



institut d'études européennes  
UNIVERSITÉ DE MONTRÉAL • MCGILL  
institute for european studies

# **EMU as a lever for Europe's social policy**

Anne Van Lancker  
MEP  
European Parliament

Paper presented at the IES 1st annual  
colloquium *The European Union: One  
Market, One Social Model?*

(28 September 2001)

**All rights reserved**  
**No part of this paper may be reproduced in any form**  
**without permission of the author**

**© Anne Van Lancker (2001)**

# EMU as a lever for Europe's social policy

© Anne Van Lancker\*

During the past decades, economic co-operation in the EU has resulted in the completion of the single market, with considerable advantages for business and consumers. Monetary policy under EMU, based on sound public finances and moderate wage increase have brought about low inflation rates, decreased public debt and a sound balance of payment in the EU.

Macro-economic policy and the introduction of the Euro are supposed to have a beneficial impact on the economy and on employment. Thus the introduction of the Euro could be looked as the final stage of a success-story of economic co-operation in the EU.

Indeed, the followed track of European integration has been merely an economic one. But, the EU is more than a free-trade system. The Union is also a community that is based on common values. The Amsterdam treaty in 1997 clearly illustrates that the objectives of political integration are more far-reaching. The internal market, EMU and common policy in the EU should not only provide for sustainable growth and a high level of competitiveness, but also for a high level of employment and social protection, the improvement of the quality of life, equal opportunities between men and women, solidarity and social cohesion between regions and Member States.

Although the importance of the social dimension of European integration is frequently stressed in statements of principles and broad objectives, social policy at EU level still is the poor cousin of the Economic and Monetary Union.

With the advent of the EMU, it is time to look at what is happening at EU level in the field of social policy, the more so as the EMU is bound to have effects on the causes and consequences of social policy. In this respect the Euro should not serve as a final stage but should rather function as a leverage to build up the European social model and to start new forms of social cooperation amongst the Member States.

## Is there a “European social model”?

The European social model has been built on the ideals of political democracy. Equality in political terms has brought with it a desire to come to more equality in social terms and a refusal to accept large social gaps. But it has also developed a close relationship between social conditions and the state of the economy.

The main characteristics of the European social model could be designed as follows<sup>1</sup>:

---

\* Member of the European Parliament – European Parliament Wiertzstraat Office ASP 12G 107 1040 Brussels Belgium (anne.vanlancker@pandora.be)



- at the heart of the European social model lies a deep sense of solidarity, whose roots are the Christian and trade-union traditions, developed by political parties into public policies;
- it is based on public responsibility for social protection as a collective transfer system that creates social cohesion and maintains solidarity between citizens;
- it includes fundamental social rights, guaranteed by legislation and contained in national constitutions and the European social Charter.
- It allocates an important role to the social partners.

These are features that our systems have in common. But let me clarify that we are not talking about one single social model, but about a multitude of national social protection systems that differ in the degree of protection provided, in the way in which earnings-related benefits and means-tested coverage are used and in the way of financing the system.

The diversity generally is broken down into four different types of social protection systems<sup>2</sup>:

- The liberal Anglo-Saxon system, where coverage is virtually universal, with flat-rate basic amounts on a fairly low level and an extensive use of means-testing;
- The corporatist continental European regime based on the principle of insurance, with more earnings-related benefits but also extensive social assistance schemes to fill gaps in coverage;
- The social-democratic Scandinavian regime, based on individual citizens' social security where coverage is fully universal, with high basic amounts and with additional earnings related benefits for those in work;
- The traditionalist southern European regime with a mixed orientation in terms of coverage, the establishment of guaranteed social minima while being a recent and not fully completed achievement and with an important role for the family as a welfare “broker”.

These social protection systems all have different characteristics as to their organisation and financing. And there have different ways of responding to new problems and challenges. But it is the universal nature and the scope of support that distinguishes the European social protection systems from that of the rest of the developed world.

### **Too generous and too expensive?**

European citizens value social protection provided by their fairly generous welfare states. There still is a high willingness to pay for insurance against unemployment even among the insiders of the labour market. But at the same time European social protection systems are criticized by some for being too generous and too expensive. At the beginning of the nineties, the persistence of high unemployment levels in Europe provoked a lot of debate about the pretended contradiction between social and economical objectives of the Union, and about the appropriate level of social protection and labour market legislation.

Some people say that social protection systems create too heavy a burden for European firms and put them at disadvantage in terms of global competition. Europe had to abandon its social model to create more jobs and reduce its apparently high unemployment.

On the other hand, budgetary discipline required for EMU would automatically put pressure on public spending for social protection. (Although an OECD investigation of 15 cases of fiscal consolidation involving 11 countries, shows that, in all but one, governments pursuing consolidation increased revenues as a percentage of GDP in the 80's and 90's, and transfer spending only fell in very modest amounts)<sup>3</sup>

Proof was looked for in the USA, that were successful in maintaining a highly competitive economy with a high level of job creation in a globalised economy, because of the more limited role for governments in respect of social protection provision and the fact that more people work for low pay. The US indeed has a well-documented success in job creation. And although many Europeans criticize the low quality of the jobs created, the evidence on developments in the US labour-market largely belies this criticism.

But research has also shown later that the American success-story had nothing to do with a possible trade-off between economic growth, jobs and social protection. The 'secret' of the US model had much more to do with the monetary policy of the Federal Reserve Bank. At the beginning of the US recession in 1991 – 1992, Alan Greenspan lowered short-term interest rates to 1 à 2 %, while Europe – under the influence of the 'dogmatic' monetary policy of the *Deutsche Bundesbank*, maintained the interest-rate above 5% during recession. The consequence was that, while in the US public deficit dropped, investments raised and employment was created, in Europe public deficit still went up, there was hardly any investment and unemployment increased. Although recent events do not seem to prove that lowering interest rates always brings oxygen in the economy, we still hope that common monetary policy by the Central European bank would allow the European Union to develop a similar flexible monetary policy, accommodating investments and employment creation.

Facts refute the so called trade-off between economic performance and social protection. European Member States spend at average 28% of GDP on social protection, but expenditure varies somewhere between 16 (Portugal) and 35 (Sweden) %.

Nevertheless, within the European Union member states like the Scandinavian countries or the Netherlands, with the highest levels of expenditure on social protection, perform much better economically than some Mediterranean countries like Greece or Portugal, that spend much less on social protection.

The message here is surely that, in terms of the economy and public finances, a weak, low-cost social protection system does not necessarily bring economic advantage. On the other hand, it is crystal clear that a weak safety net has severe social consequences.

The negative correlation between social spending and poverty shows that fighting against poverty requires a sufficiently high level of social spending, and a firm commitment to a fully-fledged and broadly based welfare state.

When looking at the two extremes of the social protection system, the US and Sweden, it appears that an average American household spends about 40% of its income on social protection; an average Swedish family about 41%. There is no difference in cost, but there is a difference in distribution. The choice is between public and private responsibility. Whilst the American family pays for private insurances and own – expenses for childcare, education and health, these things are covered by public social protection in Sweden.<sup>4</sup>

Evidence has also shown that there is neither a positive correlation nor a negative trade-off between high employment rates and a low poverty level. In the US and the UK participation rates are much higher than in continental Europe, but so are poverty rates.

Many European countries display good records in income protection but poor records in terms of employments rates. The Nordic countries however, show that high participation and low poverty rates can be complements, rather than substitutes. This evidence is important. It shows that it is possible to aim at both social protection and the promotion of employment. But it also tells us that more work does not automatically imply less poverty.

The conclusion therefore is that a performant economy, employment creation and social protection need not to be at odds but can be mutually reinforcing, when well designed.

### **Social protection as a productive factor**

Since the middle of the nineties a new “discourse” has been developed in the European Union. Not only is social protection not hampering economic performance or job creation, it can also be a productive factor, that contributes to greater social cohesion and thus increasing society’s capacity to be productive. Normally social policy is judged primarily on its success to solve social problems it was designed for f.e. providing income support for vulnerable groups. The new arguments that developed since 1997 in the European debate shows that well designed social policy can also contribute to the solution of macro-economic adjustment problems. Social protection systems do not only have important macro-economic effects as automatic stabilizers of economic activity, they also help to equilibrate regional imbalances.<sup>5</sup>

A more active role for social protection as a productive factor can be envisaged in the context of supply-side reforms. The scope for social protection to act as a productive factor that contributes to a better functioning of the economy and improved productivity growth is thought to be considerable. The social welfare state may enhance the influence of economics because it allows individuals to bear more risks become more mobile, acquire more specialized skills, found companies in tiny market niches, or spend more time in educating themselves instead of pursuing gainful employment.

If social protection really is to become a productive factor, systematic adjustments to the welfare state's architecture are needed to be able to deal with recent changes in society. These changes are common to all European Member States: an ageing population, the transformation of the structure and role of the family, the shift from an industrial to a knowledge based service economy.

Despite important differences in national policy in practices, there is a European wide convergence of discourse on the future of the welfare state. The new challenge is that of building an active welfare state. "Our goal is a society of active people; in order to achieve this goal, we need an intelligently active welfare state; and thirdly we want to achieve this goal without giving up the old ambition of the welfare state to offer adequate social protection."

Frank Vandebroucke resumes the content of the European consensus in five priorities<sup>6</sup> :

- 1) Welfare policy cannot be reduced to employment, but employment is the key issue in welfare reform. The challenge today is full employment for men and women.
- 2) The welfare state should not only cover social risks as we traditionally defined them (unemployment, illness and disability, old age), it should also cover new social risks (lack of skills, causing long-term unemployment or poor employment, single parenthood) and respond to new social needs (reconcile work, family life and education).
- 3) An intelligent welfare must do that in an active and preventive way, not only engaging in "social spending", but also in "social investment" (e.g. in training and education).
- 4) Active labour market policies are high on the agenda. All policy instruments (taxes, benefits, education) should be brought in line.
- 5) An active welfare state needs an economic environment, based upon both a competitive sector and a less exposed service sector.

Although national employment regimes and social protection schemes vary from country to country, all European countries have heightened up the limits between welfare and work, through more activation. The EXSPRO – study already mentioned gives a very good overview of the changes in domestic policies in the four different broad categories of social protection systems. It also draws very interesting conclusions on the positive and negative effects of different activation strategies in the Member States. Unfortunately it would lead us too far to explore them.

It is very unlikely that Member States will simply switch between the various regimes, while strengths and weaknesses are brought to the fore. This is because of the very complex links between welfare and work. But the study argues that viable "hybrid" regimes emerge, which means that countries do have choices and that social protection schemes are not struck in rigid patterns.

The conclusion from this should be that, even with one single market, there is not going to be one social system, but rather a convergence of objectives. It is with regard to this process that the EU can and should play a useful role, as a platform for the transfer of experiences.

## **Why should the EU get involved?**

As already said, the EU is not only about one market, but is also based on common values such as solidarity, respect of fundamental social rights, protection of living and working conditions, concern about poverty and social exclusion.

Some of these values are reflected in the Treaties. But obviously, the notions of solidarity or social justice in itself are not sufficient to defend European action in the field of social protection. National sensitiveness about social protection, the differences between national schemes, the carefully constructed national accommodations give ground to restricting the role of the EU in this field. But on the other hand new arguments are found to underpin EU level involvement in social policy.

Indeed, as economic policy becomes more integrated and macro-economic policy under EMU has to be designed on overall EU economic developments, the scope for demand management to deal with national differences in unemployment f.e. will be reduced. With the advent of EMU, mobility in capital and labour might increase. That can cause fiscal competition between national social welfare regimes, generating pressure to cut back on social welfare and taxation to finance it.

Macroeconomic developments might also have an impact on social exclusion. Stability and growth through EMU can foster employment and social inclusion. But what will happen when macroeconomic shocks occur? The coordination of fiscal policies foreseen in the stability and growth pact of 1997 that is merely about excessive debts and deficits and curbing inflation are ill-suited to deal with longer-term shifts in public finances that are relevant for social policy.

With the advent of the EMU, there is a good scope for defining a more prominent role for the European Union.

## **Defining a new role for the European Union**

When looking to the history of development of European policy, one will notice that social policy has always been a European issue. In the first years of European integration coordination of social policy was seen as harmonization, but with the different waves of enlargement harmonization became more and more undesirable and impossible. There are, of course, social objectives which can be met only at European level, because they are related to the internal market, to the transnational character of companies or to free movement of citizens. Furthermore minimum social standards have been agreed upon concerning working hours, working conditions, health and safety, etc. to prevent social dumping. Europe also has established a range of legislative measures that find their justification in the social objectives of the Treaty f.e. equal opportunities and non-discrimination. But in the field of social protection no legislation has been passed so far.

Over time the social dimension in this field evolved to the concept of “convergence of objectives”, combined with minimum standards. Instead of binding legislation, soft policy coordination becomes the norm in European social policy. The so called “open method of coordination”, that was introduced in the Amsterdam treaty and implemented



since the Luxemburg summit in November 1997 for the European employment policy, is becoming a successful option for an European role in the process of social protection in the member states.

Under the “Open method of coordination (OMC)” for employment a set of guidelines has been adopted, identifying common objectives and specific targets which member states want to achieve within national employment policy, that are outlined in national action plans.

Each year a joint employment report is prepared, recommendations are formulated to the Member States and employment guidelines are upgraded. This intergovernmental procedure wants to introduce a soft “convergence stress” based on peer review that leads Member States to examine their own policies and those of other Member States, and learn from best practices around the European Union.

The Nice Summit last year, with the adoption of the European Social Agenda endorsed the idea to use the method also in the area of social policy, with the ambition to establish “standards of excellence” for Europe.

The common European strategy for modernizing social protection is based on 4 key objectives:

- 1) to make work pay and to provide secure income
- 2) to make pensions safe and pension systems sustainable;
- 3) to promote social inclusion;
- 4) to ensure a high quality and sustainable health care.

The first objective is already dealt with by the European employment strategy, next year the employment guidelines will also include benchmarks and indicators related to the quality of work and to income.

Under the Belgian presidency an OMC will be launched to stimulate social inclusion, based on national action plans that were presented in June and a joint report that is due for discussion in the Laeken Summit in December.

This Summit will also propose a set of commonly agreed and defined key indicators on social inclusion.

Finally the Belgian Presidency will try to get an agreement on common social objectives for European pension systems. They are related to sustainable income for pensioners, equity between and within generations, solidarity between pensioners and pension systems, equality between men and women and financial sustainability.

It will still be up to Member States to determine their own pension systems and the way of financing. But all European Member States are confronted with the same fundamental social objective, which is to guarantee and to improve the quality of their pension systems, whilst their population is ageing.

Sustainable pension systems based on solidarity and equity are a cornerstone of the European social model. When Member States agree to tune their national policy on common goals, this European model will become a lot more concrete and tangible.

The final aim is to build European policy on an equilateral triangle, as Commissioner for employment and social affairs, Anna Diamantopoulou said. Macro economic policy, employment policy and social policy are the three sides of that triangle. All sides are interconnected with each other and all sides of the triangle should be of the same strength and importance.

Defending Europe as a social model also will need a clear message to the new Member States involved in the enlargement process. It shows that the European social model is part of the European civilization and must be endorsed by all countries that apply for membership.

---

<sup>1</sup> Larsson, Alan (1995), *The European social model – can we afford it?*, Netherlands institute for international relations, Clingendael.

<sup>2</sup> Anderson, Esping (2000), *New social risks in old welfare states*.

<sup>3</sup> Ferreire, Hemelryck, *The future of the European welfare state, report for the Portuguese Presidency of the European Union*.

<sup>4</sup> Anderson, Esping, *Op. cit.*, 2

<sup>5</sup> EXSPRO Policy Report, *Social exclusion and social protection, the first role for the EU*, 10.

<sup>6</sup> Vandenbroucke, *Social benchmarking in the EU*, Brussels, 28/3/2000