

# *Rethinking the European Social Model*

Dimitris Tsarouhas

## **ABSTRACT**

The concept of the European Social Model (ESM) has been used by academics and practitioners alike for quite some time. Though its precise conceptualization often remained elusive, its use was welcomed across much of the mainstream party political spectrum in Europe. The banking, sovereign debt, financial and economic crisis, however, has contributed not only to a drop in economic output and higher unemployment across much of the European Union (EU). It is also leading to a new soul-searching mission as to what the ESM really is, not least in light of the conscious political choice to adopt austerity politics as a mechanism of economic “catharsis”, and to impose the costs of “adjustment” mostly on those least in a position to defend themselves from freely floating market forces. Given the heterogeneity of EU member states and their very diverse institutional and organizational features, does a European Social Model still exist today, even at a normative level of common aspiration? Is the policy of socio-economic convergence between the localities, regions and states of Europe still part of a grand EU contract to which the citizens of Europe can have faith? Or does the crisis underline and aggravate EU heterogeneity, leading to internal competition on economic performance, thus relegating further any concerns the Union aspires to in terms of social protection and cohesion? In other words, is ECB President Mario Draghi write when claiming that the “European Social Model is already gone”? (Draghi cited in Hermann 2013).

This contribution will attempt to shed some light to those difficult, structural questions for the future of Europe’s socio-economic standing and integration objectives. Given how difficult it is to pin down the concept, the paper begins with a brief discussion of the ESM concept and seeks to create a suitable typology to better understand its use in the literature. It then moves on to discuss the current state of (social and employment) affairs in the EU, before providing tangible policy suggestions as to how to resuscitate the ESM.

**Keywords:** *European Social Model, globalization, minimum wage, inequality, investment.*

## Introduction

In 2004, Jeremy Rifkin wrote “the European Dream”, extolling the virtues of the EU way of managing global and regional challenges. Environmental protection, economic sustainability and a commitment to social justice appeared closely connected to the type of arrangements that the Union had chosen for its citizens, and was willing to export abroad. EU statements and declarations stood in sharp contrast to the US administration’s disregard for international law and climate change, leading many to assume that the American Dream was on its way out – to be replaced by Europe’s more attractive equivalent (Rifkin 2004).

Fast forward ten years and although the rhetoric of the Union has hardly changed, its record in practice reveals a much gloomier picture. Marred in an economic crisis for an ever increasing period of time and with many of its member states stigmatized by unacceptably high levels of unemployment, the EU appears to have lost its political direction. In search of renewal but uncertain as to the way forward, the EU is faced with ever increasing levels of skepticism by its own citizens. The issue is complex and the rise of Euroscepticism the result of multiple forces. Yet what is undoubtedly true, and has been revealed time and time again in recent EU history, is that citizens feel increasingly disconnected from a European Union that does not live up to its earlier promise of a “Social Europe”. As the Single Market project became embedded in integration, with financial liberalization following suit, EU citizens felt that the necessary compensatory mechanisms in the field of social welfare and the labour market were left aside. When the economic crisis hit, this feeling was particularly pronounced amongst those citizens whose countries felt the worse effects of the crisis. Nonetheless, it would be wrong to assume that the question of ‘Social Europe’ or the ‘European Social Model’ is only of concern to the poorest member states.

In what follows, I aim to describe the current situation in Europe, analyze its underlying dynamics and provide tangible suggestion for a future-oriented policy reform agenda. Given the new Commission team and the fact that the EP elections are now behind us, the time is ripe to think bold and big about one of Europe’s most precious assets, its social market economy. The next section provides a typology of the ESM and traces it back to the formation of the Single Market project, whilst highlighting its pluralism and rich diversity. The second part takes stock of the “currently existing” ESM, that is, the socio-economic conditions that EU citizens are

faced with as the crisis refuses to give way to a sustainable recovery. The third section entails practical policy suggestions based on the previous parts, and the conclusion underlines their necessity in a volatile context marred by high levels of unemployment and social deprivation.

## **ESM: One or Many? Definition Clusters and Approaches**

The starting point for an evaluation of the European Social Model (ESM) should be its definition. However, this is not a risk-free exercise and problems abound. On the one hand, different typologies linking up to different clusters of member-states suggest different meanings for the ESM. On the other hand, even if this clustering has its merits by revealing pluralism within the EU as to the content of the ESM, it appears to suggest that the ESM is a static phenomenon. Alas, the crisis has revealed the high degree of fluidity in national welfare arrangements that often result from external pressure. This can take a direct form (e.g. programme countries needing to cut back on public expenditure and/or amend their labour laws) or be more indirect (e.g. Council deliberations following Commission reports in the context of peer reviewing/the Open Method of Coordination, highlighting existing weaknesses in some member states' socio-economic arrangements.)

Even if one accepts the dynamic nature of the ESM across the Union, it is still important to create analytical distinctions between different sorts of definitions. This is necessary so as to present the diversity of socio-economic arrangements in the Union and adopt one particular definition on the basis of which the EU's recent record can be subsequently assessed. One of the first definitions of the ESM appears in the 'White Paper on Social Policy' (European Commission, 1994). There it is defined as a set of common values, namely

“the commitment to democracy, personal freedom, social dialogue, equal opportunities for all, adequate social security and solidarity towards the weaker individuals in society”.

How does such a declaration translate in practice, and how do its individual components sit together in a coherent whole? Jacques Delors was one of the first to popularize the term 'European Social Model' in the mid-1980s. At that time, the Commission designated it as an alternative to the US form of pure-market

capitalism. This was meant to be a socio-economic arrangement that would distinguish Europe (in fact, western Europe) from alternative arrangements prevalent in the Mecca of turbo capitalism, the United States. The ESM as a 'non-American' arrangement would strike one as rather odd in the aftermath of the economic crisis and the attempt by the US administration to handle the credit crunch by employing a plethora of progressive policy tools. This stands in sharp contrast to the dominant EU approach. Moreover, the 1980s attempts to forge a European Social Model based on the diverse experiences of member states was also an attempt to appease Europe's workers as to the ultimate destination of European integration and allay their fears related to the dominance of economic and financial integration at the expense of 'Social Europe'.

Be that as it may, the attempt to forge an ESM as opposed to the US has roots in the EU. In a 2001 Commission Communication on employment and social policies, the ESM is framed with reference to social spending; public social spending in Europe whereas the US relies more heavily on private expenditure. Moreover, the same Communication differentiates between public and private healthcare expenditure, stressing that 40% or so of the US population lacks access to primary healthcare despite the fact that in the US healthcare expenditure per capita is higher than in the EU (European Commission 2001, "Employment and social policies: A framework for investing in quality").

Definitions can be grouped into the three categories listed below (based on those developed in Jensen and Pascual 2005). It is important to note that the categories are not mutually exclusive; hence a definition given under one heading may well also be applicable under another.

- 1) In the first cluster of definitions the ESM is considered as the model that incorporates certain common features (institutions, values, and so on) that are inherent in the status quo of the European Union member states. Moreover, they are perceived as enabling a distinctive mode of regulation as well as a distinctive competition regime.
- 2) The second cluster of definitions establishes the ESM as being enshrined in a variety of different national models, some of which are put forward as good examples; the ESM thus becomes an ideal model in the Weberian sense.
- 3) The third way of identifying the ESM is as a European project and a tool for modernization/ adaptation to changing economic conditions as well as an instrument

for cohesiveness. Under this cluster of definitions, the ESM is an emerging transnational phenomenon.

### The ESM as an entity (common institutions, values or forms of regulation)

The most commonly encountered definition is that which refers to the common features shared by the European Union member states. Under this heading, definitions range from quite vague to rather detailed and they tend, by and large, to suggest a normative approach. The ESM is thus described as a specific common European aim geared to the achievement of full employment, adequate social protection and equality. Another way of defining it is via the institutions of the welfare state and in terms of an alleged capacity inherent in the ESM to regulate the market economy to achieve wider socio-economic goals and political objectives.

Vaughan- Whitehead (2003) proposes a lengthy enumeration of components constituting the ESM. These factors encompass labour law on workers' rights, employment, equal opportunities, anti-discrimination, and so forth. They stress that the ESM is not only a set of European Community and member-state regulations but also a range of practices aimed at promoting voluntaristic and comprehensive social policy in the European Union.

Scharpf (2002), following a similar line of reasoning, sees the 'identity marks' of the ESM as generous welfare-state transfers and services together with a social regulation of the economy. He goes on to touch one of the thorniest issues surrounding the ESM, namely the extent to which member states and governments supportive of generous socio-economic arrangements benefiting the population can rely on the EU to defend and promote such arrangements:

'countries and interest groups that had come to rely on social regulation of the economy and generous welfare state transfers and services are now expecting the European Union to protect the "European Social Model"' (Scharpf, 2002: 649).

Finally, in Hay et al. (1999) the ESM is defined as a group of welfare regimes characterized by extensive social protection, fully comprehensive and legally sanctioned labour-market institutions, as well as the resolution of social conflict by consensual and democratic means.

## The ESM as an ideal(ized) model

In the second strand of the literature, specific national models are identified. The UK, Sweden and Germany are often put forward as paradigmatic cases and certain countries are pinpointed as showing the way towards an ESM that successfully combines economic efficiency with social justice. Esping-Andersen (1999) endorses this approach. Ferrera et al. (2001) describe – and implicitly define – the key features of the model as being extensive basic social-security protection for all citizens, a high degree of interest organization and coordinated bargaining, and a more equal wage and income distribution than in most other parts of the world.

‘The basket of requisite policies for sustaining the European social model and ensuring an equitable trade-off between growth and social justice ought also to include, not only a minimum guarantee and health protection guarantee, but also a universal human capital guarantee, providing access to high quality education and training’ (Ferrera et al., 2001: 18).

They argue that these features are institutionalized to various degrees in the European Union and that the UK and Ireland are definite outliers. The Netherlands, Denmark and Austria are put forward by these authors as good examples of how generous welfare policy can accommodate economic progress.

Ebbinghaus (1999) identifies four groups of welfare state which together form what he calls the ‘European social landscape’. He defines a model as a ‘specific combination of institutions and social practices that govern market–society relations in a particular nation-specific combination’ (Ebbinghaus, 1999: 3). This classification is based on the type of governance of market macro-economic policy, labour-market policy and social policy. Ebbinghaus argues that Europe is far from possessing any single best institutional design; there are four distinct types of social models in Europe, and they roughly correspond to the Nordic, Anglo-Saxon, Continental and Southern European models. Sapir (2006) expanded on the same notion, identified the same 4 groups of welfare ‘families’ and set out a powerful argument on the tradeoff between efficiency and justice that each of them corresponds to.

A highly normative approach to the ESM, even when based on well-defined cases with a particular institutional tradition and political culture that incorporates some or all of the essential ESM features, is problematic. To start with, such typologies

neglect the dynamic nature of the policy nexus encompassing welfare, labour and taxation and social security policies. Over the last two decades, member states have embarked on various policy reforms to fulfill various policy objectives. Some of them have gone far in rearticulating their welfare and employment systems, commonly in the direction of more flexibility in the labour market, some form of means-tested welfare and cost containment. They have also experimented with forms of labour market deregulation, have integrated private sector providers firmly into the delivery of public services and have endorsed welfare retrenchment in policy areas such as public pension schemes (Bonoli 2005; Bonoli and Natali, 2012: 3). These changes speak to the need of adopting a more dynamic approach when assessing the ESM and refute a strict path-dependent approach in examining the transformation of welfare and employment systems.

### The ESM as a European project

Here the literature is in agreement that the ESM is a dynamic and evolving model, which is affected by both national and European forces and processes. However, rather than emphasizing the similarities between national systems, the focus here is on the development of a distinctive transnational model. In some respects, this cluster of definitions speaks more directly to the need of developing pan-European solutions, acknowledging the diversity of national or regional social policy arrangements yet seeking to go beyond mere clustering and embrace practical policy solutions that can work across the board.

Vaughan-Whitehead (2003) may be seen as a proponent of this trend which is also endorsed by Wilding (1997), who argues that it is simply not viable any more for countries to conduct their social policies independently from another. Hence, in the light of enlargement to Central and Eastern Europe, the ESM takes on the role of assuring a certain degree of cohesion.

Black (2002) seeks to demonstrate that the core of the ESM lies in industrial relations and labour-market standards and policies. Its essence, in his view, is a multi-level system of regulation stemming from national as well as European systems of regulation/deregulation and taking as its basis the common European values and rights set out and formally agreed in the charter of Fundamental Social Rights. He argues that Europe has made a considerable impact on cross-national convergence within the ESM. Lönnroth (2002) also states that the charter of

fundamental human rights codifies the key principles of the ESM and thereby establishes the challenges that are to be met by the ESM in the future.

' . . . There are some values, which we Europeans share, and which make our life different from what you find elsewhere in the world. These values cover the quest for economic prosperity which should be linked with democracy and participation, search for consensus, solidarity with weakest members, equal opportunities for all, respect for human and labour rights, and the conviction that earning one's living through work is the basis upon which social welfare should be built' (Lönnroth) (2002: 3).

What is then, the ESM? Clearly, the very attempt to use the term in singular can be objected to; many authors rightly talk of models in plural, and point out not only the internal divergence of socio-economic arrangements across member states, but also the highly unequal nature of the EU's distribution of income and employment opportunities (Alber 2006). Nonetheless, the point of departure for this paper is that some form of an encompassing socio-economic arrangement that will actively seek to reverse the current trend of growing inequality among and between member states is a sine qua non for the survival of the European project.

In 2000, the European Council defined the ESM as a set of "systems" that are characterized by "high level of **social protection**, by the importance of the **social dialogue** and by services of general interest covering activities vital for **social cohesion**" (European Council 2000 quoted in Alber, 2006: 394). Moreover, the Treaty on the Functioning of the European Union (TFEU) could not be clearer. Articles 8 and 9 specify that the Union shall "**aim to eliminate inequalities** and to promote equality between men and women" (Article 8). The next article goes further in declaring that when the Union formulates its policies and/or comes up with proposals, it "shall take into account requirements linked to the promotion of a **high level of employment**, the guarantee of **adequate social protection**, the **fight against social exclusion**, and a **high level of education, training and protection of human health**". Finally, the Europe2020 Strategy states that the Union is premised on the values of **human dignity** and **solidarity**, and that combating **social exclusion**, promoting **social justice** and **fundamental rights** have long been core objectives of the Union. It is for that reason after all that the European platform Against Poverty and Social Exclusion constitutes one of the seven Europe2020 flagship initiatives.

From the above, and without going into further details as to other Treaty provisions, it is clear that the European Social Model has a strong mandate: to make sure that EU citizens enjoy access to employment through adequate education and training. They do so as voluntary members of trade unions and other forms of employ representation, participating in a vibrant and active social dialogue geared towards consensus-based labour market policies. Moreover, they deserve access to a minimum of social services to avoid social exclusion and deprivation. Finally, the ESM is about addressing the question of inequality. Although its specific type is not specified, the following section's discussion on various inequality types becomes relevant.

### **Why change? ESM, new social risks and globalization**

Before assessing the extent to which the ESM lives up to its promise, it is worth embarking on one more exercise. It is salient to outline the changes in technology, society and economy that have led to a rethink of national and European welfare and employment arrangements. It is these changers that underpin a large part of the literature eon "new" welfare, and thus invite us to think about the ESM in terms radically different from the past. The extent to which the new approach practically corresponds to the socio-economic reality of the EU in 2014 will be the subject matter of the next section.

Globalization produces a variety of common pressures which, in turn expose the different parts of the world (including the USA and Europe) to the same imperatives of competitiveness and internal economic integration. In the face of technological, economic and social change, which are presented as inevitably and obviously 'given', the 'need' for social and institutional modernization (structural reform, more training for new technologies, etc.) is considered equally obvious. As mentioned earlier, such reforms have already been introduced in a number of member states – and such change is expected to continue in the years to come, as low growth rates and persistently high unemployment becomes a feature of ever more EU states.

Such modernisation is becoming urgent in the light of the European population, with consequences in terms of financing social protection systems and responding to the needs of an older population in terms of working conditions, health or quality of life. (European Commission, 2003: 5). This modernization appears, accordingly, as the

'natural' response to economic change and globalization. Many authors and policymakers at the European level use the term 'knowledge-based Society' to illustrate the essence of these changes. Underlying this term are the notions that, due to a variety of causes, the conditions of the European production model have changed and that the ESM is geared to the framing of a response to the new economic/ societal challenges.

What are these causes?

1) A first set of reasons relates to the strengthening of economic integration and macroeconomic surveillance, in conjunction with the process of EU enlargement. In the wake of Economic and Monetary Union (EMU), a significant asymmetry between market efficiency (economic policies have been Europeanized) and policies promoting social protection (these remain at national level) has come into being. The most telling example of this asymmetry being the manner in which the European Employment Strategy is intended as a counterweight to the European Economic and Monetary Union. Furthermore, economic integration has reduced the capacity of member states to use traditional national economic policy instruments (exchange rates, deficit spending, monetary policy, increasing labour costs) for the achievement of self-defined social-policy goals (Scharpf, 2002). The balance of power between fiscal and monetary authorities has shifted (Begg, 2002: 6). Last but not least, there is the risk of wage and social dumping (Jacobsson and Schmid, 2002; Kittel, 2002). The ability of firms to move production from one location to another might be expected to create downward pressure on the taxes, wages and social-security system.

These are some of the reasons why authors argue that there is a risk of downward adjustment of social standards and of an attack on collective bargaining and labour-market regulation (Ferrera et al., 2000; Kittel, 2002), and hence a need for a further reinforcement of the social dimension of European integration.

2) A second type of reason is based more on demographic and societal changes, instances of which include the increasing participation of women in the labour market, the ageing of the population, changing patterns of consumption, and the transformation of institutions such as the family. The population ageing will have substantial effects, not only on pension spending but also on health and especially long-term care spending. Dependency ratios will rise in all developed countries, and this effect is compounded by the life expectancy gains at advanced ages.

These demographic changes will have three main effects:

2a) A larger population at a very advanced age who will probably require both substantial health care and long-term care

2b) The current three-generational model (children, parents, grandparents) will become, or is already becoming, a four-generational model (children, parents, grandparents and great-grandparents)

2c) A decline in the share of the population aged between 15 and 64, raising questions as to the financing of the expenditures linked to the ageing population.

3) Finally, the third set of reasons (socioeconomic) is social dumping (Jacobsson and Schmid, 2002). In contrast to the principle of stability, on which industrialized societies were traditionally based, the basic characteristic of the current model is constant change and instability. In the past, in order to achieve the requisite stability, it was necessary to eliminate uncertainty by means of strict labour regulation, removal of risks and control of future events.

Economic and social stability was a key requirement for this model of production. In contrast with this past situation, it is currently considered impossible to regulate events before they happen and risk is seen as inevitable. This makes it 'necessary' to promote flexibility, so that people are able to accommodate uncertainty and adapt to rapid changes in production demands. This model of labour regulation is accompanied by the emergence of a model of social-welfare regulation, which sees insecurity as inevitable.

According to this ideal model, rather than protecting against risk, the welfare state should concentrate on promoting the management of risk thereby consolidating the laws of the market. Citizenship is held to be, rather than a right, something which the individual is required to earn. As such, citizenship is described in fundamentally individualistic rather than social terms.

## **The Socio-Economic Reality of the crisis-stricken EU**

The current crisis was not always treated as a systemic failure of spendthrift governments that let their public finances wreak havoc on their economic output. To start with, most member states reverted to deficit spending to face off the crisis and social protection mechanisms were activated to mitigate the crisis' worst effects.

Households were able to cushion off a large part of the shock in the period 2007 to 2009, according to the European Commission's own admission (European Commission, 2012: 15). The role of automatic stabilizers kicked in, and aggregate demand could be sustained to address the growing problem of rising poverty. Although there was no uniform response by member states, the first phase of the crisis saw those stabilizers having a real, positive income on citizens' ability to protect themselves from the crisis (Vandenbroucke and Vanhercke, 2014:9).

After 2010, however, and following the successive bailouts of member states in Southern Europe plus Ireland, deficit spending gave way to 'fiscal adjustment' and 'structural reform'. These remain until today the building blocks of Europe's economic recovery, despite their miserable economic and social results and despite the recent talk on the need for a more balanced approach following Renzi's election in Italy. What is more, the austerity approach acquired over the last few years a pan-European approach: whilst it was initially confined to isolated states and was usually practiced by the EU and the IMF outside Eurozone states, after 2010 it became both part of the bailout conditionality imposed by the ECB, the Commission and the IMF, and was also practiced in countries that did not have to carry the burden of external economic control. In other words, austerity became the only game in town and the consequences have been dramatic.

Vandenbroucke and Vanhercke provide a useful summary of developments from 2008 (the onslaught of the crisis) to 2012 (when 'green shoots' could be seen, to quote Ben Bernanke, but have yet to lead to a sustained economic recovery).<sup>1</sup>

### Labour Market

Employment rates in the EU-15 in 2012 were lower than in 2004 for all states except for Germany. Youth unemployment in the EU was on average 23% (up from 15% four years earlier), and talk of a lost generation is by now commonplace. Moreover, progress that had been made in reducing the number of jobless households was undone during the crisis, climbing back to approximately 11% by 2013 (European

---

<sup>1</sup> The data reveals the damage to the European Social Model during the crisis. One should not assume, however, that all was well with Europe's socio-economic arrangements, particularly in the countries comprising the Anglo-Saxon and Mediterranean/Southern European Model *prior* to the crisis. Levels of inequality, risk of poverty and divergent economic performance from the 'core' were already evident in the early 2000s; southern Europe in particular has long suffered from an inability to revamp its social protection systems to care for those genuinely in need - instead of those groups that have shouted the loudest and benefited from deals with political authorities and governing parties.

Commission 2013). Overall unemployment went up from 7% to 10.8% by 2013, and long-term unemployment rose from 2.6% to 5.1% of the active population (Frazer et al., 2014). The economically inactive population has risen sharply in the last few years. According to the Eurofound Jobs Monitor, 137 million people were economically inactive at the end of 2013, an unsustainable situation in the long term given fiscal constraints on welfare expenditure. What is more, job polarization has gone up in recent years, with the distinction between well- and bad-paying jobs rising sharply and the wage premium following a similar direction.

One positive side-effect of the crisis has been the position of women in the labour market. As female employees tend to be employed in highly demanded occupations such as the health sector and are under-represented in sectors heavily hit by the crisis (e.g. construction), female employment numbers have gone up, not least because they tend to now occupy higher positions in the employment structure (Eurofound, 2013: 2).

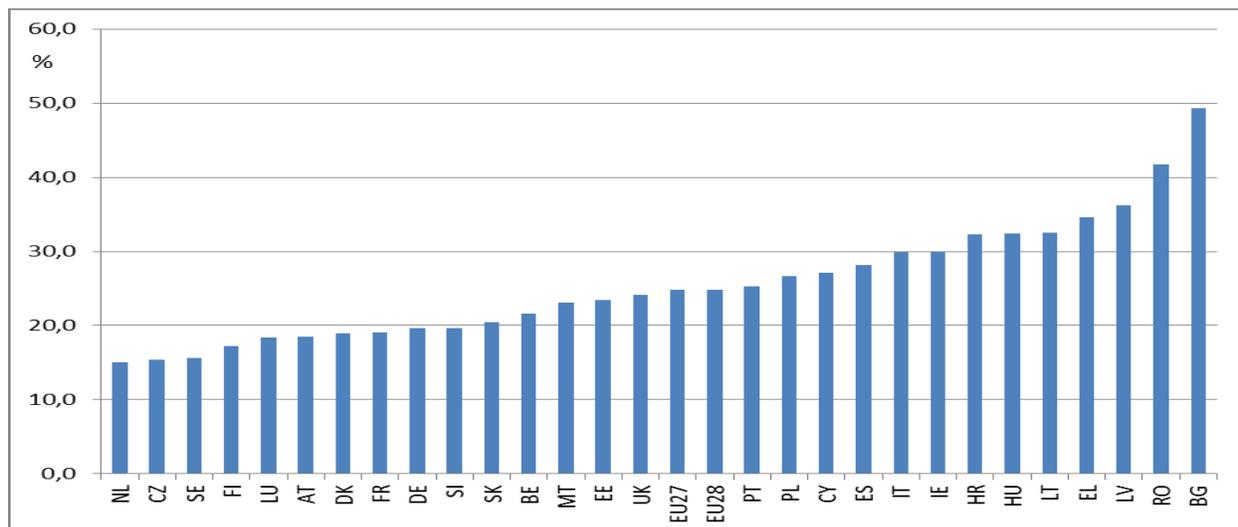
### Poverty and Social Exclusion

The increasing tendency towards higher and more extreme forms of deprivation is best illustrated in the figure below.<sup>2</sup> What the graphs illustrate is not merely worsening conditions for programme countries: they point a) first to the dramatic consequences of austerity within most M-S and b) highlight the growing divergence in performance by member states. The contrast between the Netherlands and Bulgaria in Figure 1 is revealing – and worrying.

---

<sup>2</sup> Unless otherwise, indicated these are data from EU-SILC Eurostat database from July 2014 quoted in several pages from the OSE Report of October 2014 Frazer et al.

Figure 1: Proportion of citizens at risk of poverty or social exclusion, EU 28, 2012, % of total population



### Inequality

One of the major driving forces behind the high rates of poverty and social exclusion risk (AROPE) is joblessness. The proportion of those in the EU that were either unemployed or inactive rose from 44.1% in 2008 to 47.6% in 2012. Moreover, in-work poverty continued to increase, from 8% before the crisis to 9% by 2012 (Frazer et al., 2014).

When it comes to income inequality, the silver lining is that little appears to have changed from 2008, given that the Gini coefficient of available disposable income in 2008 was 30.9 in 2008 and 30.6 in 2012. Yet this masks important differences within member states, particularly programme countries. Moreover, the income quintile ratio (S80/S20) in the EU-27 increased from 5.0 to 5.1 between 2008 and 2012, while the median income of the richest 20% in Bulgaria, Latvia, Romania, Greece, Spain, and Portugal was 6 times (or more) higher than the median income of the poorest 20%. (Frazer et al., 2014: 21).

### **Where to go from Here? Proposals for a New ESM**

The debate on Europe's social condition has become very lively as of late, and this reflects growing awareness of the need to act before social cohesion is undermined further. Both the Juncker Commission (Juncker 2014) and member states are in the

process of formulating concrete policy proposals to halt the slide towards ever growing disparities of income and opportunity. Below I outline a few suggestions as to the policy content that new initiatives could take.

### A European Social Investment Pact

Macroeconomic convergence and adequate social standards go hand in hand in a future-oriented EU. Fiscal consolidation has proved how ineffective it is, widening differences between member states and leading to rising inequalities.

One of the fundamental problems of the EU is a massive lack in investment. Public investment has gone down by 15% in the EU between 2008-12, and was inadequate before the onset of the crisis (Vandenbroucke and Vanhercke, 2014). It is correct to argue, however, that public investment that leads to no productive uses will be a massive waste and have no positive effects.

It is important to concentrate efforts to invest in ways that will prove beneficial in the medium and long-term, rather than merely create short-term jobs with short-term prospects. A large part of the package can revitalize Social Europe to the extent it aims at tackling youth unemployment, but this in itself would be inadequate. Two key areas stand out: first, investment in early childcare (Vandenbroucke et al., 2011). This is a form of public investment (rather than expenditure) with positive side effects on female employment, a pathway to reconcile work and family life and a solid policy proposal to prepare the ground for a high-quality, high-value economy for the future. Secondly, public investment can and ought to take the form of a re-launched push for an active labour market policy across member states. The data is clear on the high returns of such investment: active labour market policies enhance occupational mobility, reduce the long-term unemployment rate and thus offer powerful disincentives from the unemployment trap, from which tens of millions of EU citizens suffer. An active labour market policy is particularly important in the face of new data showing growing job polarization. The consequence for income inequality will be dire unless steps are taken early to prevent such discrepancies from rising.

### A European Minimum Wage Policy

*“Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity”*

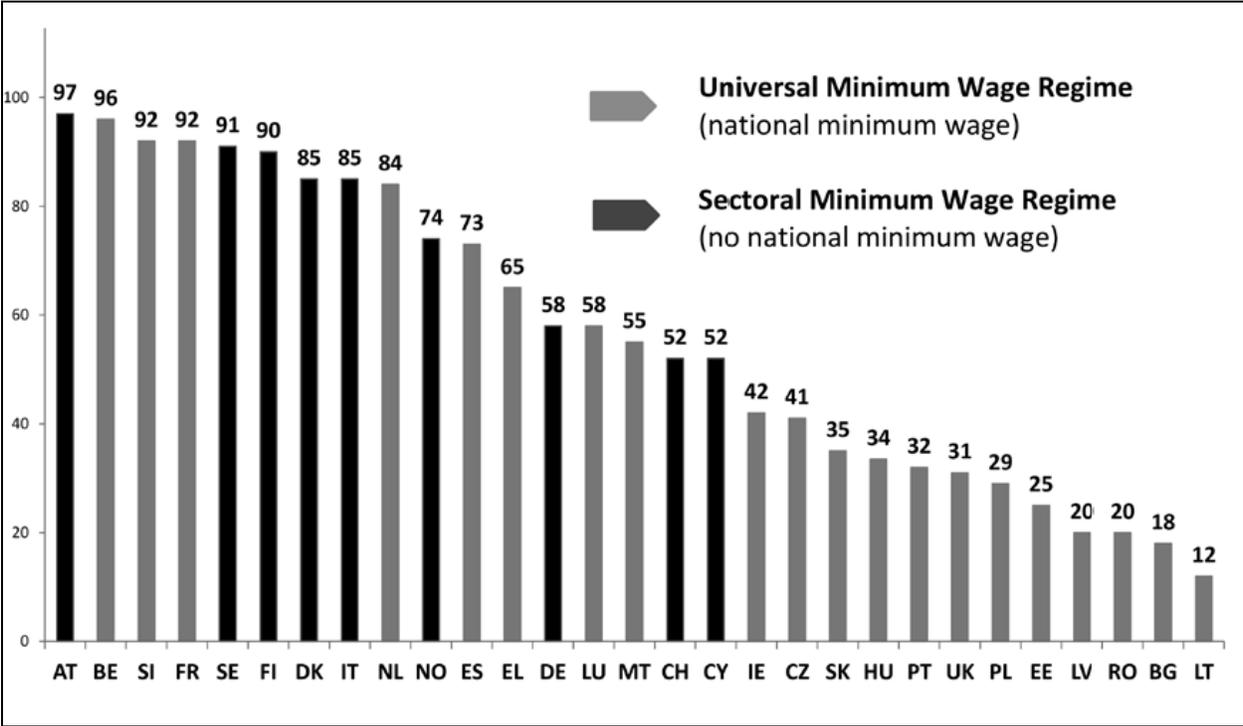
(Article 23, paragraph 3, 1948 UN Declaration of Human Rights).

The debate on a minimum wage at EU level has taken off about a decade ago, but practical work towards its realization has been limited. Major EU member states had been reluctant to follow that path, let alone have an EU-wide policy on the subject. When the crisis hit, however, the debate intensified and the need for some form of EU-wide arrangement is becoming increasingly pressing.

Currently, differences between member states are large and significant regarding their minimum wage policy arrangements, both practical and institutional. Figure 2 shows that 21 M-S have a binding, national minimum wage policy whereas seven (six from 2015, as Germany has revised its stance recently) do not. The group of states that adopts a sectoral minimum wage policy regime, with countries such as Austria and Denmark being part of it, is also the group of states that tends to use robust collective agreement systems with powerful trade unions at sectoral level. It is for this reason that unions in those states tend to be skeptical vis a vis a minimum wage regime (Schulten 2014). There are countries with such a system where collective agreement coverage is much lower – and a switch to a national minimum wage regime is desirable. The German switch to a nation-wide minimum wage can be explained in this light. Finally, Figure 3 displays the large discrepancy in minimum wage arrangements in the EU, with some countries (particularly in Central and Eastern Europe) using it as an anchor for the wage structure, and others such as France where the minimum wage strongly influences wage development in the low-pay employment sectors. The large discrepancy is valid both in absolute terms and when we consider differences in purchasing power (Figure 4).

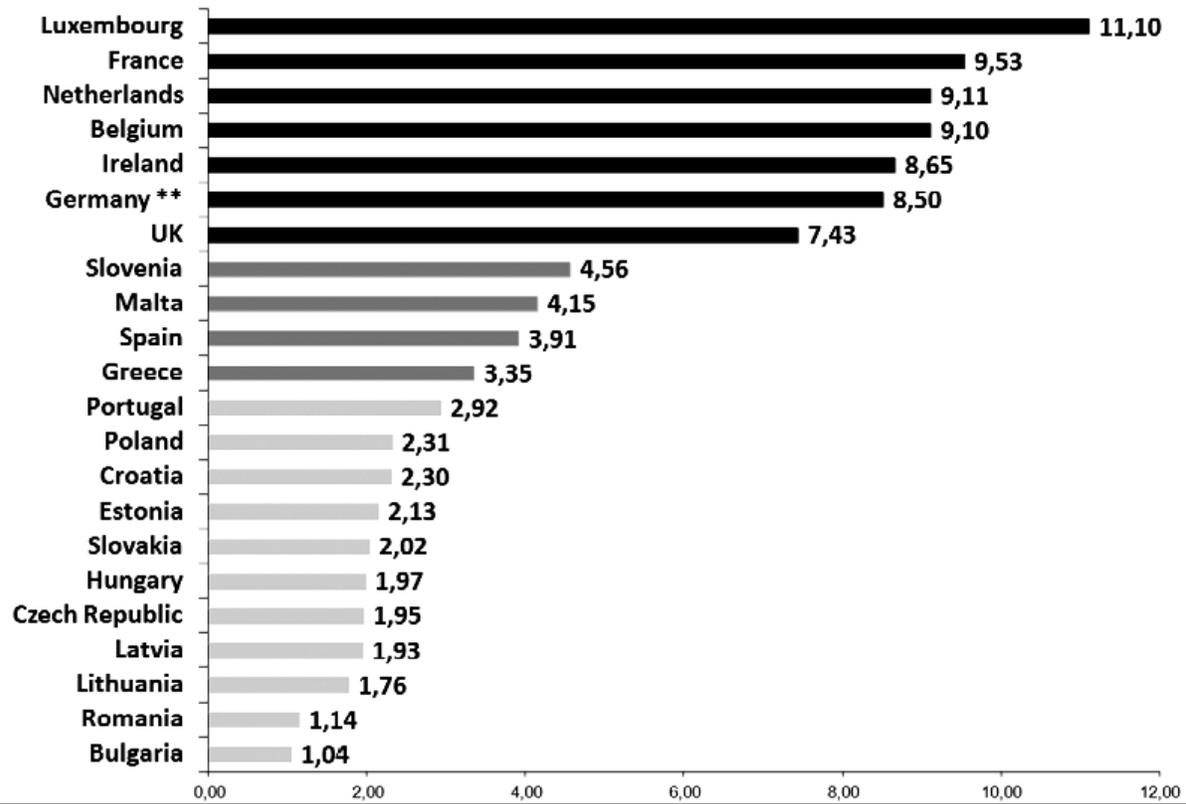
But is a European minimum wage necessary? Figure 5 shows the percentage of employees that would be affected if the wage was set (as suggested, see ETUC 2012) at 60% of national median wage. It would affect the livelihoods of millions of workers, approximately 30 million or 16% of the workforce. Note also that the data referred to is from 2010, and the percentage in countries such as Greece and Spain should be much higher today.

Figure 2: Minimum Wage Regimes and Collective Agreement Coverage, 2009-2011



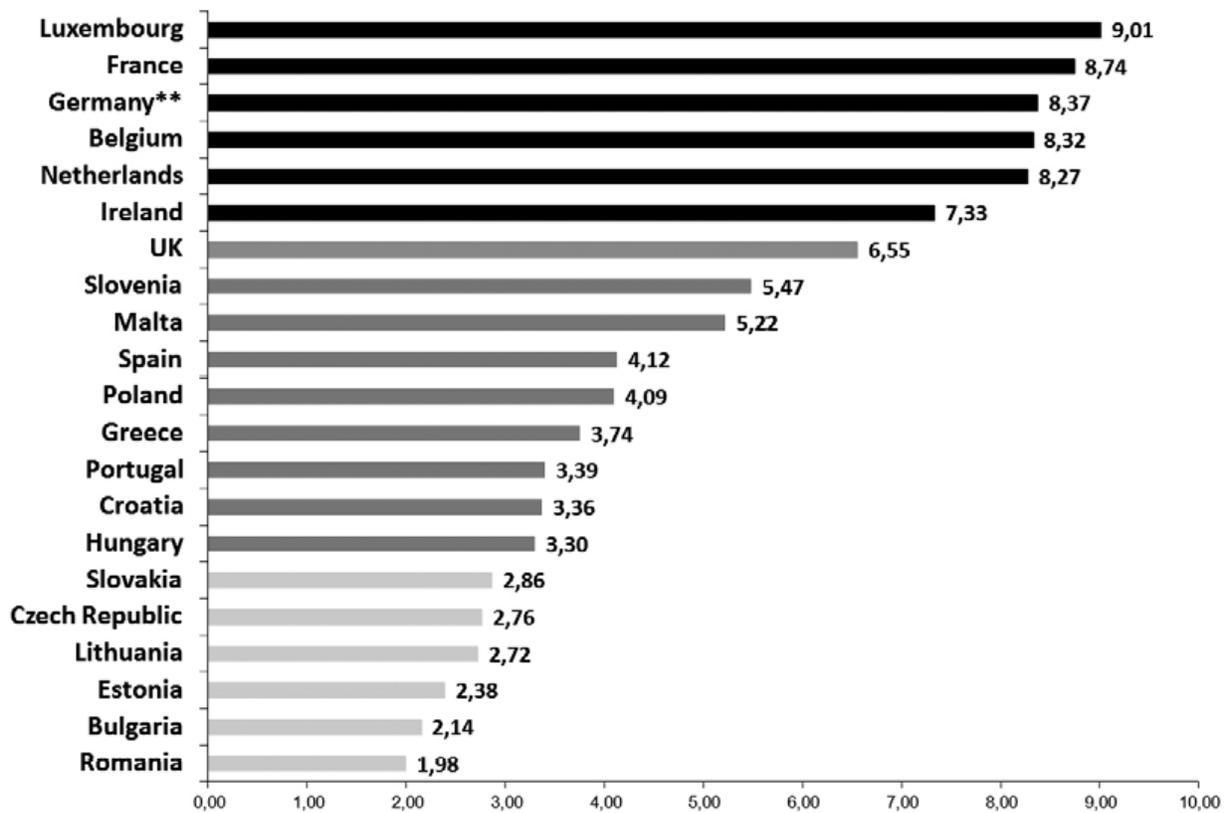
Source: ICTWSS Database (Version 4.0), national sources, cited in Schulten 2014:6.

Figure 3: Minimum Wages in Europe, per Hour, 2014



Source: ICTWSS Database (Version 4.0), national sources, cited in Schulten 2014:7.

Figure 4: Minimum Wages in PPS, 2013



Source: Source: WSI Minimum Wage Database 2014.

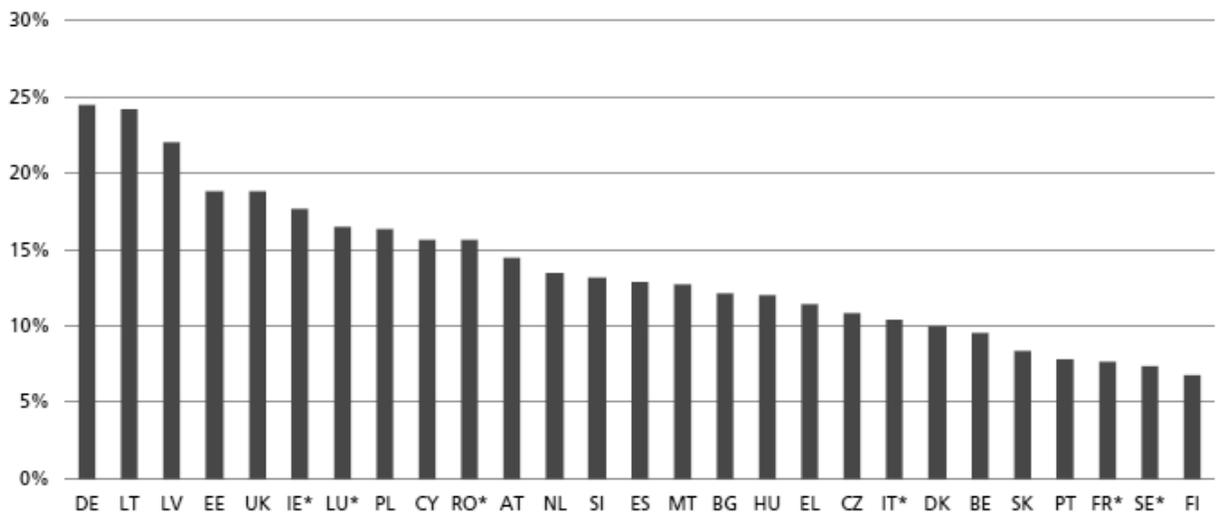
### Why a European Minimum Wage?

A European Minimum Wage policy would entail important advantages: first, it would create a viable minimum floor for wage earners across Europe and have a substantial impact on the earnings of the low paid. Second, it would display in practice that a form of 'Social Europe' exists and echoes citizens' concerns. Third, it would be fully in line with an employment-oriented policy which requires the active participation of citizens in the labour market, and offers them a minimum of wage protection in return. Fourthly, it is a realistic policy scenario that can materialize in the near future, provided the policy is implemented sensibly.

## How a European Minimum Wage?

Suggestions to how to organize a minimum wage at EU level differ, and this is only natural given the heterogeneity of the current system implemented at national level. A very concrete and realistic one entails a principled agreement at Council level and following the Commission's and Parliament's (given support) for all M-S to commit themselves to offer a minimum wage equal to 60% of median wage. A timetable for implementation can be agreed, and extra incentives offered to those states who are far from the target. Moreover, the implementation method should be down to member –states but non-implementation of the policy following the deadline should be subject to hard sanctions authorized by the Commission.

Figure 5: Proportion of workers below the EMW, 2010



Source: 2010 EU-SILC, except \* (average between EU-SILC 2010 and SES 2010 figures, because of inconsistency between the two sources).

## **Conclusion**

The European Social Model has always been a rather subjective term, susceptible to flexible interpretation and little concrete output. The heterogeneity of the EU has compounded the problem, and the economic crisis has magnified the problem of incoherence in building a Social Europe.

Yet the task is as urgent today as it ever was. Although not solely down to the lack of 'Social Europe', the Union's legitimacy deficit stems in large part from the EU inability to have a positive impact on citizens' socio-economic problems. Too often the rhetoric has been ambitious and the targets generous (see Europe 2020 as the latest example), whilst delivery has suffered and economic governance policies have monopolized the public debate.

Deteriorating indicators on the labour market, inequality and social exclusion necessitate a new approach. A true European Social Model that binds all member states cannot go beyond the limits of feasibility, but has to keep an eye on future possibilities. Adopting a Social Investment strategy is a way forward in that it delivers both on the economic and social policy front, multiplying the rewards for member states and citizens alike. Further, a European Minimum Wage gives concrete substance to 'Social Europe' by lifting the earnings of millions of Europeans to an acceptable level, fulfilling the Union's obligations to its working people and allowing it to claim the high ground on employment protection. Such measures do not tell the full story, nor do they provide an exhaustive list of possibilities. But they offer a concrete way forward – and may be the last opportunity for the EU to maintain its legitimacy in the eyes of a very skeptical public.

## References

Alber, J. (2006) 'The European Social Model and the United States', *European Union Politics*, 7(3): 393-419.

Begg, I. (2002) 'EMU and Employment Social Models in the EMU: Convergence? Co-existence? The Role of Economic and Social Actors', Working paper 42/02, ESRC 'One Europe or Several' programme.

Black, B. (2002) 'What is European in the European Social Model?', *mimeo*. Belfast: Queen's University.

Bonoli, G. (2005) 'The Politics of the new social policies: providing coverage against new social risks in mature welfare states', *Policy & Politics*, 33 (3): 431-49

Bonoli, G. and Natali, D. (2012) 'The Politics of the "New" Welfare States: Analysing Reforms in Western Europe' in *The Politics of the New Welfare State*, G. Bonoli and D. Natali (eds.) Oxford: oxford University Press, pp. 3-17.

Ebbinghaus, B. (1999) 'Does a European Social Model Exist and Can it Survive', in G. Huemer, M. Mesch, and F. Traxler (eds.) *The Role of Employer Associations and Labour Unions in the EU*, Aldershot: Ashgate.

ETUC (2012) Solidarity in the crisis and beyond: Towards a coordinated European trade union approach to tackling social dumping, ETUC Winter School, Copenhagen, 7–8 February. Online at: [http://www.etuc.org/IMG/pdf/ETUC Winter School - Discussion note FINAL.pdf](http://www.etuc.org/IMG/pdf/ETUC_Winter_School_-_Discussion_note_FINAL.pdf)

European Commission (1993): Stellungnahme der Kommission zu einem angemessenen

Eurofound (2013) 'Employment polarization and job quality in the crisis: European Jobs Monitor 2013', Dublin: Eurofound.

European Commission (2001) 'Communication from the Commission to the Council, the

European Parliament, the Economic and Social Committee and the Committee of the Regions. Employment and Social Policies: a Framework for Investing in Quality', COM (2001)313 final. Luxembourg: EUR-OP.

European Commission (2003) 'Communication from the Commission to the Council, the

European Commission (2013), Evidence on Demographic and Social Trends Social Policies' Contribution to Inclusion, Employment and the Economy, Commission Staff Working Document SWD(2013) 38 final, Brussels: European Commission. Available at:

<http://ec.europa.eu/social/BlobServlet?docId=9765&langId=en>. Accessed: 13 October 2014.

European Parliament, the European Economic and Social Committee and the Committee of the Regions. Improving Quality in Work: a Review of Recent Progress', COM (2003) 728 final. Luxembourg: EUR-OP.

European Commission (2012) 'Employment and social developments in Europe 2012', Luxembourg: OPOCE.

European Council (2000) 'Presidency Conclusions. Lisbon European Council 23 and 24 March 2000'. Brussels: European Council.

Ferrera, M., Hemerijck, A. and Rhodes, M. (2000) *The Future of Social Europe*, Lisbon: Celta Editora.

Frazer, H., Guio, A-C., Marlier, E., Vanhercke, B. and Ward, T. (2014) 'Putting the fight against poverty and social exclusion at the heart of the EU agenda', *OSE Research Paper No.15*, October. Brussels.

Hay, C. (2002) 'Common Trajectories, Variable Paces, Divergent Outcomes? Models of European Capitalism under Conditions of Complex Economic Interdependence', paper presented at the Biannual Conference of Europeanists (Mar.), Chicago.

Hermann, C. (2013) 'Crisis, Structural Reform and the Dismantling of the European Social Model(s)' *Institute for International Political Economy Berlin Working Paper*, 26. Available at: [http://www.ipe-berlin.org/fileadmin/downloads/working\\_paper/ipe\\_working\\_paper\\_26.pdf](http://www.ipe-berlin.org/fileadmin/downloads/working_paper/ipe_working_paper_26.pdf) (Accessed: 9 October 2014).

Jacobsson, K. and Schmid, H. (2002) 'Real Integration or just Formal Adaptation? On the Implementation of the National Action Plans for Employment', in C. de la Porte and P. Pochet (eds.) *A New Approach to Building Social Europe: the Open Method of Coordination*, Brussels: PIE Peter Lang.

Jepsen, M. and Pascual, A.S. (2005) 'The European Social Model: an exercise in deconstruction', *Journal of European Social Policy*, 15(3): 231-45.

Juncker, J.-C. (2014): *Kernbotschaften von Jean-Claude Juncker, Spitzenkandidat der Europäischen Volkspartei (EVP) für das Amt des Präsidenten der EU-Kommission bei der Europawahl am 25. Mai 2014*. Available at:

<http://juncker.epp.eu/news/kernbotschaften-von-jean-claude-juncker-spitzenkandidat-der-europaischen-volkspartei-evp-fur>.

Kittel, B. (2002) 'EMU, EU Enlargement and the European Social Model; Trend, Challenges and Questions', MPIFG Working Paper 02/1 [<http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp02-1.html>].

Lönnroth, J. (2002) 'The European Social Model of the Future', speech at the EU Conference organized by the Ecumenical EU – Office of Sweden (Nov.), Brussels.

Sapir, A. (2006) 'Globalization and the Reform of European Social Models', *Journal of Common Market Studies*, 44(2): 369-390.

Scharpf, F. W. (2002) 'The European Social Model: Coping with the Challenges of diversity', *Journal of Common Market Studies*, 40(4): 645–70.

Schulten, T. (2014) 'Contours of a European Minimum Wage Policy', Berlin. Friedrich Ebert Stiftung.

Vandenbroucke, F., Hemerijck, A. and Palier, B. (2011) 'The EU needs a Social Investment Pact', *OSE Paper Series*, Opinion Paper No.5, May.

Vandenbroucke, F. and Vanhercke, B. (2014) 'A European Social Union: Ten tough nuts to crack', Background Report for the Friends of Europe High-Level Group on 'Social Union', Brussels.

Wilding, P. (1997) 'Globalisation, Regionalisation and Social Policy', *Social Policy and Administration*, 31 (4): 410–28.