
Why we need a European Social Union

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Abstract – Arguments on “social Europe” need to give an unequivocal answer to questions of why, what, and how. With regard to the question of why, I argue that, 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. EMU must be complemented with a genuine European Social Union, for it to be sustainable in the long term. A Social Union means that the EU would guide the substantive development of national welfare states, via general social standards and objectives, leaving ways and means of social policy to Member States. That presupposes a sufficient degree of consensus on the goals of social policy. It also requires pan-European solidarity based on reciprocity in the relationships between the Member States. With regard to the question of what, I briefly sketch some elements of the ensuing social agenda, with a focus on the notion of social investment. I also identify some of the urgencies in respect of the how, particularly the need to restore the unity between economic and social policy, and between short and long-term objectives, and how this would relate to the ‘contractual approach’ proposed by the President of the Council, Herman Van Rompuy.

JEL: social Europe, European solidarity, open coordination, social investment

Résumé – Le débat sur l’« Europe sociale » a besoin de réponses sans équivoque aux questions suivantes : le pourquoi d’une Europe sociale, la question de sa substance et celle de la méthode à utiliser pour y parvenir. En ce qui concerne le pourquoi, je défends la thèse suivante : si, voici dix ans, la quête d’une description opérationnelle du modèle social européen pouvait encore être considérée comme un exercice utile mais pas vraiment indispensable, elle est devenue aujourd’hui une question réellement existentielle pour l’Union. Pour que l’Union monétaire puisse survivre, il faut la compléter d’une réelle Union sociale européenne. Une Union sociale européenne signifie que l’Union européenne guide le développement en substance des États-providence nationaux, par le biais de standards et objectifs sociaux généraux,

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tout en laissant les moyens et les instruments aux États membres. Cela présuppose un consensus de base à propos des objectifs de la politique sociale. Cela requiert aussi une solidarité pan-européenne, basée sur la réciprocité entre les États membres. En ce qui concerne la substance, j'esquisse brièvement quelques éléments qui devraient figurer à l'agenda social qui découle de cette analyse, en me focalisant sur l'investissement social. J'identifie quelques-unes des urgences relatives à la méthode à utiliser – à savoir la nécessité de restaurer l'unité de la politique économique et de la politique sociale et l'unité des objectifs à court terme et long terme – et comment cela pourrait inspirer l'approche contractuelle proposée par le Président du Conseil européen, Herman Van Rompuy.

1 INTRODUCTION

For over fifty years we have been debating whether European policy requires an active social dimension. The number of publications describing the weaknesses of “social Europe” is now beyond counting. All too often, these writings are merely inconsequential lamentations of the unreachable. The ongoing crisis may present an opportunity to put “social Europe” firmly on the agenda. Rather than a lamentation, what is needed now is a coherent conception of the reasons behind, the agenda for, and the governance of a European Social Union. In short, “social Europe” needs an unequivocal answer to questions of *why*, *what*, and *how*. Rather than presenting a list of concrete proposals, this paper focuses on the *why*-question. I argue that, 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. A basic consensus is required on the meaning of a social dimension for Europe’s citizens and on the role the Union might play in it. Such a consensus must also cover the issue of Member States’ mutual obligations, i.e. what these countries may demand from one another. The question thus arises whether reciprocity can be incorporated into institutional relationships between the Member States, in the same way as social policy within each Member State separately is based on reciprocity between individuals. In the last section of the paper, I briefly sketch some elements of the ensuing social agenda, with a focus on the notion of social investment. I also identify some of the urgencies in respect of the *how*, particularly the need to restore the unity between economic and social policy, and between short and long-term objectives, and how this would relate to the “contractual approach” proposed by the President of the Council, Herman Van Rompuy.

2 THE SOCIAL DIMENSION OF THE EUROPEAN MONETARY UNION

It would be incorrect to assert that the EU has no social dimension today. The technical coordination of social security rights for mobile workers, standards for health and safety in the workplace, some directives regulating workers’ rights

and procedural issues in labour markets... constitute a non-trivial *acquis* of fifty years of piecemeal progress. Starting from the principles of non-discrimination on grounds of nationality for EU citizens and of equal pay for equal work for men and women, the EU has also created a solid legal foundation for enforcing non-discrimination in the fields of gender, age, ethnicity, etc. Seen in this light, the question may be reformulated as follows: why does Europe require an active social dimension that goes beyond this *acquis* and beyond the on-going dynamics of its anti-discrimination principles? Or, to formulate it more precisely: why would we need a genuine European Social Union, i.e. why should the Union 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”?

A first argument refers to the sustainability of the European Monetary Union (EMU): “Excessive social imbalances” threaten the monetary union as much as “excessive economic imbalances”; preventing and fighting excessive social imbalances presupposes an operational consensus on the social model European welfare states should pursue. I will first discuss this “imbalances” argument, and then add other arguments that can be invoked in favour of a European Social Union. The “imbalances” argument is compelling, but entails complex discussions, both with regard to governance and with regard to the pan-European solidarity that is called for.

2.1 Excessive social imbalances in the Eurozone

The EU has adopted a Macro-economic Imbalance Procedure (MIP) to prevent and correct macro-economic imbalances. It relies on an alert system that uses a scoreboard of indicators and in-depth country studies, strict rules in the form of an Excessive Imbalance Procedure and enforcement in the form of financial sanctions for euro area Member States that do not follow up on recommendations. I argue that, analytically, a notion of “excessive imbalance” also applies to specific social parameters characterizing Eurozone members. This is not to say that an identical concept of imbalances would apply to the social domain, or that MIP-type procedures should be developed in the social domain (in fact, whether or not the MIP provides the correct toolbox in the economic domain, is itself debatable and requires a separate discussion). However, the expression “excessive social imbalances” adequately 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 is political (social divergence in the Eurozone threatens the political sustainability of the Union) and economic (long-term economic sustainability requires a degree of social convergence). I will first present the political argument, then sketch the economic case, and subsequently add a more general argument about the consequences of monetary unification.

Since the start of the European project, increasing cohesion across member states has been a crucially important objective. During successive waves of *enlargement*, the promise of growing pan-European cohesion was vindicated. The World Bank has dubbed the EU a veritable “convergence machine” (Gill and Raiser, 2012). With regard to the social performance of EU welfare states this upward convergence is documented convincingly by Lefebvre and Pestieau (2012). However, within the Eurozone we now witness divergence, notably with regard to youth unemployment, but also with regard to living standards and poverty indicators that are anchored in time (Vandenbroucke *et al.*, 2013). If the *deepening* of the European project, *in casu* the creation of one currency, is not accompanied by further convergence but rather by divergence, the political legitimacy of the European project is at stake. This is not to say that the creation of the Euro is the source of divergence: a combination of domestic policy failures and Eurozone governance failures is at play. But if it continues, the actual divergence will steadily undermine the credibility of the European project. Both in “failing” and “successful” Eurozone members, public opinion may become increasingly dissatisfied by the observation of growing divergence. Reasoning in terms of “us” and “them” – “the South” versus “the North” – will inevitably gain legitimacy, while the Union will lose legitimacy. In the North, the Eurozone divide will be framed more and more in terms of “social efficiency”: Eurozone members with a disappointing social record will be seen as both socially inefficient and economically uncompetitive, and as entirely responsible to remedy that situation without further ado. This will make it increasingly difficult to take steps that are necessary to consolidate the Eurozone in the longer term, such as collective action on part of the sovereign debt, stabilizing fiscal transfers, let alone the creation of a fully-fledged fiscal union (see De Grauwe, 2013, on the necessity of fiscal union). We know it is hard to sustain a fiscal union between entities that lack mutual trust in each other’s internal social fabric: Belgium, with its internal north-south divide, is a telling example. It seems even harder to create a new system of fiscal transfers if the parties that have to agree on it do not trust each other with regard to their social and economic efficiency.

In short, social divergence in the Eurozone erodes the legitimacy of European cooperation as it exists today, and damages the trust-based legitimacy that will be needed for it to perform better in the future. This legitimacy argument is inevitably subjective: we do not know whether divergence will continue, and we cannot prejudge with certainty what the impact of it will be on the political support for the EU. However, the argument is sufficiently plausible and important to assign the label “excessive imbalances” to the disparity and divergence with regard to, for instance, youth unemployment and “anchored” child poverty in the Eurozone. These imbalances should be a matter of common concern for *all* Eurozone countries, and thus given proper weight in the governance of the Eurozone. That presupposes a joint endeavour to understand to what extent differences in performance are indeed linked to real social inefficiencies, to what extent other factors are at play, and what can be done about it, both within the Member States and at a pan-European level.

Next to the problem it creates for the political legitimacy of the European project, the disparity and divergence in child poverty (to focus on that case)

can be seen as signaling objective economic problems that affect the sustainability of the Eurozone. A comparatively high level of child poverty is synonymous with an investment deficit that may be *cause and effect* in a vicious circle of underperforming labour markets and education systems. Today, we witness huge imbalances across the Eurozone with regard to labour market outcomes, formal educational achievements and educational outcomes as measured by the OECD's PISA programme. 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.

Today, symmetry in the EU is essentially assessed on the basis of current account balances, export market shares, real exchange rates, unit labour costs, government and private debt, housing prices, unemployment etc. These parameters must be properly attuned in a monetary union; they should converge in a direction that ensures its sustainability. A related question, which is rarely discussed explicitly, is whether symmetry requires *social* convergence. This question might be answered negatively on the premise that different social systems can be *functionally equivalent* as to the relevant macro-economic outcomes they produce. For instance, in times of crisis, labour market flexibility may be generated by quite different arrangements: temporary shorter working hours in one country (such as in Germany), worker mobility in a relatively unregulated labour market in another country, and so forth. Financially sustainable pension systems may be based on high employment rates for older workers and generous pensions in some countries, while other countries secure financial sustainability with lower employment rates but less generous pensions. In other words, national or regional diversity in the architecture of social systems may be compatible with the supranational demand for economic symmetry. The possibility that different social systems are "functionally equivalent" may legitimize the principle of *subsidiarity* with regard to social policy, also within a monetary union. However, there seem to be limits to the diversity in social systems that can be accommodated in a monetary union. Vandembroucke (2012) discusses that argument with regard to pension policy: for reasons of *political economy* it is plausible to argue that, in practice, important divergences in retirement policy pose a long-term problem for the cohesion of a monetary union. However, if this assertion is true, then this may be the case for other parameters of the social model that the member states pursue domestically. The "if" in the preceding sentence is an important "if": there are no hard proofs in these matters. But even if it remains unproven that the tuning of economic strategies presupposes some tuning of social policy, it is certainly a plausible hypothesis. Returning to the example of child poverty, the disparity and divergence in child poverty rates may show that the underlying national social fabrics are not "functionally equivalent" with a view to economic symmetry. But, then, "symmetry" is not socially neutral: the envisaged social convergence presupposes a choice of direction.

2.2 No monetary union without social union

The argument sketched in the previous section fits in into a broader discussion about the consequences of monetary unification. The members of a currency area are confronted with a trade-off between symmetry and flexibility. In economic textbooks explaining this trade-off, symmetry is defined in purely economic terms, but as argued in the previous section, sustaining symmetry in the long run may imply a degree of social convergence. Flexibility relates to wage flexibility and interregional and international labour mobility, which determine a country's "internal" adjustment capacity in case of an asymmetric shock. Less symmetry necessitates more flexibility, according to the theory of "optimal currency areas": the less symmetry there is between the countries of a single currency area, the greater the required capacity for internal adaptability in order for the monetary union to be beneficial. There is moreover a second trade-off: if the possibility exists of absorbing asymmetric shocks through *budgetary transfers* between the Member States, then the need for flexibility is reduced (De Grauwe, 2012). Stabilisation can be temporary and cyclical. By way of example: a mechanism of European co-funding of unemployment benefits during an initial period of unemployment – i.e. excluding long-term unemployment – that is activated when short-term unemployment in a country rises above a certain level could function as a stabilizing interstate insurance device.

Neither flexibility nor symmetry, nor indeed budgetary transfers, are socially neutral choices. Flexibility refers to adjustment processes that can be painful, like direct nominal pay cuts (rather than real pay erosion through currency depreciation and high inflation), or imply an important social cost, such as massive migration by job-seekers. Budget transfers may be aimed primarily at temporary stabilisation, as explained in the previous paragraph, but *in practice* it is very difficult to separate the stabilising purpose of public expenditure from its redistributive purposes. Obviously, that is not socially neutral. Hence, the long-term trade-offs² implied by monetary unification force upon the participating countries a consensus on the social order the monetary union has to serve. For sure, this analysis does not lead to unequivocal normative conclusions about the kind of social model the EU ought to develop. It does, however, show the inevitability of a *basic consensus* among the Eurozone members, encompassing cognitive as well as normative elements:

- Cognitive: to what degree does economic symmetry also imply social convergence? Which degrees of freedom exist with regard to pension systems and retirement age, educational achievements, child poverty...?
- Normative: if we agree that economic symmetry presupposes social convergence in some domains, then common benchmarks need to be set as targets for organising such convergence.

2. In addition to the described trade-offs, there are other conditions for the sustainability of a monetary union. One is particularly topical at the present moment: a banking union. As this paper focuses on the longer term, I shall not dwell on these burning short-term issues – but obviously the short term presents itself before the long term.

- Cognitive and normative: what is our view on the role of flexibility and pan-European transfers?

I do not purport that the monetary union will only survive if it meets the requirements of *social justice* as I would define it. My claim is more limited: the sustainability of that union requires a consensus on the social dimension. However, in order for such a consensus to be broad-based, it must tie in with the goals that the European welfare states have in common. In the past, it has often been stressed that the European welfare states are so diverse that it is impossible to accurately define *the* European social model. Nonetheless, however diverse the reality of European welfare states, at this time a minimal consensus is needed on common, normatively charged objectives of social policy.

Subsequently, a complex question of *reciprocity* in dealing with asymmetric developments arises. That economic adjustment in the Eurozone would greatly benefit from “burden-sharing” is by now a well-rehearsed argument. For instance, Jean Pisani-Ferry (2012) explains why the adjustments of the economies of Southern Europe cannot be treated as a one-sided process. As a successful adjustment process serves a common interest, all should be prepared to contribute their part. Germany should accept a slightly higher inflation in order to allow the necessary adjustments of wages and prices in Spain (given that price stability in the Eurozone as a whole can be guaranteed and assuming that Spain takes this opportunity to implement structural reforms). The same reasoning applies in the budgetary field (the governments of Northern Europe must, according to Pisani-Ferry, avoid “overkill”) and in relation to wage development (the governments of Northern Europe must accept a level of wage increases well above that observed in the first decade of the euro). “Reciprocity”, in this particular example, means that you share responsibility for a problem, on the basis of clear agreements and concerted efforts. It implies that the burden of economic adjustment – e.g. with a view to restoring competitiveness – is not placed on the shoulders of a single partner.

In order to be turned into political practice, the rational economic case for burden-sharing must be embedded in a shared notion of pan-European solidarity. The German philosopher Jürgen Habermas argues that *enlightened self-interest* should motivate Germany to organize such solidarity. In a recent lecture at the KULeuven on *Democracy, Solidarity and the European Crisis*, he discusses the concept of solidarity that is at stake, relating it to but also distinguishing it from reciprocity in existing pre-political communities (such as the family), and concludes the argument as follows: “If one wants to preserve the Monetary Union, it is no longer enough, given the structural imbalances between the national economies, to provide loans to over-indebted states so that each should improve its competitiveness by its own efforts. What is required is solidarity instead, a cooperative effort *from a shared political perspective* to promote growth and competitiveness in the euro zone as a whole. Such an effort would require Germany and several other countries to accept short- and medium-term negative redistribution effects in its own longer-term self-interest – a classic example of solidarity.” (Habermas, 2013, emphasis in the text).

Whether ‘enlightened self-interest’ is sufficient to develop the *shared political perspective* Habermas refers to, is a difficult question which I cannot develop here. The fragility of the Eurozone points to the absence of a “deep variable”, described by De Grauwe as “a sense of common purpose”, as was apparent when monetary union was carried through in the process of German reunification: “(T)his sense of common purpose was the deep variable that made the monetary and political union possible in Germany. Put differently, monetary and political union were endogenous variables that were driven by a common force. The existence of this deep variable made it inconceivable that Germany would have started with a monetary union without having a centralized budget capable of making large transfers between regions, or without a unified social security system. This deep variable is weakly developed at the European Level” (De Grauwe, 2009, p. 113). The sense of common purpose in any case presupposes a shared outlook on social progress and on reciprocity in the actions of the Member States.

When we launched the Open Method of Coordination in 2000, one of the arguments was that the method would gradually add substance to the vague notion of the European social model. In my view, open coordination on social policies had both a cognitive and a normative dimension (Vandenbroucke 1999, 2002a, 2002b). What – from a functionalist perspective – may have seemed a somewhat superfluous debate ten years ago has become quite essential in the light of the Eurozone. Therefore, the difficulties encountered by the practice of the Open Method of Coordination are today even more worrisome than they were five or ten years ago (not just its relative weakness in delivery, but most of all its lack of *political* salience and impact on the economic governance of the EU).

In short, conceptualizing a European Social Union (ESU) involves huge philosophical, political and practical challenges. But that should not and cannot stop us from starting a new chapter in the development of the EMU, with a view to creating a genuine ESU. It is not happenstance that the President of the Council, Herman Van Rompuy has put the question of the social dimension of *the monetary union* on the agenda in December 2012 and also suggested a contractual approach that would combine reform in the Member States and pan-European support for reform (European Council, 2012). In Section 3, I return briefly to solidarity and the contractual idea. But first I sketch additional arguments in favour of an active social dimension to the EU.

3 SOCIAL DUMPING AND NATIONAL SOCIAL SOVEREIGNTY

Discussions about social Europe often refer to the prevention of social dumping and the preservation of national sovereignty in the domain of social policy on the other hand. The dumping argument is premised on the notion that far-reaching economic integration without social harmonisation induces downward pressure on social development in the most advanced Member States. The question of whether economic integration without social harmonisation is at all possible was already the subject of the 1956 Ohlin report, which – together with the Spaak

report – laid the foundations for the establishment of the European Economic Community. Ohlin assumed that differences in labour costs between the countries concerned were so closely related to differences in productivity that free trade would not cause downward pressure on wages. He did however emphatically assume that any subsequent divergences in the evolution of wages and productivity would be corrected for by adjustments to currency exchange rates (International Labour Organisation, 1956). Given the present context, that is clearly an important *caveat*.

Prima facie, history has not proven Ohlin wrong. In parallel with the process of European integration, the national welfare states have expanded, sometimes spectacularly so. Successive enlargements of the European Community and the EU have invariably resulted in upward convergence (see the references to Gill and Raiser, Lefebvre and Pestieau, *supra*). Now it can be argued that the European Community – rather in contravention of the Ohlin doctrine – has coupled market integration with high-level social harmonisation in certain areas, more in particular during the 1980s and 90s in relation to health and safety in the workplace. It may also be noted that the “upward” or “downward” nature of convergence depends on the economic context: in a situation of long-term and widespread unemployment, downward pressure may gain the upper hand, due to, for example, the overall weaker position of the trade unions. So I do no justice here to the qualified debate that this issue warrants. Nonetheless, if the argument for a social Europe is premised merely on the functional necessity of preventing social dumping, it is not a strong argument. However, in specific sectors, dumping is a problem; *infra* I give the example of minimum wages.

The second argument that often inspires discussions on social Europe concerns the legal sovereignty of national welfare states. It refers to a line of research developed by Fritz Scharpf, Stephan Leibfried, Maurizio Ferrera and others. The underlying notion is that of 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.³ The latter imperatives presuppose borders and clearly defined membership of national solidarity circles; the former extend beyond such borders and solidarity circles. The fundamental conflict is one between a logic of “opening” and a logic of “closure”, to paraphrase Ferrera. The logic of “opening” implies that a Bulgarian in Belgium should enjoy the same right to social assistance as a Belgian national, without attaching excessively strict country-specific conditions; under the logic of “closure”, the right to social assistance is earned through adherence to nationally defined social obligations and conceptions of social integration. Taking another example, the logic of “opening” would allow Dutch citizens to shop freely in Belgium for health care services covered by Dutch care insurers, even though this would jeopardize Belgium’s health care planning and rate agreements. The logic of “closure”, on the other hand, dictates that national authorities may regard health care provisions as services in a market that is neither open nor free, both to their

3. For a particularly sharp articulation of this pessimism, see Scharpf (2009). Ferrera (2005) is more optimistic.

own citizens and to foreigners. The point that Scharpf (2009), in particular, hammers home is that not only does this conflict exist, but the institutional architecture of the EU is such that it is systematically decided in favour of economic integration and mobility, at the expense of national social sovereignty and national community. Leibfried (2010) explains that, whereas the European treaties and basic legislation allow for a clear distinction between pure “state action” (or “solidarity action”) on the one hand and pure “economic action” on the other (a distinction that provides direction in the jurisprudence of the Court of Justice), the dividing line between the realms of national solidarity and market principles is far less clear in the extensive grey area where social policy and market mechanisms operate concurrently. The latter occurs on a grand scale in, for example, European health care. The analyses by Scharpf and Leibfried inspired me ten years ago to propose a “horizontal social clause”, 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 (Vandenbroucke, 2002c). Anne Van Lancker and other progressive representatives and non-governmental organisations campaigned for this cause in the European Convention. Via the IGC, an adapted version of the text found its way into Article 9 TFEU.

Although I find this an important issue, unlike Scharpf I do not believe that the institutional architecture of the EU today leads systematically and irresistibly to greater liberalisation and unchecked mobility (moreover, perhaps Art9 TFEU will, with time, contribute towards restoring the balance in this respect).⁴ There is room for political initiative aimed at a correction of the balance between free market principles and the principles of social sovereignty: the EU is more receptive to politics than this deterministic analysis suggests. This is apparent from, among other things, the debate on the Services Directive, where the European Parliament amended the far-reaching liberalisation proposed by Bolkestein. It also transpires from the drafting of a 2011 European Directive where the European Parliament and the European Council sought to strike an appropriate balance between patients’ rights in cross-border health care and national control over health care systems. I do not agree either with the assertion that the EU does not allow the Member States to seek a balance between the granting of rights to social assistance and integration requirements; it seems to me that the problems surrounding this issue are related more to the implementation of policy than to its actual foundations.⁵ In other words, I disagree with Scharpf – who nonetheless remains one of my intellectual heroes – that the EU has such an asymmetric constitution that it *cannot* be a social market economy.

That is not to say that the point is irrelevant. There can be a critical interaction between the absence of pan-European social standards and reduced legal sovereignty of the Member States. An example concerns minimum wages and posted workers. Are minimum wages in the country of employment applicable to posted

4. There is not only Art. 9 TFEU, but also the Charter and the Protocol on Services of General Interest. For a discussion of these elements, see Rhodes (2010), Armstrong (2010), Lenaerts (2011).

5. See Lenaerts (2012) for a brief summary of the viewpoint adopted by the Court of Justice. The implementation of social policy is a determining factor for the actual impact of mobility. An example that comes to mind is that of pseudo “self-employed” persons entering Belgium to subsequently live off benefits.

workers from another Member State, with a different statutory minimum wage? And what kind of actions can trade unions take when they feel agreements or regulations concerning minimum wages are violated in the posting of workers? Notorious judgments by the Court of Justice (*Viking, Laval*) have called into question trade unions' scope for action on such matters and seem to give precedence to the liberal principle of free movement. The line of thought developed by the Court in these cases merits a nuanced debate, but it does not diminish the need for legislative initiative to change the framework the Court has to use.⁶ With regard to labour market regulation, two problems have to be tackled at the EU level: all Member States should have a universal system of minimum wages, which are decent with regard to their (national) average level of wages; and posting of workers must not undermine national systems of collective bargaining, for instance with regard to minimum wages.

4 NATIONAL COHESION AND PAN-EUROPEAN COHESION: TWO PERSPECTIVES ON "SOLIDARITY"

The arguments sketched in the previous sections, on excessive social imbalances and the consequences of monetary unification, on specific issues of social dumping and national social sovereignty, point in different directions, but – if coherently applied – they are not mutually exclusive. The arguments related to EMU are premised on the idea that the tuning of economic strategies requires a minimal tuning of social policy. Hence, the search for a strong consensus on the content of the European social model is no longer a superfluous luxury, but a necessity. The notion that economic policy is designed supranationally while social policymaking happens in neatly separated national or regional arenas is naive. However, the tuning of social strategies in Europe must not lead to the application of an undifferentiated social policy. Nor is it incompatible with the notion that Member States should retain sovereignty in specific areas (e.g. legislating or bargaining on minimum wages, the organisation of health care): the Member States must be able to effectively assume the responsibilities they bear. The latter idea is, in turn, not incompatible with the notion the EU should set certain minimum standards, for instance with regard to the universal applicability of decent minimum wages within every Member State. How far policy tuning should go, how to organise it democratically, how stringent minimum standards might be, and the extent to which a distinction should be made between countries within and countries outside the Eurozone are by no means simple matters. But the fact remains that the issue of an effective and legitimate European socio-economic governance is more urgent today than it was ever before.

6. Mario Monti raised this problem in his report on the single market, and in March 2012 the Commission took an initiative to adapt legislation in this area; however, it ended in an impasse. For a nuance assessment of the Court's argument, see Armstong (2010). See Bruun and Bückner (2012) for a critical discussion of the Commission's proposal, arguing that it is inadequate and does not go far enough.

The foregoing discussion also shows that we have to entertain two perspectives on the meaning of ‘solidarity in Europe’: the arguments in Section 1 imply a pan-European notion of solidarity; the arguments in Section 2 are first of all motivated by the value of national cohesion and national, domestic solidarity. Elsewhere, I argue that these two perspectives create an “evaluative dualism”, i.e. a duality that we cannot reduce to one, single goal. Historically speaking, the European Community has always pursued the goals of enhancing national and pan-European cohesion concurrently. With a view to the latter, it has developed the so-called European cohesion policy. On the other hand, in the debate on “social Europe”, the objective has tended to be situated primarily at the national level: what was supposedly at stake was the safeguarding or improvement of national levels of social cohesion. I strongly believe that “social Europe” cannot be reduced to a matter of either national or pan-European cohesion (Vandenbroucke, 2012). What we need is a virtuous circle of growing pan-European and national cohesion. *That* is the primary objective of a social Europe. In the next section I briefly illustrate the agenda this implies.

5 SOCIAL INVESTMENT ON THE AGENDA

How can we create a virtuous circle whereby both pan-European cohesion and national cohesion are enhanced? If there is any area today where the European Union needs a “pact” for setting long-term goals in a spirit of reciprocity, then it is social investment, so argue Anton Hemerijck, Bruno Palier and myself. Social investment emerged gradually as a social policy perspective in the 1990s in response to fundamental changes in our societies. The focus is 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 necessitated this approach are as relevant and important today as they were ten years ago, perhaps even more so because of adverse demography. It implies a reform-oriented agenda and a dynamic public sector (Vandenbroucke, Hemerijck and Palier, 2011). The 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; and minimum income protection and, in general terms, capacitating service provision. Adding “minimum income protection” is not superfluous: we need to develop social investment and social protection as complementary pillars: one cannot replace the other and a one-sided view should be resisted (Vandenbroucke and Vlemingckx, 2011; Vandenbroucke *et al.*, 2013).

In February 2013 the European Commission adopted a *Social Investment Package* (European Commission, 2013), which marks an important turn in the

current thinking in (at least part of) the European Commission. The package encompasses a large bundle of initiatives, in essence urging member states to put social investment higher on their national agenda (including a very comprehensive Recommendation on “Investing in Children”). In addition, the package announces efforts by the Commission to increase support for Member States that put social investment on the agenda, notably by the European Funds, linking this with stricter conditionality. The package also refers to the European Semester (notably the Country-Specific Recommendation, CSR) as another important vehicle for implementation of the policies it promotes. The next round of CSR will be an interesting litmus test in this respect. At the moment of writing, it is unclear whether the Commission and the Council will deliver on this – one should not underestimate the resistance at different levels against introducing social objectives in the CSR – but the adoption of the Social Investment Package clearly constitutes an important opportunity, both to challenge a one-sided approach to fiscal consolidation and to develop a social dimension into the actions of the EU.

Obviously, social investment is a long-term agenda. It would be naive to think that it can resolve the short-term issues presented by the ongoing economic and financial crisis. 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. This requires a more balanced approach to macro-economic coordination itself, and a close link between economic and social governance. For instance, the schedule of fiscal consolidation could be revised in countries confronted with zero-growth prospects and effectively seeking a higher quality of spending and administration (Tillhaye, 2013). The contractual approach, proposed by President Van Rompuy, should serve that goal, if it is to play a constructive role in the current situation.

The drive for reform in the Member States should be based on genuine reciprocity. 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. As a matter of fact, explaining why countries perform so differently with regard to child poverty is not straightforward: there is a lot of evidence, but no hard science than can trump political deliberation (Vandenbroucke *et al.*, 2013). This implies that a contractual approach should be far removed from a top-down, ‘one size fits all’ approach to social policy-making in the Member States. What is needed is a combination of (i) greater room of manoeuvre and support for Member States that opt for a social investment strategy and (ii) 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.

Whatever its weaknesses, we must also persist with Open Coordination as a process whereby the definition of the European social model can gradually become more operational. However, in this process, greater emphasis needs to be placed on the accountability of the Member States in relation to the general quality of their social protection systems, including with regard to minimum income protection. Minimum standards (for instance with regard to the universal application of minimum wage floors, or the quality of minimum income protection)

should ideally be introduced by European legislation. But, absent legislation, a possible route to make progress is by enriching the existing employment guidelines and coordination processes by social standards. The Recommendation on “Investing in Children” provides a good example of a soft initiative, but with clear references to social rights – in this case children’s rights. The political salience of these specific processes, notably with regard to the governance of the Eurozone, may be enhanced by regular meetings of the Social Affairs and Employment Ministers of the Euro Area (thus creating a “Euro Group of Social Ministers” (M.J. Rodrigues, forthcoming).

6 CONCLUSION: DEVELOPING A SOCIAL DIMENSION THAT IS NO LONGER A LUXURY, BUT A NECESSITY

In Sections 1 and 2, I outlined various arguments for “social Europe”. Those carrying the greatest weight, today, are linked with the predicament of the Eurozone: EMU must be complemented with ESU, for it to be sustainable in the long term. A Social Union means that the EU would guide the substantive development of national welfare states, via general social standards and objectives, leaving ways and means of social policy to Member States. That presupposes a sufficient degree of consensus on the goals of social policy, so that EU policies can be organized on the basis of an operational definition of the European social model. It requires pan-European solidarity based on reciprocity in the relationship between the Member States.

All this is not to say that the monetary union can only survive if European policy adequately meets the requirements of social *justice* as I would like to define them. My core argument is more limited in scope: I assert that a basic consensus is required concerning the envisaged social model in order that the monetary union could survive in the long term. Such a basic consensus may assume a variety of shapes, depending on the underlying conception of social justice and the significance attached to it. However, in order for such a consensus to engender broad political support, it must adhere to the objectives that the European welfare states have in common. It cannot contradict the normative foundations of European welfare states.

In Section 3, I summarily sketched issues with regard to the questions of *what* and *how*. The challenge is to make long-term social investments and medium-term fiscal consolidation mutually supportive and sustainable, under improved financial and economic governance. This requires a more balanced approach to macro-economic coordination itself, and a close link between economic and social governance. In political terms, the challenge is clear: European citizens need a reformist perspective that gives the *social acquis* they cherish a credible future. That requires that both national social cohesion and pan-European cohesion are firmly put on the agenda and carry the same political weight as economic objectives at the highest levels of policy making in the EU.

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