

# European Social Justice: The Challenging Agenda for the New Century

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**W**hen European Union leaders met in October for their informal meeting at Hampton Court in London, there was broad agreement that globalization is one of the most significant challenges facing the Union.

There was a strong sense that in the face of this challenge we need to do a lot more to give Europe's citizens a sense that their leaders are in touch with the issues which really matter to their lives.

And one of the most profound challenges presented by globalization is to our economic and social structures.

For many, the European Union represents not just an economic institution but also a body capable, if directed properly, of advancing a more socially just society. Yet, just as the economic conditions we face in the twenty-first century are very different from those of the post-war era, so too are the social injustices born of the changing world in which we live.

Working together within the Union, we can tackle the poverty and inequality which we still too often find in our societies. As we shape a European Union to face the future, it is our duty not just to seek economic advancement but also social justice for all the people of Europe.

The economic challenges we face, however, are ones of unprecedented scale and significance. The world is changing at breathtaking speed. China and India are now growing dramatically faster than the EU (about 10 percent per year compared to EU potential growth of around 2 percent). They will soon outstrip Europe, both its Member States and the EU as a whole, in terms of the total size of their economies. Of course, countries with lower GNPs (Gross National Products) should be growing faster than the EU, and it is good that many finally are. But that does not explain why the EU is growing so much more slowly than the US, the world's most advanced and productive economy, where potential growth is about 3.5 percent, and which has therefore succeeded in the last decade in opening up once more the gap between it and Europe.

One simple statistic shows why. In 1995, EU workers were producing three percent less per hour than their US colleagues. In 2005 the gap is 12 percent. It is a sobering and challenging insight that, if the EU were an American state, it would be 46th out of 50, at about the same level of wealth as Alabama. Something is going fundamentally wrong in at least part of Europe in rising to the new competitive challenges of globalization.

The social effects are easy to find: twenty million Europeans out of work, and almost one in five young people without a job. The fact that almost a third of the normally highly dynamic immigrant population is inactive in the fifteen original states of the EU (compared with a fifth in the US, Canada and Australia) suggests that this does not reflect some morally superior European »preference for leisure« but something in European social structures which inhibits work and economic gain. The demographic effects are visible too. Europe is ageing significantly more than almost any other area of the world. By 2050, if current trends continue, the US population will be nearly 500 million; the EU's will be barely half that.

And there are political effects too. The growth in populist and extremist parties of right and left across Europe is surely connected to European governments' failure to deliver economic progress. Europe is also slipping behind in other areas: of the top 20 universities in the world in 2004, only two were European (both in the UK). There are of course wide variations in this picture across Europe. The new Member States have for the most part sustained much higher growth rates than the rest of Europe over the last few years; and the Nordic countries have, after often dramatic restructuring, secured an admirable record of economic growth and social well-being. They have consistently topped World Economic Forum global competitiveness rankings. Yet when Europe is looked at as a whole, the picture is far less healthy.

Can Europe meet these challenges? To judge from aspirations, the answer would be »yes.« Back in 2000, EU Heads of Government signed up to the Lisbon reform agenda which aimed to make the European Union the »most dynamic and competitive knowledge based economy in the world by 2010.« Yet in the five years since then, achievement has fallen far short of ambition. That is why, at the Spring 2005 European Council, European leaders re-committed themselves to the process and emphasized the need for accelerated action. This presents challenges for every Member State. As the French Europe Minister Catherine Colonna recently noted, every EU Member State has to reform, alongside which there must be action at the EU level.

So, if all agree on the nature of the problem, and if all agree that significant reform is needed to respond to it, why is Europe finding it so difficult? Partly of course, it is that difficult economic times are never a good moment to encourage people to accept radical change – though of course those difficult economic times themselves stem from continued failure to reform. And partly it is of course a result of the way that globalization works: the pain is often specific and concrete – workers who lose their jobs as their employer relocates to a cheaper wage zone – while the benefits to the economy as a whole are more diffuse and less immediately newsworthy. But both of these points are true for any country, anywhere. It doesn't explain why some countries – principally, it seems, outside Europe – have nevertheless seen the challenges and acted. There is something deeper at work.

That »something« is connected to Europeans' economic and social values, and the nature of the societies we constructed in Europe during the twentieth century and particularly since the War. We Europeans are justifiably proud of the European models (for there are more than one) of society and the social welfare systems that go with them. They embody the moral imperative of social justice. And that moral imperative ran through the Treaty establishing what would become the European Union. Look no further than Article 2 of both the Treaty of European Union and the Treaty establishing the European Community, which states that Europe's objective is »to promote economic and social progress and a high level of employment, ... through the strengthening of economic and social Cohesion.«

We are right to defend those economic and social values and the societies and institutions which embody them. They represent many of the deepest and most admirable instincts we share as Europeans. It is simply not true, as some claim, that only harsher and more unforgiving societies can compete in the cold winds of globalization. Yet the harsh truth for Europeans is that, to preserve the end of social justice, we must all re-examine the means which deliver it. Today, one of the big obstacles to economic reform is that far too many of us Europeans have grown too attached to means and have stopped looking at the ends. And, because those means actually differ from Member State to Member State, we have been lost in an often futile debate about the rightness or »Europeanness« of particular methodologies instead of concentrating, as we should, on the fact that we all share common ends. That must – and is indeed beginning to – change. But we must also understand that the means – social

and labor market policies – will and should continue to differ in the future. Despite common values and reform objectives, Member States need to make their own choices. Social and labor market policies remain their responsibility.

Even a cursory examination of the social and economic systems of the EU's Member States shows that they are quite different. In Western Europe the development of those systems was sustained in the first instance by the economic prosperity of the post-war period, and then driven on by citizens' expectations even as economic climates grew harsher. In Central and Eastern Europe the challenge has of course been the quite different one of recreating a market economy, while developing welfare systems that at the same time support that economy and deal fairly and humanely with the massive human and societal problems left by Communism. Moreover, even within these broad groupings, the approaches adopted by different Member States have been distinctly different too. The particular balance between the roles of the state and the market, the part played by trade unions and business, the links to political parties or the Churches, differed between and sometimes even within states. That was inevitable given our very different histories during the last century and our different patterns of industrial and labor relations.

Nevertheless, altogether, it is not wrong to see in these divergent socio-economic structures a common, and peculiarly European, response to inequality in industrial societies. They amount to a European social tradition, with a distinctive notion of the relationship between the individual and the state, their entitlements and responsibilities. They were inspired by a common set of European values of solidarity and equity, values reflected in the traditions of European Christian democracy as well as of social democracy. And the practical virtue of these values remains clear. The UN's Human Development index – which measures life expectancy, literacy, enrolment and GDP per capita – ranks all 25 of the EU's Member States in the top 50 in the world; 12 appear in the top 20.

This variety of social models and welfare systems still prevails in today's EU, despite moves towards a common responsibility and action in areas which underpin the structures of the Single Market such as health and safety, labor regulation and anti-discrimination, necessary to support free movement of labor. There has been a good deal of highly productive academic and political analysis of the typologies, and of their political-economic consequences.

Work on the typologies stems fundamentally from the work of Esping-Andersen. He originally divided European welfare systems into three types: a liberal regime (UK and Ireland); a conservative regime (continental and Mediterranean countries); and a social democratic regime (the Nordics). Subsequent work has refined this, as it has become increasingly clear that the differences between Continental and Mediterranean regimes are as great as the similarities, so many economists and sociologists now think in terms of a four-type model, with the Mediterranean regime including many of the new Member States too, and the Continental regime including (notably) France, Germany, plus (arguably) the Czech Republic, Hungary and Slovenia.

André Sapir recently looked again at this typology in a paper for the informal meeting of EU Finance Ministers in Manchester in September. In particular, he examined the strengths and weaknesses of the different models, assessing their equity in reducing the risk of poverty and their efficiency in delivering high levels of employment. He concluded that, given the strains that globalization and population ageing were putting on public finances, only efficient models were also sustainable for the long-term. He went on to say that both Nordic and Anglo-Saxon models are sustainable, while continental and Mediterranean models are not and must be reformed in the direction of greater efficiency by reducing disincentives to work and to grow. But he also noted that Nordic and Continental models tended to produce greater equity and equality among citizens than other models. The conclusions to be drawn from this analysis are that equity and efficiency are in principle indeed compatible, that the Nordic Member States indeed manage to satisfy them both in equal measure (though the extent to which their model is transferable to others is debatable), and that the existence of different competing models is an advantage for Europe precisely because it enables cross-country comparisons. But above all, inefficient models, which mean some of the biggest EU economies, need to reform urgently.

All this suggests that too many commentators and politicians have been engaging in an essentially false argument in Europe about social justice. It should not be about whose approach to social justice is better or whose values are more European. Those values are largely shared and our different approaches spring from the diversity of our circumstances more than any fundamental ideological divide.

The real question is to determine what each country needs to do to meet the global challenges, and then what collective European action is

needed to help them deliver those changes. There is certainly no iron rule that suggests that collective European action is inevitably more effective than national action in delivering social justice. The debate must be more about outcomes, not processes; ends, not means.

Let me take one concrete example of where means are often confused with ends. »Solidarity« is a word that one, rightly, hears a lot of in European economic and social discussion. Yet often the implicit meaning attached to that word is a very narrow one. Often it seems to imply a pattern of collective agreements and a specific set of governmental relations with social partners that are actually highly distinctive even within Europe. But solidarity goes wider than that. It involves recognizing that it is also about the right of the unemployed to enter the workplace and the excluded to participate in society.

And it is also about allowing new Member States to enjoy the full benefits of the free movement of capital, goods and labor which lie at the heart of the Union. The UK has been a leader in this latter area. Since May 2004 almost 176,000 workers from the new Member States have registered to work in the UK. They have helped fill skills shortages and reduce inflationary pressures. Nevertheless, given the wage differentials between the UK and Central Europe, and the high levels of unemployment in some of those fellow Member States, what is remarkable is how relatively few have come. That shows that labor mobility within Europe remains stubbornly low. We need to improve it. That is an area where action at the European level can bring added value to national or regional efforts, and where we can generate real, not rhetorical, solidarity.

The first things Member States can do collectively are share experience and compete in a race to the top. Take the concrete example of the UK. The Government's challenge has been to continue labor market reform so as to boost the employment rate, while doing its utmost to deliver fairness and a decent social safety net, all based on a sound macro-economic foundation. It's a model that aims to provide security for people when they need it and strong incentives to work and save. It has pursued policies that tackle joblessness among disadvantaged groups (particularly ethnic minorities); reduce income gaps between men and women; work towards eradication of child poverty; make progress in narrowing gaps in educational attainment and health outcomes; and improve public services (based on principles of social inclusion, sustainable development and equal opportunities). There has been important progress.

The menu reflects particular British conditions as well as global forces. The challenges for other Member States are different, though we all have some in common, notably ageing populations and intensified international competition. But the British Government has drawn – and continues to draw – inspiration from other European systems, whether it be Nordic childcare provision and education systems, French productivity rates, or Dutch and Danish regulatory reform.

So, better benchmarking between Member States is part of the answer. And part of the EU's role is in facilitating that dialogue. Those societies most open to change and reform, to questioning established ways of doing things, are likely to be those that are best able to face up to the challenges of tomorrow. Seen from this perspective, the diversity of European models is part of the Union's strength. It ensures that no one Member State can become complacent or shield itself from international competition. There will always be other Member States either doing better or seeking to challenge the current best performers. It ensures that we remain flexible in the face of globalization, and in turn is a key to what should be Europe's competitive advantage.

But benchmarking or sharing best practices alone will not suffice. That was reflected in the Lisbon Agenda and remains true. There are a number of areas where Community action is a necessary supplement to national action, and an essential means of defending and promoting the Union's fundamental freedoms. Here are five suggestions for promoting the mobility of goods, labor, capital and services where collective action could bring distinct added value to national efforts:

1. more mutual recognition of skills and qualifications;
2. a sustained and measurable improvement in Europe's regulatory environment that eases the burdens on business and promotes competitiveness;
3. a more competitive and globally oriented European market in financial services, that recognizes the importance of the transatlantic marketplace;
4. completion of the single market through reform of state aid policy, an independent and pro-active competition policy and the liberalization of trade in services;
5. a refocusing of EU spending on the core Lisbon objectives.

All Europe's Member States face similar economic and social challenges. Their response has to recognize that economic reform and social justice constitute a single agenda. It is not a choice between the two – the one

supports the other. National governments and the Union as a whole need to ensure that people are equipped for the future and supported through the tremendous changes now taking place in our societies. It is not about weakening our fundamental commitment to social justice. But it is also not about dogmatically defending the status quo. Instead, it is about re-energizing the moral imperative that led us to create the welfare systems in the first place, and about fitting our policies to the new challenges we face. And, just as importantly, it is about questioning at what levels and through what means those policies are best pursued.

This is a new and challenging agenda for the new century and for an enlarged Union. It ensures that we secure the global economic competitiveness that can best ensure the sustainability of what is distinctive about Europe. And it remains true to the moral core of European ideals of social justice.