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Social Europe as a Field of Conflict

Four Challenges and Opportunities to Shape the European Social Model

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- The demand for a social dimension of the European Union is currently experiencing a renaissance, well beyond the circle of its usual advocates. The economic and social policy depredations of austerity have provoked a backlash.

- Four areas of conflict can be identified with regard to social Europe: claims of national sovereignty against European policy approaches; an approach to integration based on market creation against one based on market shaping; a supply-side against a demand-side economic policy; and an unjust against a just distribution of wealth and poverty.

- The crisis of the euro zone makes it clear how inseparable economic, employment and social policies are. Austerity policy is currently foundering and, in response, there are calls from all sides for a social Europe: this must be exploited politically.

- One by-product of the restructuring of welfare states throughout Europe is that it forms the basis for a common social policy framework. The crisis shows the need to temper economic and social imbalances via a demand-side economic policy in order to prevent the EU from being rent asunder. Furthermore, the current debate on the unequal distribution of income and wealth will compel a political response.

Content

1. The Phrase on Everyone's Lips: »Social Europe«

As youth unemployment in Greece and Spain relentlessly approached 60 per cent in 2013 even such hardened crisis managers as German Chancellor Angela Merkel felt compelled to warn of the emergence of a lost generation (see sueddeutsche.de 2013). After years of prioritising the reinforcement of economic instruments to meet European budgetary targets the debate on social Europe has lately enjoyed something of a renaissance. This is no mere bolt from the blue and its protagonists come from well beyond the usual circle of advocates among the enthusiasts for Europe in academia, the trade unions and left-wing parties.

Austerity policy has triggered a backlash. Cutbacks, new budgetary control measures and interventions in the policies of euro member states have yielded limited economic benefits, while interrupting economic cycles and exacerbating the debt burden. Indeed, in the areas of employment and social security they have given rise to upheavals that are so far-reaching and extensive that the social question has re-emerged on the European policy agenda. The high youth unemployment is only one outcome manifest at the tip of an iceberg made up of a large number of misguided EU social policy goals and intentions (Leschke/Theodoropoulou/Watt 2014), stagnating income inequality (Dauderstädt/Keltek 2014) and rising socioeconomic divergence (Dauderstädt 2014). Critical voices pointed early on to the dangers of a one-sided crisis management confined to budgetary policy and warned of irreparable harm to the European Social Model (see Busch et al. 2012). Now the Italian presidency of the European Council is warning of the collapse of social cohesion if a new balance is not reached between financial policy goals, on one hand, and growth and social policy goals, on the other (Italian Presidency 2014). And the new president of the European Commission, Jean-Claude Juncker, has given assurances in his policy guidelines that he will »never lose sight of the social dimension of Europe« and pay heed to »social fairness« in the implementation of structural reforms – to this end he has proposed the introduction of social impact assessment (Juncker 2014: 8).

In response to the new interest in a social Europe we shall, first, identify the key areas of conflict in which policies and measures for a market- and competition-driven Europe and realising a European social dimension confront one another. These areas of conflict are: (i) the principal venue of policy-making; (ii) the form of integration; (iii) the orientation of economic policy; and (iv) the underlying model of society. In a concluding section we shall discuss for each of these areas of conflict the conditions and opportunities for change on the road to a European Social Model.

2. The Four Areas of Conflict of Social Europe

2.1 The Fundamental Conflict: National Sovereignty versus European Policy-making

The European Union as it is today was not designed on a drawing board; it is not a federal state with a uniform structure; and the various features of its economic and welfare architecture differ substantially from one member state to another. Industrialisation and the struggle for social rights by the workers' movement and Christian social traditions represent a common historical inheritance for Europeans, but, despite a set of shared values and organisational principles that, especially from the standpoint of other continents, are specifically European, the individual states of the EU are characterised by a very mixed political inheritance. States capable of intervening and redistributing to regulate the free market and guarantee social security and services of general interest can be found throughout the continent, but the relationship between state and market varies considerably.

The worlds of welfare capitalism that have emerged in this way do not pay the same attention to the social protection of the individual. For example, there are different rules on how dependent one is, in the event of life's contingencies, such as unemployment, illness or old age, on one's market value and market utility, or on how strongly a social security system helps to be independent from the market. The differences in status determined by market conditions are levelled to a considerable extent by financial redistribution under the social democratic welfare state (such as Sweden), while in the conservative welfare state (such as Germany) status differences are maintained by means of the close binding of decent social protection to employment. In the liberal welfare state (such as the United Kingdom) the market is the principal venue of social security, on the basis of which people largely have to fend for themselves, while in the rudimentary welfare state (such as Greece) the family is the principal locus of solidarity. In the rich countries' club the western EU member states spend around 25 to 32 per cent of GDP on social services and benefits, while many central and eastern European states spend only between 15 and 20 per cent.

It is clear that such national characteristics of welfare state organisations and their institutionalisation, which often commenced as early as the end of the nineteenth century, are seen as constitutive elements of the relevant societies and as a public good that should be defended. This complicates efforts to shape elements of a common European social dimension. Indeed, due to the far-reaching economic integration of EU member states by the single market and monetary union countries' willingness to give up national sovereignty in the areas of social, employment and tax policy has diminished to the same degree that budgetary and macroeconomic rights of surveillance and intervention have increased in relation to economic and monetary union.

Insisting on sovereignty in key areas of national policy-making, extended welfare states and seemingly incompatible approaches to capitalism as organising principle for the economy have led to a rethink in the EU since the mid-1990s. While Jacques Delors when president of the European Commission combined a regulatory framework for market integration with the European Social Model subsequent developments have been cognitive rather than statutory. Learning from one another, exchanging reform experiences and openly – that is, voluntarily – coordinating policies: these form the basis of the European Employment Strategy, the Lisbon agenda and today Europe 2020 and the European Semester. The idea is tempting when it comes to coping with the problems described above: it's just that the results of the various coordination strategies, instruments and targets remain modest with regard to the attempt at joint social policy-making (see Hacker 2010).

2.2 The Permanent Conflict: Negative Integration versus Positive Integration

The task facing the six founding states of the European Coal and Steel Community (ECSC) was to establish a European peace order by communitising industries crucial to any war-effort and to utilise the economic benefits of the larger market that would emerge from this. Since then the continent's economic integration has proceeded through the Customs Union in 1968, the Common Market in 1993 and the Monetary Union in 1999. Although this process is supposed to increase prosperity – and economic convergence and social cohesion are described as objectives in key treaties – one looks in vain for a large-scale project to create a social Europe. It has always been easier for member-state governments, not to mention easier to sell in the domestic political arena, to dismantle so-called barriers to trade, such as borders, customs duties, subsidies and price differences, for the purpose of market creation. By contrast, the construction of new common policies and structures by means of institutions, statutory frameworks and processes aimed at correcting market failures and market governance was costlier and more controversial among the partners.

Despite the dominance of negative market-creating integration a process did get under way in the area of positive market-coordinating integration. In the EU's social policy *acquis,* however, initially the economic argument that distortions of competition should be avoided led to the conclusion of transnational regulations. To date, the biggest social policy push occurred after the introduction of the single market: with the Maastricht Treaty the unanimity principle was relinquished in Council decision-making in some areas of social policy, the social partners received a power boost and were empowered with preparing their own directives. This was followed by the establishment of European works councils and the introduction of directives on working time and posting of workers, and later on by the establishment of equality and anti-discrimination policy as European policy areas in their own right. In the Amsterdam Treaty further development of social Europe was only gradual, however, and at first shaped voluntarily by the European Employment Strategy; in Nice and Lisbon progress with labour and social policy was characterised by »constitutional minimalism« (cf. Platzer 2009).

Table 1: Development of selected aims of the Europe 2020 Strategy for EU28

	2009	**2010**	**2011**	**2012**	**Target 2020**	**Development 2009–2012**	**Deviation from target 2012–2020**
Raise employment rate of 20–64 year-olds	69.0%	68.5%	68.5%	68.4%	Raise to at least 75%	–0.6%	+6.6%
Increase public and private investment in research and development as a proportion of GDP	2.01%	2.0%	2.04%	2.07%	Raise to 3%	+0.06%	+0.93%
Reduce school dropout rates	14.2%	13.9%	13.4%	12.7%	Reduce to below 10%	–1.5%	–2.7%
Increase the proportion of university graduates between 30 and 34 years of age	32.3%	33.6%	34.6%	35.8%	Increase to at least 40%	+3.5%	+4.2%
Reduce the number of people at risk of poverty and social exclusion	114 million*	118 million	122 million	124 million	Reduce by at least 20 million	+10 million	–30 million

* Data for EU27.

Source: Eurostat, author's calculations.

The bulk of social-policy regulations can be considered to be implicit consequences of the single market: the desire that people, goods, capital and services should be able to move freely across internal borders required – partly unintended by the member states – coordination with regard to safeguards and areas of labour relations hitherto regulated solely at national level. Nevertheless, the dominance of market creation continues. It was even reinforced by monetary union because it has considerably narrowed the member states' policy-making leeway in terms of the abolition of national monetary policy, the guidelines of the stability pact and a new approach to competitiveness based on low wages, taxes and social spending. The voluntary nature of economic, employment and social policy arrangements in the Macroeconomic Dialogue since 1999 and numerous other coordination strategies up to the Euro-Plus Pact of 2011 has to date not been able to build the bridge hoped for by some actors between the extremely well developed negative integration and, lagging behind, positive integration.

On the contrary, the gulf between market freedoms and regulation in the EU becomes ever deeper the more ground is gained by the major projects of the single market and economic and monetary union (EMU). The judgments of the European Court of Justice in the cases *Viking, Laval, Rüffert* and *Luxembourg,* which concerned the rights enjoyed – or not – by trade unions and employees in a free single market, made clear the subordination of national labour and social policies to the four market freedoms and underlined the lack of EU-wide social minimum standards, which cannot be made good even by the Charter of Fundamental Rights in force since the Lisbon Treaty. In the crisis of the monetary union since 2010 it has become clear that the EU's social policy goals are so weak that they can be »cannibalised« without further ado by the budget and competition demands of austerity policy (Armstrong 2012). The wretched mid-term achievements of the Europe 2020 Strategy are testament to this (see Table 1).

2.3 The Ideological Conflict: Supply-side versus Demand-side Policy

The end of the Bretton Woods system, the oil and global economic crisis and the stagflation of the 1970s took a heavy toll on Keynesianism's claim to be the leading economic theory. The criticisms of the alleged self-regulation of the market accepted by Western economic policy in recognition of the devastation of the Great Depression and its political consequences and the definition of the state as stabiliser of overall economic development progressively declined in favour of neoclassical theory. Whereas previously the centre was held by demand for products and services and thus also the development of wages and investment, including fiscal multiplier effects in cyclical terms, the faith in market equilibria, and efficient allocation by rationally acting economic subjects who should not be hindered by state intervention in their efforts to maximise utility came to the fore.

After the policies introduced by Ronald Reagan and Margaret Thatcher in the 1980s and the bundle of measures known as the Washington Consensus in the early 1990s had paved the way for supply-side economic reforms, low inflation, privatisation and cuts in social services, globalisation, completion of the single market and monetary union ushered in the heyday of neoliberalism. Even though different welfare systems were affected in various ways by these challenges and reacted with different strategies the rolling back of the achievements of the welfare state is discernible throughout Europe. In order to fully realise the growth effects hoped for from the single market programme alleged market »rigidities« had to be removed. To the extent that free movement of goods and capital was what mattered most, social considerations were of only secondary importance and the social chapter of the Maastricht Treaty opened up new Community safeguards with regard to free movement of persons and services.

However, with the establishment of the monetary union the new ideological orientation became manifest across the board. It was evident, for example, in the allocation of competences to the politically entirely independent European Central Bank, in the tradition of the Bundesbank, and in the Maastricht Criteria on accession to the euro zone: price stability and balanced budgets proceeded to become the highest aims of the integration process. Furthermore, the competition between exchange rates curbed by the introduction of the euro now shifted to the areas of wages, corporate taxation and social spending. The price to be paid for this was extensive restructuring and austerity programmes in social policy and an increasing aversion to state investment and industrial policy, as well as a decoupling of real wages from the development of productivity. Unemployment was no longer considered to be a macroeconomic problem, resulting from falling demand, but rather a microeconomic phenomenon, allegedly caused by »inflexible« labour markets. In pursuit of this belief labour law came under assault in the 1990s and 2000s, for example, employment protection, minimum wages, collective bargaining systems and employees' codetermination.

In contrast to the United Kingdom under Margaret Thatcher neoliberal principles did not entice the governments of other European states into permanent open war with the trade unions. Instead, it became fashionable in the late 1990s/early 2000s to conclude employment and social pacts with the social partners. Here, too, a supply-side approach was dominant, although, under the heading of »flexicurity«, besides rolling back employee protection overall, new elements of more targeted protection were introduced, for example, to increase female employment, reconcile work and family life and do more for the low qualified, young people, the long-term unemployed and older workers (Hemerijck 2013: 118ff). This concept, which has been successful in Denmark and the Netherlands, was also reflected in the European Employment Strategy.

With the Lisbon Strategy and its Open Method of Coordination the notion of social security as a factor in productivity was diffused throughout the EU. Little remained of the idea of the dual goal of economic competitiveness and social cohesion because the instruments and actors needed for implementation of a demand-oriented policy mix, for example, in the Macroeconomic Dialogue, proved to be too weak or operated against the zeitgeist. Since the reformulation of the Lisbon Strategy in 2005 the key EU coordination policies have been confined to increasing labour supply and labour market flexibilisation. The economic policy responses to the crisis in the euro zone were in keeping with that: austerity policy, including cuts in wages and social services and benefits, privatisation of state property and structural reforms on the labour market were supposed to be enable the crisis states to enhance their international competitiveness.

2.4 The New Conflict: Unfair versus Fair Distribution of Wealth and Poverty

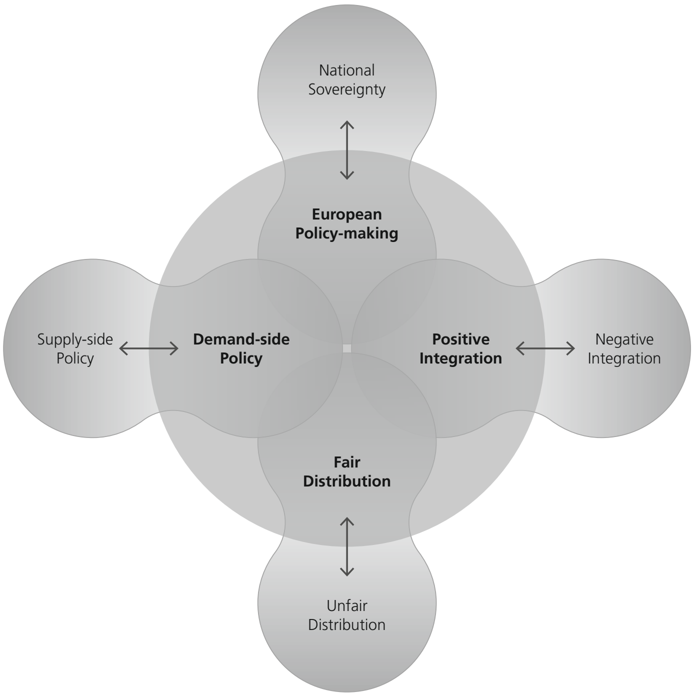
Already since the establishment of the European Social Fund with the Treaties of Rome in 1957 the European Community has sought to nurture less developed regions. The pledge of economic catch-up was complied with for several decades; the countries that joined the EU as part of the southern enlargement, as well as Ireland and, most recently, central and eastern Europe have all benefited. However, since the mid-1970s, convergence with regard to economic growth and incomes has been weaker than in the early phase of integration, but it is only recently that constant catch-up processes have gone into reverse with divergent developments (see Dauderstädt 2014). The global economic and financial crisis of 2008 is less important in this connection than the ongoing – since 2010 – crisis of the euro zone and the austerity policies prescribed in response to it.

Thus many countries in central and eastern Europe were able to recover relatively rapidly after 2009 in the wake of a dramatic fall in per capita income during the global financial crisis, whereas Greece, Ireland, Portugal and Spain have still not been able to return to growth (Dauderstädt/Keltek 2014). Social indicators provide a particularly vivid illustration of the extent to which the southern periphery of the EU has lost out. For example, unemployment rates in the crisis countries are far above the EU average (10.8 per cent in 2013): in Greece and Spain more than a quarter of the active population are without a job; in both countries youth unemployment is over 55 per cent of the active population under 25 years of age, while in Italy, Portugal and Cyprus the figure is around 40 per cent and even in Ireland it is still 27 per cent. By contrast, Germany, Austria and Luxembourg register unemployment rates below 6 per cent and youth unemployment rates below 10 per cent. The situation is similar with regard to the risk of poverty: the EU28 average for people at risk of poverty or social exclusion in 2012 was 24.8 per cent of the total population; this is already high but all the crisis states exceed it and Greece by as much as 10 percentage points. Many northern and some central and eastern European states, on the other hand, have rates of between 15 and 20 per cent.

The EU can by no means be said to have equal living standards. Even those with the highest incomes in Romania and Bulgaria count as poor by European comparison, while in Denmark and Luxembourg even a middle income is sufficient to put one among the richest EU citizens (see Dauderstädt/Keltek 2014). Inequality, which has been increasing due to the crisis and the cuts in income resulting from austerity policy in individual countries, is found not only between European states but within them. On average just under 40 per cent of total European income goes to the richest fifth of the population, less than 10 per cent to the poorest. Statistical surveys of the distribution of wealth and poverty show sharp inequality in southern Europe in particular (Eurostat 2014).

But it was not always so. Only since the 1980s has income inequality increased massively, although in the United States the increase has been even greater. This is not surprising as it was in that decade that the real-capitalist »set up« was finally superseded by the financial-capitalist one (see Schulmeister 2013). The excesses of the casino of international speculation led in all likelihood to the global financial crisis, but made the upper 10 per cent of the population rich in the years leading up to it. Thomas Piketty (2014) analyses the connection between the distribution of income and wealth and concludes that the wealthy are becoming ever wealthier due to more rapidly rising returns from interest, dividends, rental income and inheritance, while labour incomes are lagging behind. It is true that in the twentieth century the two world wars and the Great Depression destroyed wealth and capital and that during the post-war period the economy boomed because of reconstruction and the consensus favoured a social market economy, which reduced the inequality between incomes and wealth by means of financial, tax and social policy. Today, by contrast, growth rates are low, the booming financial industry has exacerbated inequalities and there has been no »trickle down« to lower social strata. Both for ideological reasons and in pursuit of competitiveness inheritance and wealth taxes have been cut or even abolished in many countries, and top-rate income taxes and corporation taxes capped, while at the same time little, if any progress has been made with the discussed introduction of taxes on stock returns or on financial transactions.

Figure 1: Four areas of conflict with regard to social Europe



3. Conditions and Chances of a Social Europe

The four areas of conflict described above (see Figure 1) display the key criteria in accordance with which a social Europe can function or remain impossible. The impression is inescapable that at present the insistence of the member states on national sovereignty, a primarily market creating mode of integration, continuing supply-side reforms and apparent acceptance of an increasing gap between rich and poor in societies and countries leave no room for a social integration project.

As already mentioned, the deterioration of the economic and social situation has demanded a toll from austerity policy as contributing cause. This is the spreading – and taken up recently by politicians of every stripe – demand for a social dimension for the EU. However, this will be no more than a figleaf for »business as usual« unless policy-makers have the courage to proceed to the core elements of integration by changing tack in the four areas of conflict described. The conditions for a successful social Europe can be clearly described and there are more than enough starting points for its realisation.

3.1 Liberal Reform Convergence Makes an EU Social Policy Framework More Likely

Welfare liberalism, permanent austerity and diffusion of ideas ranging from flexicurity to the youth guarantee have contributed to a hybridisation of welfare states. The once postulated rigid path dependencies are no more and even Europe's intractable pension systems are tending to turn in the same direction. It is not uncommon for a welfare state today to combine a universal health care system with Bismarckian pension insurance and a liberalised labour market. In contrast to the academic debate on models in the 1990s and 2000s, when a European Social Model remained a normative enthusiasm and the differences and path dependencies of welfare states were emphasised, the market liberal *pensée unique* has cleared the ground for institutional and reform policy similarities. This, ironically, has made it easier to come up with common solutions in subdomains of social security on a European basis. Basic elements of the same policy area can easily be discerned in all 28 member states. Thus there is no reason why the agreement on a new, more binding Open Method of Coordination in a revised Europe 2020 Strategy, with clearly formulated social protection targets and furnished with sanctions, should founder on differences between welfare states. Even the establishment of a European unemployment insurance (see Dullien 2014) as a basic macroeconomic governance and social policy model no longer appears improbable.

3.2 Social Inequalities Endanger Economic Integration

The conflict about the dominance of the single-market freedoms in the ECJ rulings *Viking, Laval, Rüffert* and *Luxembourg* – pertaining to the problems of social dumping within the framework of posting of workers and cross-border freedom of service provision – has, just like the worries about the privatisation of services of general interest in recent years, made it clear that a single market furnished only with uniform regulations on competition and guaranteed open borders is not complete. If doing business on a common basis is a declared aim in Europe labour and social protection provisions cannot remain solely at national level. There they are exposed to heightened pressure and are either supported or taken under the wing of national protectionism, which in turn endanger economic goals. This can also be seen in the monetary union: a common monetary policy without extensive fiscal and political agreements is a precarious structure. The global financial crisis as an exogenous shock was sufficient to lay bare the internal deficits and imbalances of the euro zone. In the political realm, given the interrupted economic cycles, high unemployment and growing risk of poverty there is every justification to demand a correction. Alongside the budgetary surveillance beefed up in the crisis this should also keep an eye on developments with regard to employment and social affairs that are problematic for the functioning of the monetary union. In order to moderate the subordination of social policies to the demands of increasing market integration a social impact assessment would make sense for all EU legislative projects. Furthermore, social policy actors such as the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) of the national labour and social affairs ministers but also committees such as the European Economic and Social Committee should concern themselves more closely with the impact chain of negative integration. In order to actively strengthen positive integration a set of social minimum standards and target figures – depending on national economic development – should be agreed as a European regulatory framework, for the monitoring of which a procedure to counter social imbalances should be included in the European Semester, as has already been discussed at least in a European Commission non-paper (2013). The most sustainable solution would certainly be the adoption of a social progress protocol with a social clause demanding equal status for social rights and economic freedoms (SAP/LO 2013).

3.3 The Euro-zone Crisis Can Be Overcome Only with Reference to Demand

In the crisis, austerity policy has become disenchanted with its one-sided supply-side orientation. Instead of the success hoped for by imposing such strict constraints policy-makers had grudgingly to admit that all the austerity paradigm had managed to achieve was the accelerated collapse of economic cycles in the crisis countries (see Blanchard/Leigh 2013). Only from a demand-side perspective is it possible to explain how the vicious circle made up of lower incomes, lower consumption and investments, collective redundancies and company bankruptcies, falling tax revenues and higher debt ratios came about. Greece's debt ratio illustrates this spiral effect well: in the crisis the public debt ratio rose from 113 per cent of GDP in 2008 to 175 per cent of GDP in 2013. Collapsing output caused the debt to increase in relation to GDP – austerity failed to achieve its principal aim. Furthermore, despite the guarantee issued in 2012 by the European Central Bank that it would do everything in its power to sustain the euro zone the low interest rate policy has not led to investment activity and rising growth. The Troika's structural reform policies may be able to boost the competitiveness of markets in the crisis countries, but they are unable to do anything about the credit crunch or reluctance with regard to investment and consumption. This would be possible only by means of a banking union, which does not shrink from transnational transfers and does not keep it back merely as a last resort, and reducing the pressure by redefining austerity policy. Already under discussion are exceptions and flexibility with regard to government spending on investment under surveillance in terms of the Stability and Growth Pact. Another interesting measure might be to include national investment rates in the scoreboard of the macroeconomic imbalance procedure. Even better would be to allow a European – or at least one coordinated by Europe – investment programme, like the »Marshall Plan« envisaged by the DGB (DGB 2012). Germany can be seen as an excellent example, having used a government-backed scrappage premium and a building refurbishment programme to stimulate demand, enabling the German economy to weather the global economic crisis very well.

3.4 The Injustice Debate Demands a Political Response

The new area of conflict involving an increasing tendency for a social divide to open up in Europe and increasing inequalities of income and wealth offers many starting points for demands that a new course be set. Given the electoral successes of right-wing nationalist parties in European elections it is a matter of urgency to implement policies able to rein in increasing divergence processes in the EU. That will not work without targeted support for disadvantaged regions and new transnational equalisation mechanisms and entails, at the next review of the multi-annual financial framework, that the member states renounce the notion of »*juste retour*«. However, anyone who wishes to prevent not only the EU's economic and social disintegration, but also its political division, increasingly exploited by radical voices such as that of Marine Le Pen, will also have to give up thinking in terms of red lines. The increasingly evident division of society into a wealthy few and a large low-income majority condemned to eke out their working lives in drudgery and their old age in penury represents a golden opportunity for politicians to make fairness and probity more palatable to the majority of voters by means of specifically targeted taxes and social contributions. One does not have to elevate Thomas Piketty into a saint, but the »hype« (Herrmann 2014) surrounding his work can be harnessed to lend new impetus to projects for an inheritance and wealth tax – and why not coordinated at European level? – as well as for a European financial transaction tax, which seems to be at risk of coming to grief in committee meetings in Brussels. It is astonishing that in Europe hardly any politicians have taken this up.

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

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