From the Gothenburg Social Summit to a European Social Union

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On 17 November, the European Parliament, Council and Commission proclaimed a European Pillar of Social Rights in Gothenburg. The launch of the Pillar signals a cautious but steady paradigm shift, away from austerity, at least at the level of the Commission. But will it lead to tangible results?

In essence, this paradigm shift is a fresh attempt to answer the challenges created by monetary integration. The upshot of the new thinking is that monetary unification imposes a degree of convergence in key features of the Member States’ social and employment policies. Admittedly, the idea that there is a social policy corollary to monetary unification is not new. Already in the 1990s, reform in labour markets was justified by the advent of the monetary union; the emphasis was put on supply-side flexibility. In the immediate aftermath of the financial crisis, the drive for convergence in labour market policies gained new momentum in the EU’s discourse, under the heading of ‘structural reform’; one element of this was the call on Member States to decentralize their systems of collective bargaining, which can be seen as yet another instance of the need for flexibility. Now, the new paradigm adds ‘stability’ as a desideratum to ‘flexibility’: stability both in terms of the avoidance of large economic shocks, and of a stable development of the wage share in national income. This is an important step forwards, at least intellectually.

The basic insight, the one that has gained prominence in the Commission’s thinking, is that nearly all existing monetary unions are true ‘insurance unions’. They not only centralize risk management with regard to banks, they also centralize unemployment insurance. EMU is the one exception, but it is gradually developing policies driven by the need for mutual insurance, notably in its progress towards a Banking Union. Next to Banking Union, the Commission argues that EMU also needs fiscal stabilisers; to achieve this, one of the options would be the re-insurance of national unemployment benefit schemes at the Eurozone level. The reference to unemployment insurance is not happenstance. Monetary unions either opt for a downright centralisation of unemployment insurance (like in Canada or in Germany), or they demand some convergence in the organisation of unemployment insurance and provide a degree of reinsurance and centralisation when the need is really high (like in the US, which combines centralisation and decentralisation in unemployment insurance).

The concern with the Eurozone’s stability entails a cluster of policy principles to sustain an effective stabilisation capacity in each Member State: sufficiently generous unemployment benefits, notably in the short-term; sufficient coverage rates of unemployment benefit schemes; no labour market segmentation that leaves part of the labour force poorly insured against unemployment; no proliferation of employment relations that are not integrated into systems of social insurance; effective activation of unemployed individuals. This cluster of principles features prominently in the European Pillar of Social Rights. They become a fortiori imperative, as quid pro quo, if the Eurozone were equipped with reinsurance of national unemployment insurance systems; but even without that perspective, such ‘stability-related’ principles should figure on the Eurozone’s agenda. Well-functioning national insurance systems create an ‘externality’: a country that properly insures itself also helps its neighbours.
Eurozone members also need institutions that can deliver on wage coordination: totally
decentralised and uncoordinated bargaining systems are an institutional liability rather than an
asset. The stability of the wage share in national income can become a matter of common concern.
This insight is also re-emerging. The one-sided insistence on decentralization of collective bargaining
that dominated the European policy discourse for a number of years is abandoned.

In short, the new thinking implies that a well-functioning EMU needs a consensus on labour market
institutions that support both flexibility and stability, and that not all types of flexibility are
beneficial. Flexibility was associated with ‘enabling’ policies: equipping people with adequate skills
would empower them and thus recreate individual security. To achieve stability, one needs
collective action: collective bargaining, but also the organisation of collective insurance devices.
Stability requires instruments that typically protect vulnerable individuals: unemployment insurance
stabilises the economy, because it protects the purchasing power of the unemployed. Enabling and
protective policies can be mutually reinforcing, in creating resilient social systems. This is not only
relevant for Eurozone welfare states, but for the whole EU.

The communication on the Pillar is ambitious: it is said to be about “delivering new and more
effective rights for citizens”, and Commission President Jean-Claude Juncker called for agreement on
the Pillar “to avoid social fragmentation and social dumping”. So conceived, the year 2017 may
indeed be a turning point. However, important questions are pending, both at the ideational level
and with regard to delivery.

Although the Commission’s work may be interpreted as signaling a new paradigm, the public debate
remains handicapped by the absence of clear analytical thinking about the nature of a European
Social Union, i.e. a European Union that is not itself a welfare state, but supports and facilitates the
development of flourishing national welfare states. We need clarity about the role of the EU and the
role of Member States. At the very moment that the Pillar is accepted, EU governments and social
actors entertain contradictory discourses about what the exact role of the EU is in this endeavor.
Some say that ‘monitoring of results’ is sufficient to implement the Pillar; others call for a conversion
of the whole Pillar into binding EU legislation. Some emphasize that implementing the Pillar is the
Member States’ responsibility; others underscore the need for tangible European support. This
confusion is worrying.

The proclamation of the Pillar creates a huge political risk: although it is not formally about
justiciable ‘rights’, the language of the Pillar speaks to individual citizens. If the EU does not deliver
on the promise enshrined in the Pillar, the initiative will backfire and create frustration. Hence, it is
important that Commission, Council and Parliament develop a credible roadmap to deliver. Delivery
presupposes that different instruments are combined to implement the Pillar’s principles: both
binding EU legislation for some aspects of the Pillar, policy coordination and benchmarking for other
aspects, and EU funding. The principles should play a tangible role in the European Semester and
fiscal and macro-economic surveillance. A credible roadmap also requires the selection of priorities:
a shortlist of priority actions that is fully implemented is much better than a long wish-list that is only
implemented half-heartedly.

The author and a range of colleagues explore the concept in a new book, *A European Social Union
after the Crisis*, Cambridge University Press.