility is explained in terms of wage and price flexibility, labour mobility and migration, which determine a country's 'internal' adjustment capacity in case of an asymmetric shock (i.e. a recession which only affects some Member States). Flexibility implies choices that are not socially neutral: less regulated labour markets, temporary shock absorbing mechanisms such as 'Kurzarbeit' in Germany, a highly skilled and versatile labour force… provide different ways and means to labour market flexibility, which can be mixed in different ways, according to social preferences. There might be a 'high road' to labour market flexibility, based predominantly on skills, as opposed to a 'low road', based predominantly on mere deregulation of labour markets.

[13] Latvia adopted the euro on 1st January 2014.

Less flexibility necessitates more symmetry, according to the theory of optimal currency areas. In economic textbooks explaining this trade-off, symmetry is defined in purely economic terms, but sustaining symmetry in the long run may imply a degree of social convergence: there seem to be limits to the diversity in social systems that can be accommodated in a monetary union, not with regard to the details of their organisation, but with regard to some their fundamental parameters (Vandenbroucke, 2013). The insistence of the European Commission that retirement ages be indexed on longevity in all European Member States can be interpreted in this sense: apart from the fact that it may be good policy *per se,* for any welfare state, to establish a link between retirement ages and longevity, it is plausible to argue that unsustainable pension systems in some Member States of the Eurozone would lead to budgetary imbalances that threaten the Eurozone as such.

Next to the trade-off between flexibility and symmetry, there is a well-known second trade-off: if the possibility exists of absorbing asymmetric shocks through budgetary transfers between members of a monetary union, then the need for flexibility is reduced. Knowing that labour mobility in the EU is limited in spite of free movement and that wages and prices are rather 'sticky', the absence of interstate fiscal transfers is, according to some, a key design flaw in the Eurozone.

Pursuing the problem of economic shocks, it might be argued that the Eurozone not only suffers from a design flaw with regard to asymmetric shocks: it seems that the automatic stabilisation capacity that normally characterizes welfare states has been constrained by the actual functioning of EMU: perverse feedback-mechanisms related to sovereign debt can push Eurozone members in 'bad equilibria' and inhibit automatic stabilisation in reaction to a financial crisis (as described by De Grauwe, 2011). If this type of analysis is correct, EMU must be equipped with a stabilisation mechanism to compensate for the decreased stabilisation capacity of national welfare states. In short, we may need *more solidarity* in the Eurozone than is present at this moment; yet, what is called for is not a kind of 'altruistic redistribution', but 'interstate insurance' based on the enlightened self-interest of all the Member States (see Section 4).

Neither flexibility nor symmetry, nor indeed budgetary transfers, are socially neutral choices. The long-term trade-offs implied by monetary unification force upon the participating countries a consensus on the social order which the monetary union has to serve. This entails discussions about sensitive social issues such as the degrees of freedom between countries with regard to pension systems and retirement age; but also with regard to the skills of their labour force and educational achievements; with regard to the role of migration.

We do need convergence, but what we see is the exact opposite: increasing *divergence* which undermines the sustainability of the EMU. Elsewhere I argue that *excessive social imbalances* threaten the monetary union as much as excessive economic imbalances (Vandenbroucke et al. 2013b). The expression 'excessive social imbalances' describes a set of social problems that affect member states very differently (thus creating 'imbalances'). These imbalances are not simply 'similar problems' in a subset of poorly performing member states: they should be a matter of common concern for all Eurozone members. Youth unemployment and child poverty are two examples. The argument has a political and economic dimension.

Politically, social divergence in the Eurozone threatens the sustainability of the project in that it will steadily undermine the credibility of the European project. Reasoning in terms of 'us' and 'them' – 'the South' versus 'the North' – will inevitably gain legitimacy, while the Union will lose legitimacy. This will make it increasingly difficult to take steps that are necessary to consolidate the Eurozone in the longer term, such as stabilizing fiscal transfers, let alone the creation of a fully-fledged fiscal union. European Commissioner László Andor warns that we may be heading towards '*steadily weakening of the pro-European mainstream in Southern European countries, and some of these countries may not be far from a disastrous situation where Eurozone membership and democracy are no longer compatible*' (Andor, 2013: 3). Sustaining a fiscal union between entities requires mutual trust in each other's internal social fabric.

In *economic* terms, the disparity and divergence in youth unemployment and child poverty (for example) can be seen as signalling objective economic problems that affect the long-term economic sustainability of the Eurozone. A comparatively high level of youth unemployment and child poverty is synonymous with an investment deficit that may be cause and effect in a vicious circle of underperforming labour markets, child care, education systems and transfer systems. If some members of the Eurozone get trapped into a vicious circle of underperforming labour markets and education systems, such a ‘bad equilibrium’ creates an objective problem with regard to the economic symmetry that is required among the members of a monetary union.

In sum, (1) managing the trade-off between symmetry and flexibility, (2) repairing the decreased stabilisation capacity of welfare states and (3) preventing excessive social imbalances (for political and economic reasons) presuppose an operational basic consensus on common, normatively charged objectives of social policy within the Eurozone.

A social dimension for the EU28: Restoring regulatory capacity

Several other arguments in favour of an active social dimension to the EU transcend the Eurozone problematic, as they apply to the EU as a whole. A starting point may be the observation by Stephan Leibfried that ‘*European integration has eroded both the sovereignty (the legal authority) and autonomy (de facto regulatory capacity) of member states to conduct their own social policies.*’ (Leibfried, 2010: 254). Member States have lost more control over national welfare policies, in the face of pressures from integrated markets, than the EU has gained de facto in transferred authority: ‘*The [EU] centre generates various constraints on social-policy development, rather than producing clear mandates for positive action. (…) Diminished member-state authority combined with continued weakness at the EU level restricts the room for innovative policy’* (Ibid, 278). In other words, the process of European integration has led to a loss of regulatory capacity, which must be restored, either at the European level or at the national level. This is not just worrying because of the need to regulate per se, but also because it may impacts negatively upon the capacity to innovate social policies.

The de facto regulatory capacity of welfare states and social dumping

With regard to the *de facto regulatory capacity* of Member States, a well-known argument holds that far-reaching economic integration without social harmonisation induces downward pressure ('social dumping') on social development in the most advanced Member States, notably in low qualified services (mostly women) and in the heavy manual work (men), particularly in the building sector, and transport. Intensified intra-EU competition would create the risk of a 'race to the bottom', whereby the member states with lowest social standards become the most competitive in terms of production costs (see Maslauskaite, 2013, for a nuanced discussion). Although in the past the spectre of large-scale social dumping has never materialized, in the enlarged EU of today blatant cases of illegal working conditions and exploitation do occur, resulting from the interplay of lacunae in the (domestic) implementation of social and employment protection in the Member States, reduced legal sovereignty of the Member States, and the absence of common social standards in a very heterogeneous entity.

Fears of social dumping, but also welfare tourism, are causing considerable social and political tensions with regard to labour migration. Postwar Europe has transformed itself from an emigration to an immigration region: both net migration to the EU [14] (mostly from developing countries) and within the European Union have increased sharply (Diez Guardia and Pichelmann, 2006; de la Rica et al, 2013). As a result, the EU has already acquired a significant migrant population[15]. The available studies emphasize the broadly positive long-term influence of migration on (European) host labour markets and welfare states, which include (fiscal) gains for the whole economy, and partially offsetting demographic developments, at least in the short- and medium term [16].

At the same time, however, many European countries are not doing a very good job at integrating foreign workers in their labour markets, where they occupy a relatively vulnerable position. They are indeed overrepresented in the informal economy, in low-skilled, low-paid, flexible and often atypical blue collar jobs as well as in the service sector; often the jobs taken in destination countries are of a lower qualification than those left (pointing to 'brain waste'). In addition, the

[14] In absolute numbers, migration from third countries is a much more important phenomenon than intra-EU mobility.
[15] Of all foreign-born worldwide 20% live in the EU; in turn, 19% of all residents of the EU are either non-EU citizens or foreign-born or had parents or grandparents born abroad, and an additional 11% are EU citizens who are returned migrants or have a foreign spouse (Kaczmarczyk et al, 2012:7)
[16] Population ageing affects migrants themselves, as they get older and their fertility patterns tend to resemble those in their host country.

unemployment rates of foreign workers in general are two to three times higher than those of natives, except in recent immigration countries.

While there is no conclusive evidence that the sizeable (and unprecedented) labour migration [17] flow from the EU8 countries which accessed the EU in 2004 caused significant labour market disturbances in the EU15 countries , the 'Polish plumber' debate [19] in France re-emerged during 2013. Similar fears are present in the public debate in the UK [20], Germany, Denmark, The Netherlands and Sweden, but also in Spain, Greece, and Italy. In Central and Eastern European countries there is also a tense debate about labour migrants from neighbouring countries such as Ukraine and Belorussia.

As the economic crisis gave rise to stark differences in recent migration patterns[21], this type of discussion will not be easily resolved as was perfectly illustrated by the heated debates about the consequences of ending transitional restrictions on Bulgarian and Romanian workers on 1 January 2014. In sum, it would seem that well developed EU countries are confronted with a 'liberal paradox' (Hollifield et al. 2008): in order to remain competitive in the globalising world they need to open their economies to migrants to meet their labour market needs and finance the social protection systems, but at the same time security reasons as well as internal political forces push them towards a more restrictive, even protectionist, approach.

A crucial condition to confront the 'liberal paradox' is that Member States must be able to uphold their social legislation in a context of increased labour migration. Migration and posting of workers should fit into a regulated social

[17]Out of 3.8 million immigrants recorded in 2008 more than one million originated from the former European communist countries. The CEE member states of the EU-27 accounted for around 60% of intra-EU population movements (Kaczmarczyk et al, 2012:9).

[18]For an early assessment, see Diez Guardia and Pichelmann (2006). De la Rica et al. (2013) conclude their survey as follows: 'Turning to the effects of immigration on the economic outcomes of natives, the majority of studies, though not all, find a surprisingly small response of the relative wages of natives to immigration-induced changes in the size and skill composition of the labour force. (…) Exploiting improved and expanded datasets, several authors find statistically and economically large effects on the wages of subsets of the workforce. In particular, there exists clear evidence that immigration reduces the wages of workers employed in unskilled-intensive service sectors. Likewise, several authors have shown that recent immigration leads to a sharp reduction in the wages of previous immigrants. (…) It appears that comparably skilled natives and immigrants are imperfect substitutes in production. This seems to be the result of endogenous responses by native workers, who are able to reduce their exposure to competition from recent immigrants by specializing in occupations that build on their comparative advantage in communication-intensive tasks. Furthermore, skilled native females increase their labour supply in response to the greater availability of household services provided by immigrants, firms adjust their production technologies to the changes in the skill composition of the local work force.'

[19]The 'Polish plumber' came to prominence in French public debate in 2005, becoming a symbol for undesirable eastern European workers.

[20]In January 2014, British Prime Minister David Cameron said the EU treaties should be changed to allow member states to withhold child allowances and other social benefits for workers from other member states.

[21]Some countries immediately experienced a deep decline in the inflow of migrants (e.g. Spain, the Czech Republic, Italy and Ireland); some others experienced hardly any changes (e.g. the United Kingdom, Germany, France, Sweden and Austria); but there were also some where the inflow of migrants strongly intensified (e.g. Portugal and Denmark) (Kaczmarczyk et al, 2012:7).

order, it must not undermine that social order. Hence the importance of the recent agreement reached by between Social Affairs Ministers (December 2013) on the controversial posting-of-workers enforcement directive. The latter is supposed to resolve various well-known legal, administrative and practical forms of abuse, circumvention of regulations and fraudulent practices when workers are temporarily posted in another country. The revised directive now falls to negotiations between EU countries and the European Parliament. Merely a few months before the European elections (May 2014), especially the issues of national control measures and liability in subcontracting chains remain highly sensitive.

The question of to what extent Member States can uphold social standards in a context of free movement is also relevant with regard to minimum wages: the *Viking* and *Laval* judgments by the Court of Justice have called into question trade unions' scope for action on such matters and seem to give precedence to the liberal principle of free movement regarding the question whether minimum wages in the country of employment are applicable to posted workers from another Member State. The line of thought developed by the Court in these cases merits a nuanced debate, as explained in the next paragraph; simultaneously these judgments signalled the need for legislative action. Mario Monti (2010) raised the problem in his report on the single market, and in March 2012 the Commission took an initiative to adapt legislation in this area, which should in effect widen the scope for trade union action. Bruun and Bücker (2012), however, argue that the Commission's proposal was inadequate and did not go far enough. They argue that, in this instance, fundamental social rights ought to be given precedence over, or at least receive equal weight to, economic freedoms. Meanwhile, the Commission initiative was blocked by a number of national parliaments, using the subsidiarity 'alarm procedure'.

The example of minimum wage regulation highlights a deeper problem with regard to the traditional notion of subsidiarity in social policy. In Member States such as Germany and Sweden, trade unions resisted state regulation of minimum wages: they considered that to be the domain of collective bargaining and a no-go area for public authorities; thus, they applied a (domestic) principle of subsidiarity. The *Viking* and *Laval* judgements by the Court suggest that that traditional position may be unsustainable: the Court argues that only predictable systems of minimum wage protection can be imposed on foreign companies that post workers. If that argument is accepted, it would mean that social partners must reconsider traditional positions on subsidiarity within welfare states, i.e. they must reconsider the respective roles of social partners and public authorities, or, reconsider the relation between nationwide collective bargaining and local bargaining.[22] Simultaneously, such an argument would politically[23] strengthen the case for a pan-European framework with regard to the concept and regulation of minimum wages. In other words, both at the domestic and the European level, we must reconsider the application of subsidiarity principles, given new contexts in which social policy operates today.[24]

Reduced legal authority

The problematic described above by Stephan Leibfried, notably with regard to the *reduced legal sovereignty* of national welfare states, suggests an intrinsic conflict between the imperatives of, on the one hand, economic integration in a free market and trans-border mobility of citizens and services; and, on the other, the development of national welfare states and communities through nationally conceived reciprocity of rights and duties (see also Ferrera, 2005). Direct imposition of 'market compatibility requirements', or 'negative policy reform', as Leibfried and Pierson (1995) call it, mainly occurs through the application of two fundamental freedoms provided for in the Treaty: the free movement of workers and the freedom to provide services policy .[25]

The technical coordination of social security rights for mobile citizens across the EU, which is in itself a considerable social *acquis* of the European project, entrenching fundamental principles of non-discrimination on the basis of nationality, implies a loss of sovereignty in the following sense:

[22] 'Predictability' suggests that Member States must create a legal context in which only generally applicable minimum wage protection has to be respected by foreign service providers. Blauberger (2012) argues that the actual response in Sweden and Denmark to the Laval case preserves the autonomy of collective bargaining, but also shows how that response impacts on the autonomy of collective bargaining: '[B] oth reforms reaffirm the autonomy of collective bargaining, but introduce conditions for the exercise of collective action. As a consequence, collective agreements can only be enforced through collective action against foreign service providers if they correspond to existing nationwide collective agreements and do not define conditions beyond the 'hard core' of the posted workers directive', (p. 117-118). Thus, this implies that the Swedish and Danish domestic responses also change the rules of the game in terms of the 'subsidiarity' of the national versus the local level.

[23] We write 'politically' here, because the argument in this sentence is not of a legal nature.

[24] There are yet other reasons (linked to the development of the service sector and SMEs) why public authorities should intervene in minimum wage regulation, whilst that was seen as unnecessary or even harmful in the past; cf. the debate in Germany leading to the new coalition's agreement on minimum wages.

[25] The following paragraphs are to a large extent inspired by the analysis of Leibfried (2010) and Leibfried and Pierson (1995).

- a Member State may no longer limit most social benefits to its citizens;
- a Member State may no longer insist that its benefits only apply to, and can only be provided within, its territory;
- Member States do not have an exclusive right to administer migrants' claims to welfare benefits.

The piecemeal application of the principle of free movement of *services* is closely linked to the fact that the treaties, as well as secondary European law, focus on economic activity and entrepreneurial freedoms. The question is obviously: do welfare state services constitute an economic activity? If so, the freedom to provide financial or social services would apply, as would the general European competition regime, implying, for example, that Member governments can no longer exclusively decide who may provide social services or benefits.

Fortunately, European integration does acknowledge non-economic true welfare activity, and the Court of Justice has issued a set of often nuanced judgments. However, there is no general exemption for welfare state activity from the treaty's market freedoms, and the distinction between ‘economic’ and ‘welfare’ (or ‘solidarity’) activity is not always clear-cut. Hence, drawing - and continually redrawing - this fine line between ‘economic’ and ‘solidarity’ activity is what much of the legal conflict and judgments of the ECJ are about. Since the 1960s the ECJ has delivered about 900 decisions on social policy topics (which puts social policy in second place for demand for ECJ decisions, agriculture being placed first), two thirds of which are related to free movement, workers and their social security. Since the Court decides on a case-by-case basis this situation creates a great deal of insecurity as regards the range of policy options still available (or prohibited) to sovereign welfare states.

The example of health care (elaborated upon below) shows that it would certainly be simplistic to blame ‘Europe’ for the problems national social policy makers are confronted with, as if ‘Europe’ *enforced* market solutions upon reluctant Member States. As a matter of fact, instead of asking the question ‘*Do welfare state services constitute economic activity?*’ one could put forward a slightly different question: ‘T*o what extent do Member States believe they can organise their domestic welfare services as an economic activity?*’

The case of health care indeed illustrates this point: Internal market rules increasingly apply to aspects of health systems in an unanticipated way. This process is mainly driven by the Court of Justice, directly applying the basic Treaty provisions to this sector. Treaty rules on free movement of services now apply to health care services, irrespective of the way in which they are funded. Health authorities thus have to reimburse care obtained abroad (which provides real opportunities for patients, especially in countries with waiting lists) and can no longer ask for prior authorization as far as ambulatory care is concerned. Some, but certainly not all of the legal uncertainties surrounding the issue were settled in 2011 through a Directive (2011/24/EU) on the application of Patients' Rights in Cross-border Healthcare (Council of the EU, 2011). But the impact of application of the free movement rules reaches far beyond the issue of patient mobility. Health care providers can challenge any kind of regulation in the health care sector for hindering their fundamental freedoms. This applies for instance to rules on ownership (*who can own an optician's shop?*), capacity planning (*can authorities limit the number of pharmacies in a given geographical area?*), or legal status (*can authorities require a hospital to have a not-for-profit status?*). The rules on free movement of persons also apply to health care professionals, and can challenge national quota systems limiting the number of doctors in training.

The application of EU competition law also creates a great degree of uncertainty as regards price fixing and state aid in the health care sector, and even puts pressure on existing contracting arrangements between payers and providers, which are at the very heart of some health care systems.[26] In short, even if the Court of Justice of the European Union (CJEU) tries to balance the social objectives of the national systems when deciding upon the applicability of market rules, it cannot take into account all the possible consequences of its decisions – direct but also and mainly indirect consequences. It would therefore seem desirable (but politically unlikely) that progress is made on a clear legal framework with regard to 'services of general interest' which would provide a legal exemption from competition law to be applied to national health care systems; or to at least provide legal certainty regarding this issue.

[26] In addition, it should be noted that secondary legislation that is not specifically drafted for the health sector can have significant unintended impacts when applied to the health sector. For example the Working time Directive limits the long work hours that junior doctors can perform as part of their training.

All this underscores that a neat separation between 'market issues', belonging to the supranational sphere, and 'social issues', belonging to the national spheres, is unsustainable. This observation inspired the proposal to introduce a 'horizontal social clause' in the European legal architecture, for the purpose of emphasising more strongly the significance of solidarity as an ordering principle and in order to provide clearer guidance in this grey area to all European institutions, including the Court of Justice.

Such a horizontal social clause found its way, via the Lisbon Treaty, into Article 9 TFEU, which formulates the requirement that all EU actions take into account 'the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health'. Will this clause play an important role? Opinions diverge and the jury is still out. For the EESCs, the (legally binding) social clause represents a major step forward to a more social Europe, and it intends to draw up an annual opinion on its application (EESC, 2012). If Article 9TFEU seems to have remained dead letters so far, according to a critical reading by de Witte this is also because it does not transfer any new competences to the EU, and can therefore not be used as a legal base for the establishment of a pro-active and comprehensive EU social policy (de Witte et al., 2010:34).

One could imagine that the social clause is used to push for the incorporation of social policy objectives in competition, state aid and internal market rules (Ibid: 36); for instance, in its Report on the Internal Market for Services, the European Parliament recalls that the Services Directive must be interpreted in the light of the Article 9 TFEU (EP, 2013b). In practice, however the debate about the horizontal social clause has been narrowed down (esp. by the European Commission) to the issue of Social Impact Assessments (SIA). But here, too, the ambitions have been strictly limited: SIA's have not been generalised across the full range of economic and social policies; SIA has not been part of the design of macroeconomic adjustment programmes. Hence, the horizontal social clause did not play a visible role when designing macroeconomic adjustment programmes – where it should have played a role.

And yet, the horizontal social clause should not necessarily remain a purely rhetorical statement, if it plays a role in the deliberations of the Court of Justice.

The Court indeed mentioned the clause in a judgement [27] (as well as in the preceding Opinion) in 2012, but the reference does not seem very significant in this case (i.e. the decision could have been the same without reference to Article 9). Potentially far more significant is that the Advocate General referred to the horizontal clause in an Opinion in 2010, and argued (in a case related to the posting of workers) that the new Article 9 implies no less than a revision of the reasoning of the court: "*To the extent that the new primary law framework provides for a mandatory high level of social protection, it authorises the Member States, for the purpose of safeguarding a certain level of social protection, to restrict a freedom, and to do so without European Union law's regarding it as something exceptional and, therefore, as warranting a strict interpretation*" (Case C 515/08, dos Santos Palhota e.a.: §53) [28]. While the Court did not follow this reasoning, and even refrained from referring to Article 9 TFEU, the Opinion clearly illustrates the potential of the horizontal social clause to prompt significant redirections of European policies in the future (Vielle, 2012).

A shared notion of solidarity

The foregoing discussion shows that the next steps in European integration must be based on a shared understanding of solidarity. To be more precise: we have to entertain two perspectives on the meaning of 'solidarity' in Europe: a pan-European notion of solidarity and solidarity within national welfare states. The pan-European notion of solidarity refers to economic convergence and cohesion on a European scale. But it also refers to the rights of individuals to improve their own lives by working in a Member State other than the Member State where they were born; the rights of patients to benefit, under certain conditions, from medical care in other Member States than their state of residence…. Solidarity within national Member States refers to social insurance, income redistribution, the balance of social rights and obligations… defining national welfare states.

This duality of perspective cannot be reduced to a single one, as it is premised on conflicting views on the size of the solidarity circle concerned: the 'we' to

[27] Case C-544/10 Deutsches Weintor eG v Land Rheinland-Pfalz
[28] The authors would like to thank Pascale Vielle for pointing out these Court cases and their possible significance.

which solidarity applies is differently defined. Hence, solidarity is inevitably a complex (multidimensional) notion, when used in the European context. There should be no denying that it can imply trade-offs (national vs. EU), certainly in the short term. However, the political legitimacy of the European project depends on a virtuous circle of growing pan-European and national cohesion. Sustaining such a virtuous circle should be the primary objective of a social Europe.

Consecutive enlargements as well as monetary unification made this intrinsically complex notion of solidarity even more demanding and difficult to handle.[29] Indeed, what is seen by some as 'the dynamics of upward convergence' associated with the enlargement of the EU, is seen as 'social dumping' by others. At the same time, the discussion above demonstrated that monetary unification necessitates forms of solidarity which were, thus far, a no-go area in European politics.

Conceptually, solidarity can take the form of 'mutual insurance' or of 'redistribution'; in practice it is often a mixture of both. Both mutual insurance and redistribution presuppose reciprocity, but with different emphases. When solidarity is defined as mutual insurance, reciprocity is embedded in contribution-based entitlements. When solidarity entails redistribution, it implies a propensity to cooperate and share with others similarly disposed, even at personal cost. In any case, reciprocity requires a sense of common goals and values among the actors concerned.

[29] Iceland, Macedonia, Montenegro, Serbia and Turkey are all official candidates to become Members of the EU. Albania, Bosnia and Herzegovina have concluded an association agreement and are preparing an application for EU membership.

The necessity of a European Social Union

The success – or failure – of the Eurozone has become crucial for the EU's future: this section has argued that the long-term trade-offs implied by monetary unification force upon the participating countries a basic consensus on the social order which the monetary union has to serve: this is no longer a superfluous luxury, but a necessity. Such a consensus must also cover the issue of Member States' mutual obligations, i.e. what these countries may demand from one another (an understanding of 'European solidarity' as reciprocity). This will be the only way to move beyond 'small repairs' to the EMU construction, and to start addressing its fundamental design flaws. Or, in the words of European Commissioner László Andor: today's functioning of the EMU and sticking to the Maastricht orthodoxy '*is not sustainable: it must be either altered through reform of the EMU, or the EU itself risks being destroyed by political conflict between the EMU's winners and losers*' (Andor, 2013:3).

This is why EMU must be complemented with a genuine social dimension for it to be sustainable in the long term. A Social Union would support national welfare states on a systemic level in some of their key functions (such as macroeconomic stabilisation) and guide the substantive development of national welfare states – via general social standards and objectives, leaving ways and means of social policy to Member States – on the basis of an operational definition of 'the European social model'. In other words, European countries would cooperate in a union with an explicit social purpose – hence, the expression 'European Social Union' (ESU). ESU, so conceived, is not only desirable, but necessary.

When defining the social dimension of EMU, Fernandes and Maslauskaite (2013a) convincingly argue that EMU should not have a parallel and separate social pillar to be added to the four essential building blocks identified in Van Rompuy's June 2012 report (European Council, 20112a): integrated financial, budgetary, and economic frameworks as well as democratic legitimacy. The social dimension should be mainstreamed into all EMU initiatives because social policies are very often affected by policies pursued in other areas.

Fernandes and Maslauskaite (Ibid) distinguish between EMU and the EU28 ('*If reinforcing the social dimension at the EU28 level is desirable, but less feasible, more social integration on the EMU level is necessary and should be more feasible'*); yet, they argue that it is also desirable to reinforce the social dimension of the EU as a whole. Our analysis in section 2.2. supports that conclusion: at the level of the EU28, we must deepen our mutual understanding of the social goals to be achieved by market integration and the mobility of people, services, goods and capital; and it must be possible to maintain principles of social regulation that serve those goals.

Last but not least, there is an argument that applies both to the EMU and to the EU28. Given the legacy of the crisis, as documented in section 1, there is a need to counteract the effects of the crisis by more resolute action at the EU level to promote sustainable growth, employment and social investment. What is at stake, fundamentally, is the legitimacy of the European project and the need for public support; a recent Eurobarometer survey suggests that trust in the EU continues to decline [30] Without a sense of common destiny, supported by a clear narrative on the social ambition of European cooperation, the European project is doomed to 'muddle through'. Pragmatic observers sometimes justify 'muddling through' as – ultimately – a successful strategy. However, notwithstanding the signs of economic recovery today, 'muddling through' is an increasingly risky strategy, given the ongoing erosion of political capital.

[30] Note that trust in the European Union is still (somewhat) higher than trust in national governments and parliaments (European Commission, (2013e).

III. THE EU'S SOCIAL DIMENSION FIVE DECADES ON

As mentioned in the introduction, the founding fathers saw the harmonisation of social systems as the (spontaneous) result of the functioning of the common market, and not as a policy to be actively pursued. Even more: they agreed on a neat division of labour: economic integration was to be organized at the EU level, while *national* governments would *remain* responsible for the adoption of social policies. Already in the 1990s, scholars of European integration started arguing that such a division of labour is no longer sustainable, in view of the obvious tensions it causes between national principles of solidarity and community on the one hand, and European principles of market integration and mobility on the other; the example of health care which we visited briefly in section 2.2; illustrates this. Our analysis of the Eurozone's predicament implies a similar conclusion. The challenge is therefore to develop a basic consensus about the social order which the monetary union and the freedom of movement of persons, services, goods and capital, have to support.

This said, one should not overlook the fact that during the past fifty years a European social dimension has been actively pursued – in spite of the founding fathers' assumptions and the initial Treaty stipulations – which led to a non-trivial social acquis (broadly understood, including employment and non-discrimination). This section outlines this historical development, since we will need to answer the following question: To what extent can the challenges analysed in the previous sections be tackled within the existing policy instruments and processes?

We discuss four variants of the day-to-day EU social policymaking: the traditional Community method, the EU distributional mode, policy coordination and social dialogue.

The traditional Community method and the Court's activism [31]

For a long time, the Community method was seen as the predominant (and even ideal) method of supranational policy making (Wallace, 2010). And yet, the EU's *legislative* involvement in employment and social policy should in principle be a rather short story to tell. The consecutive Treaties only provided a limited transfer of powers from the national to the EU level in these areas. In the case of employment, for example, the treaty requirements insist that employment legislation respects variations in industrial relations and labour law systems (which often leads to significant exemptions being granted) and that small and medium-sized firms should be protected from excessive regulatory burdens. This obviously limits the scope for real coercion (Rhodes, 2010).

This is not to say that there has been no activist role for Brussels in social policy developments, but the obstacles to such activism are formidable: first, *institutionally*, because either unanimity or a qualified majority is needed for most initiatives in social policy, as Member governments protect their social policy prerogatives on the basis of the subsidiarity principle. Second, *politically*, there is the historical opposition of some large Member States (notably the UK) to any new transfer of power to the EU (Leibfried, 2010).

In spite of these formidable hurdles, the EU has accumulated substantial regulatory mandates in employment, social and anti-discrimination policy.[32]

This is first of all the case with regard to the technical coordination of social security rights, which is to guarantee the free movement of persons. The Council of Ministers gave high priority to the Regulation on this issue, which was one of the first measures ever taken by the European Economic Community (EEC): already on 1 January 1959, Regulations No 3 and 4 - later Regulation 1408/71, now Regulation 883/2004 - on social security for migrant workers entered into force.

[31] We lack the space to pay due attention to the European Parliament's activism in the domain of social policy. The Parliament has a track record of pushing for tough legislative initiatives in the social domain.

[32] The current legislative output is also significant, as may become clear in this section. Around 60 labour market Directives have been introduced since 1987 (Vaubel, 2008), as well as more than 20 health and safety directives. There are many more Occupational Safety and Health (OSH) Directives and Regulations, while in gender equality 13 Directives have been adopted so far.

Next, there is the case of *gender equality* at work, which has had a sound treaty base ever since the Treaty of Rome (Article 119 EEC). As a result, since the mid-1970s, a range of directives have been adopted by the Member States. The CJEU played an activist role in this which (a) gave a broad interpretation to the Treaty provisions and the directives, (b) provided legitimation to the Commission's ambitious legislative agenda, and (c) helped to ensure the implementation of directives. The latter have brought in protective gender equality legislation that was previously non-existent in several Member States.[33] EU institutions have been important catalysts in shaping women's economic, political and social equality in Europe; it has even been argued that gender equality is visible only in pure gender legislation: the EU as a gender-equal polity is, according to critics, a 'myth' (Macrae, 2010: 171).

The activist stance taken by the ECJ in the eighties and nineties also paved the way for the adoption of a broader series of more general anti-discrimination Directives (on Anti-Racism and Employment). This was done by extending, in the Treaty of Amsterdam, the prohibition on labour discrimination from the longstanding areas of 'nationality' and 'gender', to new grounds such as 'racial and other origins, religion or belief, disability, age or sexual orientation'.

A third case in the area of EU social policymaking is health and safety in the workplace. The first (and arguably most important) European Framework Directive on Safety and Health at Work (89/391 EEC) produced a range of daughter directives on specific hazards, such as exposure to chemical agents (98/24/EC), biological agents (2000/54/EC), electromagnetic fields (2004/40/EC), asbestos (83/477/EEC) etc.

Rhodes (2010) describes how the European Commission played a 'treaty-base game', in which it stretched the interpretations of 'health and safety' as far as possible to develop an agenda on working conditions and workers' rights, when a firm legal treaty base was missing. Directives on Atypical work (91/383/EC) and Pregnant workers (92/85/EC) required more generous policies in several EU countries; they were adopted under the 'health and safety' provisions, allowing

[33] For example, EU legislation introduced parental leave to the United Kingdom, has defined sexual harassment in the workplace as a form of discrimination and has brought about changes in pension laws to protect women who choose to stay at home to raise their children (Macrae, 2010: 160).

qualified majority voting (QMV). This was also the case for the highly contested Working Time Directive (2003/88/EC), which set a limit to weekly working hours, but excluded a number of sectors and allowed important derogations for the Member States. The Young Workers' Directive (94/33/EC) prohibited work by children under the age of 15 and gave rights to those under the age of eighteen (again, with many derogations allowed). EU legislation also supported social dialogue: the European Works Councils were established (Directive 94/45/EC) in 1994, after the failure to reach an agreement among the cross-industry social partners.

The high point in the development of social policy mandates dates to the mid-1990s. The 1997 Treaty of Amsterdam, with its Social Chapter, enlarged the scope of the original mandates on health and safety (now broadened to all working conditions) and gender equality (extended to all labour force issues). The latter was now placed under QMV, as was the case for worker information and consultation and integration of people excluded from the labour market. At the same time, the range of subjects on which bargaining can be initiated between the social partners was considerably limited, by explicitly excluding three key topics, namely pay, the right of association, the right to strike or the right to impose lock-outs.

The Amsterdam treaty also added a new chapter on Employment (see section 3.3 below). The extended QMV (and decreased possibility to form a blocking minority after the 'northern enlargement' in 1995) led to the adoption of Directives on Parental leave (96/34/EC), Part-time work (97/81/EC) and Fixed-term contracts (1999/70/EC), all three of which had been agreed by the cross-industry social partners (see section 3.4 below) and constitute the prime achievements of Euro-corporatism endowed with legislative powers.

Reference should also be made to the range of EU Directives which were primarily aimed at the consolidation of the internal market, but de facto supported employment and social protection. Examples include early Directives on dismissals (75/129/EEC); procedural rights under collective redundancies (98/59/EC), rights of employees under change of ownership of undertakings (77/187/EEC), worker's rights in the event of cross-border mergers (2005/56/EC) and state compensation in case of insolvency (80/987/EEC).

As importantly, there is the legislation relating to the safety of machinery, which led to the development of an unprecedented body of protective European standards. Crucially, these were often the synthesis of the highest protective standard available, and therefore represented a significant step forward in most countries. The first Machinery Directive (89/392/EEC) was adopted in 1989 and contributed to a significant reduction in the number and severity of occupational accidents and illnesses (Fraser, 2012). Many of these European standards have also been 'exported' to the rest of the world via ISO (now so-called 'EN ISO') standards.

At the same time it should be noted that the level of enforcement ('market surveillance') of the internal market Directives is inadequate. In some Member States and for some products, there is still next to no enforcement activity, which begs the question of increased market surveillance activity by the European Commission. Even in the Member States with a serious market surveillance system, the public services concerned are all suffering cuts in budget and staff, including as a result of the economic crisis. Both trade unions and industry representatives agree that the European Commission has yet to devote significant new resources to the coordination of market surveillance activity (Ibid).

More recent legislative initiatives have become far scarcer, but are still ongoing. Following the strengthened legal base in the Treaty of Amsterdam, a Framework directive was adopted on equal treatment in employment and occupation (Directive 2000/78) which aims to combat a wide range of discriminations. A European Company Statute was created in 2001, which also provides for the involvement of employees in such companies; on a similar topic, a highly controversial directive (2002/14/EC) on national information and consultation rules was agreed in 2002. The issue of equal treatment between women and men was moved outside the workplace, through a Directive (2004/113/EC) aimed at combating sex discrimination in access to and supply of goods and services.

Some, but certainly not all of the legal uncertainties surrounding the issue of Cross-border Healthcare (cf. section 4.2) were removed in 2011 through a Directive (2011/24/EU) on the application of Patients' Rights in Cross-border Healthcare. While negotiations between the cross-industry social partners concerning a revision of the Working Time Directive failed in 2012, and the

Social Affairs Ministers reached a hard-fought agreement (December 2013) on the controversial posting-of-workers enforcement directive (cf. section 2.2).

The European Commission also proposed legislation with the aim of attaining an objective of 40% of women in non-executive board-member positions: the European Parliament voted with an overwhelming majority (November 2013) in favour of backing the European Commission's proposal. In the area of health and safety, Member States agreed (December 2013) on a review of the abovementioned directive (2004/40/EC) concerning the protection of workers exposed to electromagnetic fields, which encountered huge implementation problems. Finally, a rather weak agreement was reached (December 2013) regarding the acquisition and preservation of supplementary (occupational) pension rights, but which excludes the key issue of transferability.

The EU distributional mode

Once the Single European Act (1986) had enshrined the EU's 'Cohesion policy' in a constitutional text, the 1988 reform of the Structural Funds [34] meant the start of a genuine Community policy which '*is not simply a matter of throwing money at problems…It implies rather a willingness to act at Community level to redress the disparities between regions and between different social groups*' (Delors, 1988). Over the past decades this policy has undergone radical transformations in at least three important respects [35], which are relevant for the discussion about the European Social Union (ESU).

First, expenditure on cohesion policy through the structural and cohesion funds - namely the European regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund - grew steadily, from a modest 5% of the EU

[34] The ERDF and the ESF are the two 'Structural Funds' (for a long time the rural development fund and the fisheries fund were regarded as Structural funds as well, but then became 'independent'). The ERDF is the largest: since 1975 it has provided support for the creation of infrastructure and job-creating investment (mainly for small businesses) in declining industrial regions. The ESF, set up in 1958, supports EES objectives such as raising employment rates and preventing long-term unemployment, mainly through training measures. The Cohesion Fund was set up in 1993 and finances environment and transport networks, first in Spain, Greece and Portugal and later in the ten new member States. Structural Fund and Cohesion Fund support always involves a degree of co-financing from the Member States, which in the new budget (2014-2020) will depend on whether regions are 'less developed' (GDP per capita < 75% of EU average), a (new, intermediate category of) 'transition region' (GDP per capita between 75% and 90% of EU average) or 'more developed' (GDP per capita > 90% of EU average).

[35] There is a fourth transformation, which we do not discuss here: the actors involved and the power relations between them (i.e. between the European Commission and the Member States) have changed considerably.

budget in 1975 to more than one third (35%, or 347 billion Euros) in the period 2007-2013. It is thereby the second largest EU budget item. At the same time, it remains modest, both in terms of the national GDP of recipient countries (the highest share was 4% of national GDP in Greece, before 2004) and in terms of the EU GDP (about 0.46% in 2013). Each of the two 'Delors Packages', in 1988 and 1992 respectively, doubled the allocations for cohesion policy (Jouen, 2012). In both cases the need for more European solidarity through a major cash injection was presented by the Commission as a *sine qua* non as well as a matter of fairness, in the context of establishing the internal market and the prospect of EMU [36], respectively (Manzella and Mendez, 2009).

Second, cohesion policy has been increasingly concentrated in terms of beneficiaries and goals. In terms of the beneficiaries, a majority of resources are targeted (since 1988) on the most disadvantaged European regions. These received 81.5% of the budget in the period 2007-2013; in the 2014-2020 period the most developed countries will receive a modest 16% of the funds. While some Member States have repeatedly tried to restrict Cohesion policy support to the less developed Member States, it is still the case that all regions in all EU member states – even the richest – are eligible for at least some degree of funding (thus, the ERDF has provided 'something for everyone' *since 2007*).

At the same time, the large number of (sometimes conflicting) objectives the money could be spent on will be considerably reduced in all funds in the new programming period (in the ERDF, for example, Member States always had great leeway to spend the money on their own preferences). The ESF has been the first to have moved to a policy *approach* (*abandoning the earlier target group approach*): since 2000, ESF spending has provided financial support for the actions taken with the framework of the European Employment Strategy (EES). In the new programming period the structural funds will have to support the Europe 2020 Strategy (see below). This points to a progressive embedding of cohesion policy within the EU's more general socio-economic strategy.

[36] The very first Council commitment to the creation of a regional development fund - in the early 1970's – already made an explicit link with EMU, the move towards which had been decided in 1969 (Manzella and Mendez, 2009:23).

Third, the structural and cohesion funds also underwent important changes in terms of their conditionality and control. Especially in view of the consecutive enlargements, the controls over spending have been tightened considerably over the years, to the extent that the system became overly complex and bureaucratic. These checks include *multi-annual planning* (inspiring more long-term and strategic approaches, at least in the ESF), *additionality* (EU expenditure is not to be substituted for national expenditure), *concentration* (on a smaller set of priorities and on the least developed regions, cf. supra), *partnership* (ensuring a policy space for regional and local authorities as well as social partners and NGOs), *evaluation and monitoring* (improving national and regional public administration).

In spite of these manifold changes, the EU cohesion funds remain contested territory, as the 2.5 years of negotiations over the new multiannual financial framework clearly illustrates. EU cohesion policy has been vulnerable to criticism from policy-makers, academics and stakeholders: in spite of the past reforms, it is, they claim, (a) too loosely linked to a large number of EU priorities, (b) spreading resources too thinly across policy areas, (c) too under-resourced to have a serious macro-economic effect, and (d) excessively complex and bureaucratic to administer. All this with an impact that is often difficult to measure in (macro-) economic terms (Allen, 2010; European Commission, 2010; Manzella and Mendez, 2009), but has been well-documented at the (micro) level of governance (European Commission, 2011; van Gerven et al., 2014; Verschraegen et al, 2011).

Fabrizio Barca wrote a report in 2009 at the request of European Commissioner Danuta Hübner, in which he called for a place-based approach to the 'EU's only true development policy' (Barca, 2009). He insisted on the necessity of returning to the original idea of regional development policy and thus the enhancement of local and regional potential rather than viewing the funds as a compensation for handicaps. This new paradigm was a major argument used by the Commission to justify aligning EU cohesion policy and the Europe 2020 Strategy.

It would seem that both the European Commission and the Member States have partly taken on board some of the criticism and obvious dysfunctions when designing the cohesion policy for the next period (2014-2020), during which:

- the mantra will be that that from now on all funds should support EU policy priorities: spending will be further concentrated on a small number of investment priorities linked to the objectives of the Europe 2020 Strategy and the National Reform Programmes (NRP's)[37];
- *Partnership Agreements* between the Commission and the Member States will detail the use of the funds and will be based on a Common Strategic Framework (CSF) governing all funds [38] – which are now called 'European Structural and Investment Funds' – also with a view to avoiding overlaps;
- *macroeconomic conditionality*, which has existed in the Cohesion Fund since its creation in 1994 [39], is being generalized to all funds: Partnership Agreements need to set out how the EU and national funding streams will contribute to addressing the most recent Country-Specific recommendations issued by the Council. The European Commission can ask the Member States to modify their programmes, and can - as a last resort – suspend funds if Country-Specific recommendations (CSRs) are repeatedly and seriously breached;
- *Ex-ante conditionality*: the Commission will assess whether Member States' programmes have a good chance of being effectively implemented;
- More focus will be given to results and policy effectiveness (rather than on compliance with rules) through a performance framework, Joint Action Plans and counterfactual impact evaluation;
- Simplification of financial management and reduction of the administrative burden are envisaged (but 'cutting red tape' has been on the table for nearly 20 years and may again be wishful thinking);
- 23.4 % of the cohesion policy envelope is earmarked for the ESF, while at least 20% of the ESF in each Member State will have to be used for social inclusion.

[37] When it formally adopted the Europe 2020 Strategy, the European Council stressed that all common policies, including the common agricultural policy and cohesion policy, will need to support it (European Council, 2010, § 5 g).

[38] The CSF will also cover the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

[39] Macroeconomic conditionality in the Cohesion Fund was an inherent aspect of the very establishment of the Fund (1992-1994): it was conceived to support the poorer Member States who needed to put their public finances under control in order to meet the economic convergence criteria to join the European Monetary Union while at the same time still in need to complete their efforts to catch up with EU level of infrastructure endowment (transport and environment). The rationale for the macroeconomic conditionality of Cohesion Fund should be seen in this specific historical context. As a consequence, the Council could decide to suspend commitments from the Cohesion Fund (until the deficit has been brought under control) if a beneficiary country has an excessive government deficit. It has never been applied in practice, until it was invoked in March 2012 by the ECOFIN Council against Hungary and subsequently revoked in June 2012 after the adoption of the requested measures. For an early assessment of the macro-economic conditionalities in cohesion policy, see European Parliament (2012).

Thus, the new rules of the European Structural and Investment (ESI) Funds 2014-2020 provide concrete opportunities to increase orientation to results and surveillance (one can also link the reporting part of the regulations with the 'performance reserve' which can provide a further incentive to deliver results), while at the same time promoting the establishment of incentive mechanisms to actually promote the achievement of results in the social field. We return to this observation in section 4.4, below.

In general it would seem that there has been a gradual shift in the debate over the EU's cohesion policy: Member States tend to be more interested now in the conditions of use (their substantive purpose), and somewhat less in the question of the amount and allocation (even if this was of course also part and parcel of MFF negotiations) .[40]

Policy coordination

From the first steps of European integration, Member States provided the possibility for 'close co-operation between Member States in the social field', including in sensitive areas such as employment and social security; this was to be done by 'making studies, delivering opinions and arranging consultations' (Treaty of Rome, Article 118). The founding fathers also addressed economic policies: 'Member States shall co-ordinate their economic policies' (Ibid, Article 105), while the chapter on conjunctural policies stipulates that they 'shall consult each other and the Commission on the measures to be taken' (Ibid, Article 103).

It would take until the Maastricht Treaty of 1992, which launched the EMU, to firmly anchor an EU process of coordination and surveillance of member states' economic policies, through so-called Broad Economic Policy Guidelines

[40] Other innovations (outside the ceilings of the MFF) are the creation of an Emergency Aid Reserve (humanitarian, civil crisis management and protection operations in third countries), the European Union Solidarity Fund (in the event of major disasters in a – future - member State), and the European Globalisation Adjustment Fund (to help workers reintegrate into the labour market after restructuring), with a very modest budget of Euro 150 million (Council of the EU, 2013a). Finally, a limited share of the funds are set aside in a performance reserve (of 5%), to reward well performing projects; note that the performance reserve introduced in 2000 was seldom used. The Erasmus+ programme will have a significantly higher budget than before (40% higher), and Horizon 2020will equally have (around 30%) more funds than its predecessor, FP7. The newly created 'Fund for European aid to the Most Deprived' (FEAD) allows the Member States (since 1 December 2013) to provide food and goods for homeless people and materially deprived children, which can be seen as a significant innovation (some of the funding may be used to facilitate food donations from private sources such as supermarkets).

(BEPG, Article 121 TFEU). These involved non-binding recommendations from the Council to Member States to monitor the consistency of national economic policies with those of the European Monetary Union. Important from a political point of view is the fact that the European Commission could issue a ‘warning’ to a member state whose economic policies do not conform to the BEPG, which have been adopted annually since 1993 (and every three years since 2003). Even if a ‘recommendation’ is a legislative act that suggests a course of action, it is not legally binding. Economic policy coordination can therefore be seen as the pioneer of a structured EU ‘policy coordination’ mode of governance, drawing inspiration from the much looser ‘OECD technique’ (economic surveys began in the 1960s).

Even if this governance by persuasion was soon revealed to be rather ineffective for coordinating economic policy (Math, 2002), a political spill-over to the domain of employment followed (Rhodes, 2010). Indeed, the sharp rise in unemployment immediately after the Maastricht Treaty was signed, made it necessary for governments to defend their support for Monetary Union and the unpopular convergence efforts it required. They had to make it clear to their electorate that the EU was not only concerned with price stability and budgetary discipline, but also with employment. As a result, a new Employment chapter was added to the 1997 Treaty of Amsterdam, which can be regarded as a ‘correction’ to the legitimacy deficit caused by Maastricht. The new Employment chapter made it possible to codify the EES that had been decided upon by the Extraordinary European Council on Employment in Luxembourg in 1997 [41]. In practice, the EES is implemented by the Employment Committee (EMCO) .[42]

The emergence and visibility of the Employment chapter in turn set an example for cooperation in other areas, as became clear at the Lisbon European Council in 2000. The latter formally coined the ‘Open Method of Coordination’ (OMC) as a new - and at the initial stage rather experimental – policy instrument for the EU. The OMC clearly drew on the experience and institutional framework that was established by the EES, and can be seen as a direct spillover of the EES (van Riel and van der Meer, 2002). The concrete architecture of the OMC

[41] The European Council added the subject of employment to the agenda at the Copenhagen Summit in June 1993, merely a few months after the signature of the Maastricht Treaty. Following the 1993 White Paper on Growth, Competitiveness and Employment, the contours of the EES were decided by the Essen European Council in 1994.

[42] The EMCO was formally established in 2000 and is one of the two advisory committees of the EPSCO Council (together with the SPC). It has its Treaty base in Article 150 TFEU.

indeed shows how it is mirrored on the EES: the Lisbon European Council Conclusions describe the OMC as ‘the means of spreading best practice and achieving greater convergence towards the main EU goals’ (European Council, 2000: §37). Still according to the same source, this involves: fixing guidelines (with specific timetables), establishing quantitative and qualitative indicators and benchmarks (against the best in the world), national and regional targets and periodic monitoring, evaluation and peer review organised as mutual learning processes (Ibid).

Following a mandate from the Lisbon European Council, OMC began to provide a Europe-wide approach to social policy: it was first launched in the area of social inclusion (2000) to be followed by pensions (2001) and health care (2004) and in practice implemented by the Social Protection Committee (SPC)[43]. Importantly, the Lisbon Council Conclusions stipulated the introduction of the OMC ‘at all levels’ (European Council, 2000: § 7), and explicitly referred to the use of the OMC in the areas of information society/e-Europe (Ibid: § 8), innovation and research and development (Ibid: § 13). Furthermore, even though the term ‘OMC’ was not explicitly used with regard to enterprise promotion, economic reform and education and training, the wording of the Lisbon Council Conclusions were such that they gave a de facto support for the development of open co-ordination in more than ten policy areas (Zeitlin, 2005), as indeed happened in the early 2000s.

The post-Lisbon enthusiasm for policy cooperation through the OMC came to an end in 2004, when the High Level Group headed by Wim Kok assessed the overall Lisbon Strategy, and stated that ‘The open method of coordination has fallen far short of expectations,’ and called for ‘a radical improvement of the process’ (Kok, 2004:42), including through naming, shaming and faming (Ibid: 43). While the operational conclusions of the Kok report were largely dismissed by the European Council, the re-launched ‘Lisbon II’ Strategy from 2005 onwards focused on ‘Jobs’ and ‘Growth’. The Broad Economic Policy Guidelines (BEPG) and Employment Guidelines were merged into a single set of ‘Integrated Guidelines’, reporting on which was to take place through new National Reform

[43] The SPC is the second advisory body of the EPSCO Council of Ministers, next to the EMCO. It was set up in 2000 and is formally based on Article 160 TFEU.

Programmes (NRPs). The Social OMC was reduced to a 'parallel' process to the revised Lisbon Strategy, rather than an integral (but rather weak) part of it.

To some extent, this situation has been corrected through the initial design of the Europe 2020 Strategy, which replaced the Lisbon Strategy in 2010 and is intended 'to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion'. Thus, *at the time when it was launched*, Europe 2020 had a rather all-encompassing political agenda (to some extent, a return to the original Lisbon Strategy) and provided considerable visibility and importance for employment and social inclusion. More concretely, Europe 2020 has been organised around three integrated pillars: macroeconomic surveillance, thematic coordination (in areas such as employment, education and social inclusion) and fiscal surveillance under the Stability and Growth Pact.

Thematic coordination combines EU priorities with EU headline targets, seven EU flagship initiatives. Thus, 'Inclusive growth' is one of Europe 2020's key objectives; there is the target to raise to 75% the employment rate for women and men aged 20-64, as well as the target of lifting at least 20 million people out of the risk of poverty and exclusion; there are the flagships on 'An agenda for new skills and jobs' and the 'European Platform against poverty' (EPAP); and finally four Integrated Guidelines concern employment, including Guideline 10 on promoting social inclusion and combating poverty (the first six guidelines relate to the economic policies of the Member States and the EU).

The different building blocks of the Strategy are now being organized through the European Semester, which starts every year with the Commission identifying the key economic challenges and priorities through its Annual Growth Survey (AGS). Member States then write National Reform Programmes and Stability and Convergence Programmes, in which they set out the action they will undertake: these programmes are then assessed by the Commission, and result in Country-specific Recommendations. The latter are discussed and amended by the respective EU Committees preparing the work for the Economics and Finance (ECOFIN) and Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council formations, and are ultimately adopted by the Council. Although most of the recommendations focus on economic and employment reforms, an increasing proportion also address social cohesion issues, including combating poverty and social exclusion (for a more detailed description of the Europe 2020 architecture, see Vanhercke, 2011, 2013).

While at first sight the employment and social issues in the Europe 2020 Strategy had some visibility, these were quickly subsumed by the other objectives. In its first AGS the Commission regarded pensions and health care as a burden on government budgets, and reforms were intended to 'balance the books'. As importantly, this AGS - which was strongly defined by the economic crisis - narrowed down social policy to the fight against poverty and social exclusion. Radical changes in the content and tools for implementing the Europe 2020 Strategy added to this. Most importantly, a new surveillance and enforcement mechanism entered into force in December 2011 as part of the so-called 'Six-pack' legislation, which reinforced economic governance in the EU and the euro area. The Macroeconomic Imbalance Procedure (MIP) relies on the following main elements:

- An *early warning system* is established, based on an 'MIP scoreboard' consisting of a set of – by now – eleven indicators covering the major sources of macroeconomic imbalances. The scoreboard is published in the Alert Mechanism Report that marks the starting point of the annual cycle of the MIP;
- *Preventive action*: the MIP allows the Commission and the Council to adopt *preventive recommendations* at an early stage before the imbalances become large. Crucially, these recommendations are embedded in the package of Country-Specific Recommendations which the Commission puts forward in the context of the European Semester;
- The MIP also has a *corrective arm* which applies in more severe cases: an Excessive Imbalance Procedure (EIP) can be opened for a Member State if it is found to experience excessive imbalances. The corrective arm for euro area countries can lead to a fine (up to 0.1% of GDP).

As importantly, the Six-pack introduced so-called reverse *qualified majority voting* (RQMV) for most of these sanctions. Reverse qualified majority voting implies that a recommendation or a proposal of the Commission is considered adopted in the Council *unless* a qualified majority of Member States votes against it. In practice it is very difficult for Member States to form a blocking majority. RQMV can therefore be considered as a 'semi-automatic decision-making' procedure which gives wide-ranging power to the Commission.

The second pillar of the Europe 2020 strategy that has been considerably strengthened since it was launched is fiscal surveillance under the Stability and Growth Pact (SGP), which is supposed to contribute to strengthening fiscal consolidation and fostering sustainable public finances. First of all, the abovementioned Six-pack strengthens the SGP and more particularly the Excessive Deficit Procedure (EDP), which applies to Member States which have breached either the deficit or the debt criterion (sanctions under the EDP are also adopted via RQMV). During 2012, Member States furthermore agreed on the two additional Regulations – also known as the 'Two-pack' – which introduced additional coordination and surveillance of budgetary processes for all Eurozone members (thus, the Two-pack integrates some elements of the 2012 'European Fiscal Compact' directly into EU law).

Unsurprisingly, these changes resulted in CSRs and AGS that have been largely focused on economic issues, as was the case with the National Reform Programmes (Degryse, 2012; Degryse et al., 2013; EAPN, 2013). And yet, recent research (Costamagna, 2013; Vanhercke, 2013) show a partial rebalancing in that the social dimension is slowly acquiring its substantive place in Europe 2020. Indeed, after two years of trial and error in the implementation of the European Semester, the employment and social actors involved have begun to formalise their positions and continue to do so in the preparation of the 2014 European Semester (Council of the EU, 2013b). Recent AGS have a more nuanced account of social issues, while there is an increasing number of CSRs paying attention to social objectives (notably with a view to reduce poverty), which are no longer accepted as 'given' by the Member States (i.e. they are being successfully amended, despite RQMV). Certainly, this 'socialization' of the European Semester' (Barcevicius et al., 2014), is a slow evolution (e.g. the role of the SPC in Europe 2020 still needs further clarification).

Nevertheless, it is remarkable that in an environment so strongly defined by the economic crisis, EMCO, the SPC, and Directorate General (DG) EMPL of the European Commission have used the context of intensified 'mutual surveillance' throughout the year to strengthen their own analytical toolbox. The latter includes the Joint Assessment Framework (JAF), the Social Protection Performance Monitor (SPPM) and the Employment Performance Monitor (EPM). At the same time, Member States seem to have chosen to combine 'being tough' on each other (through the 'comply or explain' rules of the European Semester) with securing mutual learning opportunities, as many objectives of Europe 2020 do not lend themselves easily to top-down prescriptions. The latter element will be key in the coming discussion about the proposed 'contractual arrangements' through which the European Commission hopes to enhance Member State compliance with the CSRs (see Section 4 below).

All in all, it would seem that policy coordination in employment and social policy has been shown to be rather resilient. Even more: policy coordination through the (Social) OMC has become a template for EU domestic and even regional policy coordination in sensitive policy areas [44], or for how to achieve better practice in the absence of centralized policy regimes (see Vanhercke, 2014 for a more detailed discussion). It remains therefore part and parcel of the EU's 'soft' social policy.

This 'soft approach' to social policy is now increasingly coordinated through the 'Social Investment Package' (SIP) which was launched in February 2013 (European Commission, 2013a; Hemerijck, 2013; Vandenbroucke et al., 2011). The SIP sets out a coherent European-level policy framework that addresses the whole range of social policies and has some of the features of the European Commission's earlier encompassing Social Agendas. It proposes an interesting common orientation for the European Social Model, with its focus on early childhood education and care, preventing early school leaving, lifelong learning, affordable child care (as part of an active inclusion strategy), housing support (fighting homeless), accessible health services and helping people live independently in old age. The SIP argues that the choice between achieving either social or economic objectives is in fact a false dichotomy. It includes a strong Commission Recommendation on 'Investing in Children: breaking the cycle of disadvantage'.

Whether the SIP, and other new 'soft' initiatives will have effect, will also depend on the extent to which they are seen as strategic – and consequently used as leverage – by the whole range of actors involved in the policy coordination processes. It is broadly acknowledged that besides the institutional actors,

[44] See the recent Council Recommendation (December 2013) on effective Roma integration measures, which also adopts a Social investment approach (Council of the EU, 2013c).

non-state actors such as NGOs have contributed to the process of broadening the scope of EU intervention in the social domain. Since the1990s, networks of NGOs operating in the field of the fight against poverty and social exclusion have been funded by the European Commission and, with their lobbying and mobilizations, they have contributed to raise the attention on those issues and to keep them on the EU agenda (Bauer, 2002). It is thus not surprising that the objective of promoting the involvement of a broad range of stakeholders in the policy process at both the EU and national levels is a distinctive feature of the Social OMC: it was one of the overarching objectives of the 'streamlined' Social OMC (since 2006) and it has been confirmed in the framework of the 'reinvigorated' Social OMC (in 2011).

While studies on stakeholders' involvement show mixed results when it comes to the scope and actual impact of this objective of involving a broad range of stakeholders (cf. Inbas et al. 2010), the usefulness of such an approach has been documented (Frazer, 2014). First, stakeholders' involvement can contribute to the enhancement of the quality of policy-making by enriching the debate with knowledge, ideas and experiences of people operating 'on the ground'. Second, it enhances the democratic nature of the process and increases the legitimacy of decisions taken. Third, stakeholder involvement raises awareness on EU initiatives, thus contributing to building much-needed support for EU initiatives.

European Social Dialogue[45]

EU Social dialogue is part and parcel of the European Social model and the *acquis communautaire*, as it is promoted by the Treaty (TFEU Articles 151-155) and is given a specific role in the EU's decision-making process through a complex set of procedures for the pursuit of law via collective agreements. Crucially, before submitting proposals in the social and employment policy field, the Commission is required to consult management and labour on the possible direction of Union action. Once social partners have reached an EU-level agreement, the Council can only decide *whether* or not to adopt the directive; it does not have the opportunity to amend the agreement's provisions. The EU also promotes

[45] This section draws heavily on the excellent 'Social Europe guide. Volume 2' on Social Dialogue produced by Mark Carley and the European Commission staff (European Commission, 2012a), to whom the authors are indebted.

social partnership and cooperation by setting minimum standards for employee representation in national and cross-border firms, and by consulting EU-level social partners on policy initiatives.

Reflecting widespread practice in the Member States, EU social dialogue takes two basic forms and occurs at two main levels:

- *Bipartite* social dialogue (launched in 1985 by Jacques Delors at Val Duchesse) involves only the social partners (organisations representing employers and workers). *Tripartite* social dialogue involves both the social partners and the EU institutions. ;
- *Cross-industry* (or 'intersectoral') social dialogue on the one hand covers the whole EU labour market, and all sectors. In this case, trade unions are principally represented by the European Trade Union Confederation (ETUC), and employers by BUSINESSEUROPE (private sector employers), CEEP (public services employers) and UEAPME (small and medium-sized enterprises). Sectoral social dialogue on the other hand, covers one specific industry across the EU: in this case the dialogue brings together 62 European-level employers and 17 European trade union federations, which represent national unions and employers' associations operating in a particular industry across Europe.

In a rather complex set-up, bipartite social dialogue occurs both at cross-industry level (through the Social Dialogue Committee, SDC) and at the sector level (through some 10 Sectoral Social Dialogue Committees and nearly 1,000 European Works Councils in individual multinational companies). Tripartite dialogue (also referred to as *concertation*), occurs mainly at cross-industry level. The best-known example is the 'Tripartite Social Summit for Growth and Employment' which was established by a Council Decision in 2003, with the role of ensuring continuous dialogue between the Council, Commission and social partners on the Union's economic and social strategy. The Summit has met twice a year since its conception and allows the social partners to provide an input into the Lisbon Strategy and later the Europe 2020 Strategy.

Once the Maastricht Treaty and its Agreement on Social Policy had given the social partners a specific consultation and negotiation procedure, cross-industry dialogue took two distinct courses. First, consultations based on the Commission's legislative agenda shaped much of the partners' dialogue and marked the (very short) ‘golden years’ of EU cross-industry social dialogue in the years 1995-1999. Consultations on the reconciliation of professional and family life resulted in a first cross-industry agreement on parental leave in 1995. Consultations on flexibility in working time and workers’ security led to two agreements: in 1997 on part-time work and in 1999 on fixed-term work.

In all three cases, the agreements were made binding in the Member States through directives. A further framework agreement in 2009, again implemented by a directive, amended the 1995 accord on parental leave. In the sectoral social dialogue, consultations led in some cases to agreements between the social partners, e.g. on working time in sea transport and civil aviation. Importantly, at the partners’ request, these sectoral agreements can also be – and have at times been - implemented by Council directives.

Secondly, the social partners followed their own autonomous agenda, as expressed in their 2001 joint contribution to the European Council held in Laeken: cross-industry social partners announced their own (independent) work programmes, which have indeed been agreed since 2003 (each covering 2-3 years). Following consultations by the Commission, the cross-industry social partners signed an autonomous framework agreement on teleworking in 2002. In contrast to earlier cross-industry agreements, the partners did not ask for the teleworking agreement to be implemented by a directive. Instead, the agreement was to be implemented by the signatories’ national member organisations, ‘in accordance with the procedures and practices specific to management and labour in the Member States’.

The first cross-industry work programme led to a 2004 framework agreement on work-related stress, which was implemented by the signatories’ national members, and to a second framework of actions on gender equality, in 2005. The 2006-2008 programme led to an agreement on harassment and violence at work in 2007. The most significant output of the 2009-2010 programme was an agreement on inclusive labour markets, again implemented by the signatories’ national member organisations. In addition, the autonomous cross-industry dialogue led to a range of joint opinions, statements, joint publication of guides, joint seminars and conferences etc.

In a similar vein, autonomous sectoral social dialogue has led to a range of autonomous agreements (including in the railway sector), to be implemented by the national member organisations. In addition, autonomous sectoral social dialogue led to a series of recommendations (frameworks of action, guidelines and codes of conduct, and policy orientations) but also contributed to exchange of information through joint opinions, declarations and tools (guides and manuals).

In quantitative terms, the output of EU social dialogue is rather impressive: All in all some 650 joint texts have been produced, most of them since the second half of the 1980s. However, over three-quarters are joint opinions and tools, agreements make up only 3 % of the total. What do these agreements look like in practice? The most tangible achievements of the EU-level social dialogue are those agreements that have been made legally binding across the Union by Council directives. As discussed above, there are four such cross-industry agreements, two dealing with parental leave and one each with part-time work and fixed-term work. These agreements have resulted in changes to legislation in many Member States.

In addition, five sectoral agreements have also been implemented by directives. These are concerned with (a) seafarers' working time, (b) the working time of mobile civil aviation staff, (c) the working conditions of mobile workers assigned to 'interoperable' cross-border rail services, (d) the implementation in EU law of the Maritime Labour Convention, and (e) preventing of 'sharp injuries' (for example, from needles and scalpels) in the hospital and health care sector. So all in all, EU social dialogue resulted in nine Directives so far.

As mentioned above, four cross-industry agreements have been implemented by the national member organisations, namely on telework, work-related stress, harassment and inclusive labour markets. Autonomous sectoral agreements have been agreed in the railway sector, the different sectors involved in the use of crystalline silica (a hazardous substance), certificates for hairdressing, and competence profiles in chemical industry. The key problem is that whenever an EU-level agreement is put into effect through autonomous agreements, the actual implementation (and impact) crucially depends on the concrete – and widely varying - procedures and practices in each country. As a result implementation of these agreements has been patchy, with gaps and even a total lack of implementation in some Member States. The implementation of (even less constraining) recommendations is even more difficult to evaluate, even though some have pointed to the importance of the vast array of informal networks created through such non-binding texts (OSE, 2011).

Some countries that joined the EU in 2004 and 2007 have experienced particular problems in this area. One of the key challenges European social dialogue faces is indeed that there is a considerable mismatch between the social dialogue architecture at the EU level and the situation in the Member States, largely as a result of the last waves of enlargement, which have made things far more complicated (Pochet, 2003):

- *Bipartite* bargaining remains weak in many of the Member States that joined the EU in 2004 and 2007. This said, the growth of EU-level bipartite cross-industry social dialogue (and more particularly the need to implement EU-level autonomous agreements, see below) has contributed to the development of national bipartite dialogue in some countries where it was previously largely unknown or limited.
- While a majority of the Member States have *tripartite* cross-industry dialogue, these usually have an advisory and consultative role; and there has been a tendency, especially in the wake of the economic crisis, to erode, downgrade or even eliminate bipartite/tripartite arrangements in several countries.
- *Sectoral* bargaining covers a high proportion of economic sectors in many of the EU15 countries, while in others collective bargaining has been largely decentralized to the company level (in general there have been decentralizing pressures). In many of the new Member States sectoral collective bargaining is non-existent, or limited to a few industries. Unsurprisingly then, bargaining coverage is low, sectoral social partners in these countries are frequently under-resourced and sometimes absent. Such in spite of the fact that in the run-up to accession the European Commission ran a number of projects providing financial and technical assistance aimed at strengthening social dialogue at cross-industry and sectoral levels.

In view of the robust institutional framework for European social dialogue, it would seem that it has not yet been fully explored, to put it mildly. There has not been a single cross-industry agreement in 15 years and social partners' work programmes have become less ambitious. The number of (key) issues on which the social partners have been unwilling or unable to negotiate, in spite of the Commission's efforts to get the social partners to negotiate, far outnumber the successes represented by agreements. ETUC has historically been in favour of the creation of legally binding new EU-wide rights and protection for workers (but internal divisions weaken its mandate in a number of issues, and ETUC prefers the Community method which usually leads to higher benefits for its members), while the employers' bodies, especially BUSINESSEUROPE, generally oppose new EU regulation of employment rights. As a result, the European Commission has increasingly withdrawn from its role of promoter of social dialogue, and is now a 'supporter', at best (OSE, 2011), which implies that bargaining is no longer taking place 'in the shadow of the law' (Pochet, 2003).

Sectoral social dialogue seems to have been more successful, even if it is relatively young. Recent developments include the setting up of a sectoral social dialogue committee in the food and drink industry (January 2012), an agreement on working time for inland waterway transport; an agreement on minimum standards for football players' contracts, and a sea fisheries sector agreement to Adopt ILO Convention no 188. At the same time, sectoral Social Dialogue Committees sometimes experience problems of representativeness. Thus, a recent agreement on health and safety in the hairdressing sector (incl. provisions on exposure to chemicals and other irritants, especially for pregnant women) has been labelled as 'red tape' by the European Commission after its representativeness was challenged by the UK government [46]. All in all it would seem that trade unions and employers tend to concentrate their efforts at national and company levels. But as shown above, where dialogue fails on specific issues, the process continues nevertheless.

It would seem that strengthening social partner capacity and social dialogue structures (especially in Central and Eastern Europe) is a prerequisite to revamping this governance tool. Perhaps in the meantime, resources should be focused on the promotion, by the European Commission - whose role has proven to be critical in bringing the partners around the table - of the currently more promising sectoral dialogue, possibly to be implemented through directives). This would provide a strong signal from the social partners that they are still able and willing to contribute to the European Social model.

[46] According to the UK government, the regulation on hairdressing would have affected small businesses disproportionately. The Daily Mail (9 April 2012) reported that 'Hairdressers will be banned from wearing high heels and jewellery under nanny state proposals being drawn up in Brussels.' The Sun took the analysis one step further under the headline 'Hair Hitlers' (10th April 2012). It should be noted that UK hairdressers were themselves represented at the negotiation table, i.e. by the National Hairdressers Federation, which forms part of Coiffure EU, the employers' representative.

IV. TOWARDS A EUROPEAN SOCIAL UNION: 10 TOUGH NUTS TO CRACK

The year 2014 presents a window of opportunity to debate afresh the social dimension of European integration. European elections will take place in May, bringing many new Members of the European Parliament to office. In November, a new European Commission will take power. The European Council will also have a new president by 1 December. Building on recent initiatives in the social field, including the Social Investment Package, the Social Dimension of EMU and the proposal with regard to contractual arrangements, this year of change allows us to think through the concept of a ‘European Social Union’.

This is not to deny the positive *acquis* but to recognise the need to respond to new challenges as we build upon it. A Social Union would need to both support national welfare states on a *systemic level* in some of their key functions (including macroeconomic stabilisation) as well as guide the *substantive development* of national welfare states – via general social standards and objectives, leaving ways and means of social policy to Member States – on the basis of an operational definition of ‘the European social model’. In other words, European countries would cooperate in a union with an explicit social purpose – hence, the expression ‘European Social Union’ (ESU).

Such a ESU, is not only desirable but necessary even though the concept needs to be fully clarified, both intellectually and politically. This is why the following section presents 10 ‘tough nuts to crack’.

- Tough nuts number 1 and 2 concern objectives: cracking them implies, fundamentally, an agreement on the meaning and significance of the European social model.
- Tough nuts 3 to 7 are about instruments; they may serve to illustrate an overarching question about the social policy role of the EU in a context of ‘shared sovereignty’, as we explain in a short introduction to these nuts (see below, between ‘nut 2’ and ‘nut 3’).
- Tough nuts 8 and 9 refer to challenges of governance and stakeholder involvement.
- In tough nut 10 we return to two substantive policy challenges, notably education

Is social convergence necessary?

Chapter five of the European Commission's most recent report on *Employment and Social Developments in Europe* is dedicated to '*Convergence and divergence in EMU – employment and social aspects*' (European Commission, 2014:. 279-319). It shows how the con¬vergence in employment and social developments in the Eurozone over the period 1999 to 2007 was largely halted by the crisis; simultaneously it points to underlying elements of economic divergence – or at least, lack of convergence – which were already present before the crisis. In this report, we have argued that economic and social convergence cannot be dissociated: in the long run, EMU is not sustainable without a basic consensus on the social order it has to serve, and without a concomitant degree of convergence on fundamental social parameters.

Obviously, the aspiration of the European project is not a regression to the mean: convergence should be upward convergence with regard to a multidimensional set of relevant social parameters. We deliberately did not use the expression 'harmonisation': the challenge is to achieve upward convergence in fundamental social parameters, whilst respecting the diversity that characterizes European welfare states. Reconciling diversity and the aspiration and necessity of convergence, requires stringent policy guidance based on well-defined social outcomes with genuine scope for differentiation and experimentation as regards the concrete measures needed to achieve those outcomes.

The first nut to be cracked is whether or not we believe that this analysis is correct, i.e. *whether or not we believe that upward convergence is a necessity, in the Eurozone, and in the EU at larg – to be reconciled with the legitimate diversity that characterizes the EU?*

Social investment as a common agenda?

If there is agreement on the need for convergence, the next question concerns the direction of convergence. How can we create a virtuous circle whereby both pan-European cohesion and national cohesion are enhanced? Given the 'human capital asymmetry' which we documented in section 1, social investment may offer an interesting perspective, with regard to both pan-European cohesion and national cohesion.

As explained in section 1, social investment emerged gradually as a social policy perspective in the 1990s in response to fundamental changes in our societies with a focus on policies that 'prepare' individuals, families and societies to adapt to various transformations, such as changing career patterns and working conditions, the emergence of new social risks and population ageing, rather than on simply generating responses aimed at 'repairing' damage caused by market failure, social misfortune, poor health or prevailing policy inadequacies. We do not wish to present social investment as an easy panacea. Social investment policies cannot substitute for sound macroeconomic, industrial and regional policies: they must be mutually supportive. Successful social investment also presupposes a well-designed complementarity between 'protecting human capital' by means of traditional instruments of social protection (cash benefits, health care) and 'developing human capital', by means of education, training and activation.

The Social Investment Package, launched by the European Commission (2013a,b) in February, presents a similar argument and provides an interesting common orientation for EU Member States with its focus on early childhood education and care, preventing early school leaving, lifelong learning, affordable child care (as part of an active inclusion strategy), housing support (fighting homelessness), accessible health services and helping people live independently in old age. Obviously, a 'Package' is not a 'Pact'; the latter underscores the sense of reciprocity that is needed: all Member States should be committed to policies that respond to the need for social investment; simultaneously, Member States' efforts in this direction – notably efforts by Member States who face a difficult budgetary and economic context – should be supported in a tangible way.

The second nut to crack is: *Do we see 'social investment' as the basis for a 'pact' for setting long-term goals in a spirit of reciprocity, extending the European Commission's Social Investment Package?*

Suppose we agree on the need for a common orientation, as proposed in the preceding 'tough nuts'. We should not hide the fact that this raises issues of sovereignty. Our arguments with regard to EMU, in section 2 of this report, are premised on the idea that the tuning of economic strategies requires a minimal tuning of social policy, even if this should not lead to the application of an undifferentiated social policy. Common orientations may be implemented in different ways by Member States, taking into account the legitimate diversity of their social systems. Section 2 also explained that EU welfare states have become semi-sovereign for reasons unrelated to EMU. The latter analysis supported the idea that Member States should retain sovereignty in specific areas (e.g. the organisation of health care), and that they must be able to effectively assume the responsibilities they bear. Still, what is at stake is the acceptance of 'shared sovereignty' in important dimensions of economic and social development.

The fundamental political question is whether we think Member States can regain sovereignty by limiting the role of the EU, or, alternatively, whether regaining sovereignty in a true sense, requires the common definition of social objectives at the EU level and the acceptance of solid European instruments to promote convergence in the agreed direction. Developing a – politically sustainable – response to that challenge is most urgent in the Eurozone, but is partly surpasses the Eurozone problematic. We might label such a process as one of 'shared sovereignty'. Obviously, the next question is what 'shared sovereignty' exactly means, and how the common orientation proposed in the preceding tough nuts can be made operational. The following tough nuts (3 tot 8) are about policy instruments. [47] However, answering them will shed light on the following overarching question: *What type of role do we see for the European Union in this process of shared sovereignty?*

[47] Tough nuts 3-7 should not be read as an exhaustive list of policy instruments. For instance, we do not assess the argument by actors concerned with the development of social services that the concept of '(social) services of general interest' has to be further developed. Also, the potential role of the 'horizontal social clause', which is discussed in section 2.2, is not taken on board in our tough nuts, although it might play a specific role in 'mainstreaming'. .

Mainstreaming social policy objectives in the overall governance architecture of EMU?

Our next questions (nuts 3-8) are about the way to implement common social orientations for the EU, i.e. about the policy methodology and the instruments. In section 2.1 we wrote that *excessive social imbalances* threaten the monetary union as much as excessive economic imbalances. The expression 'excessive social imbalances' describes a set of social problems that affect member states very differently (thus creating 'imbalances'). These imbalances are not simply similar problems in a subset of poorly performing member states: they should be a matter of common concern for all Eurozone members. Youth unemployment and child poverty are two examples. The first step towards convergence, is to fight such excessive social imbalances, notably within the Eurozone. This requires that the social dimension is mainstreamed into all EU policies, notably into macroeconomic and budgetary surveillance, rather than it being constituted as a separate 'social pillar'.

Although the notion of mainstreaming seems straightforward, how exactly it should be done and which institutional actors should take the lead in it, is a matter of internal debate in European policy circles and some ambiguities need clarification. Refining the MIP Scoreboard, which is used in the Macroeconomic Imbalances Procedure, was a first step towards such mainstreaming. Social and employment indicators have indeed been added to the set of 'auxiliary' indicators that are used in the economic reading of the MIP Scoreboard. Such social indicators could alert ministers about employment and social imbalances that could threaten the stability of the EMU (Barcevicius et al., 2013). These new monitoring tools, which might become broader than the Europe 2020 targets[48], seem essential for the effective implementation of the European Semester and the recently proposed Social Dimension of a Genuine EMU (European Commission, 2013c). However, some nervousness exists about the ownership and control of the process in which they will be used [49].

[48] Initially, the idea was to add the indicators on 'At-risk-of Poverty and Social Exclusion' (AROPE) to the auxiliary indicators used in the MIP. However, the intention seems to be to enlarge the set of social indicators used.

[49] The Commission initiative to add some social indicators to the auxiliary indicators set accompanying the MIP scoreboard has - to put it mildly - not been met with a lot of enthusiasm from the side of the different Council formations. In this, those in the economic and financial strand that do not want to weaken the economic scoreboard with social considerations (not the aim of the scoreboard and of secondary importance) have found objectives partners in those in the social strand that are weary of the ECOFIN strand picking social indicators on its own and then interpreting them as they see fit in a procedure that does not include the social affairs ministers in the EPSCO council as full partners.

As a matter of fact, there is more than one 'scoreboard'. Next to the auxiliary indicators in the MIP, a scoreboard of (a few) employment and social indicators was adopted by the EPSCO Council in December 2013, to inform macroeconomic and fiscal policies, both at EU and national levels, in the context of the European Semester. In itself, that can be seen as promising. However, the European Council's confirmation of "the relevance of the use of a scoreboard of key employment and social indicators" (European Council, 2013: §38) and especially that "The use of this wider range of indicators will have the sole purpose of allowing a broader understanding of social developments" (Ibid: §39) is unsatisfactory. The precise role of this new scoreboard vis-à-vis the strong analytical tools developed recently by the EPSCO Council – the EPM and SPPM – should be further defined. Finally, mainstreaming should include monitoring the impact of social and labour market reforms in Member States having signed a Memorandum of Understanding.

In short, if mainstreaming social policy objectives is deemed necessary, the content, the process and the role of the different policy strands have to be clarified, in order to make such mainstreaming effective and legitimate in the perception of all the actors involved.

Hence, the third nut to crack concerns the idea of mainstreaming, notably with regard to the Eurozone: *Do we agree with mainstreaming social policy concerns in the macroeconomic and budgetary surveillance of EMU, and – if yes – what should be the role of the different policy strands?*

Enhanced compliance in exchange for more solidarity?

Given the diversity of European welfare states, mainstreaming social objectives should be far removed from a top-down, 'one size fits all' approach to social policy-making in the Member States. It might be argued that mainstreaming social objectives presupposes first of all a more balanced approach to macro-economic coordination, i.e. a combination of greater room for manoeuvre and tangible support for Member States that opt for a social investment strategy. In the context of the ongoing debate about the macro-economic policies pursued by the Union, a number of proposals have been tabled to that effect. Some argue that the Stability and Growth Pact should distinguish between investment spending and current expenditure (Natali, 2013:257; Dervis, 2012).

Within the framework of a 'Europe of incentives', Leonard and Zielonka (2012: 35) propose a 'growth compact for Europe: "*The first step would be to allow countries with large deficits (such as Spain) more time to get back to the deficit threshold of 3 percent of GDP in order to help break the downward spiral of contracting GDP, rising unemployment and rising deficits. Second, in order to make sure that public investment is not reduced so quickly that it sucks demand out of the economy, the financing of public investment could be taken out of the national budgets (and hence the measured deficit). One possibility would be to give the European Investment Bank (EIB) a central role in public investment financing. To avoid cheating, what qualifies as investment could be subject to approval by a European authority.*" Alternatively, room for manoeuvre can also be created by concentrating EU Funds – including outstanding and/or uncommitted resources – on key priorities, such as social investment [50]. Additional grants/ co-financing could be organised for specific projects [51]. Rather than re-opening the discussion on the Stability and Growth Pact, our next tough nut revisits the underlying issue by posing the question how tangible support can be given to countries that wish to re-orient their welfare edifice towards more effective social investment and protection.

Obviously, the performance of welfare states is first of all a responsibility of the Member States themselves. On a pan-European level, however, there is a common interest in having *well-performing* welfare states, an aspiration that cannot be achieved without reform[52]. Which is why well-conceived contractual arrangements between the EU and the Member States - proposed by the European Commission as part of a 'convergence and competitiveness instrument' (European Commission, 2012b, 2013d) - may be a way forward if they are based on the genuine reciprocity that is objectively needed in the EU today (that is, if they can contribute to reboot convergence) and if they are perceived as embodying such reciprocity, and not as 'bribery' into reform

[50] Arginger et al. (2012: 8) propose to use "all available funds at EU level to support long-term growth in deficit countries and set mandatory targets for their use (as closely monitored as the budget reduction goals). Specifically, use funds for promoting jobs and business start-ups in countries with high youth unemployment".

[51] Leonard and Zielonka (2012), for example, propose to link the funding of the renovation of public university buildings to the achievement of certain enrolment or graduation rates in a country.

[52] That reform is needed, is not to say that there has been no reform so far: the range and depth of current reforms in Member States' social protection systems is documented in SPC (2013).

(Pisany-Ferry, 2013) which could provoke the kind of popular resistance already seen in bailout countries.

Under these conditions, contractual arrangements might complement the existing macroeconomic surveillance framework with a constructive surveillance of employment and social policies. Fernandes and Maslauskaite (2013a) describe the idea as follows:

'(…) *contrary to the Macroeconomic Imbalance Procedure, which includes a sanction mechanism, in the social field member states should adopt an incentive mechanism instead. This mechanism could rest on the 'Convergence and Competitiveness Instrument' which is currently being debated and which aims at reinforcing the implementation of structural reforms. Nevertheless, the approach for these contracts has to be different from the one provided today. Rather than a bilateral approach in which the Commission tells each government what it has to do, the member states should define a set of social objectives – or retake the ones from the Europe 2020 strategy – and agree on a financial aid addressed to the countries that are launching initiatives and reforms aiming at achieving these objectives as well as reducing their social imbalances.'*

The discussion on contractual arrangements, which has first been launched in the European Council (2012b) by President Van Rompuy, raises many operational questions. Some have been answered in the European Council's Conclusions of December 2013; other questions remain open. What would the contracts pertain to, exactly? To which Member States would they apply (involving only Eurozone countries, but open to the others)? Why should the (Economic Adjustment) Programme countries be excluded [53]? Should they be concentrated on social investment priorities in the CSR's and the NRP's, as suggested by the French Commissariat Général (2013)? How binding can they really be (legal questions arise [54])? Who would be involved in negotiating the contracts so as to increase ownership (national parliaments, social partners?)? And, last but not least, how much money would be put on the table in exchange for enhanced compliance

[53] The European Council of December 2013 refers to the need for 'timely correction' (European Council, 2013: § 30), i.e. the willingness to support 'sound' policies 'before countries face severe economic difficulties' Ibid: § 32). There is consequently a clear attempt to include the contractual agreements in a sort of preventive surveillance toolbox within the European Semester, implicitly acknowledging the higher financial, political and social costs of an intervention at a later stage, when a crisis has kicked in. The exclusion of Member States under macroeconomic adjustment programme is being explained by this timing factor: they are already under severe economic difficulties and therefore no longer fall under preventive 'timely correction'. From a formal point of view, the programme countries are implementing measures whose adoption is linked to the conditional disbursement of the financial assistance agreed (which is not a substantive argument why they should be excluded from the contracts, in the view of the authors).

[54] The Council Conclusions stipulate that the agreements on the financial support associated to the contractual arrangements should be legally binding (European Council, 2013: § 36).

(what amounts are we talking about [55]?) and what will be their nature (loans, grants or guarantees)? These are important questions; notably the last one – the solidarity mechanism – seems to lag behind in terms of political consensus. But, fundamentally, the key question is whether the contracts envisage a bilateral top-down[56] approach with the Council and the Commission dictating policies to specific countries (a 'principal-agent model' with financial incentives), or, alternatively, solidarity in mutually agreed[57] structural welfare state reform (see Rubio, 2013, for a development of this argument).

So conceived, the questions at hand echo the questions raised with regard to the European funds, which follow from our description in section 3.2. We have argued that cohesion policy is supporting 'inclusive growth' more effectively than it did before, mainly thanks to concentration of efforts. The case could be made that not only the ESF, but also the ERDF and other funds should support the employment and social policy thematic objectives, and have corresponding social investment priorities.

As described in section 3.2, macroeconomic conditionality, which has existed in the Cohesion Fund since its creation in 1994, is being generalized to all European Structural and Investment (ESI) Funds, as they are called in the programming period. Such conditionality implies that the disbursement of all Common Strategic Framework (CSF) expenditures is dependent on Member States' performance under EU economic governance procedures. That is to say: the Commission could suspend (as a last resort) part or all of the cohesion policy payments and/or commitments when a Member State is found to not to have taken sufficient measures to correct its fiscal or macroeconomic problems. This requires some careful reflection. One might even question the pertinence of macroeconomic

[55] Vanden Bosch (2013:18-19) estimates that the total committed funding required over 5 years could vary between €30bn and €75bn; the net transfers towards beneficiaries would range between 0.2% and 0.5% of their respective GDP.

[56] On the basis of the Council Conclusions, whether or not the contracts will instantiate a top-down approach is an open question: the Conclusions refer to an agreement between the Member State and the Commission to be submitted to the Council for approval; in such a scheme the top-down nature of the approach depends on the political influence of the Member State concerned (European Council, 2013: § 36).

[57] The European Council Conclusions of December 2013 refer to 'mutually agreed contractual arrangements that will be a home-grown' commitment, which seems a way to consider the aspect of reciprocity and connected ownership (European Council, 2013: §32). Likewise, the European Council considers the contractual arrangements as being part of 'partnerships' on growth, jobs and competitiveness, involving Member States, the Commission and the Council (Ibid: § 36) but also the 'involvement of national parliaments, social partners, and other relevant stakeholders' (Ibid).

conditionality in the ESI Funds.[58] On the other hand, in section 3.2 we also mentioned that the new rules of the ESI funds 2014-2020 provide concrete opportunities to increase orientation to results and surveillance, while at the same time promoting the establishment of incentive mechanisms (in the sense of Fernandes and Maslauskaite, 2013) to actually promote the achievement of results in the social field. The cohesion policy Operational Programmes (OP's) are indeed 'contracts' between the Member States and the Commission where funding is ensured against the commitment to implement agreed interventions in defined policy areas . [59]

There is a risk that the contractual arrangements overlap with existing cohesion policy programmes with a clear social commitment. Under which conditions can contractual arrangements and cohesion policy operational programmes be made consistent and complementary policy tools, in order to increase – instead of merely substitute – efforts at EU level in employment and social policies? Can the reformed programming of the cohesion policy support a 'constructive surveillance' of the implementation of EU employment and social policies?

The fourth nut to crack is thus: Does the Group see the possibility of establishing contractual arrangements between the EU and the Member States that ensure a constructive surveillance of employment and social policies alongside the surveillance now in place for economic policies? Can contractual arrangements and cohesion policy operational programmes be made consistent and complementary policy tools, in order to increase – instead of merely substitute – efforts at EU level in employment and social policies? Can we thus instantiate 'solidarity in reform'?

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[58] On the one hand, such conditionality may be a strong incentive to deliver on the macroeconomic commitments. But there are some real risks involved (Tokarski and Verhelst, 2012). Thus, there is the risk that conditionality would especially penalize the major beneficiaries of cohesion policy (i.e. those countries where these funds constitute several percentage points of GDP). For that reason Tokarski and Verhelst propose a cap on the maximum amount of funds in relation to GDP that could be suspended. The question is whether such a correction is sufficient: many questions remain as regards the pertinence of macroeconomic conditionality in the ESI Funds. Macroeconomic conditionality contradicts the view that cohesion policy reinforces the achievement of Europe 2020 objectives. The suspensions or the cuts of the funds triggered by macroeconomic conditionality in the ESI funds brings to a halt the policies supported by those funds (including social inclusion, human capital and employment policies) and is likely to trigger negative effect on macro-divergence. Finally, one should also ask to what extent the 'contractual arrangements' may in practice overlap with existing cohesion policy programmes with a clear social commitment.

[59] Furthermore, the articles on 'strategic progress' of Regulation 1303/2013 laying down common provisions on the ESI funds, explicitly refer to a 'debate on the ESI funds' (Articles 52 and 53). This offers an opportunity to set up a structured political debate based on the 'summary report' which the Commission has to send – starting from 2016 – to the other EU institutions, based on implementation reports and available evidence on evaluations of programmes. We thank Fabrizio Barca for drawing our attention to these points with regard to cohesion policy.

A stabilisation mechanism for EMU?

The previous section focused on solidarity in structural reform. A separate question concerns the organisation of solidarity in adverse cyclical circumstances.

Many now seem to agree that EMU necessitates a European stabilisation mechanism that contributes to restoring the *systemic* stabilisation capacity of national welfare states. Since the 'Four Presidents[60] ' (European Council, 2012b) and then the European Commission (2012b) took on board the idea of equipping the EMU with a shock absorption capacity in their report about deepening the EMU, the idea gained considerable legitimacy (e.g. Commissariat Général, 2013). Recently a group of eleven German economists, lawyers and political scientists convincingly explained that monetary union cannot be permanently stable without a controlled transfer mechanism and that it is *in Germany's self-interest* to overcome fears about a transfer union (Glienicker Group, 2013).

The elaboration of the idea entails complex questions (which are also discussed by the IMF, see Allard et al. 2013): some researchers emphasize *asymmetric* shocks and propose 'interstate insurance', triggered by economic indicators (Enderlein e.a., 2013; Drèze and Durré, 2013). Member states pay into the scheme when their output gap is above the euro area aggregate output gap, i.e. when their cyclical economic position is better, and countries receive payments from the scheme when their output gap in a given year is more negative than the euro area average. Importantly, such an insurance scheme would not lead to permanent transfers from some countries to others, but all countries would be contributors and benefactors over time.

Other researchers argue in favour of a European *Unemployment Insurance*, which would respond both to asymmetric and symmetric business cycle shocks (Dullien, 2012, 2013). The idea of an EU-wide unemployment benefit is far from new, having been proposed – without success - by the Marjolin (1975) Report on EMU and supported by the MacDougall (1978) Report on the role of public finance. The underlying idea is to establish a 'basic unemployment insurance' in Europe with transfers to short-term unemployed. These transfers would be paid for a limited time (12 months) and the absolute amount would be linked to

[60] The Presidents of the European Council, the Commission, the Eurogroup and the ECB.

wage income prior to the beginning of the period of unemployment. Moreover, only those who have been in dependent employment prior to being unemployed would be eligible. Such proposals are demanding - albeit in different degrees - in terms of mutual trust, common purpose and the understanding that responsibility and solidarity go hand in hand.

Rather than organizing a technical discussion on the details of such proposals[61], the fifth nut to crack is: How does the Group assess the political (as opposed to technical) feasibility of such schemes?

An agreement on minimum wages to support sustainable mobility?

In their joint statement of 29 May 2013, France and Germany proposed '*considering implementing minimum wage floors, defined at national level that would guarantee a high level of employment and fair wages – leaving the choice between legislation and collective-bargaining agreements*.' Interestingly, this joint statement immediately added a consideration on the enhancement of cross-border mobility, '*calling for encouraging cross-border worker mobility by removing obstacles, improving cooperation between employment services (building upon the EURES platform) and facilitating the portability of rights in case of mobility*' (Bundesregierung, 2013). This lends support to the idea that cross-border mobility is a positive development, if organized with respect to existing social regulation, such as decent minimum wages, as we also argued in section 2.2.

Admittedly, the French-German proposal was formulated in rather vague terms. In April 2005, researchers from Germany, France and Switzerland proposed a European minimum wage policy according to which every country in Europe should guarantee a national minimum wage (Schulten et al., 2005). They proposed a national minimum wage norm corresponding to 60% of the average national wage. As a short-term target, these researchers called for a norm of at least 50% of the national average wage.

[61] For a discussion of the legal options for an additional EMU, see European Parliament (2013a).

The French-German proposal carefully specifies that at the national level the choice would be open between legislation and collective bargaining agreements. Returning to the specific issue of posting, in section 2.2 we interpreted the Court of Justice's judgments in the *Viking* and *Laval* cases as follows: only *predictable* systems of minimum wage protection, resting on some public authority (i.e. systems that are regulated or at least 'confirmed' by public authorities) can be imposed on foreign companies that post workers. If that argument is accepted, it would mean that social partners must reconsider traditional positions on subsidiarity within welfare states, that is, they must accept that Member States create a legal context in which only generally applicable minimum wage protection has to be respected by foreign service providers. In other words, both at the domestic and the European level, we must reconsider the application of subsidiarity principles, given the new contexts in which social policy operates today.

Accepting all this – that we should embrace cross-border mobility[62] positively, that EU Member States should have universally applicable systems of minimum wages, affirmed in one way or other by public authorities, with levels defined with reference to the national context – is more than one tough nut to crack at once; but it would definitely constitute a coherent approach. Recent evolutions in the debate about minimum wage in both Germany[63] and the UK[64], seem encouraging to at least engage in the debate.

The sixth nut to crack is therefore: Can a binding EU framework on minimum wages support national social policies and ensure that cross-border mobility can be encouraged without jeopardizing existing social arrangements?

[62] Note the Commission's plans to present proposals in 2014 to review the unemployment chapter of Regulations (EC) 883/2004 and 987/2009 with a view to simplifying procedures for granting unemployment benefits in cross-border situations (European Commission, 2013c: 10).

[63] The introduction of a minimum wage was a central issue during the 2013 German elections. The introduction of the minimum wage is now part of the coalition agreement: a nationwide minimum wage of EUR 8.50 will be introduced as of 2015, but won't come into full effect until until 2017.

[64] In January 2014, the UK Government made a significant shift in the minimum wage debate: the Chancellor of the Exchequer, George Osborne called for a rise in minimum wage from 6.31 to 7 pounds per hour, reflecting an unusual consensus developing in Britain over how to distribute the spoils of the economic recovery.

Increasing the effectiveness of minimum income protection by EU initiatives?

Proposals have been tabled with regard to *minimum income* protection, notably by the European Anti-Poverty Network [65] (EAPN, 2010). An in-depth examination of this proposal (Vandenbroucke et al., 2013a) concluded as follows. A European framework with regard to minimum income protection would give substance and political salience to social rights in a 'caring Europe'. But, given the heterogeneity between European Member States, any binding agreements on minimum incomes would have to be introduced flexibly and gradually, and implemented in unison with a convergence in activation measures and minimum wages. Moreover, since such a scheme – even if it is moderate in its initial ambition – requires a significantly greater budgetary effort on behalf of some of the poorer Member States in Eastern and Southern Europe, it raises a complex question about the meaning of solidarity within the EU. More recently the European Economic and Social Committee also called for an EU directive that would extend minimum income schemes to all Member States, while it linked such schemes to active labour market policies and the setting up of a European fund for an EU minimum income (EESC, 2013) [66].

In the poorer Member States 'the rich' are poorer than 'the poor' in the richer Member States. Hence, a minimal condition for a 'caring Europe', that attempts to upscale minimum income protection, is that it should help the poorer Member States, not just by opening up markets and implementing successful macro-economic policies at the EU level, but also by putting at their disposal generous Structural Funds for the foreseeable future. Simultaneously, a caring Europe would put positive pressure on poorer and richer Member States to gradually improve the overall quality and efficiency of their welfare regimes (introducing conditionality with regard to aspects of social inclusion policy in the European Social Fund may be a possible way to develop more leverage). Meanwhile,

[65] EAPN proposes a draft directive on adequate minimum income in 2010. It would stipulate that 'every Member State shall introduce a minimum income scheme, that guarantees the right to an adequate minimum income to all people living on their territory, in line with Council Recommendation 92/441/EEC on common criteria concerning sufficient resources and social assistance in social protection systems and Commission Recommendation 2008/867/EC on active inclusion of people excluded from the labour market. Member States may decide whether the minimum income schemes provide financial assistance only or also in kind support' (EAPN, 2010). The objective would be to ensure that the combined effect of their minimum income provisions and other policy measures are sufficient for lifting all persons above the poverty threshold (60% of the national median income).

[66] The Workers' Group of the European Economic and Social Committee (EESC) contracted the European Social Observatory to conduct a study on the legal and political feasibility of introducing a guaranteed minimum income at European level. The report also investigates several scenarios related to the costs of increasing current minimum income benefits to the level of relative poverty thresholds, set at 40, 50 and 60% of national median equivalised income (Peña-Casas et al., , 2014).

existing strategies – notably Europe 2020 – should be taken seriously and given real bite (this means that budgetary and macro-economic policies should serve the social investment goals of *Europe 2020*). If this were the overall context, then the prospect of gradually introducing a more binding EU framework on minimum income protection may become realistic and useful, for the political reasons indicated above and as a measure to increase the quality and efficiency of domestic social systems. Fundamentally, enhanced solidarity within Member States cannot be decoupled from enhanced solidarity among Member States – and *vice versa*. That is the intellectual and political agenda we have to come to terms with.

The seventh tough nut to crack is therefore: Can a more binding EU framework on minimum income protection serve to raise the quality and efficiency of domestic social systems?

Strengthening social dialogue?[67]

Section 3.4 concluded that strengthening social partner capacity and social dialogue structures (especially in Central and Eastern Europe) is a prerequisite to revamping this governance tool. Hence, the question is which instruments could be used to support national social partner organisations, as a stepping-stone to a more fruitful EU social dialogue? Would monitoring of national social partner involvement in all stages of the European Semester be a way forward (e.g. Member States to annex Social Partner's opinions to their NRP's, or invite them to contribute to implementing the CSR's that are relevant for them?) Or increased ESF Funding for national trade union campaigns, training and networking?

Secondly, the question is how can the social partners be involved more effectively in the European socio-economic governance (as proposed in the Social dimension of EMU Commission Communication)? Is the Tripartite Social Summit an appropriate vehicle for this purpose, and to what extent should its composition and preparation be improved? Is there scope to improve the (rather formal) Macroeconomic Dialogue where Council, Commission, European Central Bank (ECB) and social partners exchange views?

[62] Our emphasis on these questions with regard to the social dialogue between the traditional social partners does not imply that we consider the involvement by NGO's unimportant, cf. the final paragraphs of section 3.3. above. We think the latter should be uncontroversial.

Thirdly, to what extent can European Commission and European social partner resources be focused on the promotion of the European sectoral social dialogue? In which areas can such a dialogue could still bear fruit (on Member States' social investment strategy?, on Industrial innovation strategies?, on an ultimate agreement on working time with a view to responding to the CJEU's activism in this area?, on the conditions for a transition towards a green economy?).

Summing up, the eighth nut to crack is this: *What could be the most fruitful ways forward: building on existing arrangements, including the sectoral dialogue; working through the European Semester; broadening the Macroeconomic Dialogue? Should the EU support national social dialogue in a more direct way (e.g. enhanced capacity building efforts through the Funds)? And, on which particular issues should it focus?*

Improving the EMU's democratic legitimacy through better social governance?

In section 2.1 we have explained why a basic consensus is needed, at the level of the Eurozone, on common objectives of social policy. It would seem that arriving at such a consensus is only possible if we improve governance within the *Eurozone* so as to improve its legitimacy.

- Thus, one can imagine the different Council formations, including the EPSCO, meeting at the level of the Eurozone, mirroring the monthly Eurogroup meetings (since 1998) of the finance ministers.
- Similarly, the idea of creating special arrangements within the European Parliament for deputies from Eurozone countries is gaining traction (e.g. creating Sub-Committee(s) on the Euro after the next elections).
- Some imagine the social partners in the Eurozone taking the initiative to start negotiations that would address the specific issues of the Eurozone (Chopin and Fabre, 2013).

At the same time, would such improved Eurozone governance, and thus a deepening of integration at the level of the Eurozone countries - which for the abovementioned Glienicker Group (2013) should include a new euro-Treaty an economic government and a euro-budget - not increase the risk of a two-speed Europe?

Summing up, the ninth nut to crack is this: Would better Eurozone governance in this way improve both the legitimacy and quality of social governance, or would it simply increase the risk of creating a two-speed Europe?

Education as the pan-European social investment priority

In Section 1 of this report, we underscored the human capital challenge with which European welfare states are confronted: the disparity with regard to educational achievement within the EU is huge. If there is one domain in which upward convergence should be our ambition and a matter of common concern, it is education.

The European Commission has developed a comprehensive agenda on education, training and skills, and issued excellent Recommendations on the modernization of education systems. However, the question remains as to whether this educational agenda carries sufficient weight at the highest levels of European political decision-making and in the setting of budgetary and policy priorities in Member States.

Hence, the tenth nut to crack concerns the selection of priorities and the scope for tangible EU initiatives: Do we believe that more success in quality education for all young Europeans should be a number one priority within a credible European social investment strategy? How far do we see tangible pan-European action being developed in this area?

V. FROM A SENSE OF SURVIVAL TO A SENSE OF COMMON PURPOSE

Against the backdrop of the continuing financial, economic and social crisis, there is a need for more resolute EU-level action to promote sustainable growth, employment and social investment. The social impact of the ongoing adjustment processes is unsettling. That is, in itself, a reason why the European Union must be seen as really caring for the social conditions of its citizens. But the challenge is even more fundamental.

In this report, we have argued that Europe is in need of a Social Union: one that would support national welfare states on a systemic level in some of their key functions (such as macroeconomic stabilisation) and guide the substantive development of national welfare states – via general social standards and objectives, leaving ways and means of social policy to Member States – on the basis of an operational definition of the European social model. In other words, European countries would cooperate in a union with an explicit social purpose – hence, the expression 'European Social Union'.

From the outset, we should avoid three misunderstandings.

First, EMU should not have a parallel and separate social pillar to be added to the existing pillars. The social dimension should be mainstreamed into all EMU initiatives because social policies are very often affected by policies pursued in other areas. The same holds for the social dimension of the EU at large.

Second, the practice of a Social Union should be far removed from a top-down, 'one size fits all' approach to social policy-making in the Member States. What is needed today, is a more balanced approach to macro-economic coordination, i.e. a combination of greater room for manoeuvre and tangible support for Member States that opt for a social investment strategy, and policy guidance based on clear and sufficiently stringent and constraining objectives with regard to well-defined social outcomes on the one hand, and genuine scope for exploration and mutual learning on the ways and means to achieve those outcomes on the other hand. The emphasis on a Social *Union* is not a coincidence. A European Social Union is a Union of Welfare States, it is not a European Welfare State.

Third, this report favours positive reform, not the preservation of the status quo. In policy terms, the challenge is to make *long-term* social investments and *medium-term* fiscal consolidation mutually supportive and sustainable, under improved financial and economic governance. In political terms, European citizens need a reformist perspective that gives the *social acquis* they cherish a credible future. At this critical juncture, we should not underestimate or discount the massive achievements of over half-a-century of European integration and welfare state development. The unprecedented deepening and widening of regional integration from six to twenty-eight member states, creating a community of some 500 million people, was accompanied by the expansion of comprehensive welfare systems, while promoting democracy and securing peace, to an extent barely conceivable at the start of post-war reconstruction. A European Social Union should build on that *acquis*; simultaneously, building on that *acquis* requires reform. That is the quintessence of the call for a 'social investment pact' [68].

At the moment of writing, signs of economic recovery are getting stronger. Maybe, in the near future, the actions of the Member States will no longer be guided by day-to-day crisis management. However, without a sense of common purpose, it will not be possible to overcome the legacy of the crisis; it will not be possible to avoid the spectre of sluggish economic growth for many years; it will not be possible to fight the mounting euroscepticism [69]; and it will certainly not be possible to offer young people the kind of optimistic prospects their parents once enjoyed. Moving from a 'sense of survival' to a 'sense of common purpose' is a basic condition for building a Social Union.

[68] Hemerijck and Vandenbroucke (2012).
[69] Fernandes and Maslauskaite (2013b), who's Scenario C also inspired the subtitle of this particular section.

High-Level Group's Members

László Andor, Commissioner for Employment, Social Affairs & Inclusion, European Commission

Tony Atkinson, Honorary Fellow, Economics, University of Oxford, Nuffield College

Fabrizio Barca, Director General, Ministry of Economy and Finance and former Minister for Territorial Cohesion, Italy

Pervenche Berès, Chairwoman, European Parliament Committee on Employment and Social Affairs

Geert Cami, Co-Founder & Director, *Friends of Europe Les Amis de l'Europe*

Etienne Davignon, President, *Friends of Europe Les Amis de l'Europe*

Philippe De Buck, former BusinessEurope Director General

Aart Jan de Geus, Member of the Bertelsmann Stiftung Executive Board, former OECD Deputy Secretary General and former Dutch Minister of Social Affairs and Employment

Anna Diamantopoulou, President of Diktyo Network, *Friends of Europe* Trustee, former EU Commissioner and former Greek Minister for Education

Nathalie Furrer, Director, *Friends of Europe Les Amis de l'Europe*

Reiner Hoffmann, Regional Manager, Industriegewerkschaft Bergbau, Chemie, Energie (IG BCE)

Danuta Jazlowiecka, Member, European Parliament Committee on Employment and Social Affairs

Sony Kapoor, Re-Define Managing Director

Pascal Lamy, *Friends of Europe* Praesidium Member, former World Trade Organization (WTO) Director General and former EU Commissioner for Trade

Roger Liddle, Policy Network Chair

Giles Merritt, Secretary General, *Friends of Europe Les Amis de l'Europe*

Rhodri Morgan, Chancellor, Swansea University, former Prime Minister for Wales,

John Morley, Senior Policy Advisor, Applica

Ricardo Perissich, *Friends of Europe* Trustee, APCO Worldwide Senior Counselor, former European Commission Director General for Industry

Christopher Pissarides, Regius Professor of Economics, London School of Economics and Political Science (LSE), Nobel Laureate in Economic Science

Conny Reuter, Solidar Secretary General and former President of the Social Platform

Vladimir Spidla, Masaryk Democratic Academy President, former Prime Minister of the Czech Republic and former European Commissioner for Employment, Social Affairs and Equal Opportunities

Freek Spinnewijn, Director, European Federation of National Organisations working with the homeless (FEANTSA)

Dimitris Tsigos, President, European Confederation of Young Entrepreneurs (YES)

Frank Vandenbroucke, Professor, University of Leuven, *Friends of Europe* Trustee, former Belgian Deputy Prime Minister

Bart Vanhercke, European Social Observatory (OSE) Co-Director

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APPENDIX I: Economic and social developments over the crisis

By Terry Ward (Applica)

Employment and unemployment

Employment rates, 20-64, 2004-2012 (% population 20-64)

	2004	2008	2010	2012	2004-2008	2008-12
EU28	67.2	70.3	68.5	68.4	3.1	-1.9
EU15	68.6	71.3	69.6	69.4	2.7	-1.9
EU15 excl. DE	68.8	70.6	68.2	67.4	1.8	-3.2
EU13	62.2	66.6	64.5	64.9	4.4	-1.8
Belgium	65.8	68.0	67.6	67.2	2.2	-0.8
Bulgaria	61.2	70.7	65.4	63.0	9.5	-7.7
Czech Republic	70.1	72.4	70.4	71.5	2.2	-0.9
Denmark	78.1	79.7	75.8	75.4	1.7	-4.3
Germany	67.9	74.0	74.9	76.7	6.0	2.7
Estonia	70.3	77.0	66.7	72.1	6.7	-4.9
Ireland	71.0	72.3	64.6	63.7	1.3	-8.6
Greece	64.4	66.5	64.0	55.3	2.1	-11.2
Spain	65.0	68.3	62.5	59.3	3.3	-9.0
France	69.1	70.4	69.2	69.3	1.2	-1.1
Croatia	59.7	62.9	58.7	55.4	3.2	-7.5
Italy	61.6	63.0	61.1	61.0	1.4	-2.0
Cyprus	75.8	76.5	75.0	70.2	0.8	-6.3
Latvia	69.3	75.8	65.0	68.1	6.5	-7.7
Lithuania	69.2	72.0	64.3	68.5	2.8	-3.5
Luxembourg	67.7	68.8	70.7	71.4	1.1	2.6
Hungary	62.0	61.9	60.4	62.1	-0.1	0.2
Malta	57.2	59.2	60.1	63.1	1.9	4.0
Netherlands	74.9	78.9	76.8	77.2	4.0	-1.7
Austria	69.6	75.1	74.9	75.6	5.5	0.5
Poland	57.0	65.0	64.3	64.7	8.0	-0.3
Portugal	72.7	73.1	70.5	66.5	0.5	-6.7
Romania	64.7	64.4	63.3	63.8	-0.3	-0.6
Slovenia	71.0	73.0	70.3	68.3	2.0	-4.8
Slovakia	63.5	68.8	64.6	65.1	5.3	-3.8
Finland	72.5	75.8	73.0	74.0	3.2	-1.8
Sweden	77.8	80.4	78.1	79.4	2.6	-0.9
UK	74.9	75.2	73.6	74.2	0.4	-1.1

Source: Eurostat, EU Labour Force Survey

After an almost universal increase in employment rates over the growth period 2004-2008, rates have declined in all countries except Germany, Austria, Hungary and Malta over the crisis period. The latest quarterly figures show little sign of recovery up to mid-2013 (indeed rates were marginally lower than a year earlier). In many countries, rates were lower than 8 years earlier, including in the EU15 as a whole excluding Germany. This was particularly the case in the 4 southern EU15 countries, where, Portugal apart, employment rates were well below the EU average before the crisis.

Unemployment rates, 2004-2012 (% labour force, 15-64)

	2004	2008	2010	2012	2004-2008	2008-12
EU28	9.2	7.0	9.6	10.4	-2.2	3.4
EU15	8.2	7.1	9.5	10.6	-1.1	3.5
EU15 excl. DE	7.5	7.0	10.2	12.0	-0.6	5.0
EU13	12.8	6.5	9.9	10.0	-6.2	3.4
Belgium	7.4	7.0	8.3	7.5	-0.4	0.6
Bulgaria	12.0	5.6	10.2	12.3	-6.4	6.7
Czech Republic	8.2	4.4	7.3	7.0	-3.8	2.6
Denmark	5.2	3.4	7.5	7.5	-1.8	4.1
Germany	10.7	7.5	7.1	5.5	-3.2	-2.1
Estonia	10.0	5.5	16.9	10.1	-4.5	4.6
Ireland	4.5	6.0	13.9	14.7	1.5	8.6
Greece	10.2	7.7	12.5	24.2	-2.6	16.6
Spain	11.1	11.3	20.1	25.0	0.3	13.7
France	9.2	7.4	9.3	9.9	-1.8	2.5
Croatia	13.7	8.4	11.8	15.8	-5.3	7.5
Italy	7.9	6.7	8.4	10.7	-1.2	4.0
Cyprus	4.3	3.6	6.3	11.8	-0.7	8.2
Latvia	9.9	7.4	18.7	15.0	-2.5	7.6
Lithuania	11.3	5.8	17.8	13.4	-5.5	7.5
Luxembourg	5.1	5.1	4.4	5.1	-0.1	0.1
Hungary	5.8	7.8	11.2	10.9	2.0	3.1
Malta	7.3	6.0	6.9	6.4	-1.3	0.4
Netherlands	4.6	2.8	4.5	5.3	-1.9	2.5
Austria	5.3	3.8	4.4	4.3	-1.5	0.5
Poland	19.1	7.1	9.6	10.1	-12.0	3.0
Portugal	6.3	7.6	10.8	15.7	1.2	8.1
Romania	7.7	5.8	7.3	7.0	-1.9	1.3
Slovenia	6.0	4.4	7.2	8.8	-1.6	4.5
Slovakia	18.6	9.5	14.4	14.0	-9.1	4.5
Finland	10.4	6.4	8.4	7.7	-4.0	1.3
Sweden	6.7	6.2	8.6	8.0	-0.5	1.7
UK	4.6	5.6	7.8	7.9	1.0	2.2

Source: Eurostat, EU Labour Force Survey

The decline in employment rates has been accompanied by an increase in unemployment. In most countries, the unemployment rates was higher in 2012 than 8 years earlier and in many cases markedly so. This was particularly so in Greece and Spain. As in the case of employment, there is no sign of any general reduction in unemployment during 2013 but instead a continued increase, the average rate in the EU reaching 10.9% in mid-2013 and 11.1% in the EU15.

Youth unemployment rates, 2004-2012 (% labour force, 15-24)

	2004	2008	2010	2012	2004-2008	2008-12
EU28	18.7	15.6	20.9	22.9	-3.1	7.3
EU15	16.0	15.4	20.2	22.2	-0.5	6.8
EU15 excl. DE	16.7	16.8	23.1	26.3	0.1	9.5
EU13	29.2	16.4	24.4	26.1	-12.7	9.7
Belgium	17.5	18.0	22.4	19.7	0.5	1.8
Bulgaria	24.5	12.7	23.2	28.1	-11.7	15.4
Czech Republic	19.8	9.9	18.3	19.5	-10.0	9.6
Denmark	7.8	8.0	14.0	14.1	0.2	6.1
Germany	13.0	10.6	9.9	8.1	-2.4	-2.4
Estonia	23.4	12.0	33.0	20.9	-11.4	8.9
Ireland	8.3	12.7	27.6	30.4	4.4	17.7
Greece	26.5	22.1	32.9	55.3	-4.4	33.2
Spain	22.4	24.6	41.6	53.2	2.2	28.5
France	20.1	18.6	22.8	23.8	-1.5	5.2
Croatia	32.8	21.9	32.6	43.1	-10.8	21.1
Italy	24.6	21.3	27.8	35.3	-3.3	14.0
Cyprus	8.8	9.0	16.6	27.8	0.2	18.8
Latvia	19.3	13.1	34.5	28.5	-6.2	15.4
Lithuania	21.2	13.4	35.7	26.7	-7.8	13.3
Luxembourg	17.0	17.8	14.2	19.0	0.8	1.2
Hungary	14.4	19.9	26.6	28.2	5.5	8.3
Malta	18.3	12.3	13.1	14.2	-6.0	1.9
Netherlands	8.0	5.3	8.7	9.5	-2.7	4.2
Austria	11.0	8.0	8.8	8.7	-3.0	0.7
Poland	40.1	17.3	23.7	26.5	-22.8	9.2
Portugal	14.0	16.5	22.4	37.7	2.5	21.2
Romania	22.3	18.6	22.1	22.7	-3.7	4.1
Slovenia	14.0	10.4	14.6	20.6	-3.6	10.1
Slovakia	32.8	19.0	33.5	34.0	-13.8	15.0
Finland	27.5	16.5	21.4	18.9	-11.1	2.5
Sweden	18.5	20.2	24.8	23.6	1.7	3.4
UK	10.7	15.0	19.6	21.0	4.2	6.0

Source: Eurostat, EU Labour Force Survey

Young people were hit particularly hard by the recession which hit the EU in 2008. The youth unemployment rate increased to around 23% in the EU in 2012 and was at much the same level in mid-2013. The biggest increases were in Greece and Spain, where well over half of young people aged 15-24 in the labour force were unemployed in 2012. By mid-2013, the rate in Greece had risen to 59% and in Spain to 56%. The rate was also around 50% in Croatia and 40% in Cyprus.

Youth unemployed relative to population, 2004-2012 (% population 15-24)

	2004	2008	2010	2012	2004-2008	2008-12
EU28	8.2	6.9	9.0	9.7	-1.3	2.8
EU15	7.5	7.4	9.3	10.1	-0.1	2.7
EU15 excl. DE	7.9	7.9	10.4	11.7	0.1	3.7
EU13	10.1	5.3	7.9	8.3	-4.8	3.0
Belgium	6.0	6.0	7.3	6.2	0.0	0.2
Bulgaria	7.2	3.8	6.7	8.6	-3.4	4.7
Czech Republic	6.9	3.1	5.7	6.1	-3.8	3.0
Denmark	5.2	5.8	9.4	9.1	0.6	3.3
Germany	6.2	5.5	5.1	4.1	-0.7	-1.4
Estonia	8.5	5.0	12.6	8.7	-3.6	3.7
Ireland	4.0	6.7	12.0	12.3	2.6	5.7
Greece	9.9	6.7	10.0	16.1	-3.2	9.5
Spain	10.0	11.7	17.8	20.6	1.7	8.9
France	7.4	7.1	8.9	9.0	-0.2	1.9
Croatia	13.1	7.6	11.2	12.8	-5.5	5.1
Italy	9.0	6.6	7.9	10.1	-2.4	3.5
Cyprus	3.6	3.7	6.7	10.8	0.2	7.1
Latvia	7.1	5.6	13.9	11.5	-1.5	5.8
Lithuania	5.6	4.1	10.1	7.8	-1.4	3.7
Luxembourg	4.8	5.2	3.5	5.1	0.4	-0.1
Hungary	3.9	5.0	6.6	7.3	1.0	2.3
Malta	10.1	6.4	6.7	7.3	-3.7	0.9
Netherlands	5.8	3.9	6.0	6.6	-1.9	2.8
Austria	6.2	4.9	5.2	5.2	-1.3	0.3
Poland	14.1	5.7	8.2	8.9	-8.4	3.2
Portugal	6.0	6.8	8.2	14.3	0.8	7.4
Romania	8.1	5.7	6.9	7.0	-2.4	1.3
Slovenia	5.5	4.5	5.8	7.1	-1.0	2.6
Slovakia	12.8	6.2	10.4	10.4	-6.7	4.2
Finland	16.4	8.8	10.6	9.8	-7.6	1.0
Sweden	9.0	10.7	12.8	12.4	1.7	1.7
UK	6.6	9.2	11.6	12.4	2.6	3.2

Source: Eurostat, EU Labour Force Survey

The youth unemployment rates exaggerate the problem of unemployment among young people because most young people aged 15-24 are not part of the labour force but still in full-time education. Relating the youth unemployed to population in the same age group gives a somewhat more meaningful indication of the scale of the problem. This still shows an increase in the relative number of young people who are unemployed but not so dramatically so as the unemployment rates. The proportion of those aged 15-24who were unemployed in 2012 was still highest in Spain and Greece but it was only around the EU15 average in Italy instead of being well above. These relative figures, however, do not entirely reflect the relative scale of the problem since not all young people not in the labour force – i.e. not employed or unemployed – are in education or training. This is particularly so in Italy, Ireland and Bulgaria. Here as in Greece and Spain, the proportion of young people aged 15-24 that are neither employed nor in education and training (the NEETs) was around 20% in 2012.

Growth in GDP per head at constant prices, 2004-1012 (Annual average % change)

	2004-08	2008-10	2010-12	2004-12
EU28	1.9	-1.7	0.4	0.6
EU15	1.5	-1.6	0.0	0.3
EU15 excl. DE	1.3	-2.1	-0.4	0.0
EU13	5.4	-0.9	2.2	3.0
Belgium	1.4	-1.0	0.0	0.4
Bulgaria	7.2	-2.7	2.8	3.5
Czech Republic	5.1	-1.3	0.4	2.3
Denmark	1.2	-2.6	-0.1	-0.1
Germany	2.3	-0.3	1.9	1.5
Estonia	5.7	-6.5	7.0	2.8
Ireland	1.0	-4.4	0.7	-0.5
Greece	2.3	-4.4	-6.7	-1.7
Spain	1.3	-2.6	-1.0	-0.2
France	1.0	-1.3	0.4	0.3
Croatia	3.9	-4.5	1.2	1.1
Italy	0.2	-2.5	-1.5	-0.9
Cyprus	2.2	-2.8	-3.0	-0.4
Latvia	7.7	-8.2	7.4	3.4
Lithuania	8.4	-5.8	6.8	4.3
Luxembourg	2.3	-3.1	-1.5	0.0
Hungary	2.6	-2.7	0.0	0.6
Malta	2.8	0.4	0.4	1.6
Netherlands	2.6	-1.6	-0.6	0.7
Austria	2.3	-1.3	1.4	1.2
Poland	5.2	2.6	3.1	4.0
Portugal	0.8	-0.7	-2.0	-0.3
Romania	7.1	-4.4	2.4	2.9
Slovenia	4.7	-4.0	-1.0	1.0
Slovakia	7.7	-0.6	2.8	4.3
Finland	2.8	-3.3	0.5	0.7
Sweden	1.9	-0.3	1.2	1.2
UK	1.5	-2.5	-0.2	0.1

Source: Eurostat, EU Labour Force Survey

All EU countries, apart from Malta and Poland, experienced a decline in GDP per head in the two years 2008-2010, which average 1.7% a year (i.e. an overall decline of around 3.5%). There was some recovery over the two years 2010-2012 but not in all countries and in most only modest. In 2013, there was a renewed downturn in many countries and a small reduction in GDP per head overall. In 2012 (and 2013), GDP per head was below the level before the crisis. In the EU13, it was higher on average but lower in 7 of the 13 Member States. In the EU15 excluding Germany, GDP per head in 2012 was no higher than 8 years earlier (and in 2013, slightly lower). In the southern EU countries, including Cyprus, it was lower, especially in Greece, where it was 13% lower.

Change in household income per head, 2004-2012 (Annual average % change)

	2004-08	2008-10	2010-12	2004-12
EU28	0.7	-1.3	--1.9	-0.5
EU15	0.1	-1.1	-1.7	-0.6
EU15 excl. DE	0.1	-1.7	-2.4	-1.0
EU13	7.0	-4.6	-6.4	0.6
Belgium	1.4	-0.6	-0.9	0.3
Bulgaria	6.1	-2.2	4.0	3.4
Czech Republic	2.8	0.6	-2.1	1.0
Denmark	0.5	1.4	-0.2	0.7
Germany	0.1	0.9	0.7	0.5
Estonia	8.1	-4.2	-0.1	2.9
Ireland	2.8	-5.0	-3.4	-0.8
Greece	3.0	-6.5	-9.8	-2.8
Spain	1.7	-2.4	-4.2	-0.8
France	1.2	-0.1	-0.9	0.3
Croatia	na	na	na	na
Italy	-0.2	-2.7	-3.2	-1.6
Cyprus	3.5	-1.1	-6.4	-0.2
Latvia	11.2	-9.4	4.1	3.9
Lithuania	9.8	-4.4	2.3	4.2
Luxembourg	na	0.4	-3.9	na
Hungary	-0.1	-3.3	-0.3	-1.0
Malta	na	na	na	na
Netherlands	0.6	-1.3	-2.3	-0.6
Austria	1.8	-0.3	-0.4	0.7
Poland	3.6	2.0	0.6	2.4
Portugal	1.1	0.9	-4.1	-0.3
Romania	12.1	-6.5	-2.9	4.3
Slovenia	2.9	-1.3	-2.8	0.4
Slovakia	6.1	1.7	-1.6	3.1
Finland	2.3	1.4	-0.1	1.5
Sweden	2.6	0.8	2.7	2.2
UK	0.7	0.7	-1.0	0.3

Note: Figures for DK, LU and RO for 2010-12 relate to 2010-11; figures for DK and RO for 2004-12 relate to 2004-11. Source: Eurostat, EU Labour Force Survey

The change in household income per head, which is a much more relevant indication of the change in living standards, shows a very different pattern than that in GDP per head. While there was a significant fall in real terms in 2008-2010 along with the fall in GDP per head, there was an even bigger decline in the subsequent two years, reflecting the decline in average earnings along with the rise in unemployment which occurred. Average income per head across the EU was, therefore, around 6% less in 2012 than before the crisis began and below the level in 2004. In Greece, income per head was 30% below the level before the onset of the crisis and 20% less than 8 years earlier, while in Italy it was 12% lower.

Proportion of population at risk of poverty, 2003-2011 (% total population)

	2003	2007	2009	2011	2007-11
EU28	:	16.5	16.5	17.0	0.5
EU15	17.0	16.4	16.3	16.8	0.4
EU13	:	17.2	17.0	17.4	0.1
Belgium	14.3	14.7	14.6	14.8	0.1
Bulgaria	15.0	21.4	20.7	21.2	-0.2
Czech Republic		9.0	9.0	9.6	0.6
Denmark	10.9	11.8	13.3	13.1	1.3
Germany		15.2	15.6	16.1	0.9
Estonia	20.2	19.5	15.8	17.5	-2.0
Ireland	20.9	15.5	15.2	15.2	-0.3
Greece	19.9	20.1	20.1	23.1	3.0
Spain	20.1	20.8	21.4	22.2	1.4
France	13.5	12.7	13.3	14.1	1.4
Croatia	18.0	17.3	20.5	20.5	3.2
Italy	19.1	18.7	18.2	19.4	0.7
Cyprus		15.9	15.6	14.7	-1.2
Latvia		25.6	21.3	19.4	-6.2
Lithuania		20.0	20.2	18.6	-1.4
Luxembourg	12.7	13.4	14.5	15.1	1.7
Hungary		12.4	12.3	14.0	1.6
Malta		15.0	15.0	15.0	0.0
Netherlands		10.5	10.3	10.1	-0.4
Austria	12.8	12.4	12.1	12.1	-0.3
Poland		16.9	17.6	17.1	0.2
Portugal	20.4	18.5	17.9	17.9	-0.6
Romania	18.0	23.4	21.1	22.6	-0.8
Slovenia		12.3	12.7	13.5	1.2
Slovakia		10.9	12.0	13.2	2.3
Finland	11.0	13.6	13.1	13.2	-0.4
Sweden	11.3	12.2	12.9	14.2	2.0
UK		18.7	17.1	16.2	-2.5

Note: Figures relate in each case to the income year rather than year of the survey. Figures for 2011 for IE and AT relate to 2010. Source: Eurostat, EU-SILC

While the relative number of people at risk of poverty (those with disposable income below 60% of the median) increased on average in the EU between 2007 and 2011, the increase was relatively small and was by no means general (there were almost as many countries where it fell as where it increased). Although there was an increase in Greece, Spain and Italy where real income fell markedly over this period, the relative number declined in Ireland and Portugal. There was also an increase in Germany, Sweden and Luxembourg where real incomes rose. In short, there is only a relatively limited relationship between changes in income and in the proportion of people at risk of poverty emphasizing the nature of the indicator as a measure of relative rather than absolute poverty.

Proportion of population identified as being materially deprived, 2005-2012 (% total)

	2005	2008	2010	2012	2005-2008	2008-12
EU27	20.0	17.5	17.7	19.6	-2.5	2.1
EU15	12.6	12.8	13.2	15.6	0.2	2.8
EU13	47.5	35.4	34.9	34.9	-12.1	-0.5
Belgium	13.3	11.6	12.3	12.5	-1.7	0.9
Bulgaria	71.4	55.0	59.4	61.6	-16.4	6.6
Czech Republic	22.7	16.2	15.1	16.8	-6.5	0.6
Denmark	7.6	5.4	6.0	7.5	-2.2	2.1
Germany	11.0	13.0	11.1	11.3	2.0	-1.7
Estonia	26.6	12.4	22.3	21.3	-14.2	8.9
Ireland	11.2	13.6	16.1	22.7	2.4	9.1
Greece	26.3	21.8	24.1	33.7	-4.5	11.9
Spain	11.9	10.8	15.1	16.3	-1.1	5.5
France	13.2	13.1	12.6	12.8	-0.1	-0.3
Croatia	na	na	32.5	35.3	na	Na
Italy	14.3	16.1	16.0	25.2	1.8	9.1
Cyprus	31.2	24.9	28.4	31.5	-6.3	6.6
Latvia	56.3	35.2	46.1	44.8	-21.1	9.6
Lithuania	51.7	22.2	36.0	34.4	-29.5	12.2
Luxembourg	3.9	3.5	4.1	4.5	-0.4	1.0
Hungary	39.7	37.1	39.9	44.0	-2.6	6.9
Malta	14.9	13.3	14.7	18.8	-1.6	5.5
Netherlands	7.5	5.2	7.2	6.5	-2.3	1.3
Austria	8.3	13.7	10.7	9.8	5.4	-3.9
Poland	50.8	32.3	28.4	27.8	-18.5	-4.5
Portugal	21.2	23.0	22.5	21.8	1.8	-1.2
Romania	53.3	50.3	49.2	48.0	-3.0	-2.3
Slovenia	14.7	16.9	15.8	16.9	2.2	0.0
Slovakia	42.6	27.8	24.9	22.7	-14.8	-5.1
Finland	10.8	9.1	8.4	8.9	-1.7	-0.2
Sweden	5.7	4.6	3.9	4.5	-1.1	-0.1
UK	12.5	11.3	13.4	16.6	-1.2	5.3

Note: Figure for 2005 for BG relates to 2006 and for RO to 2007. Figure for IE for 2012 relates to 2011. Material deprivation defined in terms of being deprived of 3 of 9 items the non-affordability of which is taken as being indicative of deprivation. Source: Eurostat, EU-SILC.

Material deprivation is a much better indicator of absolute poverty. (Note that material deprivation s measured in terms of being deprived of three items rather than four, which is an indicator of extreme material deprivation which is included as part of the Europe 2020 target.) This varies more in line with changes in average real income levels. It shows a marked increase in the relative number of people materially deprived in Greece, Spain, Italy and Ireland as well as the three Baltic States over the crisis period. On the other hand, it also shows a reduction in Portugal, where real income declined, and an increase in Malta where it rose. The Europe 2020 indicator of poverty and exclusion, which is a less satisfactory indicator of developments because of its combination of different measures relating to different tie-periods, also shows an increase in most Member States over the crisis period, though not in Portugal. It also shows increases in both Luxembourg and Malta

General Government expenditure in real terms, 2004-2012 (Annual average % change)

	2004-2008	2008-2010	2010-2012	2008-2012
EU28	2.4	2.6	-0.7	0.9
EU15	2.2	2.4	-0.7	0.9
EU15 excl. DE	2.7	2.2	-0.4	0.9
EU13	5.8	4.4	-0.8	1.8
Belgium	2.4	2.5	3.2	2.8
Bulgaria	6.3	-3.8	-0.8	-2.3
Czech Republic	4.3	2.0	1.3	1.6
Denmark	0.2	3.6	1.8	2.7
Germany	0.5	3.5	-1.4	1.0
Estonia	9.6	-5.2	5.4	0.0
Ireland	9.9	19.1	-18.4	-1.4
Greece	5.5	-3.2	-4.8	-4.0
Spain	4.6	3.6	0.7	2.2
France	1.6	2.3	1.1	1.7
Croatia	na	na	-2.5	na
Italy	1.5	-0.2	-0.9	-0.5
Cyprus	4.0	4.4	-0.8	1.8
Latvia	9.2	-5.0	-3.6	-4.3
Lithuania	10.0	-1.8	-3.2	-2.5
Luxembourg	1.8	4.1	1.8	2.9
Hungary	2.3	-2.2	-1.3	-1.8
Malta	3.3	-1.3	3.3	1.0
Netherlands	2.9	4.2	-1.1	1.6
Austria	0.6	2.3	0.8	1.6
Poland	5.8	5.3	-0.5	2.4
Portugal	0.8	6.6	-6.2	0.0
Romania	10.7	-2.9	-3.1	-3.0
Slovenia	4.1	2.3	-2.3	0.0
Slovakia	5.8	6.6	-0.4	3.0
Finland	2.7	3.5	1.7	2.6
Sweden	1.3	1.2	1.5	1.4
UK	4.7	1.1	-1.4	-0.2

Note: General government expenditure in current price terms is deflated by the GDP deflator
Source: Eurostat, Government finances and national accounts

General Government expenditure increased significantly relative to GDP over the period of economic downturn. This, however, was a consequence of the fall in GDP rather than of any marked acceleration in the growth rate of government expenditure, which was only slightly higher on average over the two years 2008-2010 than over the preceding 4 years. Indeed in both the EU15 excluding Germany and in the EU13, it was less. Over the two years 2010-2012, expenditure was reduced in most countries, especially in Greece and Ireland, though in the last it reflects the substantial support given to banks in the previous two years. Over the 4 years 2008-2012 therefore, the growth of government expenditure exceeded 2% a year only in 7 Member States and in no country was it more than 3% a year.

General Government gross fixed capital formation, 2004-2012

	Annual average % change			% change
	2004-2008	2008-2010	2010-2012	2008-2012
EU28	4.9	-0.9	-6.7	-14.5
EU15	4.0	-1.6	-6.6	-15.4
EU15 excl. DE	4.1	-2.3	-7.5	-18.3
EU13	12.0	3.7	-7.5	-8.0
Belgium	1.7	2.2	5.6	16.5
Bulgaria	22.6	-11.7	-13.2	-41.2
Czech Republic	7.9	-4.9	-12.7	-31.1
Denmark	2.0	6.6	7.3	30.8
Germany	3.7	2.3	-1.6	1.2
Estonia	15.1	-20.4	26.3	1.0
Ireland	14.8	-22.6	-25.2	-66.5
Greece	4.0	-24.7	-16.3	-60.3
Spain	7.5	-2.3	-35.0	-59.7
France	2.9	-2.7	1.3	-2.8
Croatia	na	na	-11.3	na
Italy	-0.9	-5.2	-6.9	-22.1
Cyprus	-2.8	10.5	-19.7	-21.1
Latvia	19.5	-21.2	12.3	-21.6
Lithuania	16.8	-10.6	-5.9	-29.2
Luxembourg	-1.8	8.8	-2.8	11.9
Hungary	-2.8	4.9	0.6	11.3
Malta	-8.0	-4.5	22.4	36.5
Netherlands	4.6	1.5	-4.4	-5.8
Austria	2.3	-2.7	-3.5	-11.8
Poland	14.1	13.7	-6.8	12.2
Portugal	-5.2	12.4	-35.0	-46.6
Romania	29.3	-10.6	-7.6	-31.8
Slovenia	11.7	-2.9	-15.9	-33.4
Slovakia	2.7	14.6	-12.0	1.7
Finland	0.5	-3.4	2.9	-1.3
Sweden	5.4	3.5	2.3	12.1
UK	8.7	1.5	-4.4	-5.8

Note: General government investment in current price terms deflated by the GDP deflator
Source: Eurostat, Government finances and national accounts.

Public investment has been reduced considerably over the crisis period. Even in the two years 2008-2010 when measures were taken t counter the deflationary effects of the global recession, General Government fixed capital formation declined on average in real terms across the EU as well as in most Member States. It declined by even more over the subsequent two years. As a result, there was an overall reduction of 15% over the 4 years 2008-2012 across the EU and one of 60% or more in Ireland, Greece and Spain.

General Government expenditure on healthcare in real terms, 2004-2011

	Annual average % change			% change
	2004-2008	2008-2010	2010-2011	2008-2011
EU27	3.7	2.3	0.0	4.7
EU15	3.4	2.4	0.0	4.8
EU15 excl. DE	3.7	2.2	-0.4	4.1
EU12	8.5	1.2	0.1	2.5
Belgium	3.2	3.1	4.0	10.6
Bulgaria	3.0	-1.0	0.0	-1.9
Czech Republic	5.2	5.1	1.9	12.5
Denmark	3.6	2.4	0.0	4.9
Germany	2.3	2.9	1.1	7.1
Estonia	12.3	-5.2	3.5	-7.0
Ireland	5.3	-1.5	-5.5	-8.3
Greece	9.8	-4.1	-22.0	-28.2
Spain	5.6	2.5	-2.8	2.1
France	1.5	2.7	2.7	8.3
Croatia	na	na	na	Na
Italy	2.6	0.5	-2.0	-1.0
Cyprus	3.1	5.0	3.4	14.1
Latvia	14.5	-14.2	3.6	-23.7
Lithuania	12.1	-2.9	2.1	-3.7
Luxembourg	1.8	2.2	-1.6	2.9
Hungary	-0.6	-0.3	1.8	1.2
Malta	0.8	1.6	3.1	6.3
Netherlands	9.1	5.8	2.9	15.3
Austria	3.4	1.6	-2.0	1.1
Poland	10.7	2.1	-1.0	3.3
Portugal	-0.2	0.8	0.0	1.5
Romania	12.9	1.8	-4.5	-1.0
Slovenia	4.1	2.2	-0.1	4.2
Slovakia	19.2	-4.5	-4.3	-12.7
Finland	4.7	3.3	2.2	8.9
Sweden	3.0	2.0	3.4	7.5
UK	4.8	2.9	-1.4	4.4

Note: General government expenditure in current price terms deflated by the GDP deflator
Source: Eurostat, Government finances and national accounts

Government expenditure on health increased in real terms in most countries over the two years 2008-2010, though not in the Baltic States, Bulgaria, Ireland, Greece, Slovakia and Hungary (where it had already been reduced in the preceding period, as it had in Portugal). There was a more widespread reduction in 2011, especially in Greece where it was cut back by over 20%., taking the overall reduction over the period 2008-2011 to 28%. There was also a substantial reduction over this period in Latvia, Slovakia, Ireland and Estonia.

General Government expenditure on education in real terms, 2004-2011

	Annual average % change			% change
	2004-2008	2008-2010	2010-2011	2008-2011
EU27	2.2	2.0	-1.1	2.8
EU15	1.9	2.1	-1.3	2.9
EU15 excl. DE	2.1	1.8	-2.0	1.6
EU12	5.2	0.4	1.6	2.3
Belgium	2.7	1.5	3.1	6.2
Bulgaria	6.5	-6.5	-2.7	-14.9
Czech Republic	4.8	2.7	3.6	9.4
Denmark	-0.8	5.5	-2.7	8.4
Germany	1.3	3.2	1.9	8.5
Estonia	7.0	-5.5	2.6	-8.4
Ireland	7.7	-2.3	-4.2	-8.7
Greece	4.3	-5.3	-5.4	-15.2
Spain	4.2	1.4	-2.3	0.4
France	0.7	3.4	0.7	7.7
Croatia	na	na	na	na
Italy	0.0	-1.3	-4.5	-7.0
Cyprus	5.4	4.4	-2.7	6.0
Latvia	9.0	-13.3	-0.8	-25.5
Lithuania	7.2	-4.6	0.9	-8.1
Luxembourg	2.5	5.0	0.9	11.1
Hungary	-0.2	0.6	-5.7	-4.7
Malta	1.7	5.0	1.9	12.3
Netherlands	2.3	2.5	0.1	5.0
Austria	3.4	2.1	0.4	4.7
Poland	5.5	1.9	2.6	6.5
Portugal	-0.8	5.9	-11.5	-0.7
Romania	12.2	-16.9	26.2	-12.8
Slovenia	3.6	0.7	1.2	2.6
Slovakia	4.5	12.9	-6.7	18.9
Finland	1.6	2.6	0.3	5.6
Sweden	1.7	1.0	1.9	4.0
UK	4.0	2.2	-4.7	-0.5

Note: General government expenditure in current price terms deflated by the GDP deflator
Source: Eurostat, Government finances and national accounts

Government expenditure on education, widely considered to be important for future economic growth, has followed a similar pattern to spending on healthcare. Growth was maintained in most countries over the two year 2008-2010 but it came to halt or expenditure was cut back in the following year. Real expenditure, therefore, was lower in 2011 than in 2008 before the crisis in 10 Member States, most especially again in Latvia, Greece, Ireland and Estonia (though not Slovakia) and also in Romania.

General Government expenditure on tertiary education in real terms, 2004-2011

	Annual average % change			% change
	2004-2008	2008-2010	2010-2011	2008-2011
EU27	3.4	3.3	-9.9	-3.9
EU15	2.9	3.9	-11.1	-4.1
EU15 excl. DE	2.9	3.5	-15.9	-9.9
EU12	8.2	-1.5	1.0	-2.0
Belgium	na	na	na	Na
Bulgaria	5.3	-0.3	-0.9	-1.5
Czech Republic	4.1	2.4	-14.7	-10.5
Denmark	-1.5	5.5	3.6	15.4
Germany	2.9	4.9	2.5	12.9
Estonia	11.9	-6.1	8.7	-4.2
Ireland	7.4	-9.6	-2.4	-20.2
Greece	11.4	-7.6	-2.9	-17.2
Spain	2.9	1.9	na	na
France	1.5	16.3	2.6	38.9
Croatia	na	na	na	na
Italy	1.0	-2.3	-6.4	-10.7
Cyprus	9.2	11.4	-21.7	-2.7
Latvia	na	-13.9	11.7	-17.1
Lithuania	8.4	-3.7	-12.9	-19.3
Luxembourg	16.9	19.4	10.8	57.8
Hungary	-0.4	-2.4	12.9	7.6
Malta	-0.6	12.8	13.4	44.3
Netherlands	4.1	1.2	3.2	5.6
Austria	6.0	-2.1	0.4	-3.8
Poland	8.4	-0.7	8.2	6.8
Portugal	-3.9	4.6	-16.7	-8.8
Romania	na	-20.2	-4.4	-39.1
Slovenia	1.2	1.6	4.7	8.0
Slovakia	na	na	na	na
Finland	0.5	4.6	-0.8	8.7
Sweden	-1.4	2.7	4.0	9.7
UK	6.5	1.1	-16.6	-14.7

Note: General government expenditure in current price terms deflated by the GDP deflator
Source: Eurostat, Government finances and national accounts

The relative number of people with tertiary education is commonly regarded as an important indicator of the growth potential of economies. Government expenditure on tertiary education, however, has been cut back during the crisis period in the majority of Member States and in many cases more so than expenditure on education overall. This is especially so in the countries which have been hit hardest by the recession – in Greece, Ireland, Italy, Portugal and the three Baltic States.

Social expenditure on benefits in kind for children and families, 2004-2012

	Annual average % change			% change
	2004-2008	2008-2010	2010-2012	2008-2012
EU27	6.4	5.7	-0.6	10.5
EU15	6.4	5.9	-0.6	10.8
EU15 excl. DE	7.5	5.0	-1.6	6.8
EU12	4.3	-0.2	-1.2	-2.6
Belgium	3.9	5.9	1.2	15.0
Bulgaria	na	46.3	-0.8	110.3
Czech Republic	0.4	-9.6	-0.5	-19.1
Denmark	3.1	2.1	-3.6	-3.2
Germany	3.6	8.2	2.0	21.8
Estonia	14.4	-6.5	-6.2	-23.1
Ireland	8.4	12.9	4.2	38.4
Greece	3.5	1.7	-10.0	-16.2
Spain	5.6	5.3	-1.1	8.4
France	17.3	4.5	1.0	11.3
Croatia	na	Na	na	na
Italy	4.4	2.1	0.0	4.3
Cyprus	15.4	-2.1	-14.2	-29.5
Latvia	5.5	-6.2	-0.2	-12.3
Lithuania	4.2	-1.0	-1.7	-5.3
Luxembourg	10.7	-4.5	-1.7	-11.8
Hungary	0.8	3.4	-0.6	5.5
Malta	10.6	5.5	22.8	67.7
Netherlands	-1.6	3.3	-2.6	1.3
Austria	4.7	15.6	-0.1	33.3
Poland	na	Na	na	na
Portugal	1.4	-6.5	-1.0	-14.3
Romania	4.4	-14.3	-3.6	-31.7
Slovenia	1.3	0.3	0.1	0.8
Slovakia	6.8	-1.4	4.6	6.2
Finland	5.3	3.2	0.9	8.5
Sweden	5.5	2.3	1.7	8.2
UK	9.3	11.5	-8.7	3.5

Note: General government expenditure in current price terms deflated by the GDP deflator
Source: Eurostat, ESSPROS and national account

The provision of childcare by Governments is widely considered to be essential to make it possible for women with young children to pursue a working career and, accordingly, to be an important element in any policy for reducing child poverty as well as to ensure equality of opportunity between men and women. Although there are no EU-wide data on Government expenditure on childcare as such, the ESSPROS data give an indication of spending. These show that in years before the onset of the crisis, there was an expansion of expenditure in real terms in nearly all Member States. There was also a widespread expansion over the two years 2008-2010 when GDP declined virtually throughout the EU. In the subsequent two years, however, expenditure was reduced in real terms in most countries. In 2012, real expenditure was lower than in 2008 before the crisis hit in 10 Member States, including all three Baltic States, Greece, Portugal and Cyprus.

We now turn to the issue of migration.

Proportion of population aged 15-64 born outside the country, 2004-2012 (% residents aged 15-64)

	2004				2008				2012			
	EU15	EU10	EU2	NON EU27	EU15	EU10	EU2	NON EU27	EU15	EU10	EU2	NON EU27
EU15	2.3	0.3	0.4	7.0	2.3	0.7	0.8	8.9	2.4	0.9	1.1	9.8
BE	6.0	0.2	0.1	6.4	5.6	0.5	0.3	7.5	5.3	0.8	0.7	9.9
DK	1.5	0.3	0.0	5.6	2.1	0.5	0.1	7.8	2.4	0.9	0.4	8.2
IE	6.0	2.0	0.3	3.1	7.4	6.2	0.6	5.0	7.5	5.8	0.5	6.1
EL	0.6	0.4	0.5	6.2	0.6	0.5	0.8	7.1	0.5	0.3	0.9	7.6
ES	1.7	0.2	1.0	7.0	2.1	0.2	2.2	12.2	2.4	0.2	2.4	12.0
FR	3.4	0.2	0.1	8.0	3.1	0.2	0.1	8.7	2.8	0.2	0.2	9.6
IT	1.0	0.2	0.6	5.2	1.0	0.3	1.4	6.4	1.0	0.4	2.6	8.5
CY	4.0	0.3	1.2	10.2	5.4	0.7	2.6	12.0	6.1	0.8	6.3	12.9
LU	33.9	0.5	0.2	6.2	34.6	1.3	0.4	5.7	36.9	1.6	0.7	9.0
NL	2.2	0.2	0.1	10.4	2.2	0.3	0.1	10.2	2.0	0.6	0.1	10.1
AT	2.7	1.6	0.8	8.4	2.8	2.3	0.8	11.5	3.3	2.3	1.1	11.4
PT	1.5	0.0	0.1	5.3	1.5	0.0	0.2	6.8	1.8	0.0	0.3	6.8
FI	0.9	0.4	0.0	1.4	1.2	0.3	0.0	2.0	1.2	0.6	0.1	2.7
SE	3.7	0.7	0.2	8.6	3.6	1.0	0.2	10.0	3.3	1.3	0.4	13.2
UK	2.4	0.4	0.0	7.7	2.3	1.7	0.2	9.8	2.5	2.3	0.4	10.7

Note: EU15 excludes Germany for which there are no data. The figures in the EU15 column relate to those born in another EU15 country; those in the EU10 column to those born in one of the countries which entered the EU in 2004; those in the EU2 column to those born in Bulgaria or Romania and those in the non-EU27 column to those born outside the EU. Figures under 2004 relate to 2005 for Ireland and Italy.
Source: Eurostat, EU LFS

Migration within the EU has risen markedly over the past decade, most especially since 2004 when the Central and Eastern European countries entered the EU. The flow of people of working age, particularly young people aged under 35, from these counties to the EU15 has slowed down since the crisis hit but it remains significant into some countries, especially from Romania into Italy and Cyprus. The number of people of working age born in the EU10 and living in the UK, therefore, increased 4-fold in the 4 years 2004-02008 and those living in Ireland rose by three times in the three years 2005-2008. Similarly, those born in Bulgaria and Romania living in Spain more than doubled in the 4 years 2004-2008 as they did in Italy between 2005 and 2008. Over the four years of the crisis 2008-2012, there was some net outward migration of those born in the EU10 from Ireland, but the number living in the UK continued to increase if at a slower rate. There was also a slow-down in net migration of Bulgarian and Romanian in to Spain, but not into Italy or Cyprus, where the number increased substantially over these four years. Inward migration into the EU15 from outside over the period 2004-2012 was equally significant for a number of countries, most especially for Spain (from North Africa) and Sweden. Inward migration into the EU13 countries, apart from Cyprus, remains small.

Romanians and Bulgarians aged 20-34 living in other EU countries as % total in age group, 2012

Total	13.3	Basic schooling	19.4
Men	11.7	Upper secondary	11.7
Women	14.9	Tertiary	10.6

The outflow of Romanians and Bulgarians to other EU countries has been substantial in recent years, especially of women and particularly of those with low education. In 2012, 13% of those aged 20-34 from these two countries lived in another EU country, 15% of women and 19% of those with no education beyond basic schooling.

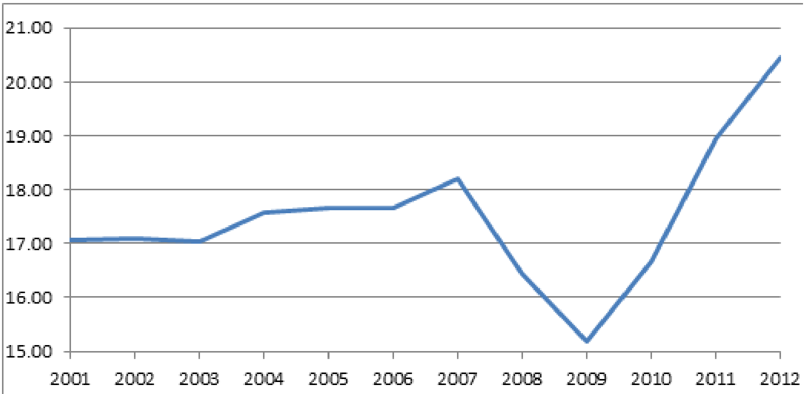
Employment rates (15-64) by country of birth, 2007-2012

		% population 15-64				% - point change			
		2007	2010	2011	2012	2007-10	2010-11	2011-12	2007-12
IE	Same	68.1	59.7	58.8	58.9	-8.3	-0.9	0.0	-9.2
	EU10	86.4	65.3	66.3	66.9	-21.1	1.1	0.5	-19.5
	Non-EU	64.7	53.9	54.3	53.4	-10.8	0.5	-1.0	-11.3
GR	Same	60.9	59.0	55.2	51.4	-1.9	-3.8	-3.8	-9.5
	EU2	73.9	73.1	69.5	60.1	-0.8	-3.6	-9.4	-13.8
	Non-EU	67.5	63.8	57.8	49.0	-3.7	-6.0	-8.8	-18.5
ES	Same	64.4	59.2	58.1	56.2	-5.2	-1.1	-1.9	-8.2
	EU2	75.0	57.6	50.9	50.3	-17.5	-6.7	-0.6	-24.8
	Non-EU	70.4	53.7	55.2	49.9	-16.7	1.6	-5.3	-20.5
IT	Same	58.0	56.3	56.3	56.3	-1.8	0.1	0.0	-1.7
	EU2	72.8	68.2	66.0	65.4	-4.6	-2.2	-0.6	-7.4
	Non-EU	66.2	60.8	60.8	59.2	-5.4	0.0	-1.6	-7.0
CY	Same	70.8	68.0	66.6	63.2	-2.7	-1.4	-3.4	-7.6
	EU2	76.3	79.7	78.4	73.0	3.4	-1.3	-5.4	-3.2
	Non-EU	75.2	70.6	69.7	69.3	-4.5	-0.9	-0.4	-5.9
AT	Same	72.7	72.9	73.3	73.8	0.2	0.4	0.5	1.1
	EU10	67.4	67.8	70.1	71.2	0.4	2.3	1.1	3.8
	Non-EU	63.0	64.0	64.4	63.6	1.0	0.4	-0.8	0.6
SE	Same	76.2	74.4	76.0	76.2	-1.8	1.5	0.2	0.0
	EU10	69.6	68.0	69.5	71.5	-1.6	1.5	2.0	2.0
	Non-EU	58.9	56.7	58.2	58.6	-2.2	1.6	0.4	-0.2
UK	Same	71.9	69.8	69.9	70.7	-2.1	0.1	0.8	-1.2
	EU10	78.9	81.8	81.3	76.4	3.0	-0.5	-5.0	-2.5
	Non-EU	62.7	63.1	62.4	63.1	0.4	-0.7	0.7	0.4

Source: Eurostat, European Labour Force Survey. There are no country of birth data for Germany in this database, and for a number of other countries the data cannot be considered sufficiently robust for the calculations presented in this table.

Before the onset of the recession, men and women living in the EU15 from the EU12 countries which entered the EU in 2004 and 2007 tended to have higher employment rates than those born in the country concerned, the only two exceptions, among the countries under review here, being Austria and Sweden (see note at the table which explains the limited number of countries under review). The same was the case in the southern Member States for those from outside the EU, but not in the other EU15 countries. Over the crisis period, however, there has been some tendency for the employment of those born outside the country to decline by more, or to increase by less, than for those born in the country. This is particularly so in Ireland, where the employment rate of those from the EU10 declined by much more than for those born in Ireland between 2007 and 2012, and in Spain, where the rate of those from Bulgaria and Romania fell by considerably more than that of those born in Spain.

Coefficient of variation of GDP per head, in PPS terms, in EU15 Eurozone countries, 2001-2012



Source: Eurostat, National accounts . LU excluded from EU15

In the years preceding the global recession which hit the EU in 2008, there was a gradual divergence in GDP per head between the EU15 countries which are members of the Eurozone (the 11 Member States which were the initial members at the time of the formation of the single currency area, excluding Luxembourg[70], together with Greece which entered shortly after). While most of the member countries enjoyed reasonable rates of fairly continuous economic growth over the period from the formation of the single currency area up to the onset of recession, this was not the case for Italy, in particular, whose GDP per head in PPS terms declined from 2% above the EU average in 2001 to 7% below in 2007. In 2008 and 2009, as the Eurozone countries went into recession,

[70] Luxembourg is excluded because its GDP per head is considerably higher than that of any other Member State.

the disparities in GDP per head between them narrowed significantly as those countries with the highest levels of GDP per head were affected most. From 2009 to 2012, however, as the countries with the highest levels of GDP per head recovered more quickly and recession continued in those with the lowest levels, disparities between the countries widened again, and more markedly than before the crisis.

While future developments in this respect are uncertain, the tendency towards divergence in GDP per head which was evident before the crisis, instead of the convergence which was hoped for, could turn out to be the norm in an economic area where there is a lack of an adjustment mechanism for correcting imbalances in growth performance.

APPENDIX II: Europe's trade perfomance

By Terry Ward (Applica)

In this appendix we examine first the share of services in total exports in order to demonstrate that unlike in the economy, as regards value-added and employment, there is only a gradual tendency for the share to increase over time and by far the larger part of export earnings continue to come from the export of goods. Secondly, it examines trends in international competiveness as revealed in the share of world trade in goods and services and shows that there is little sign of any significant deterioration in the competitiveness of the EU relative to other developed economies. Thirdly, it shows the continuing competitiveness of Germany in export markets relative to other EU countries, especially relative to the larger EU15 Member States, which underlies the divergence in economic performance which has been evident since the crisis hit.

Services as a share of total exports of goods and services, 2000-2012

	Services as % exports of goods and services				% change	
	2000	2008	2010	2012	2000-12	2008-12
EEU28	22.6	24.8	25.4	24.8	2.3	0.1
EU15	22.5	25.3	26.1	25.6	3.1	0.3
EU15 excl. DE	25.0	29.1	29.9	29.5	4.4	0.3
EU13	23.5	19.9	19.3	18.4	-5.1	-1.4
Belgium	19.6	21.5	24.4	24.1	4.6	2.7
Bulgaria	33.5	26.3	24.8	21.3	-12.2	-5.0
Czech Republic	18.9	14.9	15.7	15.0	-4.0	0.0
Denmark	32.6	39.2	39.8	39.0	6.3	-0.3
Germany	13.5	14.4	15.5	15.1	1.6	0.7
Estonia	31.2	32.6	30.6	27.1	-4.0	-5.4
Ireland	21.9	46.0	47.7	51.4	29.6	5.4
Greece	57.9	55.5	52.8	46.9	-11.0	-8.5
Spain	31.5	33.4	32.6	31.6	0.1	-1.8
France	21.3	21.0	21.4	21.9	0.6	0.9
Croatia	48.9	50.9	48.3	47.4	-1.5	-3.5
Italy	19.6	17.6	18.2	17.6	-1.9	0.0
Cyprus	81.5	84.9	84.4	81.3	-0.2	-3.5
Latvia	36.2	33.8	29.5	26.9	-9.3	-6.9
Lithuania	20.9	16.8	16.6	16.6	-4.2	-0.2
Luxembourg	72.8	78.9	81.1	83.0	10.1	4.1
Hungary	17.9	16.4	18.2	17.6	-0.4	1.2
Malta	30.7	53.9	54.9	53.0	22.2	-0.9
Netherlands	20.7	20.1	21.7	20.3	-0.4	0.3
Austria	27.1	27.5	28.0	28.4	1.2	0.8
Poland	22.6	16.7	16.6	16.6	-6.0	-0.2
Portugal	21.5	26.5	27.1	25.4	3.8	-1.2
Romania	14.9	21.0	15.1	14.6	-0.3	-6.4
Slovenia	17.7	19.8	19.9	19.5	1.8	-0.3
Slovakia	15.9	10.9	8.6	8.5	-7.4	-2.4
Finland	13.7	24.2	27.2	27.0	13.3	2.7
Sweden	22.1	29.1	30.6	31.1	9.0	2.0
UK	30.6	41.5	40.7	39.2	8.6	-2.3
US	28.7	31.2	32.3	31.7	3.0	0.5
Japan	10.8	13.0	12.7	11.8	1.1	-1.1

Source: Eurostat, National accounts

Although the share of services in total exports varies between countries, in most cases, it increased only slightly or fell in the 12 years 2000-2012 and it remains at around 25% for the EU as a whole and just over 30% for the US. The fall is particularly evident in the EU13 countries. While the increase for the US over the period exceeded that for the EU, the difference is small. Over the 4 years of crisis 2008-2012, there was at most a small increase in the share of services and in most countries, the share declined.

Exports as a share of GDP, 2000-2012

	Exports of goods and services as % GDP				%-point change	
	2000	2008	2010	2012	2000-12	2008-12
EU28	35.8	41.2	40.9	44.8	9.0	3.6
EU15	35.3	40.2	39.6	43.3	8.0	3.1
EU15 ex DE	35.9	38.0	37.4	40.9	5.0	2.9
EU13	44.9	52.5	54.9	62.3	17.4	9.9
Germany	33.4	48.1	47.7	51.8	18.4	3.7
France	28.8	27.0	25.6	27.4	-1.4	0.4
UK	27.4	29.4	30.2	31.6	4.2	2.2
Italy	26.7	28.4	26.5	30.2	3.5	1.8
Spain	29.0	26.4	27.3	32.6	3.6	6.2
Netherlands	70.1	76.3	78.6	88.0	17.9	11.7
Sweden	46.5	53.6	49.4	48.5	2.0	-5.1
Poland	27.1	39.9	42.2	46.6	19.5	6.7
Belgium	78.1	84.4	79.8	86.1	8.0	1.7
Austria	46.2	59.2	54.4	57.2	11.0	-2.0
Denmark	46.5	54.8	50.4	54.8	8.3	0.0
Greece	24.9	24.1	22.2	27.0	2.1	2.9
Finland	43.6	46.8	40.4	40.5	-3.1	-6.3
Portugal	28.9	32.4	31.3	38.7	9.8	6.3
Ireland	97.5	83.4	99.9	107.8	10.3	24.4
Czech Republic	60.9	64.4	66.6	78.0	17.1	13.6
Romania	32.9	30.5	35.5	40.0	7.1	9.5
Hungary	74.6	81.7	85.1	94.6	20.0	12.9
Slovakia	70.5	83.5	80.3	96.6	26.1	13.1
Croatia	41.7	42.0	39.7	43.4	1.7	1.4
Luxembourg	150.0	181.7	170.8	177.3	27.3	-4.4
Bulgaria	50.5	58.2	57.4	66.6	16.1	8.4
Slovenia	53.7	67.9	66.8	76.0	22.3	8.1
Lithuania	44.5	59.6	67.7	84.0	39.5	24.4
Latvia	41.9	43.1	53.6	61.6	19.7	18.5
Cyprus	56.1	45.8	41.9	43.1	-13.0	-2.7
Estonia	84.6	71.0	79.3	90.6	6.0	19.6
Malta	88.8	91.9	91.7	102.5	13.7	10.6
United States	10.7	12.6	12.4	13.6	2.9	1.0
Japan	10.9	17.7	15.2	14.7	3.8	-3.0

Note: EU countries ordered by GDP in EUR terms
Source: Eurostat, National accounts

There is a general tendency for exports of goods and services to be larger in relation to GDP, the smaller the country concerned, partly reflecting the greater possibility for large r countries to produce more of what they need. Increasing specialization associated with globalization and the closer integration of economies both tend to increase the share of exports in GDP. Consequently, the share would be expected to increase over time and to be larger in EU Member States than in countries which are not part of an economic union. These expectations are broadly confirmed by the data. There are a number of features of the data, however, which stand out. First, the share of exports in GDP in Germany is much larger than in the other large EU Member States. Secondly, it has increased since 2000 by much more than average. Thirdly, the share of exports in GDP in France has declined over this period, the only EU country apart from Finland in which this is the case. Fourthly, the share of exports in the other large EU15 countries has risen by much less than average.

Shares of world exports goods of major economies, 2000-2011

	% world exports				Percentage point change		
Total	2000	2008	2010	2011	2000-12	2008-11	2000-11
EU27	17.5	16.8	16.1	15.4	-0.7	-1.4	-2.1
US	17.4	11.2	11.4	10.5	-6.2	-0.7	-6.9
Japan	10.7	6.7	6.9	5.8	-4.0	-0.9	-4.9
Canada	6.2	3.9	3.4	3.2	-2.3	-0.7	-3.0
S. Korea	3.8	3.6	4.2	na	-0.2	0.6	0.4
Singapore	3.1	2.9	3.1	2.9	-0.2	0.0	-0.2
China	5.6	12.4	14.1	13.4	6.8	1.0	7.8
Russia	2.3	4.0	3.5	3.7	1.7	-0.3	1.4
Brazil	1.2	1.7	1.8	na	0.5	0.1	0.6
Mexico	3.7	2.5	2.7	2.5	-1.2	0.0	-1.2
India	0.9	1.6	2.0	2.1	0.7	0.5	1.2
Exports of machinery							
EU27	8.1	7.3	6.8	6.4	-0.8	-0.9	-1.7
US	9.2	4.8	4.0	3.5	-4.4	-1.3	-5.7
Japan	7.4	4.2	4.1	3.4	-3.2	-0.8	-4.0
Canada	2.5	1.0	0.9	0.8	-1.5	-0.2	-1.7
S. Korea	2.2	2.0	2.4	na	-0.2	0.4	0.2
Singapore	2.1	1.5	1.6	1.3	-0.6	-0.2	-0.8
China	1.8	5.8	7.0	6.4	4.0	0.6	4.6
Russia	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Brazil	0.3	0.4	0.3	na	0.1	-0.1	0.0
Mexico	2.2	1.3	1.5	1.3	-0.9	0.0	-0.9
India	0.1	0.2	0.3	0.3	0.1	0.1	0.2
Exports of chemicals and pharmaceuticals							
EU27	2.4	2.5	2.8	2.5	0.1	0.0	0.1
US	1.8	1.5	1.7	1.5	-0.3	0.0	-0.3
Japan	0.8	0.6	0.7	0.6	-0.2	0.0	-0.2
Canada	0.3	0.3	0.3	0.3	0.0	0.0	0.0
S. Korea	0.3	0.4	0.4	na	0.1	0.0	0.1
Singapore	0.2	0.3	0.4	0.4	0.1	0.1	0.2
China	0.3	0.7	0.8	0.8	0.4	0.1	0.5
Russia	0.1	0.2	0.1	0.2	0.1	0.0	0.1
Brazil	0.1	0.1	0.1	na	0.0	0.0	0.0
Mexico	0.1	0.1	0.1	0.1	0.0	0.0	0.0
India	0.1	0.2	0.2	0.2	0.1	0.0	0.1

Note: EU countries ordered by GDP in EUR terms
Source: Eurostat, National accounts

Shares of world exports of goods of major economies, 2000-2011 (Cont.)

	% world exports				Percentage point change		
	2000	2008	2010	2011	2000-08	2008-12	2000-12
Exports f basic manufacturers							
EU27	4.6	4.0	3.7	3.5	-0.6	-0.5	-1.1
US	3.7	2.2	2.3	2.0	-1.5	-0.2	-1.7
Japan	2.0	1.3	1.4	1.2	-0.7	-0.1	-0.8
Canada	1.3	0.7	0.6	0.5	-0.6	-0.2	-0.8
S. Korea	1.0	0.8	1.0	na	-0.2	0.2	0.0
Singapore	0.4	0.3	0.3	0.3	-0.1	0.0	-0.1
China	2.9	5.2	5.6	5.5	2.3	0.3	2.6
Russia	0.5	0.5	0.4	0.4	0.0	-0.1	-0.1
Brazil	0.3	0.3	0.3	na	0.0	0.0	0.0
Mexico	0.8	0.4	0.4	0.4	-0.4	0.0	-0.4
India	0.6	0.6	0.8	0.8	0.0	0.2	0.2

Source: International trade statistics Note: The changes for S. Korea and Brazil in the last two columns are for 2008-2011 and 2000-2011, respectively

While there are a number of potential measures of competitiveness, what matters ultimately is whether the share of world markets is being maintained sufficiently to pay for imports. Although the EU has lost some of its share of world exports of goods, overall it still has the largest share of all economies. Moreover, the reduction experienced since 2000 has been much less than that of the US or Japan, the former of which had much the same share in 2000.

The EU share of world exports of machinery and equipment, i.e. of medium-to-high-tech manufactures which tends to be the most dynamic, has also declined over this 12-year period but is still the same as that of China and again the decline has been less than that of the US or Japan.

The EU share of world exports of chemicals and pharmaceuticals, on the other hand, has remained unchanged over the period, unlike those of the US and Japan which have fallen. The share, therefore, remains relatively large, much larger than that of other major economies. This is not the case for the EU share of exports basic manufactures which has fallen to below that of China. Nevertheless, it has again fallen by less than the US share.

EU Member State shares of EU exports of goods to rest of world

Germany dominates EU exports of goods to the rest of the world, accounting for over 2.5 times more than that of any other country. Moreover, its share has increased over the past decade or more, whereas that of other large Member States has fallen as the share of EU12 countries has risen. The German share is particularly large as regards exports of machinery and equipment which is both the most dynamic manufacturing export sector and the one which tends to have the highest unit values. The share has risen significantly since 2000, while the shares of both France and the UK especially have fallen greatly. Even in the case of basic manufactures, the German share of extra-EU exports is both substantially larger than that of other large countries and has risen over this period. The only sector of manufactured exports in which the German share of extra-EU exports has fallen since 2000 is chemicals and pharmaceuticals, where the decline has been small (much smaller than that of other large Member States) and the share remains much larger than that of other countries.

Shares of EU countries in extra-EU exports of goods, 2000-2012

	%% EU exports to rest of world				Percentage point change		
Total	2000	2008	2010	2011	2000-08	2008-12	2000-12
Germany	24.8	27.3	27.8	27.8	2.5	0.5	3.0
France	14.7	11.5	11.4	10.8	-3.2	-0.7	-3.9
Italy	11.8	11.5	10.6	10.7	-0.3	-0.8	-1.1
UK	14.8	10.8	10.9	10.9	-4.0	0.1	-3.9
Spain	4.0	4.4	4.4	4.9	0.4	0.5	0.9
Netherlands	5.6	6.9	7.3	7.3	1.3	0.4	1.7
Belgium	5.6	5.6	6.1	6.2	0.0	0.6	0.6
Other EU15	15.5	14.4	14.1	13.3	-1.1	-1.1	-2.2
EU12	3.4	7.6	7.5	8.2	4.2	0.6	4.8
Exports of machinery							
Germany	30.8	35.0	37.3	37.9	4.2	2.9	7.1
France	16.6	11.4	11.5	10.9	-5.2	-0.5	-5.7
Italy	9.7	10.6	9.8	9.4	0.9	-1.2	-0.3
UK	14.6	9.6	10.0	10.7	-5.0	1.1	-3.9
Spain	2.9	3.2	3.1	3.4	0.3	0.2	0.5
Netherlands	4.7	5.8	6.1	5.7	1.1	-0.1	1.0
Belgium	3.0	2.8	2.7	3.1	-0.2	0.3	0.1
Other EU15	15.0	13.6	11.5	10.4	-1.4	-3.2	-4.6
EU12	2.7	7.6	7.9	8.7	4.9	1.1	6.0
Exports of chemicals and pharmaceuticals							
Germany	25.2	24.7	24.0	24.8	-0.5	0.1	-0.4
France	14.0	13.3	11.9	11.8	-0.7	-1.5	-2.2
Italy	7.8	6.7	6.4	6.3	-1.1	-0.4	-1.5
UK	13.9	10.9	11.5	10.3	-3.0	-0.6	-3.6
Spain	3.2	4.3	4.3	4.4	1.1	0.1	1.2
Netherlands	6.0	6.2	6.2	7.4	0.2	1.2	1.4
Belgium	8.6	11.7	12.5	12.4	3.1	0.7	3.8
Other EU15	18.6	16.9	18.1	17.3	-1.7	0.4	-1.3
EU12	2.6	5.4	4.8	5.2	2.8	-0.2	2.6
Exports of basicmanufactures							
Germany	20.3	24.2	25.0	24.4	3.9	0.2	4.1
France	11.3	9.9	9.9	9.7	-1.4	-0.2	-1.6
Italy	18.9	17.3	15.7	15.7	-1.6	-1.6	-3.2
UK	14.0	10.6	10.1	10.5	-3.4	-0.1	-3.5
Spain	4.8	4.6	4.8	5.4	-0.2	0.8	0.6
Netherlands	4.3	4.1	4.2	4.4	-0.2	0.3	0.1
Belgium	8.6	6.6	7.6	7.3	-2.0	0.7	-1.3
Other EU15	13.8	14.6	14.9	14.0	0.8	-0.6	0.2
EU12	4.1	7.8	7.9	8.4	3.7	0.	4.3

Source: Eurostat, Balance of payments statistics

EU share of international exports of services

It is more difficult to compile data on exports of services than of goods. Eurostat reports data on exports of services for EU Member States, other countries which are members of EFTA, the US and Japan, which in practice together account for a major part of total global trade in services. These show, first, that the EU share is around three times larger than the US share; secondly, that the share of both was much the same in 2011 than 7 years earlier in 2004; thirdly, that unlike in the case of goods, the German share of exports is not the largest of all Member States, but only the second largest behind the UK; fourthly, however, that as in the case of goods, the German share has increased since 2004, while the share of the UK (and that of the Italy and Spain) has fallen; fifthly, that the share of France in exports of services has risen instead of falling as for goods; and sixthly, as in the case of goods, the share of Japan in exports of services has fallen over recent years.

Shares of exports of services, 2004-2011

Total	% total exports of services of countries listed				%Percentage point change		
	2004	2008	2010	2011	2004-08	2008-11	2004_11
EU27	67.3	68.2	66.6	67.4	0.9	-0.8	0.1
Germany	9.0	9.7	9.7	9.6	0.6	0.0	0.6
France	7.1	6.2	7.7	8.3	-0.8	2.0	1.2
Italy	5.2	4.4	3.8	3.8	-0.8	-0.6	-1.4
UK	12.1	10.8	10.5	10.4	-1.4	-0.4	-1.7
Spain	5.3	5.4	4.9	5.0	0.1	-0.4	-0.3
Netherlands	5.2	4.8	4.6	4.9	-0.5	0.1	-0.4
Belgium	3.2	3.5	3.6	3.4	0.2	0.0	0.2
Ireland	3.2	3.8	3.9	4.0	0.5	0.2	0.7
Sweden	2.4	2.6	2.4	2.5	0.2	-0.1	0.1
Luxembourg	2.1	2.6	2.5	2.5	0.5	-0.1	0.4
Austria	2.3	2.4	2.1	2.1	0.1	-0.3	-0.2
Denmark	2.2	2.7	2.4	2.3	0.5	-0.4	0.1
Greece	2.0	1.9	1.5	1.4	-0.2	-0.5	-0.6
Portugal	0.9	1.0	0.9	0.9	0.1	-0.1	0.0
Finland	0.9	1.2	1.1	1.0	0.3	-0.2	0.1
Poland	0.8	1.3	1.3	1.3	0.5	0.0	0.5
Hungary	0.7	0.8	0.8	0.8	0.1	0.0	0.1
Czech Rep.	0.6	0.8	0.8	0.8	0.2	0.0	0.2
Cyprus	0.4	0.4	0.3	0.3	0.0	-0.1	-0.1
Bulgaria	0.2	0.3	0.3	0.3	0.0	0.0	0.0
Estonia	0.2	0.2	0.2	0.2	0.0	0.0	0.0
Lithuania	0.2	0.2	0.2	0.2	0.0	0.0	0.0
Romania	0.2	0.5	0.3	0.4	0.3	-0.1	0.1
Slovenia	0.2	0.3	0.2	0.2	0.1	0.0	0.0
Slovakia	0.2	0.3	0.2	0.2	0.1	-0.1	0.0
Latvia	0.1	0.2	0.1	0.2	0.1	0.0	0.0
Malta	0.1	0.2	0.2	0.2	0.1	0.0	0.1
US	21.0	20.2	21.7	21.3	-0.8	1.1	0.3
Japan	6.0	5.6	5.5	5.1	-0.4	-0.5	-0.9
Switzerland	2.6	2.9	3.3	3.3	0.3	0.4	0.8
Other Europe	5.7	6.0	6.2	6.2	0.4	0.2	0.5

Source: Eurostat, Balance of payments statistics

List of Abbreviations

AGS	Annual Growth Survey
BEPG	Broad Economic Policy Guidelines
CSF	Common strategic framework
CSR	Corporate Social Responsibility
CJEU	Court of Justice of the European Union
DG	Directorate General
EAPN	European Anti-Poverty Network
EC	European Community
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council
EDP	Excessive Deficit Procedure
EEC	European Economic Community
EES	European Employment Strategy
EESC	European Economic and Social Committee
EMCO	EU Employment Committee
EMU	European Monetary Union
EPAP	European platform against poverty
EPM	Employment Performance Monitor (EPM)
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European Structural and Investment Funds
ESSPROS	European System of Social Protection Statistics
ESU	European Social Union
ETUC	European Trade Union Confederation
EU	European Union
GDP	Gross Domestic Product
ILO	International Labour Organisation
IMF	International Monetary Fund
MIP	Macroeconomic Imbalance Procedure

MMF	Multiannual Financial Framework
NEET	Not (engaged) in Education, Employment or Training
NGO	Non-governmental organization
NRP	National Reform Programme
NSR	National Strategic Report
OECD	Organisation for Economic Co-operation and Development
OMC	Open Method of Coordination
PISA	Programme for International Student Assessment
QMV	Qualified Majority Voting
RQMV	Reverse Qualified Majority Voting
SGP	Stability and Growth Pact
SILC	Statistics on Income and Living Conditions
SIP	Social Investment Package
SPC	Social Protection Committee
SPPM	Social Protection Performance Monitor
SPSI	Social Protection and Social Inclusion
TFEU	Treaty on the Functioning of the European Union
UK	United Kingdom

Friends of Europe – Les Amis de l'Europe
4, Rue de la Science, B-1000 Brussels, Belgium
Tel.: +32 (0) 2 893 9823 – Fax: +32 (0) 2 893 9829
Email: info@friendsofeurope.org
Website: www.friendsofeurope.org