

# Progressive Structural Reforms

Proposals for European reforms  
to reduce inequalities and promote  
jobs, growth and social investment

---



# Progressive Structural Reforms

Proposals for European reforms  
to reduce inequalities and promote  
jobs, growth and social investment

---

A publication by SOLIDAR, [www.solidar.org](http://www.solidar.org)

Responsible editor: Conny Reuter

Editors: Rémi Bazillier, Giovanni Cozzi, Amandine Crespy, Ferdi De Ville and Angela Wigger  
and on behalf of SOLIDAR: Maurice Claassens, Bregt Saenen and Eva-Maria Schneider

Cover design: Les Marquissettes, [www.lesmarquissettes.be](http://www.lesmarquissettes.be)

Proof reading: David Poyser

Copyright: SOLIDAR, 2015

This publication has been produced with the financial support of the European Union.  
The information contained in this publication does not necessarily reflect the position  
or opinion of the European Commission.



Published by: Oficyna Wydawnicza ASPRA-JR, Poland  
[www.aspra.pl](http://www.aspra.pl)

ISBN: 978-83-7545-641-7

SOLIDAR is a European network of membership based Civil Society Organisations who gather several millions of citizens throughout Europe and worldwide. SOLIDAR voices the values of its member organisations to the EU and international institutions across the three main policy sectors; social affairs, lifelong learning and international cooperation.

# Contents

List of contributors	7
Foreword Conny Reuter, SOLIDAR	15
<b>PERSPECTIVE BY EU DECISION MAKERS</b>	
A perspective by Nicolas Schmit, Luxembourg’s Minister for Labour, Employment and the Social and Solidarity Economy	19
A perspective by Thomas Händel, Member of the European Parliament (Confederal Group of the European United Left – Nordic Green Left), Chair of the European Parliament’s Committee on Employment and Social Affairs	21
<b>INTRODUCTION</b>	
Alternatives to neo-liberal Austerity: Redefining a Progressive Structural Reforms Agenda to reduce Inequalities and promote Jobs, Growth and Social Investment Rémi Bazillier, Giovanni Cozzi, Amandine Crespy, Ferdi De Ville and Angela Wigger	25
<b>A SOLIDAR PERSPECTIVE</b>	
15 progressive structural reforms to reduce inequalities and promote Jobs, Growth and Social Investment Maurice Claassens, Bregt Saenen and Eva-Maria Schneider, SOLIDAR	37

## **PART I IDENTIFYING AND TARGETING INEQUALITIES**

- Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)**  
Lorenza Antonucci 59
- Growing up during a financial crisis: The effect of family financial distress on child development**  
Marta Barazzetta, Andrew E. Clark and Conchita D'Ambrosio 73
- A gender perspective to assess the economic crisis and develop counter-crisis measures: intersectional and horizontal inequalities**  
Eugenia De Rosa 87
- Basic Income as a Realist's Transformative Strategy**  
Gabor Scheiring, Miklós Sebök and Bence Tordai 103

## **PART II SHAPING SOCIAL INVESTMENT**

- Economic democracy as a structural reform: The case for socialising investment**  
Sacha Dierckx 119
- Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals**  
Andrea Ciarini 137
- The role of employers in implementing social investment reforms: The case of disability**  
Menno Soentken 151

## **PART III EUROPEAN POLICIES AFFECTING SOCIAL SAFEGUARDS**

**TTIP and Labour Rights: A Trade Union Perspective**  
Daniele Basso 169

**A Job Guarantee for the Eurozone: The Role of the European  
Central Bank and an Alternative Approach Toward Full Employment**  
Diego Del Priore 181

**Rapidly changing labour markets: Is EU flexicurity still the answer?**  
Florian Ranft and Renaud Thillaye 193

## **CONCLUSION AND REFLECTION**

**Progressive structural reforms – the way forward to achieve  
upward social convergence – social investment for a better future**  
Lieve Franssen, Special Adviser to the Social Progress Lab 209



# List of contributors

**Lorenza Antonucci** (PhD Bristol, MSc Research LSE, MSc/BSc Bocconi) is Senior Lecturer in Social Policy (Associate Professor) at Teesside University. In 2015 she was awarded a Fellowship of the Royal Society of Edinburgh to conduct research on the new politics of inequality in Europe and the European Semester. She was RSE Visiting Fellow at the European Trade Union Institute, and the European Social Observatory (OSE). Her research and publications are in the area of welfare state reforms, inequality, and young people. After co-chairing the ESPAnet stream on ‘Young People and Social Policy’, Lorenza co-edited ‘Young People and Social Policy in Europe’ for Palgrave’s Work and Welfare in Europe Series. Lorenza was also given the first ‘Policy & Politics Award’ by ‘The Policy’ Press for her doctoral research published in the forthcoming “The Real Lives of Students”.

**Marta Barazzetta**, PhD, is a post-doctoral researcher at the PEARL Institute for Research on Socio-Economic Inequality (IRSEI) at the University of Luxembourg. She holds an MSc from Bocconi University (Italy) and a PhD from the University of Nottingham (UK). Her research interests lie in the fields of applied microeconomics, subjective well-being, development economics, poverty and inequality. During her doctorate she worked on the study of subjective well-being, with a focus on the effect of income aspirations and expectations. As a post-doctoral researcher, she is now working in the field of child development, further to her empirical research on subjective well-being.

She has previous research experience specialising in development economics and poverty measures which she developed as a research assistant at Bocconi University (Italy) and during collaboration with the Oxford Poverty and Human Initiative.

**Daniele Basso** has been an ETUC (European Trade Union Confederation) Trade adviser since January 2014. He is coordinator of the activities of the ETUC Working Group on Trade and Globalisation and he monitors the external trade policy of the EU. He is a substitute member of the TTIP Advisory Group and member of the EU-Central America and the EU-Colombia/Peru Advisory Groups. He was Assistant on international affairs and trade at the Party of European Socialists (2012-2013) and served an internship with an Italian MEP who was a member of the European Parliament’s International Trade committee. He graduated with a ‘double degree’ in International affairs from Turin University and SciencesPo Bordeaux, and he has a Master’s in European Governance and Public Policy from Cardiff University.



## List of contributors

---

**Rémi Bazillier**, PhD, is an assistant professor at the University of Orléans and a research affiliate at the Laboratoire d’Economie d’Orléans (LEO-CNRS). He is also member of the FEPS (Foundation for European Progressive Studies) scientific council. His research focuses on development and labour economics. His current work studies the economic consequences of labour standards, the linkages between migration and social conditions, and the influence of Corporate Social Responsibility. He received his PhD in Economics from the University of Paris I Panthéon-Sorbonne in 2007. He has published several papers published in international peer-reviewed journals including *World Development*, the *Journal of Development Studies*, and the *International Labour Review*. He published a book on the linkages between Labour and Sustainable development (“Le travail, grand oublié du développement durable”, col. eDDen, ed. Le Cavalier Bleu, Sept. 2011, 224p).

**Andrea Ciarini**, PhD in Sociology, is currently researcher in the Department of Social and Economic Sciences of the Sapienza University of Rome, where he teaches Welfare Systems in Europe. He is scientific coordinator in the Semper Laboratory in the same Department and Secretary of the Italian Association for Studies on Industrial Relations (AISRI) affiliated to ILERA (International Labour and Employment Relations Association). He is also member of the Telemme Laboratory (Temps, Espaces, Langues, Europe Méridionale Méditerranée) at the University of Aix-Marseille. His main research interests are in the fields of comparative welfare studies, the labour market, industrial relations and collective representation. He has a PhD in Sociology.

**Maurice Claassens** is Senior Coordinator at SOLIDAR and joined the team in 2008. He is responsible for the further development of the network and he oversees the building of civil society alliances in the Middle East and North Africa as well as the Western Balkans. Before joining SOLIDAR, he worked as political adviser on urban planning, welfare policies and economic development, and he also managed election campaigns in the Netherlands.

**Andrew Clark** holds a PhD from the London School of Economics. He is currently a CNRS Research Professor at the Paris School of Economics (PSE), and previously held posts at Dartmouth, Essex, CEPREMAP, DELTA, the OECD and the University of Orléans. His work has largely focussed on the interface between psychology, sociology and economics; in particular, using job and life satisfaction scores, and other psychological indices, as proxy measures of utility. In addition to his Paris position, he holds research associate positions at the London School of Economics, IZA (Bonn) and Kingston University. He is on the Editorial Board of nine journals, and has acted as referee for over 170 different journals across the Social Sciences.

**Giovanni Cozzi** completed his PhD at SOAS (University of London School of Oriental and African Studies) in March 2011, titled: “Crisis and Recovery in Malaysia. An assessment

of financial and real sector development from 1990 to 2009.” He is now Senior Lecturer at the University of Greenwich. His main research interests include the political economy of development, financial globalisation, free cross-border capital mobility and capital controls, financial systems and crises, and financial and real sector linkages.

**Amandine Crespy** is Associate Professor of Political Science and European Studies at the Université Libre de Bruxelles (ULB). Over the past few years she was invited as a visiting fellow to the Freie Universität Berlin, Science Po in Paris, Harvard University, the London School of Economics and Queen Mary University of London. Her research deals with political conflict over the socio-economic integration of Europe (public services liberalisation, responses to the Euro-crisis, social policy and social democracy in the EU, and Euro-scepticism). From a theoretical point of view, she has a special interest in the role of ideas, discourse and conflict in relation to democracy in Europe. Her work has been published in numerous high profile international journals and books. Along with a research team at ULB, she is part of the project ENLIGHTEN (Horizon 2020, 2015-2018) in which she conducts research on public deficit and the sustainability of public services.

**Conchita D’Ambrosio** is Professor of Economics at the Université du Luxembourg. She is an economist, with a PhD from New York University (2000). Her research interests have revolved around the study of individual and social well-being and the proposal of various measures that are able to capture its different aspects. Two main points were stressed: Individual well-being depends on comparisons with a reference situation; Individual well-being depends both on one’s own life course and on the histories of others. With this aim in mind, she has proposed a number of different indices, which have been axiomatically characterised. She has applied these to the study of different societies and analysed their empirical links with subjective well-being, via their correlations with self-reported levels of satisfaction with income and life overall. She has been member of the editorial board of the Review of Income and Wealth since 2001 and managing editor of the same journal since 2007. She joined the editorial board of the Journal of Economic Inequality in 2013.

**Eugenia De Rosa** is Researcher in the Labour Market Unit of the Italian National Institute of Statistics. She is a sociologist and holds a PhD in Social Sciences Methodology from the Sapienza University in Rome. She has collaborated with the Department of Sociology of Sapienza University and the Social Policy Research Centre of Middlesex University (UK), and has been a Consultant Researcher in several institutions. Her main research interests are feminist theory and gender studies; precarious workers, female participation in the labour market and gendered migration; and social movements, third sector organisations and development policies. She is currently working on gender inequalities and the distribution of work within households in Europe, from a country comparison perspective.

## List of contributors

---

Ferdi De Ville is Assistant Professor of European Studies at Ghent University. His research focus centres on European and International Political Economy. He teaches and publishes on EU trade politics and the origins and consequences of the euro crisis. Ferdi De Ville regularly contributes to public debates on these topics in Belgium and Europe. He is the author, together with Gabriel Siles-Brügge, of *TTIP: The Truth about the Transatlantic Trade and Investment Partnership* (Cambridge: Polity Press).

**Diego Del Priore** is a PhD student in Political Science and Multi-Level Governance at the University of Teramo (Italy), where he is also editor at the European Observatory, dealing with the monitoring of Economic and Monetary Affairs and the Common Foreign and Security Policy. He is also Research Associate at the Institute of Advanced Studies in Geopolitics and Auxiliary Sciences in Rome. He has conducted research in Denmark, in Belgium, France, the United Kingdom, Israel and the West Bank. At the Italian Ministry of Infrastructure and Transport, he was temporarily the Head of the Secretariat of the Under Secretary of State. He worked for Human Rights Watch in Brussels and at the Permanent Representation of Italy to the EU. At the Italian Trade Commission of Copenhagen, he also worked as Project Manager. Diego Del Priore was awarded his Master's in Political Science and International Relations at "La Sapienza" University of Rome. He is also a journalist.

**Sacha Dierckx**, PhD, was awarded his Bachelor's in Journalism at the Erasmus University College Brussels, and his Master's in Political Science and General Economics at Ghent University. In November 2014, he successfully defended his PhD in Political Science at Ghent University. Among his publications are articles on China's capital controls in *Third World Quarterly* and *International Politics*, on the regulation of capital controls at the IMF in *Globalizations*, on IMF governance reform in *International Politics* and on the politicisation of transnational capital in *Labor History*. He currently works in the taxation department of the Belgian government, and is still affiliated to the Ghent Institute for International Studies (GIIS) at Ghent University. Sacha Dierckx is also a member of, and writes regularly for, the Flemish think tank *Poliargus*. As a member of the think tank, he has contributed op-eds in Flemish newspapers *De Morgen* and *De Standaard*.

**Lieve Fransen**, MD, was the European Commission Director responsible for 'Europe 2020: Social Policies' in the Directorate-General for Employment, Social Affairs and Inclusion from 2011 until 2015. She has played a leading role in the formulation and adoption of the Social Investment Package.

Dr. Fransen has devoted her career to promoting social justice and the values of solidarity. During a distinguished career in international public health, Dr. Fransen has worked as Public Health Adviser to the Ministries of Health in Mozambique, Kenya, Rwanda and the Cape Verde Islands. She was also Task Manager of a research programme on pregnant women and new-borns in Rwanda, and Director of a research programme on sexual and reproductive

health in Kenya and in the Tropical Institute in Antwerp, Belgium. Dr. Fransen is a Medical Doctor with a PhD in Social Policies.

**Florian Ranft** is a policy researcher at Policy Network in London where he focuses on the political economy of Europe, including the balance of economic growth, labour markets, digital economy, financial stability and social justice. He holds a Diploma in Political Science (with Distinction, from the University of Potsdam) and also has a PhD in International Relations (Magna Cum Laude) from the University of Greifswald. Previously, he researched and lectured in political sociology and international relations at the University of Frankfurt and at the University of Greifswald. He also worked as a researcher for the Peace Research Institute in Frankfurt/Main, the Südwestrundfunk Mainz, and the ECOWAS in Abuja, Nigeria. He trained with Niels Annen, (an SPD member of the German Bundestag) and the office of the Friedrich-Ebert-Stiftung in Bogotá, Colombia.

**Conny Reuter** has been Secretary General of SOLIDAR since October 2006. Before moving to Brussels, Conny worked in Paris and Berlin heading the Franco-German Youth Office (FGYO) Department for School and Youth Exchanges (1998-2006), working at La Ligue de l'enseignement in Paris on European projects (1990-1998) and heading the liaison office of La Ligue in Germany working on Franco-German youth exchanges in professional and vocational training (1985-1990). From April 2008 to April 2013 he was President of the Social Platform of European Social NGOs.

**Bregt Saenen**, PhD, has been a Policy Fellow with SOLIDAR since March 2015, specialising in employment and social affairs. He works on the 2015 Social Progress Watch Initiative, a tool to monitor and analyse the social dimension of national policies within the framework of the European Semester. Bregt holds a PhD in EU Studies from the Centre for EU Studies at Ghent University (2014). His doctoral dissertation was funded with a PhD Fellowship from the Research Foundation Flanders (October 2010-September 2014). In May 2012, he was a Visiting Fellow at the Center for Global Affairs of New York University. Before starting his PhD Fellowship he was an intern at the ILO Office for the EU and the Benelux Countries in Brussels (March-July 2010). He was awarded his M.A. in History (2008) and his M.S. in EU Studies (2009) from Ghent University.

**Gabor Scheiring** is a sociologist and economist. After graduating from Budapest Corvinus University and the Central European University, he worked as a researcher at the Institute for Political Science of the Hungarian Academy of Sciences. Parallel to his studies, he was a nationally and internationally active member of green and global justice movements in the 2000s. In 2010 he was elected as an MP and he was a member of the Commission for Economic Affairs of the Hungarian Parliament. He also served as a member of the board responsible for the development of the economic policy of a Hungarian left-green party that he was

## List of contributors

---

co-founding. He has been Chair of the Progressive Hungary Foundation, a think tank dedicated to progressive policy research and public education since September 2014. After the end of his career as an MP, he restarted his PhD at the University of Cambridge and became a researcher affiliated to the University involved in the project ‘The Impact of Privatisation on the Mortality Crisis in Eastern Europe’.

**Eva-Maria Schneider** has been Social Policy Coordinator at SOLIDAR since the beginning of 2014 where she is responsible for European social and employment affairs. Prior to that she worked as Parliamentary Assistant in the European Parliament (2009-2013) with a focus on youth policies and gender equality. She holds a Master’s Degree in European Public Management and a Diploma in Administrative and Political Science.

**Miklós Sebők**, PhD, is currently a Research Fellow at the Centre for Social Sciences, Hungarian Academy of Sciences. He earned an M.A. in economics at the Corvinus University of Budapest, an M.A. in politics at the University of Virginia and a PhD in political science at ELTE University of Budapest. His research interests include the politics and political economy of finance and the economic policy of advanced industrialised countries. His most recent research articles appeared in the *Journal of Comparative Politics* and the *Japanese Journal of Political Science*.

**Menno Soentken** is currently working as a Postdoctoral researcher at the Erasmus University Rotterdam on ‘Shifting from welfare to social investment states: the privatization of work-related risk control.’ Menno Soentken has previously worked as a PhD candidate at the VU University Amsterdam. In his dissertation he developed and tested a distributive logic of active labour market governance (ALMG). ALMG, for example benefit administrations and public employment services, affects the power resources of political actors and provides certain actors with decision-making authority and long-term control over welfare programmes. In his dissertation, he shows that parties, governments and organised interests use ALMG as weapons of coercion to pursue long-term policy goals with profound consequences for the clients of the welfare state. He has published on this topic in *Social Policy & Administration* and the *Journal of European Public Policy*. He graduated cum laude in Sociology from the Erasmus University Rotterdam.

**Renaud Thillaye** is deputy director of Policy Network (London) where he is lead researcher on EU affairs. He focuses on EU economic and social governance, EU institutional and political debates, and the UK-EU relationship. He has led research projects and overseen publications related to the impact of Eurozone integration on the EU-28 architecture, the EU’s growth and competitiveness agenda, and the future of EU social policy. He also comments regularly on French politics. Renaud is a graduate of Sciences-Po Paris and the London School of Economics. He worked in French local and regional politics for four years.

**Bence Tordai** is the vice chairman of Progressive Hungary Foundation and the spokesperson for the Left-Green inter-party Dialogue for Hungary. His current research topics are the precariat, basic income and political discourses. He worked as a lecturer at Budapest Metropolitan University of Applied Sciences, and he previously lectured at the Corvinus University of Budapest. He also worked as a statistician in the Hungarian Central Statistical Office. He held different professional and political positions in a parliamentary party - including economic policy expert. He has also volunteered for NGOs. He earned a degree in economics from the Corvinus University of Budapest and started a PhD in sociology there.

**Angela Wigger**, PhD, is Senior Lecturer in Global Political Economy and International Relations at the Political Sciences Department at the Radboud University in the Netherlands, where she has worked since 2008. She is also vice-chair of the Critical Political Economy Research Network (CPERN) and forms part of the governing board of the Centre for Research on Multinational Corporations (SOMO). Angela Wigger specialises in the transnational political economy of the EU with a special focus on competition regulation and financialisation processes from a critical (historical materialist) perspective. She received her PhD at the Vrije Universiteit Amsterdam. She studied Political Sciences, Economics and Sociology at the University of Bern in Switzerland, and Political Sciences at the Vrije Universiteit Amsterdam, where she received her Master's (cum laude). Angela Wigger's current research focuses on analysing the global economic crisis, crisis responses and power configurations with regard to political resistance.



# Foreword

Conny Reuter, SOLIDAR

During the crisis, Europe's focus was narrowly concentrated on financial and fiscal consolidation, leaving aside the necessary social consolidation exposed by the failure to reach the anti-poverty and employment targets of the Europe 2020 strategy. Despite this, the European Commission keeps promising it will earn a social AAA rating, while necessary reforms to achieve a meaningful shift towards upward social convergence, redistribution and equality are absent.

This edited volume is intended to enhance the debate about alternative structural reforms in Europe that could help rebuild our Social Europe and allow the EU and its member states to deliver it.

Two years after the launch of our tool for monitoring social progress at national level – in the frame of the European programme on Employment and Social Innovation (EaSI) – the **SOLIDAR Social Progress Watch** consistently shows the drastic impact of one-sided policy reforms focused only on budgetary discipline and fiscal consolidation at national and regional level. It is not only Greece, Portugal and the other Troika-ridden countries that have reached the limit of what is left of their social welfare states. Economically prosperous EU countries also report worsening situations for workers, the unemployed, youth and other groups. Austerity measures that hit public services, education, health and social services, can no longer be an option to restart the European economy. These measures are hampering smart, sustainable and inclusive growth. Instead, we need real investment in people to empower them and make them resilient.

The new Five Presidents' report on completing the Economic and Monetary Union (EMU) remains too weak on the social dimension of the EMU, leaving out concrete proposals for automatic stabilisers such as a complementary unemployment benefit scheme taking into account intra-EU mobility. Instead, they only talk about 'fairness in implementing structural reforms.' The recently announced 'pillar of social rights' should not comprise a minimum



## Conny Reuter

---

package of rights, instead it should offer universal social rights for everyone living in the EU and thereby play a role in setting standards and references in an upward convergence process.

This publication presents the results of the **SOLIDAR Social Progress Lab 2015** – a space for academics, policy-makers and civil society actors to think about necessary strategies and policies to achieve a more social and inclusive Europe. It collects the analysis of **10 academic scholars** from across Europe, with a focus on identifying and targeting inequalities, shaping social investment and shaping European policies that affect social safeguards, thereby seeking to enrich the policy debate about alternative structural reforms at European and national level.

This edited volume includes contributions by **Nicolas Schmit**, Luxembourg's Minister for Labour, Employment and the Social and Solidarity Economy, as well as **Thomas Händel** MEP, Chair of the European Parliament's Committee on Employment and Social Affairs. It has been developed with the support of the Social Progress Lab's scientific advisory group consisting of **Dr. Rémi Bazillier** (Université d'Orléans, France), **Dr. Giovanni Cozzi** (University of Greenwich, United Kingdom), **Dr. Amandine Crespy** (Université Libre de Bruxelles, Belgium), **Prof. Dr. Ferdi De Ville** (Ghent University, Belgium) and **Dr. Angela Wigger** (Radboud University, the Netherlands), and their work is topped up with contributions from my SOLIDAR colleagues **Maurice Claassens**, **Dr. Bregt Saenen** and **Eva-Maria Schneider**.

I would like to thank **Dr. Lieve Franssen** in particular for her support and valuable input during the process in her role as special adviser to the Social Progress Lab process.

A lot remains to be done to prove to our citizens that the European Union can deliver for them, and that our unique social model is at least as valuable as our internal market. Europe needs to live up to its founding value of solidarity. With the Social Progress Lab, SOLIDAR wants to enrich the debate and make our contribution to a more Social Europe.

# **PERSPECTIVE BY EU DECISION MAKERS**



# A perspective by

Nicolas Schmit, Luxembourg's Minister for Labour, Employment and the Social and Solidarity Economy

The ongoing economic and financial crisis has not only led to an increase in unemployment, it has also contributed to reduced social benefits and entitlement to these benefits, as well as an increase in precarious employment with serious consequences for our economies, for stability and for social cohesion, and ultimately for the sustainability of our social protection systems.

Introducing competition between social systems without establishing basic rules will lead to a race to the bottom and it disrespects Article 9 TFEU which gives a clear mandate to the Union to 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 in defining and implementing its policies and activities.

The Luxembourg Presidency has made the social dimension of the EU one of our priorities, in particular by promoting the social economy as an alternative form of economy that presents a value-based economic model that encompasses social commitment, innovation and has the benefit of society at its heart, not simply profit-making. In my opinion, we need to further develop a genuine socio-economic governance which gives social and employment issues their rightful place, and corresponds to the objective of a social market economy, as provided for in the Treaty. The Europe 2020 strategy needs to be adapted through innovative approaches to boost the quality of employment, to fight against poverty and exclusion, and to facilitate training in all its forms.

The right set of progressive structural reforms can achieve these goals, and I welcome the initiative of SOLIDAR to enrich the debate and contribute with this edited volume.



# A perspective by

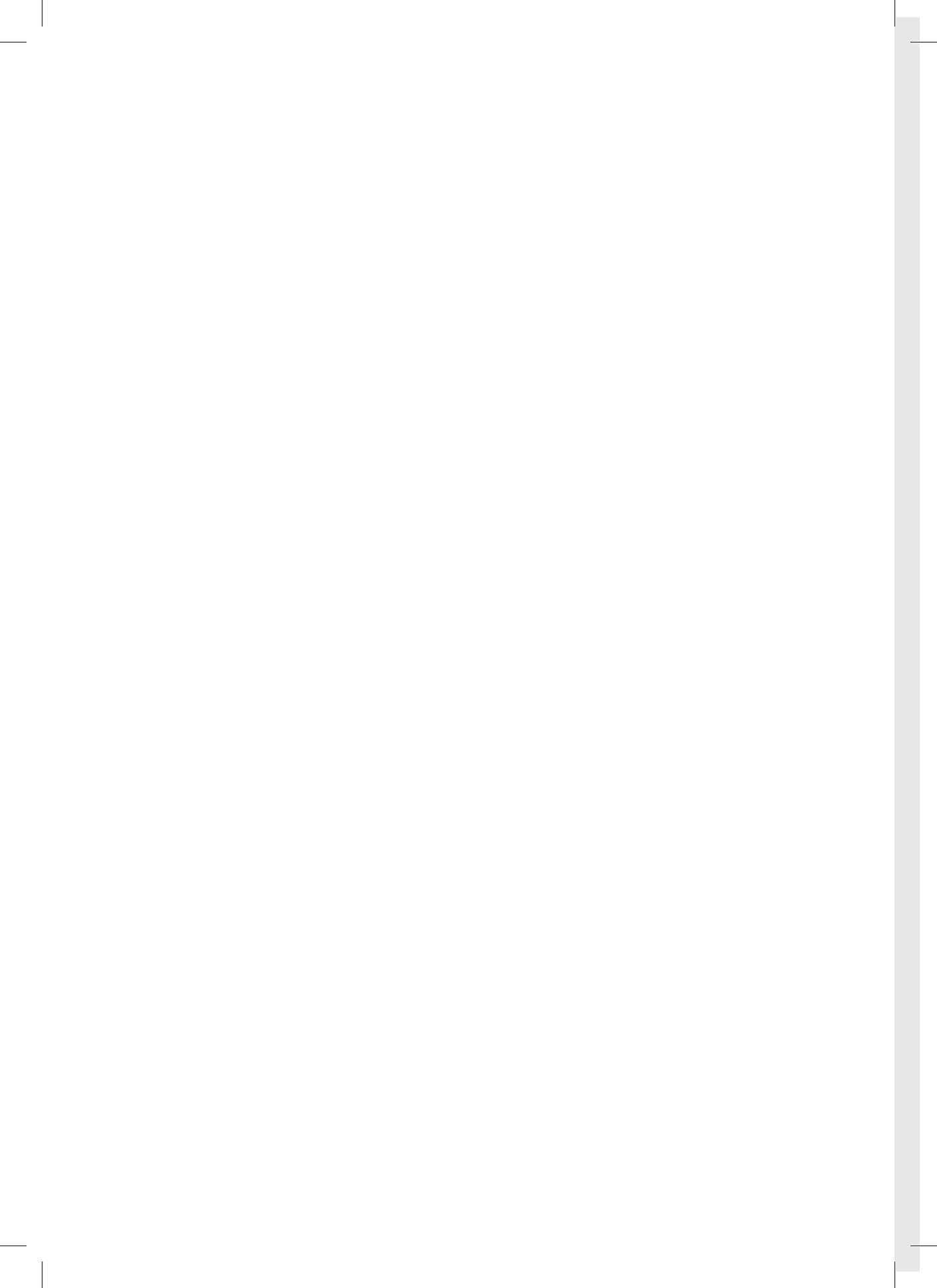
**Thomas Händel**, Member of the European Parliament  
(Confederal Group of the European United Left – Nordic  
Green Left), Chair of the European Parliament’s Committee on  
Employment and Social Affairs

Unemployment remains at a record level, almost a quarter of the people in Europe are living in poverty or at risk of poverty, and fewer and fewer people have permanent jobs with wages above the poverty line – we are facing historic challenges. The European Union is one of the richest regions in the world, with the best social models which have been developed over the last decades. The current situation is a disgrace to our Union and needs urgent remedy.

We need to develop a European minimum wage level, a common solidarity mechanism as well as better rules for health and safety in the workplace and better cooperation between member states to tackle the situations of abuse. This should include undeclared work or the circumvention of laws designed to protect workers, for example when they are posted abroad.

Therefore, I very much welcome the initiative of SOLIDAR to promote the debate between policy-makers, academia and civil society in the framework of the SOLIDAR Social Progress Lab. These cross-sector discussions and the resulting proposals are urgently needed to find solutions for strengthening the social dimension of the EU. We have seen that the crisis management policies pursued over the last few years which were heavily reliant on austerity measures have not solved the problems: on the contrary, they have made them even more pressing.

Fairness and solidarity in a social Europe are only possible if people have quality jobs that are decently paid, if they are covered by reliable social protection systems and if there is tangible social progress for everyone.



# INTRODUCTION





# Alternatives to neoliberal Austerity: Redefining a Progressive Structural Reforms Agenda to reduce Inequalities and promote Jobs, Growth and Social Investment

Rémi Bazillier, University of Orléans

Giovanni Cozzi, University of Greenwich

Amandine Crespy, Free University Brussels (ULB)

Ferdi De Ville, Ghent University

Angela Wigger, Radboud University

## 1. Introduction

Seven years after the beginning of the financial crisis, the Gross Domestic Product (GDP) in Europe is still at a lower level than in 2008 and unemployment has increased by 50% in the EU28. Following the recommendations of the European institutions, member states have been implementing consolidation policies since 2011, mainly by reducing public spending and increasing taxes. The cost of the crisis in terms of unemployment and poverty is huge and it shows that austerity policies are a failure in numerous dimensions. Two main - and

contradictory - reasons have been invoked to explain such low economic and social performances. The first strand argues that European economic policies were inappropriate and have contributed to the crisis itself. By trying to reduce public deficits, governments have directly contributed to the depression, by lowering aggregate demand. Fiscal austerity explains the gap between economic performances in the EU and the US, where fiscal consolidation has been much lighter, leading to the faster recovery of the US economy.

On the contrary, the second strand argues that countries are paying for their incapacity to reform themselves. The official narrative is that better economic performances (of Germany for instance) have shown that it is possible to reach fiscal discipline, competitiveness and growth, thanks to 'successful structural reforms' in the years since 2000. Based on this supposed success, countries are pushed to make additional 'reforms'.

It is symptomatic to see that most European officials are supporting the second narrative, while most academics in Economics are defending the first option. Despite the strong criticism of influential economists such as Joseph Stiglitz, Paul Krugman and Thomas Piketty, the European institutions have continued to adopt and promote austerity-driven policies and a vast range of 'structural reforms'.<sup>1</sup> In fact, it appears that the narrow and one-sided conception of such reforms is mainly driven by short-term objectives in terms of deficit reduction - and thereby implementing old policy recipes - rather than by an innovative reformist agenda and long-term commitment to genuine structural reforms.<sup>2</sup>

This obsession with 'structural reforms' is not surprising. Economic crises have often been seen by neoliberals as an 'opportunity' to move on, following their political and economic agenda. In a context of tight public finance, it is easier to push for additional cuts and reforms of social protection. If the pressure is put on European countries today, especially Southern European countries, structural reforms have been on the agenda of numerous developing countries for years, with the structural adjustment plans of the International Monetary Fund (IMF) and the World Bank. Following their disastrous social consequences, especially in terms of education, health and poverty, the discourse within international financial institutions has evolved, taking into account the need to prioritise poverty eradication. The efficiency of this strategy can be discussed, but it is nevertheless paradoxical that the Troika<sup>3</sup> did not take into account the social consequences of their programs. In fact, it seems that neoliberals have used the financial crisis as a window of opportunity to pursue their long-standing agenda. This has been facilitated by the absence of a strong alternative, progressive policy agenda.

- 
- 1 The European institutions do not provide a precise definition of 'structural reforms'. The concept mostly derives its meaning from the type of reforms that are introduced in practice. For all intents and purposes in the EU policy context, structural reforms to labour and product markets are understood as reforms that '[...] help to improve economic growth prospects and the ability of economies to adjust to shocks by expanding flexibility and improving the efficiency of how and where productive factors are used.' (Canton et al., 2014, p. 1)
  - 2 In a recent op-ed, Dani Rodrik (2015) argues that structural reforms will be completely inefficient for recovering growth.
  - 3 The decision group led by the European Commission with the European Central Bank and the International Monetary Fund, that organised loan programmes to the governments of Greece, Ireland, Portugal, and Cyprus.

## Alternatives to neoliberal Austerity: Redefining a Progressive Structural Reforms Agenda to reduce Inequalities and promote Jobs, Growth and Social Investment

The purpose of this volume is to show that there is not one single package of structural reforms. In the context of the current economic meltdown, alternative economic and social policies do exist. A better mix between demand and supply-side policies is needed and investments in the right areas are more than necessary. Our goal is to show that there are progressive ways to reform societies and that structural reforms are not necessarily neoliberal policies aiming exclusively at deregulating markets. There is a need to tackle the challenge of growing inequalities and to promote investment in youth, social infrastructure and productivity gains in the real economy. Progressives need to re-appropriate themselves the concept of structural reforms and propose an alternative definition of their content. Social investment and policies aiming at reducing inequalities are key pillars of such reappraisal.

\*\*\*

This volume engages a critical debate with a particular conception of social investment as put forward by the EU institutions, which has clearly hindered its potential as a truly progressive social policy agenda. In the current context of lingering unemployment, involuntary part-time work, precarious work and declining real wages across Europe, we see a danger of social investment to be hijacked by non-progressive political forces and policy-makers.

EU member states' governments have responded to the current crisis by adopting a set of regulatory and treaty-based measures to ensure fiscal discipline through austerity, limiting the capacities to run budget deficits and to maintain social welfare provisions. Primacy is given to restoring investor confidence and a competitive business climate. Social investment has become one of the many policy strategies to enhance the competitiveness of European economies. Competitiveness unequivocally refers to the ability to compete and thereby evokes a social imaginary of being part of a successful and 'winning' community. Although this might sound politically appealing and motivating particularly against the backdrop of a rising popular fatigue with further fiscal austerity and the concomitant rhetoric of an overall belt tightening, the suggested social investment to spur competitiveness is in many ways essentially premised on internal devaluation through the labour markets, depreciating real wages and introducing new labour market reforms. German Chancellor Merkel (2013) has been rather straightforward in this respect when arguing that it is vital to keep driving down labour costs in order to create a regulatory environment in Europe that is attractive to investors. To recover economic competitiveness, EU institutions and Eurozone governments have sought to precipitate the ongoing trend of making the labour market more flexible ('flexibilisation') by deregulating labour laws in the form of easing employee dismissals, reducing minimum wages, increasing working time for less remuneration, introducing additional conditionalities and time limits for unemployment benefits, and decentralisation of collective bargaining more generally. The hollowing out of the concept of flexicurity is also telling in this respect: it ended up being about flexibility without much security for workers.

At the same time, social welfare state provisions and social rights are being dismantled and increasingly disembodied from the state. The far-reaching cuts in services of general in-

terest such as education, child, health or elderly care, social housing and other social services preclude a serious engagement with the much-needed social investment. In the discourse of EU institutions, and the European Commission in particular, the idea of social investment has been reduced to participation in the labour market. One central tenet of social investment is precisely to replace cash transfers or benefits – which only compensate for social inequalities *ex post* – with services which enable individuals to fully participate in a society's activities – and thus aims to avoid inequalities *ex ante*. It is striking, for example, when reading the Country Specific Recommendations (CSR) made by the Commission and the Council in the European Semester, that recommendations related to the welfare state put the emphasis on those services which are directly connected to improving people's employability – such as childcare (for women), vocational education, and services for job seekers. Everything else seems to be regarded as non-growth-oriented and hence, not immediately relevant.

A worrying configuration emerging from the European multi-level constellation is a dualisation (the creation of a population of 'insiders' and 'outsiders' who are not covered by society's safety nets) resulting from a flawed conception and implementation of social investment. Increasingly, public resources are targeted at specific categories of the population such as the young, the long-term unemployed and the elderly in the framework of policy programmes which often lack long-term financial security. In a context of declining real wages and ongoing labour market flexibilisation, close to ten percent of the EU population is affected by in-work poverty, or what better can be termed the 'working poor', and nearly a quarter of the EU population is facing the risk of poverty or financial and social exclusion (Eurostat, 2013a and 2013b). With the privatisation of public goods, services previously free of charge now have to be purchased with private money, with the result that access to debt has become essential to ensure the material conditions of existence and to cover basic needs. In fact, the share of citizens who resort to debt out of necessity, rather than out of convenience or a hedonistic lifestyle, has been on the rise. The wide availability of financial products such as complex forms of consumer credit (credit cards, store cards and high street bank loans, current account overdrafts, as well as the growth of more flexible and diverse forms of mortgage finance) has become central to the reproduction of labour. The prevailing understanding of social investment is geared towards profitability, and subordinated to competitiveness rather than social cohesion. As a consequence, the perspective of equal opportunities within society as a whole is, again, replaced by a discrimination between the 'haves' and the 'have nots'.

The broader understanding of social investment which should guide progressive decision-makers has a set of implications. First, a comprehensive social investment policy should override notions of competitiveness. Social investment should become the primary rationale for the European integration trajectory. It should not reduce people's full participation in society simply to inclusion in the labour market. Participation in the labour market is not sufficient to tackle inequalities as many inequalities are built into the labour market. The current approach only exacerbates structural imbalances and economic disintegration in Europe.

Second, rather than seeing the purpose of social investment in terms of strengthening peoples' capabilities alongside the conservative-neoliberal understanding of competitiveness, the aim should be to address the coverage of basic needs to allow social inclusion more broadly. Thirdly, social equality is productive per se: More cohesive and egalitarian societies are more prone to economic and social welfare. Above all, social cohesion is desirable from a political, value-based point of view. Finally, social investment should be part of a global modernising agenda, which does not lead to the fragmentation of welfare states in a way that prevents the coherence and consistency of social policy.

\*\*\*

This book develops alternative visions and policies from a progressive perspective.

The first chapter of this book by Claassens, Saenen and Schneider summarises the European Commission's current vision of structural reforms, and follows this with criticism focused on the impact of its vision on equality of opportunity, equality of outcome, and horizontal equality. They also highlight the huge social cost of the current crisis, based on the findings of the SOLIDAR Social Progress Watch. Finally, they present 15 SOLIDAR proposals, showing that there are alternatives to the current concept of structural reforms.

The following part of the book highlights specific complementary aspects and is organised in three parts. The first part focuses on the identification and targeting of inequalities, drawing specific proposals to address different types of inequalities. The second part focuses on a social investment strategy and policies, highlighting the need to get our proper vision of social investment. Lastly, the third part deals with specific policies affecting social safeguards, such as trade policy, labour market policy and poverty reduction policies.

## 2. Part I - Identifying and Targeting Inequalities

Part one of this book presents some compelling evidence on the need to reconsider the role of social and economic policies for promoting equitable and sustainable economic recovery. Indeed, it is now well documented how the economic crisis and austerity policies in Europe have undermined progress towards equality, not only in terms of income, but also in terms of pay and conditions, as well as employment opportunities for women, and access to jobs for young Europeans.

However, despite the increased recognition of the negative impact of the economic crisis and recession on equity, policy responses, both at European and national levels, have so far broadly neglected this dimension of the crisis and have predominantly focused on fiscal containment and public debt reduction. Indeed, at the onset of the crisis it was believed that a policy approach focusing on fiscal containment and government debt control would bring about higher economic growth and higher levels of employment.

Seven years after the onset of the crisis it is now evident that this policy approach has failed. Economic growth is still too low in many countries, unemployment remains very high and inequalities have further increased. This is most evident in Southern Europe, where

a country like Italy has experienced a decrease of more than 5 percentage points in GDP between 2008 and 2014. But also in Germany, which is doing much better economically than other European countries, output growth averaged at little more than 1% per annum over the same period (Griffith-Jones & Cozzi, forthcoming March 2016).

Further, the preoccupation with fiscal deficits and government debt has also had repercussions on equity. For instance, austerity policies had negative impacts on public sector employment and welfare provision, and this has particularly hit women as public sector jobs tend to be female-dominated. Further, fiscal austerity has also led to recruitment freezes or job cuts which have then resulted in increased working intensity (longer hours, fewer holidays, and less family-friendly shift patterns) for those remaining in employment. Women have been disproportionately affected by such changes, thus undermining the progress made towards gender equality (Cozzi & De Henau, 2015).

To reverse these worrying trends powerful action is needed. There is a growing consensus that Europe should move away from an exclusive focus on fiscal consolidation and put forward policies which would bring it to a more sustainable and equitable development trajectory. To this end, the European Commission has put forward new policies such as the 315 billion Euro ‘Investment Plan for Europe’. The objective of this plan is to increase investment across Europe in infrastructure, research and development, and education, among other areas, in order to increase economic growth and create jobs for men and women of all ages.

Although this plan represents a good point of departure from the usual exclusive focus on fiscal containment and public debt reduction, the plan’s almost exclusive focus on physical infrastructure spending and investment will further undermine progress towards equality, in terms of pay and conditions as well as employment opportunities for women and young people.

Instead, a long-term recovery that would not only be more equitable but also more sustainable should focus its efforts on achieving a caring economy, where care for people as well as for the environment is the central objective. This means that any progressive policies for Europe should not only focus on investing in physical, and in particular green, infrastructure but also on social infrastructure. The contributions in part one of this book address some of these concerns and present some of the fundamental social policies that the European institutions should consider to bring equity and sustainability to the core of the economic recovery.

The chapter by De Rosa shows that in order to improve progress towards a more social Europe and to put social cohesion back at the heart of EU policies, it is necessary to pay more attention to the gender dimension of the economic crisis and counter-crisis measures, going beyond the formal recognition of the principle of gender equality. Antonucci, in her chapter, discusses the limits of the social investment strategy pursued in EU social policy. In particular Antonucci deals with the increased challenges faced by young graduates in transition to the labour market. She proposes the institution of a universal transition fund, financed by contributions of all workers (insiders included), employers and the state. The purpose of such a fund would be both to intervene in the crucial phase of the first job search and to offer protection during the increasingly frequent spells of unemployment in between jobs. Finally,

the contribution by Gabor et al., using Hungary as a case study, focuses on the need of instituting an economically and politically viable basic income scheme. In particular they argue that a bold new European system of basic income might help the EU to get closer to a truly social Europe, ‘a Europe of the citizens for the citizens’.

### 3. Part II - Shaping Social Investment

The three contributions gathered in the second part of this book bring insights at various levels of the debate. The contribution by Sacha Dierckx puts the emphasis on the ideas and values which should be underlying policy-making. On the topical issue of investment, we have good reasons to believe that relying simply on the private sector, which seems to be the philosophy underlying the recent ‘Juncker Plan’, is illusory, especially because the private sector has a narrow conception of utility which focuses on profit making in the short-term rather than social utility in the longer term. Instead, Dierckx advocates for a ‘socialisation’ of investment, which can be activated at three levels: through public investment, through the stimulation of public development banking, and through the promotion of cooperatives and the social economy. All this should go hand-in-hand with a democratisation of investment-fostering participation in decisions.

Taking a closer look at the social investment agenda in the realm of social and care services, Andrea Ciarani sheds light on the pitfalls of its implementation. While this sector can be an important reservoir of growth and jobs, the focus has mainly been put on job quantity at the expense of job quality in a context where productivity gains are difficult to achieve. In this regard, Ciarani calls for two courses of action. On the one hand, specific policy tools and budget lines must be identified that can feed investment into social care infrastructure in the long run. In this regard, it is clear that the current pressure of fiscal discipline leaves most EU member states with a lack of appropriate financial means. Thus, there should be a strategy coordinated at EU level for identifying possible sources of funding. On the other hand, education and training policies must be developed in order to enhance the level of qualification, hence the quality of jobs in the social services sector.

At the micro level of analysis, Menno Soentken offers a thorough study on activation and work disability in the Netherlands. The Dutch case describes how policy efficiency can be fostered by appropriate institutional arrangements. More specifically, Soentken shows that, in the Netherlands, a reform of sickness and disability funds aimed to make employers more responsible by coupling their contribution more tightly with their ability to include sick or disabled people in the workplace. This reform has led to a significant decrease in the caseload of disability benefits. This study shows that, besides financial investment, the social investment agenda also involves a crucial institutional dimension. Measures related to the governance of individual policy sectors can be taken which create incentives for all actors, starting with employers, to adopt a behaviour which is in tune with social investment.



#### 4. Part III – European Policies Affecting Social Safeguards

This volume advocates a clear, progressive rethinking of the European Union's structural reforms and social investment agenda. The contributions in Part III argue that this can only succeed when it is being supported by reforms in policy domains that indirectly affect social conditions in the Union. Only a holistic reorientation of EU socio-economic policies can lead to a real alternative approach that stimulates jobs, growth and social investment while safeguarding social protection at the same time.

It has been recognised for a long time that the monetary policy regime of the European Central Bank (ECB) is biased towards low inflation policies and exchange rate appreciation and against growth and full employment. The result is that welfare states are put under financial strain, and that lowering labour costs has become the ultimate adjustment variable for European economies. The euro crisis and the involvement of the ECB in the troika have only made this role of the ECB more visible. In an (in)famous interview with the Wall Street Journal in 2012, the ECB President Mario Draghi even declared the European Social Model 'gone'. But also the EU's external economic relations contribute to the structural privileging of conservative and reactionary social policies. All too often, the dismantlement of social protection is legitimated by references to (global) competitiveness pressures. This discourse can again be exemplified by a favourite line of Chancellor Merkel: "Europe accounts for 7% of the world's population, 25% of its economy, and 50% of global social welfare spending", the implication being that this is unsustainable and the EU should 'reform' its social model. A trade policy that is directed only at further liberalisation without ambitious and enforceable social and environmental conditions implies that the EU itself reinforces the competitive pressure on European welfare states. The contributors in this part therefore all call for different approaches to such socio-economic policies that affect social safeguards.

In their contribution, Ranft and Thillaye analyse one of the clearest examples of how a potentially progressive concept ('flexicurity') has been hijacked and instrumentalised by conservative forces in the EU. Instead of empowering workers and giving them more choice to achieve their desired work-life balance, it has in practice been a coercive weapon to decrease job protection. When at the same time European labour markets are becoming ever more polarised and dualised, this conservative application of the flexicurity concept makes both 'insiders' and 'outsiders' more insecure. Ranft and Thillaye discuss how progressives can reclaim the flexicurity concept, and how this can be put into practice.

Del Priore goes beyond a critique of the ECB's role in the euro crisis and puts forward an alternative monetary policy strategy that would support the fight against unemployment. Building on proposals for 'helicopter money' and 'quantitative easing for the people' that have recently received wide support amongst economists, the author argues that the top priority of the fiscal-monetary policy-mix in the Eurozone should be to restore full employment and that, consequently, the ECB should financially 'guarantee' a genuine Job Guarantee programme.

## Alternatives to neoliberal Austerity: Redefining a Progressive Structural Reforms Agenda to reduce Inequalities and promote Jobs, Growth and Social Investment

Basso examines the effects of the Transatlantic Trade and Investment Partnership (TTIP), under negotiation since the summer of 2013, on employment and labour rights. Rather than being an instrument at the service of social protection, he demonstrates that TTIP risks putting further competitive pressure on the European social model, especially if the ‘sustainable development’ chapter(s) on labour and environmental rights remain as vague and weakly enforceable as in past EU trade agreements.

Taken together, this book shows from a number of different points of view that the austerity policies favoured by governments since the economic crisis are not helping Europe’s citizens and therefore, a clear, progressive rethinking of the concept of structural reforms and the social investment agenda is urgently needed.

### Bibliography

Canton, E., Grilo, I., Monteagudo, J., Pierini, F., & Turrini, A. (2014). *The Role of Structural Reform for Adjustment and Growth*. Brussels: DG ECFIN. Retrieved October 24, 2015, from: [http://ec.europa.eu/economy\\_finance/publications/economic\\_briefs/2014/pdf/eb34\\_en.pdf](http://ec.europa.eu/economy_finance/publications/economic_briefs/2014/pdf/eb34_en.pdf).

Cozzi, G. & De Henau, J. (2015). Recovery for whom? The Juncker’s Plan must not be a missed opportunity for gender equality in Europe. *FEPS Policy Viewpoint, No. 5, March 2015*. Retrieved October 24, 2015, from: <http://www.feps-europe.eu/assets/8b37f5c6-2609-4188-8f32-0dc803d036e9/pv-5-2015-gc-jdhv2pdf.pdf>.

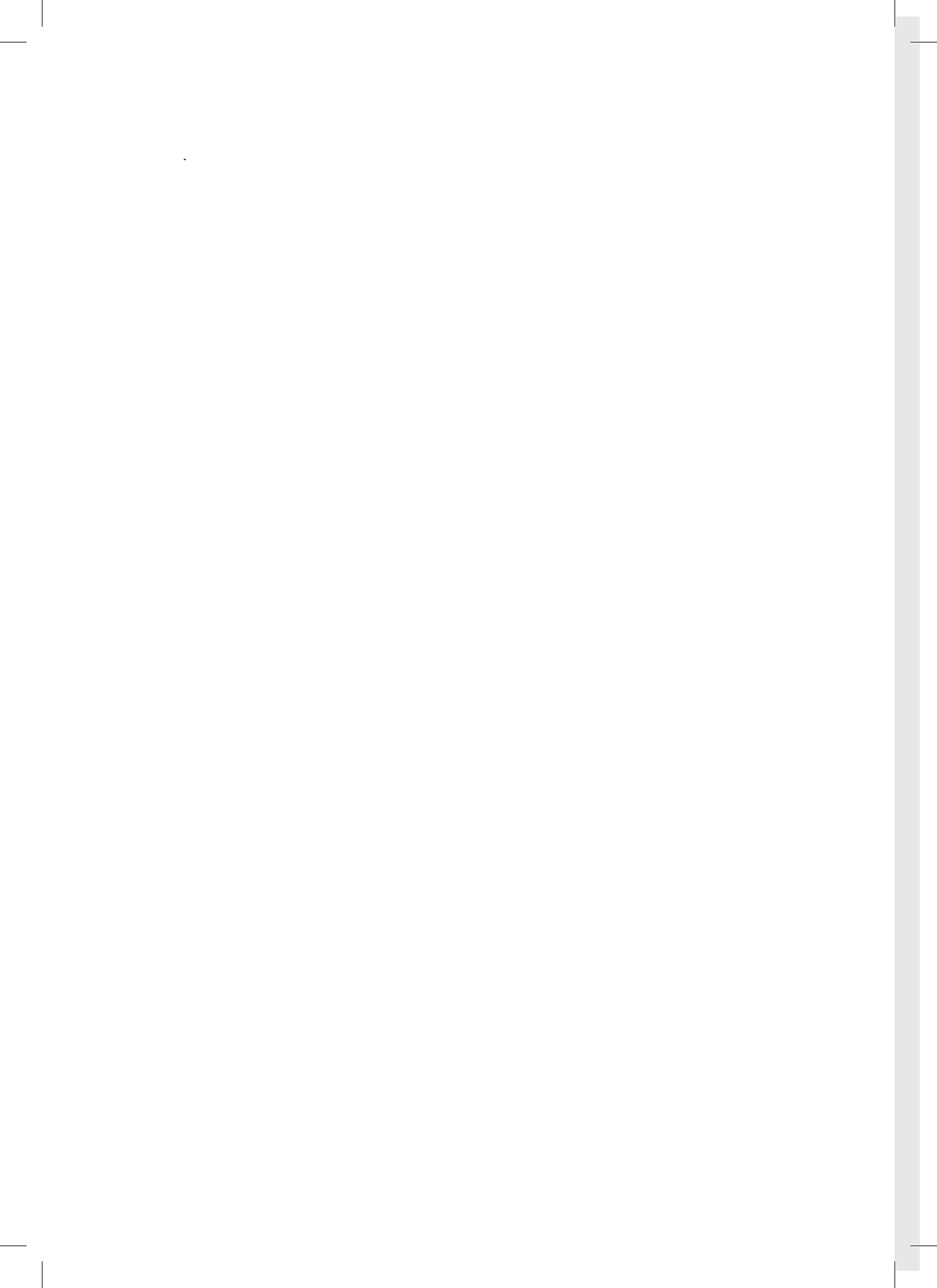
Eurostat (2013a). *Individual employment, household employment and risk of poverty in the EU – A decomposition analysis – 2013 edition*. Luxembourg: Publications Office of the European Union. Retrieved October 24, 2015, from: <http://ec.europa.eu/eurostat/en/web/products-statistical-working-papers/-/KS-RA-13-014>.

Eurostat (2013b). *Household composition, poverty and hardship across Europe – 2013 edition*. Luxembourg: Publications Office of the European Union. Retrieved October 24, 2015, from: <http://ec.europa.eu/eurostat/en/web/products-statistical-working-papers/-/KS-TC-13-008>.

Griffith-Jones, S. & Cozzi, G. (forthcoming March 2016). Investment-led growth: a solution to the European crisis. In M. Mazzucato & M. Jacobs (Eds.), *Rethinking Capitalism: Economic Policy for Sustainable and Equitable Growth*. Wiley-Blackwell.

Merkel, A. (2013). *Speech by Federal Chancellor Merkel at the World Economic Forum Annual Meeting 2013*. Davos, Switzerland, January 24, 2013. Retrieved October 24, 2015, from: <http://www.bundeskanzlerin.de/ContentArchiv/EN/Archiv17/Reden/2013/2013-01-24-merkel-davos.html>.

Rodrik, D. (2015). The mirage of structural reforms. *Project Syndicate*, October 10, 2015. Retrieved October 24, 2015, from: <https://www.project-syndicate.org/commentary/greece-structural-reform-mirage-by-dani-rodrik-2015-10>



# A SOLIDAR PERSPECTIVE



# 15 Progressive Structural Reforms to reduce Inequalities and promote Jobs, Growth and Social Investment

Maurice Claassens, Bregt Saenen,  
Eva-Maria Schneider, SOLIDAR

The high social cost of the economic crisis has introduced a sense of urgency in the debate on the future shape of the European social model. As a direct result of the economic, financial, and sovereign debt crisis that plagues large parts of the continent, a steep increase in inequalities has resulted in 122,897,000 Europeans that now find themselves at risk of poverty or social exclusion.<sup>1</sup> Given Thomas Piketty's assertion that the social welfare state is the main driving force behind upward social convergence, the debate on the future organisation, modernisation, and consolidation of the European social model and its national varieties has indeed become urgent.<sup>2</sup>

The European Commission's (hereinafter 'the Commission') economic strategy to return to growth after the crisis follows the so-called 'virtuous triangle' (i.e. structural reforms, fiscal responsibility, and investment). While the Commission seems to pay lip service to

1 Eurostat (2015, July 7). People at risk of poverty or social exclusion by age and sex. Retrieved July 23, 2015, from <http://ec.europa.eu/eurostat>.

2 Piketty, T. (2014). *Capital in the twenty-first century*. Cambridge, Massachusetts: The Belknap Press of Harvard University Press, pp. 21-22.

the importance of upward social convergence, the structural reforms pursued in this triangle are focused mainly on budgetary and fiscal consolidation. A social perspective is either entirely absent or forced to take a backseat to other considerations. As a telling indication of this mindset, an Economic Brief published by the Directorate General for Economic and Financial Affairs (DG ECFIN) in June 2014 states that ‘[s]tructural reforms in product and labour markets are largely about regulation, which can be implemented without substantial additional government expenditures, *so there is no excuse not to undertake such reforms from a budgetary or fiscal point of view.*’ (emphasis added).<sup>3</sup>

SOLIDAR argues that the one-sided reform focus on budgetary and fiscal consolidation is eroding the ability of the European social model to reduce inequalities and promote quality jobs, inclusive growth, and social investment. In this article, we identify the elements we consider necessary for alternative, progressive structural reforms that will protect the social state in Europe. Following a three-part structure, we first extend the Commission’s current approach to structural reforms. Secondly, we draw on the findings of our Social Progress Watch Initiative – a monitoring tool to evaluate the commitment and progress made by national governments towards upward social convergence in Europe – to highlight the growing inequalities in Europe and the social cost of the economic crisis. Finally, we evaluate the Commission’s approach by using Tony Atkinson’s categories of equality (i.e. equality of opportunity, equality of outcome, and horizontal equality), which will reveal the shortcomings of the current reforms.<sup>4</sup> In turn, this allows us to present 15 proposals for progressive structural reforms with a recalibrated focus on making real progress towards upward social convergence in Europe.

## 1. The current approach to structural reforms

In the first part of this article we extend the current strategy of returning to economic growth after the crisis, wherein the structural reform corner of the virtuous triangle is focused mainly on budgetary and fiscal consolidation. In order to tackle the challenges resulting from the economic crisis and persistently stagnating economic growth, the European Union (EU) has embraced the panacea of investment, fiscal consolidation and structural reforms in support of jobs and growth.<sup>5</sup> To advance on the latter - structural reforms - incentives are included in the Stability and Growth Pact (SGP), making reference to the so-called “structural reform clause” which says ‘[...] the Council and the Commission shall take into account the implementation of major structural reforms which have direct

3 Canton, E., Grilo, I., Monteagudo, J., Pierini, F. & Turrini, A. (2014). The Role of Structural Reform for Adjustment and Growth, Brussels: DG ECFIN, p. 6. Retrieved 23 July 2015, from [http://ec.europa.eu/economy\\_finance/publications/economic\\_briefs/2014/pdf/eb34\\_en.pdf](http://ec.europa.eu/economy_finance/publications/economic_briefs/2014/pdf/eb34_en.pdf).

4 Atkinson, A.B. (2014). After Piketty? The British Journal of Sociology, 65(4), pp. 619-638. Retrieved 17 April 2015, from <https://milesorak.files.wordpress.com/2015/02/ab-atkinson-after-piketty-british-journal-of-sociology-2014-volume-65-issue-4.pdf>.

5 European Commission (2014). Annual Growth Survey 2015, COM(2014) 902 final, 28 November 2014. Retrieved 23 July 2015, from [http://ec.europa.eu/europe2020/pdf/2015/ags2015\\_en.pdf](http://ec.europa.eu/europe2020/pdf/2015/ags2015_en.pdf).

long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances.<sup>6</sup> In other words, member states such as Spain, Italy, Portugal, Greece and even France struggling to meet the 3% of GDP deficit and the 60% of GDP debt reference values (as defined in the SGP) are allowed to deviate temporarily from them. This creates a strong incentive for countries to undertake structural reforms.

A troublesome element for European policy makers is, however, that the SGP does not provide any tools for monitoring the enforcement of these (intended) structural reforms. That is where the European Semester Process comes into play, a process in which the European Commission analyses the fiscal and structural reform policies of every member state, provides recommendations, and monitors their implementation, whilst member states implement the commonly agreed policies.<sup>7</sup> Within the process of the European Semester, the European Commission and member states develop together country-specific recommendations for reforms that are supposed to be implemented at national level, whilst at European level they give evidence to allow for temporary deviations from the SGP objective of a balanced budget [in structural terms, or the adjustment path towards it] in the cases of major structural reforms.<sup>8</sup> In 2014, SOLIDAR collected evidence on these national reform processes in the Social Progress Watch Report. Its findings are summarised in the next chapter.

Before going into a more detailed analysis of social progress in 2014, one has to look into the definition of structural reforms and their impact on employment and social policies. Therefore it is important to come back to the European Semester Process and in particular the accompanying Draft Joint Employment Report of the Annual Growth Survey that links (in Chapter Two) the Employment directly to ‘Employment and Social Policy Reforms’.<sup>9</sup> In this respect, the Joint Employment Report highlights – amongst others – the following structural reforms:<sup>10</sup>

**1. Boosting demand for labour and enhancing the functioning of labour markets.**

As part of the process of modernising employment protection legislation, an approach is being followed by several member states that promotes employment dynamism and

6 European Commission (2015). Making the best use of the flexibility within the existing rules of the stability and growth pact, COM(2015) 12 final provisional, 13 January 2015, p. 9. Retrieved 23 July 2015, from [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/2015-01-13\\_communication\\_sgp\\_flexibility\\_guidelines\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf).

7 For more information on the European Semester and its yearly policy cycle, please see: [http://ec.europa.eu/economy\\_finance/economic\\_governance/the\\_european\\_semester/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/the_european_semester/index_en.htm) (retrieved 23 July 2015).

8 Angerer, J. (2015). European Parliament Briefing: Stability and Growth Pact - An Overview of the Rules, PE 528.745, 6 May 2015. Retrieved 23 July 2015, from [http://www.europarl.europa.eu/RegData/etudes/note/join/2014/528745/IPOL-ECON\\_NT%282014%29528745\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/note/join/2014/528745/IPOL-ECON_NT%282014%29528745_EN.pdf).

9 European Commission (2014). Draft Joint Employment Report from the Commission and the Council accompanying the Communication from the Commission on the Annual Growth Survey 2015, COM (2014) 906 final, 28 November 2014. Retrieved 23 July 2015, from <http://ec.europa.eu/social/BlobServlet?docId=13093&langId=en>.

10 Please note that these four elements refer to the guidelines for employment policies (i.e. guidelines 7, 8, 9 and 10), which are guidelines for employment policies associated with the broad guidelines for economic policies, and together they form integrated guidelines for the Europe 2020 strategy which is currently under revision.



combats segmentation by the use [amongst others] of flexible types of work contracts (including part-time, seasonal and temporary agency work), relaxing legislation on working time, the simplification of dismissal procedures, capping the amount of severance pay, the alignment of wage developments to productivity, measures to reduce the ‘tax wedge’ on employment and setting up start-up incentives.

2. **Enhancing employment supply and skills.** Member states introduce measures aimed at improving skills supply and promoting adult learning frequently in conjunction with vocational training reform. Most notable are measures that facilitate school to work transitions, or measures to improve skills supply and promote adult learning. 18 member states took measures to improve their vocational education and training systems (VET) to make them more relevant to market needs. However, member states put less emphasis on implementation of qualification frameworks.
3. **Fostering social inclusion, combatting poverty and promoting equal opportunities.** Member states are increasing their efforts to strengthen Active Labour Market Policies (ALMPs), reforming social assistance and unemployment systems, while introducing targeted measures for those at higher risk of poverty. In parallel, member states have introduced reforms [amongst others] regarding rebalancing time in work and retirement (i.e. raising the retirement age, opening routes for people to prolong their working lives and improve pension entitlements by deferring retirement, and the indexation of pensions with payment being changed or temporarily frozen), reviewing healthcare expenditure and seeking ways to improve value for money.

In conclusion, the SGP contains strong incentives for structural reforms that have an impact on labour market and social policies, which are ‘intended’ to provide sustainable pathways out of the economic crisis and persistently stagnating economic growth. This focus on economic recovery came, in the perspective of many civil society networks, at the expense of other European policy making tools such as the Europe 2020 strategy whose review has been postponed to 2016.<sup>11</sup> However, it does not mean that ‘no’ social policy has been conducted in 2015, as the approach through structural reforms related to the SGP and the European Semester process provided guidelines, principles, legislation and activities that directly affect the welfare and wellbeing of people living in Europe, such as the European Youth Guarantee.

## 2. Rising inequality and the social cost of current structural reforms

In the second part of this article, we highlight the growing inequalities in Europe and the social cost of the economic crisis. For this purpose, we draw on the findings of specialised European and international organisations and SOLIDAR’s Social Progress Watch Initiative,

---

<sup>11</sup> Social Platform (2015, February 2). European agenda turned upside down: Commission makes everyone wait another year for EU2020 review. Retrieved 23 July 2015, from <http://www.socialplatform.org/news/european-agenda-turned-upside-down-commission-makes-everyone-wait-another-year-for-eu2020-review/>.

our own monitoring tool to evaluate the commitment and progress made by national governments towards upward social convergence within the European Semester.<sup>12</sup>

While, as we have seen, the Commission considers that ‘[s]tructural reforms [...] are largely about regulation [...], which can be implemented without substantial additional government expenditures’,<sup>13</sup> this assumption does not seem to hold. Indeed, looking at these structural reforms from a socio-economic perspective and not the narrow fiscal one of the Directorate-General Economic and Financial Affairs (DG ECFIN), a rising social cost of structural reforms in the field of employment and social policies can be witnessed.

Evaluating the reforms that are currently being pursued, the International Labour Office (ILO Office) has repeatedly pointed to the negative effects of the EU’s policy response to the crisis. For example, in the 2014 Global Employment Trends report, the ILO Office states that ‘[...] in the second phase of the crisis, the majority of governments in the EU countries embarked on fiscal consolidation, with significant cuts to their welfare systems and provision of public services, which disproportionately affected jobless persons and their families, as well as those groups of the population that are not covered or are poorly covered by social protection systems, such as first-time jobseekers, informal workers, ethnic and migrant groups, single-parent families and pensioners, with negative consequences for social cohesion and social justice.’<sup>14</sup> Moreover, in the 2014-15 World Social Protection Report, the ILO Office states, in no uncertain terms, that ‘[t]he achievements of the European social model, which dramatically reduced poverty and promoted prosperity in the period following the Second World War, have been eroded by short-term adjustment reforms.’<sup>15</sup>

Responding to the negative effects of the current structural labour and social reforms, SOLIDAR established the Social Progress Watch Initiative, which allows us to monitor and evaluate how the current focus on fiscal consolidation has caused the structural reforms to erode social cohesion and equality within and between EU member states. This Initiative is carried out by SOLIDAR and our members and partners who have set up EU strategy groups that are composed of professional staff working in the social service sector, end-users and volunteers, experts in social services and the social economy, and social partners, including representatives of the trade union movement.

12 SOLIDAR (2015). Jobs, Growth & Social Investment. Retrieved 23 July 2015, from <http://www.solidar.org/Active-Inclusion-Social-Progress.html>.

13 Canton, E., Grilo, I., Monteagudo, J., Pierini, F. & Turrini, A. (2014). The Role of Structural Reform for Adjustment and Growth, Brussels: DG ECFIN, p. 6. Retrieved 23 July 2015, from [http://ec.europa.eu/economy\\_finance/publications/economic\\_briefs/2014/pdf/eb34\\_en.pdf](http://ec.europa.eu/economy_finance/publications/economic_briefs/2014/pdf/eb34_en.pdf).

14 ILO Office (2014). Global Employment Trends 2014. Risk of a jobless recovery? Geneva: ILO Office, p. 42. Retrieved 15 April 2015, from [http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_233953.pdf](http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_233953.pdf).

15 ILO Office (2014). World Social Protection Report 2014-15: Building economic recovery, inclusive development and social justice, Geneva: ILO Office, p. XXV. Retrieved 15 April 2015, from [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_245201.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf).

The findings from the country studies in the 2014 Social Progress Watch Report confirm the ILO Office's evaluation that the current structural labour and social reforms are eroding the European social model and, moreover, its findings give a tangible overview of how this erosion is taking place in 13 EU member states and two candidate countries. Some examples are shown below:

1. **Boosting demand for labour and enhancing the functioning of labour markets.**

In **Germany**, it is becoming more difficult to obtain a permanent employment contract. Short-term, temporary, and part-time contracts are becoming more common in the German labour market. Low paid employment has become a problem in Germany. More than 20% of the employed earn low wages. The expansion of the low wage labour market does not contribute to positive employment development. In most cases, those who changed from unemployment towards low wage employment soon fall back into unemployment.

The youth unemployment rate is rising and currently stands at 41.8% in **Italy**. The number of young people not in employment education and training (NEETs) is increasing. Various initiatives have been launched to support youth employability and the increase in labour market participation. However, the government did not put policy strategies in place to create new jobs for young people. The Italian employment law is one of the most flexible in Europe and there are many different forms of contracts. However, companies do not hire young people. In addition, in the last few years, public services, such as services for persons with disabilities, child care services, and nursing homes, have been subjected to serious budget cuts because of austerity measures taken to solve the financial crisis and reduce public debt. The consequence has been a diminishing number of women in employment because they have to provide care for their relatives.

In **Romania** the current unemployment rate is 7.3% which is below the European average (10.8%). The rate of youth unemployment is 23.6%, even if they are high school graduates. In some regions, the youth unemployment rate exceeds 30%. Young people are more affected by unemployment and, when they are employed, they are more likely to have informal contracts, short-term jobs or lower salaries. Furthermore, there is a strong link between the level of education, and whether or not people come from rural areas, and unemployment.

2. **Enhancing employment supply and skills.**

In **Austria**, more than one in four young people aged 15 has poor reading skills, and results are only slightly better in mathematics. These young people face difficulties in accessing initial vocational education and training, which is crucial for their access to the labour market.

For 54% of young workers in **Bulgaria**, their educational background is not related to their job. For this reason, the employment strategy in Bulgaria aims to develop a national system that researches and forecasts the demand for employment. It is hoped

that this will firstly ensure consistency in the demand and the supply of skills and knowledge, and secondly that it will help the government pursue effective policies in education, training, social engagement and employment.

In **Croatia**, the SOLIDAR initiative finds that when it comes to developing stronger ties between education and the labour market, there is a relative over-emphasis on reforms relating to the development of occupational standards and it has been affected by the introduction of a National Qualifications Framework Act. Although it was adopted in 2013, it needs to develop a number of additional elements, such as legal regulations validating non-formal and informal education. There is a discussion on enrolment quotas, but this has failed to have any noticeable effects in the policy sphere. Some crucial questions are constantly being overlooked. In the view of our members, the real causes of high youth unemployment do not lie primarily with inflexible employment legislation, but rather in the lack of quality social dialogue in education, and the lack of institutional incentives for up-skilling, combined with a similar absence of a coherent economic strategy.

Even though Croatian education has experienced substantial reforms over the last decade, its performance shows several weaknesses at different levels. Some progress has been achieved in terms of attainment levels in tertiary education. However, a serious effort is required to reach the national and European 2020 target.

The **French** education system has not been able to reduce the early school leaving rate which has remained at around 12% over the last six years. Participation in lifelong learning remains very low and no progress has been recorded in the last ten years. At 5.7%, the 2012 participation figure for France was clearly below the 9% EU average. Furthermore, the ability of the multiple schemes and instruments to adequately target those who most need training has been called into question. The initial education system also has a critical role to play in providing all young people with sufficient skills. Worryingly, the gap in the level of education at age 15 between the best students and the worst performers widened more rapidly between 2000 and 2009, and appears wider in France than in most other OECD countries.

### 3. **Fostering social inclusion, combatting poverty and promoting equal opportunities.**

Elderly people are more likely to become unemployed in **Austria**. Data show that the recent rise in unemployment figures in 2014 was to almost one quarter from the 50+ age group. To push companies into raising their quota of elderly employees, a 'bonus malus' system will be introduced according to a governmental agreement, but this might only happen in 2017. The recent rise in unemployment figures for people at the age of 50 and above was also caused by reforms of pensions, especially the invalidity pension.

Although there is a tradition of co-operation between governmental bodies and welfare organisations in **Germany**, there is a current trend towards financial cuts and

privatisation. Reforms of some social laws - or a lack of these - have increasingly brought market-oriented mechanisms into the provision of social services. Current developments are undermining quality and sustainability in the provision of services of general interest because of obligations that favour the lowest bidder. The increasing privatisation of public services, and the shift of responsibility to social service providers, is creating a high level of competition both between private enterprises and non-profit organisations, and among charitable service providers. At the same time, welfare organisations are facing financial cuts and a loss of sovereignty through a rising number of rules concerning diligence and documentation. Problems facing the nursing and the care sectors include their lack of economic and employment attractiveness, wage dumping and low quality contracts. The recent pension reform in **Italy** (Legge Fornero) that increased the retirement age to either 64 or 67 years, has had some harmful consequences, including an increase in the unemployment rate of people older than 50, while the labour market has become “blocked” by a generation that had to push back their retirement age.

Measures were adopted in 2012 by the **Spanish** government through Law 16/2012 on urgent measures to ensure the sustainability of the National Health System and improve the quality and safety of its performance. The Royal Decree 1192/2012 regulates the status of insured persons and beneficiaries for the purposes of health care in Spain, financed by public funds, through the National Health System. These reforms violate the right to health contained in the Universal Declaration on Human Rights,<sup>16</sup> and they eliminate the concept of universal access to public health in the Spanish Constitution. These measures increase the vulnerability of different population groups, especially undocumented migrants. For these people, the law only recognises the right to free emergency health care, except in the case of pregnant women and minors. This situation is not only questionable in terms of cost savings (emergency care is more expensive than outpatient care and the course of disease can be prolonged and become chronic); it is also discriminatory and it eliminates the basic rights of the most vulnerable groups and it damages Spain’s public health. According to Amnesty International, 873.000 people were excluded from the National Health System in 2014.

The findings above show that current reforms regarding ‘*enhancing employment supply and skills*’ can be considered as insufficient and need to be enhanced. From the reforms related to ‘*boosting demand for labour and enhancing the functioning of labour markets*’ and ‘*fostering social inclusion, combating poverty and promoting equal opportunities*’ a rather more troublesome effect can be witnessed through the growing ‘precariousness’ (insecure living conditions usually caused by uncertainty in employment). In particular the latter shows that changes in policy, resulting from structural reforms, are at the expense of the entire so-

---

16 Article 25 (1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services.

ciety (social cost) that has to bear the short-term consequences of growing unemployment, poverty and social exclusion in Europe.

However one has to also consider the long-term social cost aspect. In this light, research by the Organisation for Economic Co-operation and Development (OECD) has made it clear that it also makes sense from an economic perspective. For example, in a 2014 report, the OECD notably concluded that ‘[...] when income inequality rises, economic growth falls.’<sup>17</sup> In other words, currently implemented structural reforms increase inequalities, which are a block in the way of developing a stable growth regime that would enable Jobs, Growth and Social Investment. As Stockhammer puts it in a 2012 Working Paper, ‘[...] creating a more equal society is not an economic luxury that can be taken care of after the real issues, such as financial regulation, have been sorted out. In fact, a far more equitable distribution of income and wealth than presently exists would be an essential aspect of a stable growth regime.’<sup>18</sup> As such, SOLIDAR doubts whether upward social convergence will indeed automatically follow from structural reforms that are first and foremost concerned with shoring up the fiscal and budgetary affairs of the EU member states. Especially when the Commission’s own 2014 Employment and Social Development Review highlights that: ‘[...] unemployment, poverty and inequalities undermine sustainable growth by weakening aggregate demand in the short-term and by affecting potential GDP in the longer term through reduced access for many households to education and health services, and hence the sub-optimal use of human capital.’<sup>19</sup>

In conclusion, in recent years structural reforms have been implemented that are considered by some ‘very cheap’, but they carry a high social cost: persistent unemployment, lower wages and higher taxes have contributed to increases in poverty or social exclusion now affecting 123 million people in the European Union (24 % of its population), many of them children, women, the elderly and people with disabilities. The cost of adjustment following the economic crisis has in this way been passed on to parts of the population that have now been coping with fewer jobs and lower income for more than five years.

### 3. Overcoming inequalities?

In the third and final part of this article, SOLIDAR evaluates the Commission’s approach by using Tony Atkinson’s categories of equality (i.e. equality of opportunity, equality of outcome, and horizontal equality), which will reveal the shortcomings of the current reforms. In turn, this

17 OECD Directorate for Employment, Labour and Social Affairs (2014). Focus on Inequality and Growth – December 2014, Paris: OECD, p. 1. Retrieved 16 April 2015, from <http://www.oecd.org/els/soc/Focus-Inequality-and-Growth-2014.pdf>.

18 Stockhammer, E. (2012). Rising Inequality as a Root Cause of the Present Crisis, Amherst: University of Massachusetts Amherst, p. 18. Retrieved 17 April 2015, from [http://www.peri.umass.edu/fileadmin/pdf/working\\_papers/working\\_papers\\_251-300/WP282.pdf](http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_251-300/WP282.pdf).

19 European Commission (2015). Employment and Social Developments in Europe 2014, Brussels: European Commission, p. 15. Retrieved 17 April 2015, from <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7736>.

evaluation provides a basis for us to contribute to the urgent debate on the future organisation, modernisation, and consolidation of the European social model and its national varieties. Specifically, SOLIDAR will present 15 proposals for progressive structural reforms with a recalibrated focus on making real progress towards upward social convergence in Europe.

If one wants to identify alternative, progressive employment and social policy reforms, it is important to recognise that these have to contribute to overcoming inequalities in order to ensure a stable growth regime. Building on the work by Tony Atkinson, there are three broad understandings of equality that can serve to structure the complex discussion on the multitude of possible alternative structural reforms: equality of opportunity, equality of outcome, and horizontal equality.<sup>20</sup> In a nutshell, these three understandings are outlined by Atkinson as follows:

‘Many people think in terms of achieving equality of opportunity. It is however important to distinguish between competitive and non-competitive equality of opportunity. The latter ensures that all have an equal chance to fulfil their – independent – life projects. To draw an athletic analogy, all can have the opportunity to acquire swimming certificates. In contrast, competitive equality of opportunity means only that we all have an equal chance to take place in a race – a swimming competition – where there are unequal prizes. In this, more typical, case, there are ex post unequal rewards, and it is here that inequality of outcome enters the picture. The concern that I want to address in this paper is that, even if there were competitive equality of opportunity, the reward structure is too unequal and that ex post inequality needs to be reduced. [...] Moreover, it is not only the vertical dimension of inequality – between rich and poor – that should concern us. There are important issues of horizontal inequality, notably the unequal distribution between men and women, and inequality between generations.’<sup>21</sup>

In other words, structural labour and social reforms are needed that promote non-competitive equality of opportunity, while at the same time mitigation measures have to be promoted that reduce the inequality of outcome with specific attention to horizontal inequality.

Evaluating the recently adopted European Commission Employment Guidelines from an Atkinson perspective, one recognises the predominant focus on equality of opportunity in the fields of ‘*enhancing employment supply and skills*’, with the focus on providing people for the labour market rather than adapting the labour market to the people. In the previous chapter some current reforms in this field can be considered as insufficient and need to be enhanced. Regarding the guidelines related to mitigation measures that reduce the inequality of outcomes, one has to look at ‘*boosting demand for labour and enhancing the functioning of the labour market*’ and ‘*fostering social inclusion, combating poverty and promoting equal opportunities*’. Here a contradictory effect can be witnessed by the growing precariousness throughout Europe as identified earlier.

20 Atkinson, A.B. (2014). After Piketty? *The British Journal of Sociology*, 65(4), pp. 619-638. Retrieved 17 April 2015, from <https://mileskorak.files.wordpress.com/2015/02/ab-atkinson-after-piketty-british-journal-of-sociology-2014-volume-65-issue-4.pdf>.

21 Ibid., pp. 620-621.

In conclusion, in contradiction to current practices, employment and social structural reforms are needed that can more effectively overcome inequality of opportunities, while at the same time new mitigation measures have to be developed that reduce the inequality of outcome and that end the growing precariousness. This is in sharp contrast to the general liberal economic model, in which employment and social structural reforms are being pursued that have no proven long-term positive impact, and in effect pose a severe obstacle to economic growth. The question emerges, thus, “which employment and social structural reforms should be pursued that could reduce inequalities, putting an end to rising precariousness and stimulate inclusive and sustainable growth?” for which this paper seeks to define elements.

### 3.1. Opportunities to develop and use skills

In order to strengthen equality of opportunity, the United Nations Development Programme’s (UNDP) human development approach could be leading, as it provides already for over 25 years a framework that *gives people more freedom to live lives they value* and in particular refers to two approaches *developing people’s abilities* and *giving them a chance to use them*.<sup>22</sup> Also the OECD Skills Outlook 2013 presents several considerations in this regard: *Skills transform lives, generate prosperity and promote social inclusion. Without the right skills, people are kept at the margins of society, technological progress does not translate into economic growth, and enterprises and countries can’t compete in today’s globally connected and increasingly complex world*.<sup>23</sup>

The mentioned ‘Employment and Social Policy Reforms’ focus predominantly on improving skills supply, promoting adult learning, reforming vocational training and facilitating school to work transitions. This corresponds to the findings of the SOLIDAR Foundation paper ‘Building Learning Societies: Investing in Education and Lifelong Learning’ (2014).<sup>24</sup> However this paper also identifies a need to develop a number of additional elements, such as legal frameworks of validating non-formal and informal education, the improved quality social dialogue, institutional incentives for up-skilling or coherence with economic strategy.

For these reasons, SOLIDAR identifies the following progressive structural reforms to reduce growing inequalities of opportunities and promote Jobs, Growth and Social Investment:

1. Through the **recognition and validation of non-formal and informal learning** ensure that skills development can be more relevant and effective, enables fair employment mobility and enhances participating in social of vulnerable people.
2. The **access to quality and affordable non-formal and informal learning and vocational education and training for those most at risk of poor skills proficiency**

22 For more information on the UNDP Human Development Approach, please see: <http://hdr.undp.org/en/humandev> (retrieved 24 July 2015).

23 OECD (2013). OECD Skills Outlook 2013: First Results from the Survey of Adult Skills, Paris: OECD Publishing. Retrieved 24 July 2015, from <http://dx.doi.org/10.1787/9789264204256-en>.

24 SOLIDAR (2014). Building Learning Societies: Investing in Education and Lifelong Learning, Brussels: SOLIDAR. Retrieved 24 July 2015, from [http://www.solidar.org/IMG/pdf/71\\_solidar\\_briefing\\_final.pdf](http://www.solidar.org/IMG/pdf/71_solidar_briefing_final.pdf).



- have to be ensured, providing them with further learning opportunities, tailored to their broader social needs and potential work placements.
3. Encourage employers to recognise skills proficiency, by **ensuring transparent standards, embedded in a framework of national qualifications and reliable assessment procedures** to reduce the time needed to obtain a certain qualifications and promote workplace innovation.
  4. Ensure the optimal allocation of resources as an investment. Ensuring **quality education systems (formal, non-formal, informal and VET) for all pupils, students and adults** in the European region, not only defined in terms of learning outcomes, but also in terms of the full development of the individual and their contribution to a democratic society.
  5. Improve the permeability between education systems. It would be beneficial if education systems were more effective at **imparting skills acquired in various forms of learning: formal, non-formal, informal and VET**.
  6. Promote alternative pathways to re-engage with the education system and **make the transition from education into the labour market smoother**. The longer the period during which a person has been out of education, the weaker the direct relationship between his or her formal education and proficiency.

### 3.2. Redistribution for a decent living standard

Structural reforms that are able to mitigate the inequality of outcomes are anchored in the concept of the modern welfare state, and starting from the founding father of the typology of European Welfare States, Gøsta Esping-Andersen, one can recognise that the ‘[...] challenge is immense, because the ongoing revolutions in both the labour market and family structure that are creating fantastic new opportunities are also posing novel social risks and needs.’ and hence he defines that the most immediate priority is ‘[...] to better adapt redistribution priorities and social rights to evolving realities.’<sup>25</sup> Similar to Atkinson, also Esping-Anderson fully recognises that focussing merely on equality of opportunities will be insufficient and calls it even a ‘dangerous fallacy’.

Considering redistribution priorities in the European Union in the light of growing precariousness, shows that the economic crisis has been passed on to populations who have been coping with fewer jobs and lower income for more than five years. Structural reforms, thus, have to contribute to closing the widening income gap in Europe. For that reason, it is increasingly important to place the use of taxes and social transfers in the context of emerging new social risks and needs. For both elements, trends can be witnessed in recent years:

- i. taxation has become less progressive and is therefore less likely to address the growing income inequality found in many countries, and indirect taxes (which are typically regres-

25 Esping-Andersen, G. (2000). A Welfare State for the 21st Century. Ageing societies, knowledge-based economies, and the sustainability of European welfare states, p. 1. Retrieved 24 July 2015, from <http://www.nnn.se/seminar/pdf/report.pdf>.

sive) have become a more important source of government revenue and ii. social transfers, as a percentage of GDP, have declined in Europe while social insurance programmes have grown relatively quickly, excluding informal sector workers.

For these reasons, SOLIDAR identifies the following progressive structural reforms to reduce growing inequalities of outcomes and promote jobs, growth and social investment:

1. **A return to a more progressive rate structure for personal income tax**, with special rates for the top one per cent of incomes, and less **focus on indirect taxation** (such as VAT).
2. **A basic set of essential social rights and transfers**, in cash and in kind, to provide a minimum income and livelihood security for all, to facilitate effective demand for and access to essential goods and services.
3. **Universal access to basic social services** as these services increase human capital, support economic growth and limit the risk of excessive income inequality.
4. Governments actively **tackling corporate and private tax fraud and tax avoidance** to generate the revenues that are now absent.
5. Reconsideration of the concept of social rights in terms of effective guarantees against entrapment, as the right to a second chance, by **providing basic set of social guarantees allowing for a decent standard of living**.
6. A **living wage** by setting minimum wages that offer an adequate standard of living.

### 3.3. Equality between people

The last facet of analysis regards structural reforms targeting horizontal equality - defined as the inequality between different groups living in the same society.<sup>26</sup> This includes men and women, younger and older people, but also (often slightly disregarded) 'newcomers' in a society such as migrants or posted workers. This appeals to our fundamental sense of justice - *equals have to be treated as equal*.<sup>27</sup> It includes several issues important for this analysis such as intergenerational justice, gender equality and migration.

The issue of *intergenerational justice*, for instance, has already been on the European agenda for some decades. Pieter Vanhuyse's Intergenerational Justice Index compares, amongst others, elderly-oriented spending (old-age-related benefits in cash/in kind, disability pensions, early retirement etc.) with non-elderly-spending (family benefits, unemployment benefits, severance pay, education spending etc.) and points at high elderly spending at the expense of the younger generations; a trade-off often perceived as inequitable and unjust.<sup>28</sup> If

26 Beinhocker, E.D. (2006). *The Origin of Wealth: Evolution, Complexity, and the Radical Remaking of Economics*. Boston: Harvard Business School Press.

27 Kaplanoglou, G. & Newbery, D.M. (2008). Horizontal Inequity and Vertical Redistribution with Indirect Taxes: the Greek Case. *Fiscal Studies*, 29(2), pp. 257 – 284.

28 Intergenerational Justice Index compares 29 OECD countries under the aspect of sustainability in four dimensions: the ecological footprint created by all generations alive today, early-life starting conditions measured with the child poverty levels, fiscal burdens on the shoulders of currently young generation (measured by public debt levels by child) and policy effort regarding the overall pro-elderly bias in social spending.

countries with high pro-elderly bias do not correct their policies, this high degree of injustice will be inflicted upon current and future young generations as we can no longer assume that each young generation will be better off than the generation before it.

Another example is *gender equality*. Despite improvements in women's educational and employment outcomes, many European countries have not achieved gender equality in economic opportunities and outcomes. While women are doing better at school and university than men, at the latest with their entry into the labour market, gender inequalities start to appear. The gender pay gap remains one of the crucial indicators for unequal opportunities and outcomes for women. In an economy where paid labour is overemphasised and unpaid labour such as care, house work etc. remain highly unattractive, women are suffering in multiple ways: the strains from paid work and (unpaid) work at home at the same time damage their health. The lower wages in female dominated occupations damage their incomes, their pensions and their economic independence.

The recent increase in *migration* into Europe poses new challenges for our societies to cope with. Societies will see rising inequalities between citizens of a member state and migrants, refugees or asylum seekers arriving from outside the EU. The access to fundamental rights (especially economic, social and cultural rights) is often limited for migrants as they are not allowed to work (or only after a long waiting time), they only have basic access to social services and health care, and they are often stigmatised and not fully integrated into our society. This poses serious threats to their successful start in a new country, and it increases horizontal inequalities within our societies.

For these reasons, SOLIDAR identifies the following progressive structural reforms to reduce growing horizontal inequalities and promote Jobs, Growth and Social Investment:

1. Setup or strengthen fiscal and social security benefits / credits to reward family members for raising children or caring for elderly people with a **stronger focus on pre-distributive** (pre-distribution requires governments to try to prevent inequalities occurring in the first place rather than ameliorating inequalities through the tax and benefits system once they have occurred) **social policies**.
2. Promote stronger equality legislation and ensure it is implemented. It should include **tools to deliver women's economic independence, their rights to social protection, gender equal taxation and tools to effectively combat the in-work poverty** that goes hand in hand with the gender pay gap and the gender pension gap.
3. Ensure **full access to fundamental rights and equal opportunities for migrants** by enhancing equal access to economic, social and cultural rights, ensuring non-discrimination and equal treatment for vulnerable, marginalised and excluded groups as well as **promoting plurality of society** through fighting racism, xenophobia, and busting myths linked to migration in the public debate such as the argument that the host society has been in some way 'invaded'.

## 4. Conclusion: Progressive structural reforms

Against the backdrop of growing inequalities in Europe and the high social cost of the economic crisis, SOLIDAR presents 15 progressive structural reforms with a recalibrated focus on making real progress towards upward social convergence in Europe. Contributing to the broader and urgent debate on the future organisation, modernisation, and consolidation of the European social model and its national varieties, this set of reforms introduces a much-needed social perspective into the Commission's economic strategy to return to growth after the crisis.

The Stability and Growth Pact contains strong incentives for structural reforms, laid down in the Employment Guidelines that have a strong impact on the labour market and social policies, and they have been implemented at the expense of other European policy making tools such as the Europe 2020 strategy. As a result, reforms have been implemented that are considered by some 'very cheap' but which carry a high social cost. They have contributed to increases in poverty or social exclusion now affecting 123 million people in the European Union, which is 24 per cent of its population, many of them children, women, the elderly and the disabled.

Moreover, the employment and social structural reforms that are being pursued have no proven long-term positive impact, and in effect they pose a severe obstacle to economic growth. For that reason SOLIDAR proposes to focus on the following progressive structural reforms to reduce inequalities and promote Jobs, Growth and Social Investment:

1. Through the **recognition and validation of non-formal and informal learning, government policies should** ensure that skills development are more relevant and effective, and enable fair employment mobility and enhance the participation of vulnerable people in society.
2. Access to **quality and affordable non-formal and informal learning and vocational education and training for those most at risk of poor skills proficiency** has to be ensured, providing the people at risk with further learning opportunities, tailored to their broader social needs and potential work placements.
3. Employers should be encouraged to recognise skills proficiency, by **ensuring transparent standards, embedded in a framework of national qualifications and reliable assessment procedures**, to reduce the time needed to obtain necessary qualifications and promote workplace innovation.
4. The optimal allocation of resources as an investment must be ensured. Government should deliver **quality education systems (formal, non-formal, informal and VET) for all pupils, students and adults** in the European region, not only defined in terms of learning outcomes, but also in terms of the full development of the individual and their contribution to a democratic society.
5. The permeability between education systems must improve. Again, it would be beneficial if education systems were more effective at **impacting skills acquired in various forms of learning: formal, non-formal, informal, and VET**.

6. Alternative pathways to re-engage with the education system and **make the transition from education into the labour market smoother should be promoted**. The longer the period during which a person has been out of education, the weaker the direct relationship between his or her formal education and proficiency.
7. A **return to a more progressive rate structure for personal income tax**, with special rates for the top 1 per cent of incomes, and **turning away from the focus on indirect taxation (such as VAT)** is necessary.
8. A **basic set of essential social rights and transfers**, in cash and in kind, to provide a minimum income and livelihood security for everyone. This should facilitate effective demand for, and access to, essential goods and services.
9. **Access to basic social services should be universal** as these services increase human capital, support economic growth and limit the risk of excessive income inequality.
10. **Corporate and private tax fraud and tax evasion should be tackled** to generate the revenues that are now absent and needed.
11. Reconsider the concept of social rights in terms of effective guarantees against entrapment, making a second chance a right, by **providing basic set of social guarantees that allow for a decent standard of living**.
12. Employment should be established at a living wage; by setting minimum wages at an adequate standard of living.
13. Fiscal and social security benefits/credits that reward family members for raising children or caring for elderly people with a **stronger focus on redistributive social policies must be set up or strengthened**.
14. Stronger equality legislation should be promoted and its implementation should be ensured. It should include **tools to deliver on women's economic independence, their rights to social protection, gender equal taxation and the effective combating of in-work poverty** that goes hand in hand with the gender pay gap and the gender pension gap.
15. **Full access to fundamental rights and equal opportunities for migrants must be ensured** by enhancing equal access to economic, social and cultural rights; ensuring non-discrimination and equal treatment for vulnerable, marginalised and excluded groups as well as **promoting plurality in society** through fighting racism, xenophobia, and busting myths linked to migration in the public debate such as the 'logic of invasion'.

## ANNEX 1.

### Summary of relevant guidelines for the employment policies of the member states 2015

The set of integrated guidelines newly proposed and adopted by the European Commission in March 2015 and by the council in October 2015, reflect the new approach to economic policy-making built on **investment, structural reform and fiscal responsibility**.

#### Employment Guidelines adopted in 2015

##### **Guideline 5: Boosting demand for labour**

Member states should facilitate the creation of quality jobs, reduce the barriers business faces in hiring people, promote entrepreneurship and, in particular, support the creation and growth of small enterprises. Member states should actively promote the social economy and foster social innovation.

The tax burden should be shifted away from labour to other sources of taxation less detrimental to employment and growth, while protecting revenue for adequate social protection and growth-enhancing expenditure. Reductions in labour taxation should aim to remove barriers and disincentives in relation to participation in the labour market, in particular for those furthest away from the labour market.

Member states should, together with social partners and in line with national practices, encourage wage-setting mechanisms allowing for a responsiveness of wages to productivity developments.

Differences in skills and divergences in economic performance across regions, sectors and companies should be taken into account.

When setting minimum wages, Member states and social partners should consider their impact on in-work poverty, job creation and competitiveness.

##### **Guideline 7: Enhancing the functioning of labour markets**

Member states should take into account the flexibility and security principles ('flexicurity principles'). They should reduce and prevent segmentation within labour markets and fight undeclared work. Employment protection rules, labour law and institutions should all provide a suitable environment for recruitment, while offering adequate levels of protection to all those in employment and those seeking employment. Quality employment should be ensured in terms of socio-economic security, work organisation, education and training opportunities, working conditions (including health and safety) and work-life balance.

In line with national practices, and in order to improve the functioning and effectiveness of social dialogue at national level, Member states should closely involve national parliaments and social partners in the design and implementation of relevant reforms and policies.

Member states should strengthen active labour-market policies by increasing their effectiveness, targeting, outreach, coverage and interplay with passive measures, accompanied by rights and responsibilities for the unemployed to actively seek work. These policies should aim to improve labour-market matching and support sustainable transitions.

Member states should aim for better, more effective public employment services to reduce and shorten unemployment by providing tailored services to support jobseekers, supporting labour-market demand and implementing performance-measurement systems.

Member states should effectively activate and enable those who can participate in the labour market to do so, while protecting those unable to participate. Member states should promote inclusive labour markets open to all women and men, putting in place effective anti-discrimination measures, and increase employability by investing in human capital.

The mobility of workers should be promoted with the aim of exploiting the full potential of the European labour market. Mobility barriers in occupational pensions and in the recognition of qualifications should be removed. Member states should at the same time prevent abuses of the existing rules and recognise potential ‘brain drain’ from certain regions.

#### **Guideline 6: Enhancing employment supply and skills**

Member states, in cooperation with social partners, should promote productivity and employability through an appropriate supply of relevant knowledge, skills and competences. Member states should make the necessary investment in all education and training systems in order to improve their effectiveness and efficiency in raising the skill and competences of the workforce, thereby allowing them to better anticipate and meet the rapidly changing needs of dynamic labour markets in an increasingly digital economy and in the context of technological, environmental and demographic change. Member states should step up efforts to improve access for all to quality lifelong learning and implement active-ageing strategies that enable longer working lives.

Structural weaknesses in education and training systems should be addressed to ensure quality learning outcomes and to reduce the number of young people leaving school early. Member states should increase educational attainment, encourage work-based learning systems such as dual learning, upgrade professional training and increase opportunities for recognising and validating skills and competences acquired outside formal education.

High unemployment and inactivity should be tackled. Long-term and structural unemployment should be significantly reduced and prevented by means of comprehensive and mutually reinforcing strategies that include individualised active support for a return to the labour market. Youth unemployment and the high number of young people not in education, employment or training (NEETs), should be comprehensively addressed through a structural improvement in the school-to-work transition, including through the full implementation of the Youth Guarantee.

Barriers to employment should be reduced, especially for disadvantaged groups.

Female participation in the labour market should be increased and gender equality must

be ensured, including through equal pay. The reconciliation between work and family life should be promoted, in particular access to affordable quality early childhood education, care services and long-term care.

Member states should make full use of the European Social Fund and other Union funds to foster employment, social inclusion, lifelong learning and education and to improve public administration.

**Guideline 8: Fostering social inclusion, combating poverty and promoting equal opportunities**

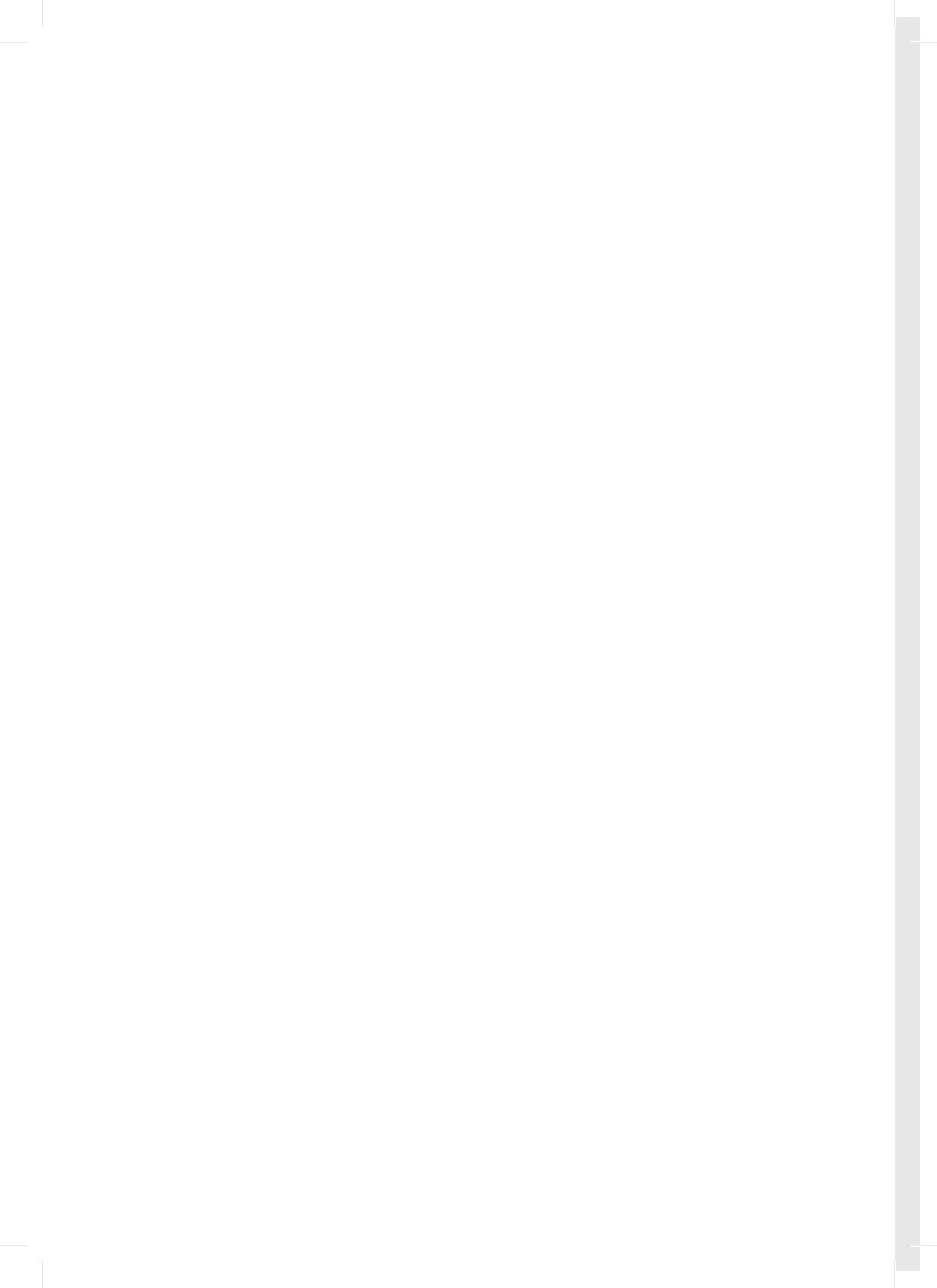
Member states should modernise social protection systems to provide effective, efficient and adequate protection throughout all stages of an individual's life, fostering social inclusion, promoting equal opportunities, including for women and men, and addressing inequalities.

Complementing universal approaches with selective ones will improve effectiveness, while simplification should lead to better accessibility and quality. More attention should go to preventative and integrated strategies. Social protection systems should promote social inclusion by encouraging people to actively participate in the labour market and society. Affordable, accessible and quality services such as childcare, out-of-school care, education, training, housing, health services and long-term care are essential. Particular attention should also be given to basic services and actions to prevent early school leaving, reducing in-work poverty, and fighting poverty and social exclusion.

For that purpose, a variety of instruments should be used in a complementary manner, in line with the principles of active inclusion, including labour activation enabling services, accessible quality services and adequate income support, targeted at individual needs. Social protection systems should be designed in a way that facilitates take-up for all those entitled to do so, supports protection and investment in human capital, and helps to prevent, reduce and protect against poverty and social exclusion through the life cycle.

In a context of increasing longevity and demographic change, Member states should secure the sustainability and adequacy of pension systems for women and men. Member states should improve the quality, accessibility, efficiency and effectiveness of health and long-term care systems, while safeguarding sustainability.





PART I

**IDENTIFYING  
AND TARGETING  
INEQUALITIES**



# Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)

Lorenza Antonucci, Teesside University

## 1. Introduction

With the spreading levels of unemployment and precarity (job uncertainty linked to a precarious existence) even among young graduates, reflection is needed on the implications and limits of the social investment strategy pursued in EU social policy. One of the innovative elements coming from the European Semester has been tackling inter-generational inequality by asking member states to implement the Youth Guarantee scheme. However, some major drawbacks persist: first, the supply-side approach of the EU social investment agenda which does not address graduate unemployment; secondly, the limits of the contributory nature of European social protection systems for young people.

The recent publications in the area (Knijn, 2013 and Antonucci et al., 2014) underline the need to update welfare state interventions for the emerging needs of young people. In recent years, the period of young adulthood, rather than a phase between two dominant stages of the life-course relevant for social policy – childhood and adulthood – has emerged as a vital life-course stage in its own right and one that generates specific policy needs. Within youth policy analysis, it is particularly important to explore the implications of current policies for young people transitioning from university to work. To date, the

policy focus has been on low-skilled young people, despite the emerging evidence of the problematic transitions to the labour market experienced by young people with tertiary education (Bell and Blanchflower, 2011; Samek Lodovici and Semenza, 2012; and Murgia and Poggio, 2014). Surely, young people with degrees are statistically still relatively better off compared to those without higher education. The point of this chapter is, however, to explore the limitations of the current policy assumptions regarding increasing participation in higher education (in other words, what higher education can do and what it cannot do), to describe the current limits of social protection systems in the current context of a knowledge-based economy with a high rate of university graduates, and finally to explore the possible ways to fill the current gaps.

The chapter will, firstly, point out the need to overcome the current social investment focus. Secondly, it will illustrate the gaps in social security and the labour market system. Thirdly, the chapter will discuss how inter-generational and intra-generational inequalities are reproduced through current policies. Finally, the chapter will show how an EU Youth Transition Fund (YTF) could fill the gaps by acting as a short-term support to cover young people in their transition from university to work in two respects: firstly by overcoming the dualism of labour market policies, by offering protection to young people during a transitional period characterised by precarity (addressing inter-generational inequality) (Standing, 2011); and secondly by offering a universal protection for young adults in order to limit the spreading of inequality among young people (thus addressing intra-generational inequality).

## **2. Why graduates struggle: The need of going beyond the social investment paradigm**

Young people in contemporary Europe experience fragmented paths into the labour market, spells of unemployment, and labour market insecurity (Furlong and Cartmel, 2007 and Antonucci et al., 2014). Since 2008, the global economic crisis has intensified some of the risks experienced by young people (Dietrich, 2013) and created new forms of insecurity and exclusion (MacDonald, 2011). While the literature in the 1980s and 1990s focused extensively on school-to-work transitions, after the mass expansion of higher education in Europe, transitions from university-to-work represent new ‘ordinary’, albeit overlooked, trajectories for young adults (Roberts, 2013). Transitions from university to work are not as smooth as they have been depicted in the past: young graduates are affected by new social risks such as underemployment (Bell and Blanchflower, 2011) and precarious forms of employment (Standing, 2011). While national and European policies have focused on poorly educated young people (see the ‘EU Youth Guarantee’), the emerging policy needs of young graduates are largely overlooked in policy analysis. The policy orthodoxy has interpreted youth unemployment as the result of low skills and aspirations and thus the problems of un- and underemployed well-qualified young adults, such as graduates, have been virtually ignored (MacDonald, 2011). Again, this analysis does not imply ignoring the comparative advantages that high-skilled young people still have compared to their low-skilled counterparts. It is

## Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)

more a call for greater attention to be paid to the emerging inequalities among young people in university (see also Piketty, 2014), considering the related dynamics of social mobility linked to university participation.

The idea that young people's transitions from university to work could be problematic is in contrast with the policy focus put forward by European and national policies since the 1990s, which has promoted access to higher education as a policy panacea to boost employment rates and, at the same time, increase social inclusion in European societies. The original Lisbon Strategy, launched in 2000, aimed at making the EU 'the most competitive and dynamic knowledge-based economy in the world' (European Council, 2011, Art. 25-27). The strategy had a specific focus on modernising the European social model through investment in higher education 'to adapt both to the demands of the knowledge society' (ibid.), a principle which has also been re-established by the most recent EU2020 strategy (European Council, 2011) and is also at the core of the EU Youth Strategy 2008-2012 (European Commission, 2012). The double goal of enhancing economic competitiveness and social inclusion also informed New Labour's 'widening-participation agenda' in the UK in the 2000s (Naidoo, 2009). In both cases, those agendas have not simply shaped higher education policies, but they have also reformulated the principles of welfare-state intervention, by establishing that expanding access to higher education was a key element for pursuing social justice through higher education (Furlong and Cartmel, 2009). The idea behind this approach is that modernising the European social model means a shift from social protection to social investment, where individual investment in higher education from young people and/or their families is required (Nelson and Stephens, 2011). In particular, current policies for access to higher education for young people from different socio-economic backgrounds is framed as a proxy for equity in higher education (European Council, 2009), while participation in higher education in itself is assumed to have a positive effect on young people's lives as it improves their career paths, due to the supposed potential higher returns in the labour market (European Council, 2011). The EU Youth Strategy 2008-2012 reflects this human capital approach to Higher Education (HE), where investment in education is assumed to have positive socio-economic implications given the returns of HE in the labour market. Existing academic scholarship suggests that barriers to widening participation and access remain (Skilbeck and O'Connell, 2000), while graduate transitions to the labour market are not as smooth as they have been assumed to be (Keep and Mayhew, 2010).

If higher education carries an economic value, there is an inherent fallacy in the idea of creating more social mobility by turning intrinsically élitist institutions – which universities are, despite their name – into institutions for the masses. Policies (and theories) of social investment in higher education have not taken into account that the marginal economic utility of degrees, namely the economic and social gains of 'winning' (having a graduate education), will decline with the expansion of higher education. What happened, in reality, is that with the development of higher qualifications, (for example, in the expansion of postgraduate education), the value of lower qualifications (undergraduate degrees) declines. This explains

why, despite having the largest number of students in higher education in its history, the EU is increasingly affected by the issue of graduate unemployment and underemployment (graduates taking jobs for which they are over-qualified). Although the expansion of higher education has been used in policy-making as an economic panacea, it has also resulted in a decline in the economic value of qualifications in the labour market (Keep, 2012). The decline of the economic value of higher education does not obviously detract higher education from its social value (or it ignores the fact that young people with higher education are still advantaged compared to their low-educated peers), but it rather points out that the policy assumptions made on the automatic smooth effects of degrees in the labour market need to be revisited. In other words, if higher education does not provide social protection *per se*, what other forms of social protection do young people have?

In proposing a policy agenda that overcomes the social investment focus, the new focus would be on understanding young people's emerging needs and providing mechanisms that address them. Young people in transition from university to work face a number of social risks: the presence of a precarious labour market for newcomers (Knijn, 2013); the pressure on low earners that comes from previous debt accumulated during university (Barr, 2010); the risk of having to rely on and return to the family home after graduation (the phenomenon of 'the boomerang generation') (Stone et al., 2011). The structures available to young people to cope with these social risks differ (Furlong and Cartmel, 2005), but there is a narrative, supported by Standing's influential work (Standing, 2011) regarding the general diffusion of precarity across skilled and non-skilled workers. Faced with such challenges, what instruments do contemporary welfare states offer to tackle the emerging needs of skilled young people?

### 3. The current gaps of social protection systems: Beyond the insider-outsider division

The reality of difficult graduate paths is somehow difficult to grasp if the current debate on labour market reforms is followed. A popular vision is reading the current exclusion of young people from labour market systems using the framework proposed by Emmenegger et al. (2012) of the division between 'outsiders' and 'insiders'. According to this idea three structural developments regarding the labour market have occurred in the last decades: firstly the 'tertiarisation' (employment beyond the traditional primary and secondary forms of labour) of the employment structure, secondly the education revolution, and thirdly the feminisation of the workforce (Emmenegger et al., 2012, pp. 28-29). These processes have also created a division between those who access standard jobs, and those who access non-standard jobs. Using previous research, Emmenegger et al. (2012) identify a division between the low-skilled who are in precarious jobs, and therefore excluded from labour market participation, and the high-skilled people who are still insiders of the labour market and whose labour market needs are fully protected. This division misses the current reality of young people entering in the labour market who are, in practice, outsiders from labour market protection

## Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)

systems, despite having high level of skills. The studies by Murgia and Poggio (2014) show that higher education *per se* is not a form of protection against the diffusion of new social risks. Furthermore, as identified by Jessoula et al (2011) in Italy, there is another category of workers missed by this analysis, namely the 'mid-siders', who are in precarious jobs and have features in common with the outsiders. These mid-siders are in (very) low-paid jobs, they have no job protection and they experience spells of unemployment (so the transition from mid-siders and outsiders is quite frequent). According to the authors, part of the reason for this is that reforms of the labour market, introduced with the idea of tackling the insider-outsider division, have been implemented in different ways for different categories of workers, and in some cases have increased, rather than decreased, the number of precarious jobs.

The insider-outsider division has been described as particularly prominent in Bismarckian system of social provision, where labour market protection follows the logic of a contributory system. In all fairness, the welfare state reforms occurred in Europe in recent years in particular, in the area of labour market and social protection systems, have been going towards the direction of increasing the contributory element of social protection systems (Hacker, 2004). This has created, however, negative implications for newcomers in the labour market, who do not usually have enough contributions to enter the current systems of labour market protection. While graduates face increasing social risks, their protection needs are currently missing in labour market protection systems. The literature on Bismarckian welfare states has often stressed how these systems are particularly affected by 'atypical' forms of work given the difficulty of establishing full eligibility for contributory unemployment protection (Clegg, 2008). As stressed by Clegg 'the protection capacity of contributory unemployment insurance also appears increasingly inadequate for job-starters, who often face a prolonged period of unemployment early on in their working lives' (2008, p. 63). While there is no explicit age-conditionality attached to our current social security and labour market protection systems, the current settings of those systems prevent a large portion of the youth population to access existing forms of protection. Rather than an explicit discrimination against young people, this reality reveals the profound need of updating current labour market systems to the changed social and economic context.

Paradoxically, the reforms to address the insider-outsider division have perpetuated, rather than addressed, the current limits of young people accessing labour market protection. As explained by Clegg (2008), the European systems of social protection have been reformed precisely with the aim of reducing their costs and the outsider-insider division in the following directions. Firstly, cost containment which consists of cutting benefits levels, duration and making eligibility stricter. Secondly, a recalibration with more focus on those with atypical work histories is accompanied by declining protection from those with long work history. Thirdly, activation has focused on increasing investment in training, as well as implementing stricter job search procedures (including sanctions). Finally, administrative restructuring has attempted to integrate, in particular, social security and employment services. In order words, there seems to be a widespread view on the importance of limiting the insider-outsider divi-



sion by reducing the forms of social protection for insiders. However, these solutions have hardly worked for young people as outsiders in the current labour market systems. Two of these measures perpetuate the limits of labour market protection systems pointed out above: firstly, the focus on cost-containment and making eligibility stricter means less possibility for young people to enter the current systems of labour market protection; and secondly, the focus on education and training perpetuates the idea of education as a form of social protection against labour market risks – whose limits have been pointed out above.

The comparative study by Murgia and Poggio (2014) conducted in the UK, Italy, and Spain, also shows that there are slight comparative differences in the gaps of current social protection systems for young people. During the interviews with policy-makers, the two authors found that policy gaps in Italy and Spain concerned mostly the need for protecting young people from the negative effects of jobs uncertainty, and discouraging employers from abusing these types of contracts. In the UK in particular, the topical issue was avoiding the abuse of internships when graduates first start work after leaving university. In both cases, however, it was evident that the existing systems could further develop. Mechanisms are needed to limit the negative effects of job uncertainty, and instruments that offer protection during the transition from university to work, and between jobs, are also needed. We shall return to this issue in the last section of this chapter, where a policy proposal will be formulated.

#### 4. The rise of intra-generational inequalities among young people in university

While precarious jobs are highly diffused among the youth population, inequalities still persist. With the policy focus on access to higher education, and the assumption that higher education brings secure jobs, many commentators have neglected the role that higher education plays in reproducing inequalities among this cohort of young people (Busemayer, 2015). Not only are social risks increasingly diffused among young people, but this generation seems also to be particularly affected by rising inequalities (Antonucci et al, 2014). Following the post-Piketty discussion put forward by Atkinson (2014), we need to distinguish between two types of inequalities affecting young people.

Firstly, inter-generational inequalities, namely how current welfare states reinforce the division between old people (who are considered protected) and young people (whose needs are not protected). While this view is partly justified by the lack of focus of European welfare states in respect to young people (more the consequence of a lack of update of welfare states to extended youth transitions than a deliberate attempt to award ‘old people’), this view misses the contemporary mechanisms of family transfer across generations explored by Kohli (1999) among others. In other words, not all ‘young people’ are equally punished by contemporary European welfare states, as many young people continue to receive generous forms of family support (and this is true not only in Southern European countries).

Secondly, this leads to important intra-generational inequalities, namely persisting differences among different social groups of young people. The contemporary debates seem to

## Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)

assume a uniform impact of the crisis on young people, despite the increasing relevance of the transmission of family dynamics. Piketty's study (2014) shows that, despite the mass access to higher education, social mobility has paradoxically become more difficult to achieve in the last decades in Europe due to the relevance of wealth inequality. This means that for the current generation of young people benefiting from family income, but importantly also family wealth, is more relevant than ever (Chevalier and Palier, 2014). This issue is particularly relevant for young people in university as, after the mass expansion of higher education and the increasing access to higher education for young people from different social classes, families increasingly use their resources to support young people in university.

Higher education has a very important role in shaping the modern dynamics of social mobility among young people and the inequalities within this cohort of young people (what was referred to above as 'intra-generational inequalities'). This aspect is outlined by the work of Ainley and Allen, who explain that the social class structure has become pear-shaped (Ainley and Allen, 2010). After the democratisation of higher education, instead of having a large portion of young people in the middle, the social class structure has become polarised, with a minority of young people on top and the vast majority at the bottom. The function of higher education is to protect young people from 'climbing down the ladder', in other words from being disadvantaged compared to their uneducated peers (in this sense, higher education still represents *de facto* advantage). However, if access to higher education becomes widespread, having a degree does not represent substantial gain *per se*, but at the same time not having a degree represents an important disadvantage. In this dynamic the differential availability of family sources that young people from different backgrounds have results in an increase in inequality. Higher education qualifications therefore represent a 'hygiene factor': a factor whose presence will not improve the situation of young people, but whose absence will affect their position in the labour market. Young people are put in competition with each other in a labour market where jobs are becoming increasingly scarce and in which employers can pick their staff from an ever-larger number of qualified candidates, thereby penalising the least qualified. In this race to gain more and more qualifications in the labour market, the family plays a very important role. The role of the 'cultural capital' deriving from the family in the experience of young people in university has been widely explored since Bourdieu and Passeron's study conducted in the 1970s in France (Bourdieu and Passeron, 1977). Despite the changes that have occurred since the 70s (when Bourdieu and Passeron's study was originally conducted), Shavit and van de Werfhorst (2015) note that families are aware that the value of education in the labour market is positional and that their children compete with their cohort to stay ahead of the rising level of educational qualifications required in the labour market. As the authors point out, the issue of inequality in relation to higher education becomes even more important in relation to degrees that are very selective, such as post-graduate courses, where families can mobilise additional resources so that their kids maintain their social advantage over their peers. This social advantage is also used during and after higher education, for example, to gain more work experience through qualified internships.

The paradox is that educationally expanding societies offer more, not fewer, possibilities of inequalities through higher education.

While a part of the literature describes the diffusion of precarity as a generational feature present among all young people (Wyn and Woodman, 2006), other scholars have been keen to stress the profound inequality persisting among young people from different socio-economic backgrounds (Roberts, 2010; Roberts and Evans, 2012; Antonucci et al., 2014). The most debated form of inequality regarding young people in policy-making is between young people who access higher education and those who do not. While this factor is important, we need to keep in mind that after the mass expansion of higher education, new categories of young people from low socio-economic backgrounds have also joined higher education. Therefore, the inequality among young people from different socio-economic backgrounds in university is emerging as a particularly prominent issue (this particular form of inequality is mentioned and also addressed by Piketty, 2014). There is a growing body of studies in the social sciences showing the relevance of inequalities among young people in university (see Antonucci, forthcoming). The first studies in this area show that young people in transition from university to work from the most disadvantaged backgrounds face additional difficulties as they are pushed towards lower status jobs due to the debt they have accumulated (Furlong and Cartmel, 2005), and they are more severely hit by labour market shortages (Ainley and Allen, 2010). Is there any way contemporary welfare states could tackle these emerging inequalities?

## 5. A new proposal: The scope for a Youth Transition Fund?

As Atkinson (2014) pointed out in his recent article on inequality, welfare states play a crucial role in decreasing inequalities, but addressing emerging inequalities means also 'updating' welfare state interventions to the new societal needs. Social provisions addressing the needs of young graduates transitioning to work should offer 'flexible' protection in order to respond to the precarious nature of labour markets. One idea would be to think about a Youth Transition Fund that could partially fill the existing policy gap by providing a limited monthly support to those who have graduated within 3 years. Such an instrument could intervene in smoothening transitions from university to work in two respects: firstly during the period of 'job search', when family sources are mostly mobilised, and inequalities increase; and secondly during the periods inbetween different limited contracts, by offering short-term protection inbetween jobs. In many respects creating new instruments of social protection for young people follow the same 'creative' logic developed by social insurance schemes after WWII. The example of Germany is particularly relevant in this context, as it shows how mechanisms of social insurance were developed as 'mutual aid' funds with both workers' and employers' contributions and later recognised by the state. Following this example, the state could establish the existence of mandatory 'transition funds' at the national, sectoral or company level, revisiting the current mechanisms of workers' contributions (thereby asking also to the so-called 'insiders' to contribute to such systems), as well as redirecting a percentage of current employers' contributions. State support would therefore be used mainly

## Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)

to coordinate the management of such funds (both with unions and employers), and top-up existing contributions.

What are the potential benefits of a Youth Transition Fund? As discussed earlier, the current policy focus remains on access to higher education. At the same time, European policy tools not only focus on social provisions for the low-skilled, but propose education and training as the panacea for addressing the 'youth crisis', neglecting the importance of guaranteeing other forms of social protection. This is the case with the European Youth Guarantee, which not only focuses only on the low-skilled, but also proposes up-skilling and training as the policy solution against unemployment (see Antonucci et al, 2014). While this chapter proposes a social protection system for graduates, further research could explore the compatibility of this scheme with the existing European Youth Guarantee.

Firstly, a YTF would address the limits of the contributory nature of employment support. As we have seen in the previous pages, one of the current limits of contemporary protection systems is that they have become more conditional, relying on private contributions. This is in contrast, however, with the emerging needs of a part of the population, namely young people, who typically have no accumulated contributions. Moreover, for young graduates transitioning to the labour market, the contributions accumulated in previous low-skilled jobs might not be enough to sustain the social risks encountered in post-university labour market transitions. The idea of having an age-related form of protection (similarly to the criteria of the Youth Guarantee) would allow providing universal coverage by overcoming the limits of the contributory nature. At the same time, the upper age limit of such protection system should take into account the extended time for completing higher education studies (i.e. an upper age limit for graduates could be between 25 and 30, depending on the degree they achieved), as well as the possible presence of differential schemes for mature students transitioning from university to work.

Secondly, a YTF will address the negative effects that graduate youth unemployment has on inequality. As we have seen before, inequalities are rising among the current cohort of young people as a consequence of the mobilisation of family sources, and the incapacity of labour market sources to sustain young people's quest to independence. If there is a political interest in addressing the rising inequalities identified by Piketty (2014), then ad hoc state interventions for young people should be among the priority measures, given the rising level of inequality among young people. Regarding the particular form that the YTF should take, policies in this field have to take into account the fact that means-tested provisions based on family income increase, rather than solve, the inequalities among young people (see Barr, 2010) as they are based on assumptions on family transfers towards young people that might not always be the case. In general, universal forms of support are reported to better address inequalities (Korpi and Palme, 1998) and could offer more equal opportunities for young people transitioning to work.

In terms of governance, there is ample scope for the setting up of this instrument at the European level, by using the existing European Semester, through which Youth Guar-

tee schemes have been adopted at the national level across the EU. What is required at the European level is not simply, or even primarily, a direct transfer of funds for such ‘transition funds’ (although this would be needed as a top-up, in order to increase the sources of social protection among all workers), but mainly to establish common rules with mandatory schemes that revisit the destination of workers’ contributions, employers’ contributions, and state contributions. Despite the current austerity narrative that stresses the short-term economic costs of welfare state interventions, such mechanisms of shared contributions between the state, workers and employers are entirely compatible with a growth focused economy and they are economically sustainable as they share costs and provide productivity benefits.

## 6. Conclusion

While the EU risks suffering from long-term effects of the crisis affecting the current lost generation of young people, the proposed policy solutions adopted in the EU risk exacerbating, rather than tackling, the challenges faced in particular by graduates in transition from university to work. The current chapter has firstly argued that the challenges faced by young graduates in transition to the labour market are in contrast with the social investment focus of current European policies, which needs to be dismissed in favour of debates on how to reform contemporary welfare states to respond to the emerging needs of the society, including young people. The contributory nature of the current social protection systems, and the mismatch between the rigid mechanisms of protection and the flexible nature of contemporary labour markets, have been identified as the two crucial policy gaps to tackle when designing new instruments. Furthermore, the chapter has shown how inequality is rising, not just between young people and old people, but also among the current cohort of young people as a consequence of the increasing mobilisation of family sources as mechanisms of protections against the social risks faced in labour markets. An ad hoc fund focusing on smoothening graduate transitions to the labour market would offer the possibility of tackling the emerging needs of graduates having unstable transitions, and it could offer an equal basis for all young graduates transitioning, thereby limiting the mobilisation of family sources as a driver of inequality. The proposal of a universal transition fund, financed by contributions of all workers (insiders included), employers and the state has the scope to both intervene in the crucial phase of the first job search and offer protection during the increasingly frequent spells of unemployment between jobs.

## Bibliography

- Ainley, P. & Allen, M. (2010). *Lost Generation? New strategies for youth and education*. London: Continuum.
- Antonucci, L. (forthcoming). *The Real Lives of Students. Austerity, Youth and Inequality*. Bristol: Policy Press.

## Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)

Antonucci, L., Hamilton, M. & Roberts, S. (Eds.) (2014). *Young People and Social Policy in Europe. Dealing with Risk, Inequality and Precarity in Times of Crisis*. Basingstoke: Palgrave Macmillan.

Atkinson, A. B. (2014). After Piketty? *The British Journal of Sociology*, 65(4), 619-638.

Barr, N. (2010). *Designing student loans to protect low earners*. London: Policy Exchange.

Bell, D. N. F. & Blanchflower, D. G. (2011). Young People and the Great Recession. *Oxford Review of Economic Policy*, 27 (2), 241-267.

Bourdieu, P. & Passeron, J. D. (1977). *Reproduction in Education, Society and Culture*. London: SAGE.

Busemayer, M. (2015). *Skills and Inequality*. Cambridge: Cambridge University Press.

Chevalier, T. & Palier, B. (2014). The Dualisation of Social Policies towards Young People in France: Between Familism and Activation. In Antonucci, L., Hamilton, M. & Roberts, S. *Young People and Social Policy in Europe. Dealing with Risk, Inequality and Precarity in Times of Crisis* (pp. 189-209). Basingstoke: Palgrave.

Clegg, D. (2009). Continental Drift: On Unemployment Policy Change in Bismarckian Welfare States. In Palier, B. and M. Claude (Eds.) *Reforming the Bismarckian Welfare Systems* (pp. 62-81). Oxford: Wiley.

Dietrich, H. (2013). Youth unemployment in the period 2001–2010 and the European crisis – looking at the empirical evidence. *Transfer: European Review of Labour and Research*, 19(3), 305-324.

Emmenegger, P., Häusermann, S., Palier, B. & Seeleib-Kaiser, S. (Eds.) (2012). *The age of dualization: the changing face of inequality in deindustrializing societies*. Oxford: Oxford University Press.

European Council (2009). *Council Resolution of 27 November 2009 on a renewed framework for European cooperation in the youth field (2010-2018)*. Brussels: Official Journal of the European Union.

European Council (2011). *Conclusions on the role of education and training in the implementation of the 'Europe 2020' strategy*. Brussels: Official Journal of the European Union.

Furlong, A. & Cartmel, F. (2005). *Graduates from disadvantaged families: Early Labour market experiences*. Joseph Rowntree Foundation. Bristol: Policy Press.

Furlong, A. & Cartmel, F. (2007). *Young People and Social Change: New Perspectives*. Buckingham: Open University Press.

Furlong, A. & Cartmel, F. (2009). *Higher Education and Social Justice*. London: Open University Press.

- Hacker, J. S. (2004). Privatizing risk without privatizing the welfare state: The hidden politics of social policy retrenchment in the United States. *American Political Science Review*, 98(2), 243-260.
- Keep, E. (2012). *Youth Transitions, the Labour Market and Entry into Employment: Some Reflections and Questions* Cardiff: Skope.
- Keep, E. & Mayhew, K. (2010). Moving beyond skills as a social and economic panacea. *Work, Employment & Society*, 24(3), 565-577.
- Knijjn, T. (2013). *Work, Family Policies and Transitions to Adulthood in Europe*. Basingstoke: Palgrave.
- Kohli, M. (1999). Private and public transfers between generations: Linking the family and the state. *European societies*, 1(1), 81-104.
- Korpi, W. & Palme, J. (1998). The paradox of redistribution and strategies of equality: Welfare state institutions, inequality, and poverty in the Western countries. *American sociological review*, 63 (5), 661-687.
- MacDonald, R. (2011). Youth transitions, unemployment and underemployment. *Journal of Sociology*, 47(4), 427-444.
- Murgia, A. & Poggio, B. (2014). At risk of deskilling and trapped by passion: a picture of precarious highly-educated young workers in Italy, Spain and the United Kingdom. In L. Antonucci, Hamilton, M. & Roberts, S. *Young People and Social Policy in Europe. Dealing with Risk, Inequality and Precarity in Times of Crisis* (pp. 62-86). Basingstoke: Palgrave Macmillan.
- Naidoo, R. (2009). The 'Third Way' to widening participation and maintaining quality in higher education: lessons from the United Kingdom. *The Journal of Educational Enquiry*, 1(2), 24-38.
- Nelson, M. & Stephens, J. D. (2011). Do social investment policies produce more and better jobs? In Morel, N., Palier, B. & Palme, J. *Towards a social investment welfare state? Ideas, policies and challenges* (pp. 205-234). Bristol: Policy Press.
- Piketty, T. (2014). *Capital in the Twenty-First Century*. Cambridge: Harvard University Press.
- Roberts, K. (2013). Education to Work Transitions: How the Old Middle Went Missing and Why the New Middle Remains Elusive. *Sociological Research Online*, 18(1), 3.
- Roberts, S. (2010). Misrepresenting 'choice biographies'? A reply to Woodman. *Journal of Youth Studies*, 13(1), 137-149.
- Roberts, S. & Evans, S. (2012). 'Aspirations' and Imagined Futures: The Im/possibilities for Britain's Young Working Class. In Atkinson, W., Roberts, S. & Savage, M. (Eds.) *Class Inequality in Austerity Britain. Power, Difference and Suffering* (pp. 70-89). Basingstoke: Palgrave.

## Towards EU youth policies? The limits of current welfare states and the potential for a 'Youth Transition Fund' (YTF)

Samek Lodovici, M. & Semenza, R. (Eds.) (2012). *Precarious Work and Young Highly Skilled Workers in Europe. Risk Transitions and Missing Policies*. Milano: Angeli.

Shavit, Y. & van de Werfhorst, H. (2015). The limits of education's impact on equality. Retrieved September 10, 2015, from: <https://efareport.wordpress.com/2015/01/22/the-limits-of-educations-impact-on-equality/#more-5471>.

Skilbeck, M. & O'Connell, H. (2000). *Access and equity in higher education: An international perspective on issues and strategies*. London: Higher Education Authority.

Standing, G. (2011). *The precariat. The new dangerous class*. New York: Bloomsbury.

Stone, J., Berrington, A. & Falkingham, J. (2011). The changing determinants of UK young adults' living arrangements. *Demographic Research*, 25(20), 629-666.

Wyn, J. & Woodman, D. (2006). Generation, Youth and Social Change in Australia. *Journal of Youth Studies*, 9(5), 495-514.





# Growing up during a financial crisis. The effect of family financial distress on child development

Marta Barazzetta, University of Luxembourg

Andrew E. Clark, Paris School of Economics

Conchita D'Ambrosio, University of Luxembourg

## 1. Introduction

The recent economic crisis has put many families at risk of poverty and social exclusion, worsening their material conditions and overall standard of living. One particular feature of this downturn is that it has affected not only the poorest but instead a broad swathe of the population. The most recent quarterly report on the employment and social situation published by the European Commission (2015b) in March shows that an increasing number of families have experienced financial distress, defined as the need to draw on savings or run into debt in order to cover current expenditure. The percentage of European families reporting financial problems is currently about 15 percent of the population, a figure far above that of a decade earlier.<sup>1</sup> This rise in financial distress has been experienced not only in the bottom quartile of the income distribution, but also in the second and third quartiles, namely the wider middle-class. Also, an increasing number of families say that they are unable to face

<sup>1</sup> We are grateful to Rémi Bazillier, Giovanni Cozzi and Bregt Saenen for valuable suggestions. We acknowledge financial support from the Fonds National de la Recherche Luxembourg, a National Institute on Aging grant (R01AG040640) and the Economic & Social Research Council. Throughout the chapter we will use the terms financial distress, major financial problems, and financial difficulties interchangeably.

unexpected financial expenses, including expenses relating to essential needs such as health (European Commission, 2014).

The economic difficulties faced by many European families in recent years have had natural consequences on child well-being. There has been a rise in the number of children in member states at risk of poverty and social exclusion, with figures of over 40 percent in countries like Bulgaria, Latvia, Hungary and Romania (see e.g. Janta and Henman, 2013). Children from disadvantaged families have of course been the hardest hit by the crisis. Nonetheless, the widespread nature of current financial distress will likely mean that children from across the income distribution are affected, and not only those in the poorest families. High unemployment rates and job insecurity, together with the recent structural reforms undertaken by many governments leading to cuts in social expenditures, are all sources of financial insecurity and stress for families. For the Commission on the Measurement of Economic Performance and Social Progress, economic insecurity 'may generate stress and anxiety in the people concerned, and make it harder for families to invest in education and housing' (Stiglitz, Sen, and Fitoussi, 2009, p. 198). Financial distress can undermine the willingness of parents to invest in their children, with significant detrimental effects on children's future outcomes.

A large body of research has documented the negative economic conditions that many families and children currently face (see e.g. Frazer and Marlier, 2012; ChildONEurope, 2012; and Janta and Henham, 2013), but the consequences of economic distress on children's development and future achievements in adulthood have received much less attention in the public debate, and will take many years to unfold. Moreover, the existing literature on family background and child development has mainly concentrated on the role of family income. However, we may think that the current financial crisis affects European families in a way that is not entirely captured by a simple income measure. The effects of the current economic crisis have spread out to the wider middle-class, affecting a considerable percentage of children.

There are thought to be two main channels via which family economic conditions affect child development: directly, through the family's ability to purchase the resources and services that are necessary for child development (the 'resource' or 'investment' channel); and indirectly, affecting parents' psychological well-being, stress and ability to cope (the 'family-process' channel).

Existing research has shown a strong effect of family income on child cognitive achievements (see e.g. Blanden and Gregg, 2004; Ermisch and Francesconi, 2001; Maurin, 2002; and Acemoglu and Pischke, 2001), with a smaller effect on their non-cognitive counterparts (see Duncan and Brooks-Gunn, 1995, for a review). In particular, the effect of income on children's emotional health seems to transit indirectly via family stress and parental behaviour towards the child (i.e. the family-process channel: see Washbrook, Gregg, and Propper, 2014).

The current financial problems experienced by many families will likely not only have reduced their income, as investigated in the existing literature, but also have had stress and psychological well-being implications via the family-process channel independent of the effect of income. In addition, the recent cuts to in-kind benefits that have been introduced in

a number of austerity packages are not reflected in income data, but are still likely a key element in the financial security of many families. For both of these reasons, simple income measures may be insufficient to depict family economic conditions, and in particular insecurity during periods of financial distress. In our empirical work, our proxy for financial distress will be the number of times mothers report experiencing major financial problems during the years that their children are growing up.

The main conclusions from the work that we will describe in the next section are first that financial distress can affect all families, independently of their income. Second, and more importantly from a policy point of view, that both family income and financial distress independently affect child outcomes. As such, even temporary financial problems during childhood can have long-lasting effects on child and adult outcomes. The effects of the current crisis will then continue to be felt long after it has finished. As such, current policy has future consequences. The recent consolidation measures that have reduced in-kind benefits or pushed the transition from universal to means-tested benefits are likely to affect many families who are not identified as (income) poor but do face major financial difficulties. As child development is affected not only by family income but also by family well-being, this tightening of income eligibility criteria could reduce the economic and social support of many families who face financial problems and economic insecurity, with negative consequences on child well-being and long-run individual development.

The aim of the current chapter is twofold. The first is to provide empirical evidence on the effect of growing up in families experiencing financial distress on child development; to this end we present a summary of the results from our research based on British cohort data. The second is to consider policy implications and recommendations in the context of the current European economic situation.

## 2. Family financial distress and child development: Evidence from a cohort dataset

We here consider the potential consequences of financial crises on children's outcomes using data from a cohort study of children born in the UK in the early 1990s (the full analysis is contained in Barazzetta, Clark, and D'Ambrosio, 2015). There are two good reasons to use these data to add to our knowledge of the consequences of financial crises on child development. First, we require long-run birth cohort data in order to measure income and other financial variables during childhood and then match these to child outcomes during adolescence and young adulthood many years later. The alternative is to ask adolescents or young adults what their family was like when they were growing up: this would likely produce very significant measurement errors and biases in recollections of family income and financial distress. Second, there is a lack of data at the European level containing measures of child well-being, and in particular the non-cognitive components of overall well-being such as mental health and behavioural problems, making it difficult to estimate the impact of economic conditions in the member states on the different components of children well-being.

The data we use come from the Avon Longitudinal Study of Parents and Children (ALSPAC), a long-term research programme that recruited over 14000 pregnant women who were due to give birth between 1991 and 1992 in Bristol and the surrounding areas. The mothers and their children have been followed from pregnancy to date with very frequent interviews. The survey was designed with the specific purpose of studying the effect of environmental, genetic and socio-economic influences on children's health and development. High-frequency information on the mothers and their children are collected from different observers, such as parents, children, doctors, and teachers. The survey has also been linked to external sources, such as register data on educational outcomes (the National Pupil Database).

This rich set of data allows us to trace out the link between the events that occurred during childhood and adolescent child outcomes, both cognitive and non-cognitive, controlling for a large set of family and child characteristics. We specifically look at four dimensions of child well-being outcomes: Subjective Well-Being (SWB), conduct, physical health and educational achievements. These are picked up respectively by: SWB when the child is age 16 and 18, measured by the Short Moods and Feeling Questionnaire (SMFQ), both child-reported and mother-reported; carer-reported antisocial-behaviour at age 16, measured by the Troublesome Behaviour Score from the Development and Well-being Assessment (DAWBA) questionnaire, and teacher-reported emotional symptoms and conduct at age 11, measured by the Strengths and Difficulties Questionnaire (SDQ); BMI at ages 11, 13 and 16; and educational outcomes at age 16 at the time of the GCSE exams, using information from the National Pupil Database.

The key explanatory variables that we match to these adolescent outcomes capture household financial resources, as measured by household income and whether the mother reports experiencing major financial problems, which is our proxy for financial distress. Household income refers to take-home family income per week, including social benefits. The major financial problems variable comes from a list of life events that may have occurred to the mother in the year preceding the interview. We count the number of years each mother reported to have had a major financial problem from their child's birth to when the child was 11. We look at both income and financial problems together because we believe that the latter may better capture financial insecurity and parental stress. Financial insecurity likely depends on family needs, job conditions, cash and in-kind benefits that are unlikely to be observable in survey data, so that income may capture only part of the family's financial situation.

We find that 36 percent of the mothers in our sample reported having had a major financial problem at least once over the child's first eleven years, 15 percent at least twice, with a maximum figure of nine. As might be expected, financial problems are negatively correlated with income, with the richest households being the least likely to report major financial problems. However, the correlation here is only small, at -0.14, suggesting that financial difficulties may be found at pretty much all points of the income distribution. The mothers who report major financial problems are indeed not a particularly homogenous group. The

strongest predictors for reporting major financial difficulties are partner's job loss, mother's own illness, and divorce or separation. Single mothers are also more likely to report major financial problems. Income on its own may therefore paint only an incomplete picture of the family's economic situation. This may be thought of as particularly relevant in the current economic situation, where many families are experiencing financial distress due to increasing job insecurity and family instability. Job loss, worsening health or a change in family composition can generate economic difficulties for families that are not always reflected in income data.

We estimate the relationship between growing up in families that experienced major financial difficulties and later child outcomes in adolescence. We control for a large set of family and child characteristics: household income, gender, the child being the first-born, the mother's age at birth, the number of siblings, single-adult household, marital status, parents' education, child ethnicity, the mother being an immigrant, private school, the mother working, number of house moves, home ownership, parental childcare, and the mother's mental health.

Our results show that income and financial distress have significant and independent effects on child outcomes. Growing up in a family where the mother reports having had major financial problems is significantly associated with all of our child outcomes in adolescence, both cognitive and non-cognitive. Financial distress is a stronger predictor of the non-cognitive than the cognitive outcomes, with the largest effect being found for child emotional health and conduct. Family income is instead a poor predictor of most non-cognitive outcomes. The results for cognitive outcomes are very different: as is usually found in the literature, family income is a strong predictor of children's educational achievements (see e.g. Duncan and Brooks-Gunn, 1995; Blanden and Gregg, 2004; Ermisch and Francesconi, 2001; Acemoglu and Pischke, 2001; and Maurin, 2002), with a larger effect in our ALSPAC data than that of financial distress.

We believe that there are three main conclusions from this research that are relevant in the current economic context:

- Financial distress can affect all families, independently of their income. The strongest predictors for reporting major financial problems are partner's job loss, mother's illness, divorce or separation, and single parenthood.
- Family income and financial distress have independent effects on child outcomes. Family income matters, but mainly for cognitive achievements. On the contrary, all of the non-cognitive outcomes (subjective well-being, conduct, health) are more sensitive to family financial distress than to family income.
- Even temporary situations of financial distress can have an effect on child development, and in particular its emotional and behavioural components. This may reflect that economic uncertainty generates anxiety and stress, affecting family relationships and parental behaviour towards the child. Stressful events during childhood, such as parents' financial distress, can generate emotional uncertainty that undermines child

development, with consequences for child outcomes that are observed many years or even decades later.

### 3. Application to the current European economic context. Policy implications and recommendations

The last report produced by the European Commission on the EU social and employment situation revealed a rising percentage of families in the member states running into debt or having to draw on their savings in order to cover expenditures. These two variables can be added together to produce an index of financial distress. The distribution of financial distress by income quartiles (last update March 2015) appears in Figure 1. From the beginning of the crisis there has been a constant rise in the percentage of respondents reporting financial distress, especially in the bottom income quartile. However, the second and third quartiles of the income distribution follow a similar rising trend, with figures that are currently far above their average long-term levels.

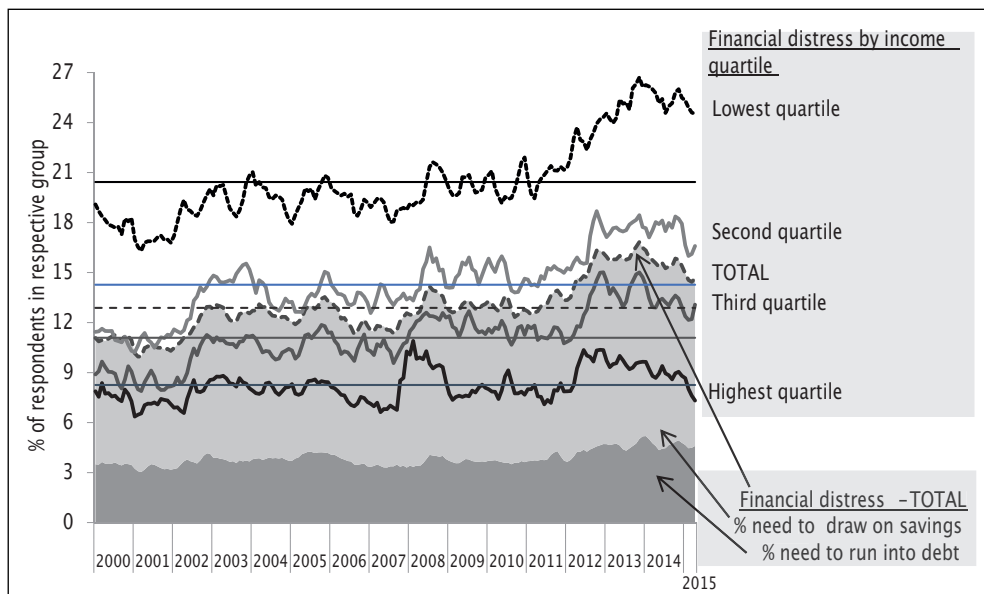


Figure 1 - Financial distress in the EU 28. Source: *EU Employment and Social Situation Quarterly Review* (March 2015).

These data refer to the average across all EU 28 countries, and in some countries the situation is even more dramatic, with over one quarter of respondents reporting financial distress in countries like France, Greece, Croatia and Cyprus, and peaks of 40 percent in Italy, Spain and Slovakia in the last quarter of 2014. These high and rising figures are driven more by individuals drawing on their savings than running into debt. At the same time, many individuals report deteriorating health, together with increasing difficulties in meeting health-related

expenditures and obtaining access to health-care services, especially in the countries that have been hit the most heavily by the crisis, such as Greece, Spain and Portugal (European Commission, 2014). In the worst cases, families report having cut their spending on basic needs, such as food, energy consumption, and clothing (Guio and Pomati, 2015). Regardless of their income or wealth, families that experience financial distress change their food consumption by switching to lower-priced and less-healthy food, producing a greater risk of obesity in the household (OECD, 2014). Eurostat statistics reveal worsening household overall material deprivation during the crisis; in particular, the deprivation item referring to difficulty in meeting unexpected financial expenses is that with the greatest change over the crisis (see Figure 2 below). In countries like Bulgaria, Latvia, Hungary, Poland, Cyprus and Ireland, the percentage of respondents reporting to be unable to face unexpected expenses was over 50 percent in 2013.

At the same time as financial needs have grown, there is increasing difficulty in obtaining credit and loans from banks, leading many families to rely on the support of family and friends. The financial crisis has however also reduced the extent of financial support from family and friends compared to the past, leaving ten percent of the population who report not having anyone to rely on in the case of an emergency (European Commission, 2014).

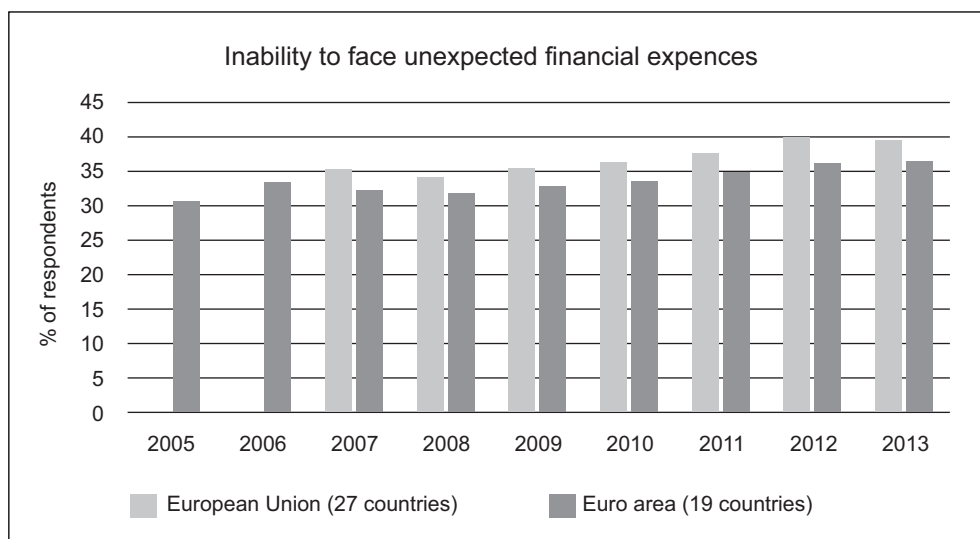


Figure 2 – Source: Authors' calculations based on Eurostat data.

### 3.1. Policy implications and recommendations

The protection of families against the negative effects of the economic crisis has been made harder by the persistence of the current crisis and the consolidation measures that have been introduced to curb public spending. Many of the austerity packages approved in recent years by national governments have contained substantial cuts to social-protection spending. Despite rising in the first phase of the crisis, social expenditure has been falling since 2010



in most countries. This reduction reflects lower expenditure per unemployed person (due to many of the long-term unemployed losing their benefits), but also cuts in social benefits, with in-kind benefits being affected more than cash benefits (European Commission, 2013b). This reduction in in-kind benefits is not captured in household income data but it is likely to have had a significant effect on the well-being of families and children. This is a particular issue in countries such as Greece, Portugal, Romania, and Latvia that are among the hardest-hit by the crisis, but which also registered the largest cuts in social expenditure.

It is probable that many countries do not put children's well-being and development as a top priority in their current changes to economic and social policy, being more focused on fiscal correction and economic growth. However in many countries these consolidation measures have disproportionately affected children and families, due to the freezing of benefits or the tightening of eligibility criteria (such as in Greece, the UK, Netherlands, Lithuania and Romania). In a situation of economic uncertainty and insecurity a reduction in the welfare state can exacerbate the fall in family well-being, even if the policies in question are not directly targeted at children or families. Austerity measures have been introduced in essential areas such as healthcare (e.g. France, Italy and Spain), heating (e.g. Denmark and Romania), housing benefits (the Netherlands and Greece), and unemployment benefits (e.g. Hungary) (European Commission, 2011). Nonetheless, the most recent country-specific recommendations published by the European Commission (2015a) in May of this year suggest further intensifying spending reviews and cuts in order to meet the objectives of fiscal consolidation.

The policy recommendations that stem from our work include reconsidering the role of the welfare state and the importance of child well-being and development as a policy goal, and the need to collect better data on child well-being to allow for policy evaluation. These are developed in detail below.

– *The role of the welfare state*

Recent consolidation measures have often involved the structural reform of shifting from a universal system to means-tested benefits targeted at low-income families. As important as fiscal consolidation is, the removal of benefits will have negative consequences on those children growing up in families experiencing financial distress but who are not identified as poor. Income data do not reliably tell us about family insecurity and instability, which are strongly related to child well-being and development. Child development depends not only on family income but also overall family well-being, both economic and psychological, with the latter often being ignored by policy makers.

Tightening eligibility criteria based only on income could leave some families without the social support and services that allow them to cope and invest in their children. The welfare state and affordable services are needed to mitigate the effect of economic insecurity, in particular in times of financial distress such as the recent economic downturn. Child-related services such as Early Childhood Education and Care (EDEC) and cash benefits to low-income families are important to help families invest in their children, especially dis-

advantaged families. However, these may not be sufficient. A more comprehensive support programme would provide families with services and legislation that can sustain them even during economic insecurity. This could involve job-market legislation providing job security and employment protection, parental leave, unemployment benefits, and female-friendly policies helping women to reconcile work and family. It could also entail universal, affordable and good quality health-care services so that families do not have to cut down on essential medical care in times of difficulty. A welfare state based on the principles of universalism can better meet the needs of families and children in both bad and good times. When universal benefits are not fiscally sustainable, a ‘progressive’ or ‘tailored’ universalism might go in the direction of combining efficacy and equity and be a better alternative to means-tested benefits.

– *Family income is not a sufficient measure to monitor child development*

Family income is not the only predictor of child development. Periods of financial distress such as those currently being experienced by many families (and not only the poorest families) can undermine child development, in particular with respect to its non-cognitive dimensions. Income data do not provide a full picture of the elements that are necessary for child development, such as parental childcare, family relationships and the home environment. ‘Child poverty is about more than income or the lack of items on a given list. Children can be poor in love and attention, in parental time and skills, in relationships and community, in public services and environmental quality’ (UNICEF, 2012, p.19). In this sense, parents need not only economic support, but also comprehensive social and psychological support to help them develop parenting skills, and the attitudes and ability that can guarantee child development.

– *The importance of a life-course approach*

Child development should attract more attention in policy discussion: today’s children are tomorrow’s citizens. A life-course perspective would allow policy makers to recognise the role of today’s child development in producing future good citizens. The social and economic cost of ignoring the consequences of the current crisis on children’s future outcomes could be very substantial, as early interventions in childhood are likely to be both more efficient and less costly than adult interventions (see e.g. Heckman, 2006). Despite the importance of social protection policies addressed to mitigate the effects of the economic crisis, social investment policies are also necessary from an intertemporal point of view. This means having a broader policy perspective that recognises not only the importance of protecting citizens against contingent adverse circumstances (such as poverty, sickness and unemployment), but also the necessity to invest in resources and services which can promote social cohesion, economic security, active labour market policies, early childhood education, and the opportunity to children to develop well over their life-course (see e.g. European Commission, 2013a and Esping-Andersen, 2002).

– *More data on children is needed across the member states*

Recognising the importance of child development also means the systematic collection of data on child outcomes and their relationship to policy. There is currently a lack of data on children and their development, especially in the non-cognitive domains of child well-being, such as behaviour and emotional health, with data mostly being restricted to a small number of cohort studies. Following Recommendation 13 of the 2008 report on child poverty and well-being in the EU produced by the Social Protection Committee (European Commission, 2008), data on child material deprivation have begun to be collected in the member states. However these data are only collected every four years, which is too wide a time span for child development to be effectively monitored. In addition, the data only refer to objective conditions. Even though the non-cognitive dimensions of child well-being are such an important component of child development and adult outcomes (see Layard, Clark, Cornaglia, Powdthavee, and Vernoit, 2014) we still know relatively little about them. A greater effort is required to collect data on child well-being, and to match this survey data with administrative and register data at the country level. Without these data we will not be able to carry out comprehensive evaluations of the effect of government policy on child development, and hence adult outcomes.

#### 4. Conclusions

The recent economic crisis has affected families via growing financial distress and insecurity. The economic difficulties experienced by many families, and not only the poorest, may be only temporary, but their consequences can still be observed many years later. Our analysis of British data revealed that even temporary financial problems have a significant detrimental impact on child development, with long-lasting consequences on children's future outcomes. Family income is an important predictor of child development, but in particular for cognitive achievements. The non-cognitive aspects of child development, such as emotional health and conduct, are far more affected by family inputs that are not necessarily entirely measured by income. Economic conditions affect child development in two ways: a resource channel and a family-process channel. Although income increases the family's ability to obtain the resources and services necessary for child development, and may reduce parental stress, it may not be a sufficient statistic to describe the family's economic condition. Financial problems and distress can come about due to job insecurity, sickness, family break-up or a wide variety of other phenomena. Not all of these will be picked up by changes in income, and the results of our analysis suggest that income and financial distress have independent effects on many child outcomes.

These periods of economic difficulty have arguably not been helped by the recent cuts in social expenditure as a consequence of objectives of fiscal consolidation. The reduction in social services and in-kind benefits will not appear in income data but are likely to have had an impact on families' insecurity and ability to cope. The effects on children of the current financial distress experienced by many families might be much deeper than what we might

conclude considering only household income as a measure of family well-being. Financial difficulties may be relatively transitory for adults but have permanent effects on child outcomes. 'Because children have only one opportunity to grow and to develop normally, the commitment to protection must be upheld in good times and in bad...A society that fails to support parents in the task of protecting the years of childhood...is a society that is starting intractable social and economic problems for the years immediately ahead' (UNICEF, 2012, p.27). Child development then arguably needs to be given more priority in the discussion of economic and social policies. This could entail the guarantee of affordable good-quality services to all families, and the provision of economic, social and even psychological support.

The recent country-specific recommendations of the European Commission (2015a) suggest instead further intensification of spending reviews which will worsen the impact of this crisis on children. The consequences of undermining the development of today's children will be considerably higher social and economic costs in the future, as interventions in adulthood are more costly and less efficient than interventions in childhood. From an intertemporal perspective, the net fiscal effect of some current budget cuts could be negative rather than producing savings for society. Last, a serious commitment to providing all children the opportunity to develop well should start with the collection of data on child well-being, including subjective well-being, and the evaluation of the effect of policy on families and their children.

## Bibliography

Acemoglu, D. & Pischke, J.-S. (2001). Changes in the wage structure, family income, and children's education. *European Economic Review*, 45(4), 890-904.

Avon Longitudinal Study of Parents and Children (ALSPAC). Retrieved October 10, 2015, from: <http://www.bristol.ac.uk/alspac/>.

Barazzetta, M., Clark, A. E. & D'Ambrosio, C. (2015). Childhood Circumstances and Adult Outcomes: The Effects of Financial Problems. Université du Luxembourg, mimeo.

Blanden, J. & Gregg, P. (2004). Family income and educational attainment: a review of approaches and evidence for Britain. *Oxford Review of Economic Policy*, 20(2), 245-263.

ChildONEurope (2011). The impact of the economic crisis on children: lessons from the past experiences and future policies. The proceeding of the ChildONEurope Seminar on the Impact of the Economic Crisis on Children. ChildONEurope Series 4, Istituto degli Innocenti, Florence.

Duncan, G. J. & Brooks-Gunn, J. (1997). *Consequences of growing up poor*. New York: Russell Sage Foundation.

Marta Barazzetta, Andrew E. Clark, Conchita D'Ambrosio

Ermisch, J. & Francesconi, M. (2001). Family matters: Impacts of family background on educational attainments. *Economica*, 68(270), 137-156.

Esping-Andersen, G. (2002). A child-centred social investment strategy. In G. Esping-Andersen, D. Gallie, A. Hemerijck & J. M. Hemerijck (Eds.), *Why we need a new welfare state* (pp. 26-67). Oxford: Oxford University Press.

European Commission, Social Protection Committee (2008). *Child poverty and well-being in the EU. Current status and way forward.*

European Commission, Social Protection Committee (2011). *The social impact of the economic crisis and ongoing fiscal consolidation.*

European Commission (2013a). *Social Investment Package, SWD(2013) 38 final, 20 February 2013.*

European Commission (2013b). *Social protection budgets in the crisis in the EU. Working paper 01/2013.*

European Commission (2014). *Facing the crisis. The coping strategies of unemployed people in Europe.*

European Commission (2015a). *Country-specific recommendations 2015: Further efforts needed to support a robust recovery.* Retrieved August 28, 2015, from: [http://europa.eu/rapid/press-release\\_IP-15-4975\\_en.htm](http://europa.eu/rapid/press-release_IP-15-4975_en.htm)

European Commission (2015b). *EU Employment and Social Situation Quarterly Review (March).*

Frazer, H. & Marlier, E. (2013). *Investing in children: breaking the cycle of disadvantage. A study of national policies.* European Commission.

Gregg, P. & Machin, S. (2000). *Child development and success or failure in the youth labor market.* NBER Comparative Labour Market Series. Chicago: University of Chicago Press.

Guio, A.C. & Pomati, M. (2015). *How do European Citizens cope with economic shock? Expenditures that households in hardship are curtailing first.* European Commission.

Heckman, J.J. (2006). *Skill formation and the economics of investing in disadvantaged children.* *Science*, 312, 1900-1902.

Janta, B. & Henham, M.L. (2013). *Social protection during the crisis. How do changes to benefits system affect children?.* European Commission.

Layard, R., Clark, A.E., Cornaglia, F., Powdthavee, N., & Vernoit, J. (2014). *What Predicts a Successful Life? A Life-Course Model of Wellbeing.* *Economic Journal*, 124, F720- F738.

Maurin, E. (2002). *The impact of parental income on early schooling transitions: A re-examination using data over three generations.* *Journal of Public Economics*, 85(3), 301-332.

OECD (2014). Obesity update. Paris, OECD.

Stiglitz, J. E., Sen, A. & Fitoussi, J.-P. (2009). Report by the Commission on the Measurement of Economic Performance and Social Progress. Retrieved October 10, 2015, from: [http://www.stiglitz-sen-fitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf).

Washbrook, E., Gregg, P. & Propper, C. (2014). A decomposition analysis of the relationship between parental income and multiple child outcomes. *Journal of the Royal Statistical Society: Series A (Statistics in Society)*, 177(4), 757-782.

UNICEF Innocenti Research Centre (2012). Measuring Child Poverty: New league tables of child poverty in the world's rich countries. Innocenti Report Card 10, UNICEF Innocenti Research Centre, Florence.



# A gender perspective to assess the economic crisis and develop counter-crisis measures: Intersectional and horizontal inequalities

Eugenia De Rosa<sup>1</sup>, Italian National Institute of Statistics

## 1. Challenges for a gender agenda: Economic and social developments in Europe

Europe is emerging from the worst crisis the world economy has seen since the great depression. It is suffering from new forms of inequalities, experienced by individuals and households due to labour market conditions, access to welfare services and social protection.

What is happening in terms of gender (in)equality? Gender gaps narrowed during the crisis according to some criteria, mainly as men were hit harder by the crisis. Moreover, the underlying gender differences persisted in terms of labour market participation, segregation, pay, risk of poverty (European Commission, 2014) while the division of tasks between women and men (with a drop in scores between 2005 and 2012) and the representation of women and men in decision making positions remain the two most challenging domains (EIGE, 2015). Investigating gender inequalities today means looking at the interactions between the

---

<sup>1</sup> The information and views set out in this chapter are those of the author and do not necessarily reflect the official opinion of Istat.



underlying structure of horizontal inequalities present before the crisis, the evolution of inequalities because of the crisis itself and the evolution of inequalities resulting from anti-crisis measures.

On the one hand, the crisis has differently affected the social and working conditions of men and women and has an impact on the pre-existing structure of gender inequalities. On the other hand, policymakers are overlooking the gender dimension of anti-crisis measures and the role that gender plays in the implementation and effectiveness of recovery programmes. Contemporary gender equality has weakened in the EU's policy programme as well as at national level.<sup>2</sup> The strong discrepancy between institutional developments in the field of gender equality<sup>3</sup> and development of gender-sensitive indicators over the recent decade, and policy responses to the crisis across the EU is evident. Gender 'stactivism' (De Rosa, 2014), that is the use of gender data and gender categories for different steps of mobilisation, has strongly contributed during the last decades to the proliferation of indicators to monitor progress towards gender equality. A new stage of feminism appears to come as a result of the global financial crisis aimed at joining women's human capital, and using their own knowledge of the 'liberal' system as sites of resistance against some European rhetoric ('the knowledge society'), primarily engaged to show the gender implication of existing government choices. This, for example, is taking place in the UK with the Women's Budget Group, and in Finland where recently 85 professors and academic research directors have signed a petition protesting that they see a total lack of any perspective of equality of the sexes in the government's programme.

Overall, the reaction of the EU institutions and governments to the crisis has been 'gender blind', market-oriented and aimed at the privileged. Typical measures have included cuts and containment of public spending, deregulation of the labour market, decentralisation of collective bargaining, privatisations and reductions in public employment.

This policy response strategy has progressively weakened the social and gender dimension of policies<sup>4</sup> as well as a commitment to shared responsibility among the EU member states, as the current migrant tragedy has shown.

In this chapter I argue that in order to improve progress towards a more social Europe, and in order to put social cohesion back at the heart of EU policies is necessary to put more attention on the gender dimension of the economic crisis and counter-crisis measures, going beyond the formal recognition of the principle of gender equality. When the economy is considered as a gendered structure and therefore reproduction - where reproduction is about the

---

2 For example, the Equality Ministry was abolished in Spain in 2010 and the UK government failed to implement parts of the 2010 Equality Act.

3 Over the years, 30 European Directives have been adopted in the field of equal treatment between women and men. The European Strategy for Equality between women and men 2010-2015 is the most recent comprehensive framework committing the Commission to promote gender equality into all its policies by means both of gender mainstreaming and specific measures. Contemporary addressing the domain of data on gender equality have become also major concern for European institutions to monitor progress in this field.

4 EU 2020 Strategy does not have an explicit gender equality pillar and less emphasis on gender equality is given within structural and investment funds within the new 2014-2020 programming period.

‘supply of service directly concerned with the reproduction of people as human beings’ (Pearson and Elson, 2015) - and care work are incorporated into economy, then the social dimension becomes a fundamental and imperative component.

In the second part of the chapter suggestions both from academic literature and from activists will present the different starting points of a gender-sensitive analysis of gender inequalities and the effect of the economic crisis on men and women. The third part focuses on inequalities determined by policies implemented around Europe (structural reforms or austerity measures) to tackle the effect of the crisis, compared to the gender-neutral approach. In the fourth part a framework to design alternative policies to austerity following an intersectionality-based policy approach (Hankivsky, 2012) is proposed. The final section provides policy recommendations.

## **2. What is holding back female employment? Bad jobs and redistribution of work between and within households**

This paragraph explores the intersections between pre-existing gender inequalities and the gendered effects of the crisis showing what is holding back the downward levelling of some important gender gaps in the labour market. In more detail, the focus is on three aspects particularly relevant in determining horizontal inequalities: part-time jobs, self-employment and changes in the distribution of work within and between households.

During the initial stages of the economic downturn, male employment was hit harder, relatively, while sector and occupational concentration in non-tradable and public sectors protected women from unemployment leading to a gradual convergence in women’s and men’s employment. Eurostat data show that even if employment rate fell larger for men than for women, and if women’s activity rate (aged 15-64) increased to 66.5% in 2014 (from 63.7% in 2008), then activity does not translate into greater employment rates (59.5% in 2014). Even though, compared to 2008, the gender employment gap (15-64) in the EU28 decreased, it remains high (10.6 percentage points in 2014), particularly for adults with children (17.4 p.p.), compared to single adults with children and adults without children.

A more realistic picture is given by using the full-time equivalent (FTE) employment rate indicator which accounts for hours worked. The gap became broader, 17 percentage points for the EU-28 in 2012 (from 20 p.p. in 2008; EIGE, 2014) compared to those related to the employment rate (from 13.7 to 11 p.p.; Eurostat data). Few member states succeed in combining high female employment rates with a low gender gap in terms of the total number of hours worked (European Commission, 2015).

Although part-time work increased in the EU by the same amount for both women and men during the crisis, it is far more common among women (in 2014 almost one third of employed women are working part time, compared to a mere 8.8% of men). Looking after children or incapacitated adults is the main reason for part-time employment for 27.2% of women (compared to men with 4.2%; in 2008 it was 3.5 for men and 27.3% for women). Family and care responsibilities remain relatively high for women throughout their life-course, so family or

personal responsibilities account for 25.6% women aged 55-64 preferring to work part time (compared to 18.9% for men; in 2008 the percentages were 26.6% and 13.1%). Overall, a strong gender gap of unbalanced distribution of care work persists in housework. Women spend on average 25 hours on caring activities, while, on average, nine hours are spent by men (European Commission, 2014). In addition, women often work in sectors with lower flexibility so ‘despite women are being predominantly responsible for unpaid care and domestic work, men benefit from greater flexibility at work in the EU-28’ (EIGE, 2015, p. 33).

The promotion of short-time working arrangements has been a key adjustment mechanism following the recession (European Commission, 2015) with supporting male income as the main policy aim (Villa and Smith, 2014). For many workers, especially women, part-time working is not a choice and often involuntary. Part-time work comes with instability. Concentration of women in part-time work is nationally specific and cross-country differences are large, particularly looking at the involuntary component (figure 1). In 2014 a higher proportion of women working in involuntary part-time jobs could be found in Southern Countries (Italy, Spain, Cyprus and Greece), rather than in France, Ireland, the Czech Republic and Sweden. Eastern European countries show a different pattern, with lower percentages of both the voluntary and the involuntary component. Looking at the evolution during the crisis (from 2007 to 2012), voluntary part-timers decreased among women while those in involuntary part-time increased, with some exceptions like Belgium (with a fall in the percentage of women in involuntary part-time) and in most Eastern countries (where instead both components rose).

Involuntary part-time jobs, unequal working times and women’s over-representation in unpaid work indicate the persistence of labour market inequality, reinforced by the crisis, to which is added the greater number of women in temporary work and the gender pay gap in income and pension. In 2013, women’s gross hourly earnings were on average 16.4% below those of men in the European Union (EU-28).

Women’s vulnerability is also often related to forms of self-employment which has risen in the EU since the onset of the financial crisis in 2008. For women, self-employment mostly means ‘bogus’ self-employment, namely their dependency on only one client, regular payments and the lack of capacity to freely hire new workers and/or make important business decisions (Eurofound, 2010). This results in a loss or reduction of their rights to benefits, pensions and paid holidays.

Overall, deterioration of working conditions and job quality is having social consequences leading to future severe gender pension gaps and overall higher risks of poverty. The number of women at risk of poverty and social exclusion has risen by more than 6 million since 2008. In addition, child poverty is dramatically increasing. According to Unicef, the income poverty of children largely increased in southern European countries (e.g. from 23% in 2008 to 40.5% in Greece), in Iceland where the child poverty rate reached 31.6%, in Ireland and Luxembourg, in Croatia, and in the three Baltic States (2014, p. 9). Children in migrant households have suffered more than other children.

A gender perspective to assess the economic crisis and develop counter-crisis measures: Intersectional and horizontal inequalities

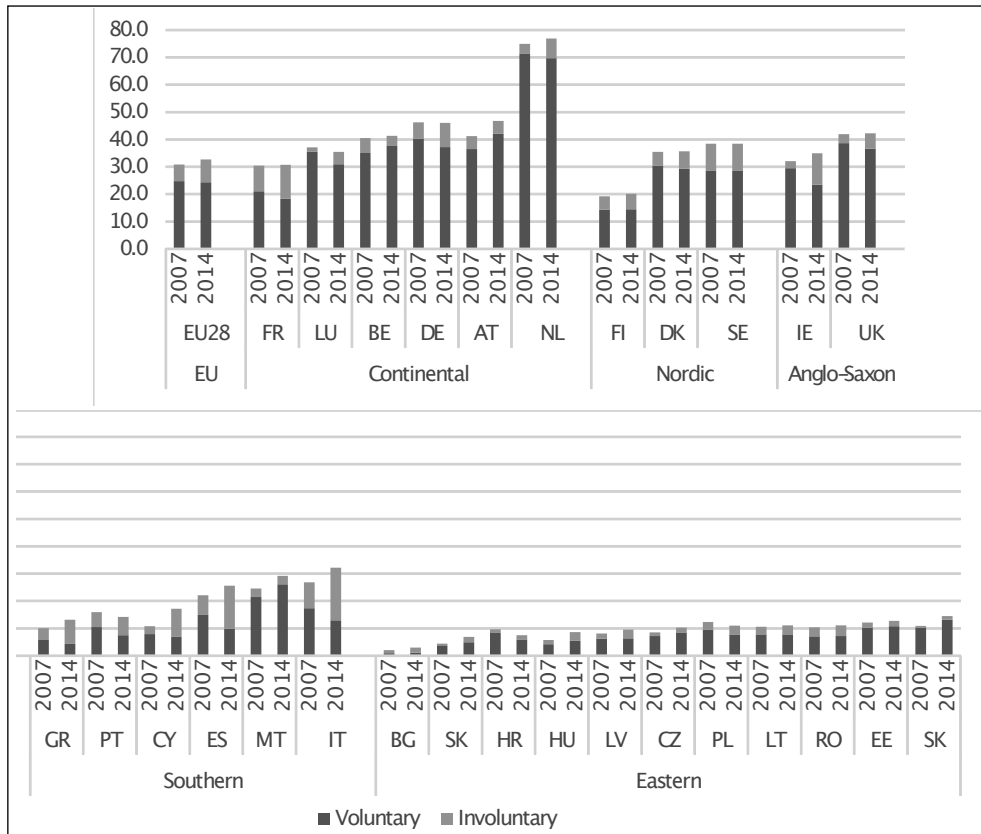


Figure 1 – Female (aged 15-74) voluntary and involuntary part-time employment by country grouped by gender regime (percentage). Years 2007 and 2014

Source: Author's elaboration based on Eurostat data, Labour Force Survey.

The gender impact of the crisis is also evident in the so-called ‘added worker effect’<sup>5</sup> which refers to women who entered the labour market or increased their hours in order to offset the drop in earnings of their (male) partner. This does not automatically translate into more gender equality. A slight decrease in dual-earner families and an increase in single earner families, in particular female-headed households, were observed (Eurofound, 2014 and Enege-Bettio et al., 2013). Figure 2 gives a picture of changes in the working pattern of couples (where both partners are in the age range 25-49) during the crisis. Few countries are selected as illustrative of different welfare and gender regimes (Lewis, 1997 and Daly and Lewis, 2000).

The dual earner family model with both a woman and a man working full-time remains the most common model in Sweden, the UK and France, and particularly in Hungary and Romania where, compared to other countries, the percentage of ‘man not working and wom-

5 Thesis accredited over the ‘discouraged worker effect’ and the buffer role of women.

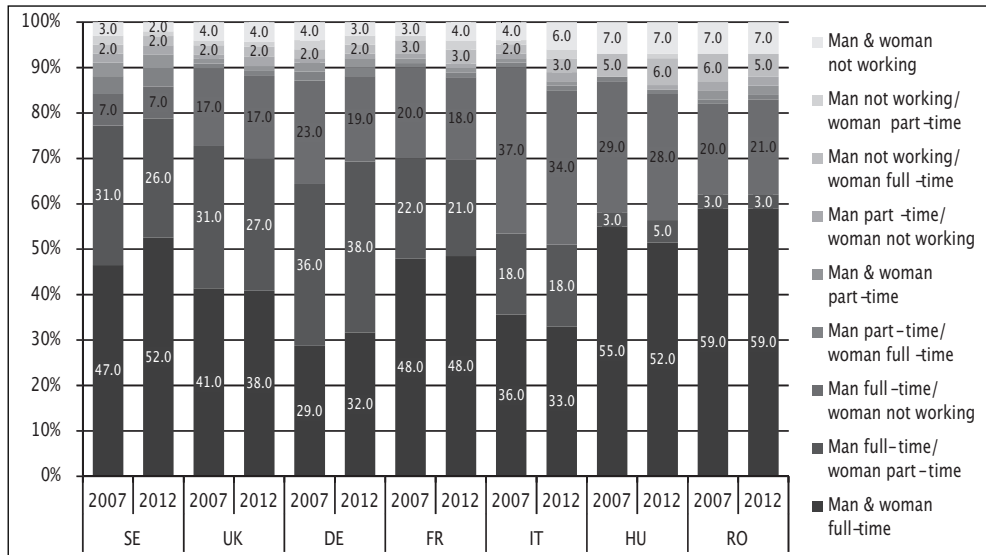


Figure 2 – Distribution of paid work in couples aged 25-49 (percentage). Years 2007, 2012  
Source: UNECE database, Labour Force Survey.

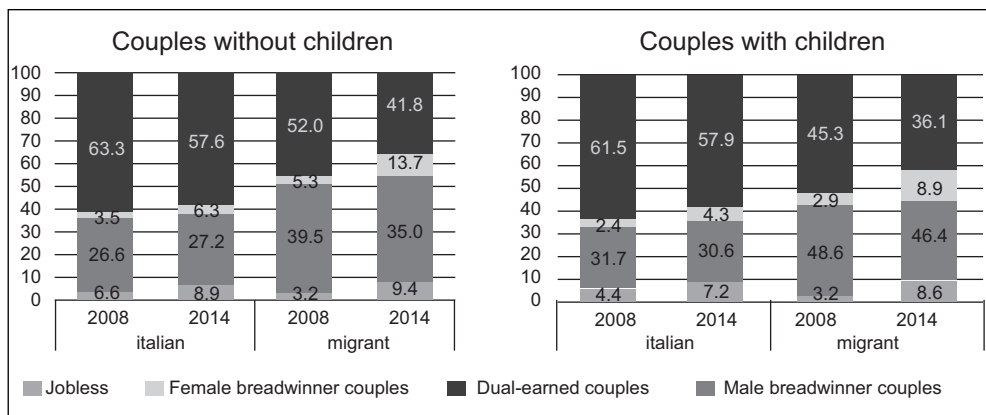


Figure 3 - Distribution of paid work within Italian and migrant couples with children and couples without children in Italy (percentage). Years 2008, 2014  
Source: De Rosa, Marzilli (2015), Labour Force Survey.

an working full-time’ and ‘man and woman not working’ is higher. The Eastern countries also show a low figure for ‘man full-time and woman part-time couples’ which instead became, from 2007 to 2012, widespread in Germany, which experienced an increase in the dual full-time earner family model and a reduction in ‘men full-time and women not working’ model. This latter pattern became the most common in Italy during the crisis, also due to an increase in jobless households.

Changes observed are both the consequence of socio-demographic trends, and the outcome of 'bottom-up' household strategies to face rising levels of joblessness or low work intensity. Poverty and social exclusion among those of working age have increased significantly in two thirds of the member states, in particular in Greece, Ireland, Spain, Italy and Hungary. Of significant concern is the huge growth in low-income families, jobless families (Eurofound, 2014) and the rapid hike in in-work poverty.

Studies highlight large disparities between household types in terms of the risk of poverty, with 'the single elderly and lone parent families at a much higher risk of poverty than other groups' (Eurostat, 2013, p. 24). At the same time, new work-related risks (precariousness and other forms of bad jobs) and the changing distribution of paid and unpaid work within households are leading to new forms of polarisation in contemporary European families. This is especially the case between low income and high-income families, between the male breadwinner model and dual earner couples, as well as between EU and non-EU migrant families (Moreno et al., 2013).

Identifying horizontal inequalities and intersections between gender and ethnic origin is particularly relevant when investigating the process of polarisation and downturn in the labour market and the social condition of different groups of women in Europe. In a study in Italy, it has been found that the number of jobless migrant households increased more than the number of non-migrant households between 2008 and 2014. Similarly, the number of households with two or more employees where income from labour derived from a mix of non-standard work, namely part-time jobs and/or atypical work increased (De Rosa and Marzilli, 2015). The proportion of female breadwinner couples expanded in Italy as result of a downward process due to levelling down.

### 3. The gendered effects of austerity and counter-crisis measures

Horizontal and gender inequalities, produced or exacerbated by the crisis itself, cumulate in the gendered effects of policies implemented in Europe throughout the different phases of the crisis. This section deals with the relationship between social policy and gender inequality, giving a brief overview of the gender dimension of counter-crisis measures and the negative effects of certain measures on gender equality.

Responses to the crisis varied across countries and by type of recession, from financial crisis to austerity, and public sector and public services cuts (Rubery and Karamessini, 2014). The immediate response by governments in the period 2008–2010 was financial rescue and stimulus measures by increasing public expenditure and cutting taxes, primarily targeted at male-dominated sectors. Above all, the main concern of international institutions and governments was to save banks and credit institutions.<sup>6</sup> Since 2010, governments in many coun-

<sup>6</sup> Oxfam (2013, p. 6) report states 'the vast majority of the debts that EU countries are currently servicing were accumulated as a result of bailouts to financial institutions rather than 2008-2010 stimulus measures'.

tries have moved from fiscal stimulus to fiscal austerity in the belief that cutting public expenditure and raising taxes (Pearson and Elson, 2015) were the best means to overcome high public debt and budget deficits. Austerity policies led to a second recession in 2012, in a large number of EU countries - including Italy, Spain, Portugal, Greece, Austria, and the Netherlands - and 'no prior gender impact assessment was done before the implementation of fiscal consolidation packages' (Corsi, 2014, p. 10).

The more evident effects of policies in widening horizontal inequalities might be found by considering the gender dimension of:

- a. Cuts in public sector and wages and the deteriorating reproductive bargain (Schulten and Muller, 2013), in particular in the Southern countries. These measures have a combined effect with outsourcing, privatisation of public sector jobs and raising taxes.
- b. Budget constraints on welfare services that result in a reduction of services available and transfers of public money to households.
- c. Pension reforms.

Cuts in the public budget, primarily targeted at expenditure on welfare, pension benefits and public services (ENECE, 2013), have led to employment losses for women who in most countries make up the majority of those employed in the public sector (EPSU, 2013), while male employment benefits from the labour market recovery (Cochard, Cornilleau and Périvier, 2011). Further gender gaps may widen for the highly educated if public sector employment deteriorates.

Social partners and civil society organisations have gathered some evidence. In the UK, the Fawcett Society denounced government plans for growth, pointing out they leave women behind. They indicate that 60% of 'new' private sector jobs have gone to men, while women have borne the brunt of cuts to the public sector workforce. Budget cuts imply a 16% cut in public sector employment by 2018.

Since women are disproportionately more likely to work in the public sector and the social services (administration, health and education), women are also more affected by cuts and public sector pay freezes to the level of minimum wages, or new rights for employers not to follow collective agreements (e.g. in Greece and Italy, by removing protections preventing unfair dismissals). Some examples of changes to pay and working conditions in the public sector are pay cuts of up to 45% in Greece; nominal salary cuts for many government employees in Iceland; pay freeze plus 5-10% cuts for the higher paid and a 20% replacement rate occurred in Italy; and increased civil servants' and teachers' working time in Spain (Rubery, 2014).

Overall, these measures, combined with deregulation and the expansion of new forms of employment in the public sector, aggravated job and wage polarisation with severe negative consequences for specific groups (lone parents and single pensioners, predominantly women, low-income households and disadvantaged minorities). In addition, according to the Women's Budget Group's analysis of the UK's July budget 2015 'the cuts in working tax credits will decrease work incentives for second earners and widen the gap between benefit recipients and the rest of the population (WBG, 2015, p. 2).

Other significant components of counter-crisis measures are the decrease in the availability, affordability and quality of services as well as the decrease in social benefits. Pressure on social protection expenditure and budget constraints on welfare services, particularly in the care sector (family support, childcare, care for the elderly), translated into cuts in in-kind benefits and services for households, are causing a loss of services and support for vulnerable people as well as a deterioration of the quality of services. Declining levels in funding may weaken the capacity for voluntary and civil society organisations to support people and communities in times of hardship (SOLIDAR, 2014).

Child tax credits, for example, have been abolished in Greece and cut in the UK, while in Ireland and Spain child benefits were reduced. More ‘means testing’ has been introduced in Iceland and Portugal. Reduced childcare provision - or only modest rises - characterised policies in Greece, Hungary, Italy, Portugal and the UK. Changes in care regimes also entail budget cuts in care for the elderly (Hungary, Italy, Portugal and the UK) and domiciliary care rights contractions (Ireland and Spain).

Limitations are also given by persistence of the ‘breadwinner model’ in policies implemented. In Austria, for example, although women still do most of the informal care work for children and the elderly, women’s health insurance is provided through their husband (SOLIDAR, 2014).

Conversely, only a few European countries have developed measures to protect the poor and the working poor, and provide universal support. By contrast, some member states have introduced cuts in universal forms of benefits (such as family benefits in the United Kingdom or Cyprus).

Pension reforms also affect the condition of women. All member states have extended the statutory female retirement age to equal that of men in order to counteract the effect of the ageing population, and help women’s pension entitlements in old age. A relevant indirect effect of pension reforms might be an increase in the care workload for women with consequences for inter-generational solidarity and women’s economic independence, which means that appropriate employment policies and care services are crucial. Recent changes in pension policies also include the gradual abolition of most options for early retirement. However, women retiring early are more likely to be at risk of poverty than men because it is usually related to family care needs, instead of the completion of the obligatory working years, or generous early retirement incentives. Other evidence of significant gendered effects include less coverage for women in occupational and individual private schemes than men due to gender segregation in the labour market, and women’s overrepresentation in minimum pension schemes (ENEGE, 2013).

#### **4. Gendered alternatives to austerity: Social reproduction, unpacking households and intersectional inequalities**

In this section, a framework to design alternative policies is proposed. More specifically, starting from the fundamental principle of a gender approach - social reproduction, intersectionality (the multi-layered facets of life that women experience differently according to their



backgrounds) and life-course – a series of alternatives to austerity are indicated. Alternatives include policies that both can directly or indirectly affect the condition of women and gender gaps in different areas.

The first step to identify policy priorities which are alternatives to austerity is to redefine the concept of structural reform with a broader understanding of the economy. It should give the ‘sphere’ of reproduction (Laslett and Brenner 1989; Glenn 1992; and Truong 1996) the same dignity as the other two spheres of economy, finance and production (Pearson and Elson, 2015). Social reproduction relates to ‘the production of people through various kinds of work—mental, manual and emotional—aimed at providing what is necessary to maintain existing life and to reproduce the next generation’ (Kofman, 2014, p. 82 and Laslett and Brenner, 1989, p. 383). The concept also entails the relationship of production and reproduction through ‘the globalised transfer of labour’ (Kofman and Raghuram, 2015 and Truong, 1996). This means that the care economy, the distribution of tasks and responsibilities of unpaid work between genders, generations and ethnicities and working time arrangements, are all issues that merit the same importance as investment and fiscal consolidation measures.

Conversely, the combined gender effects of cuts in public sector and wages, budgets constraints on welfare services and pension reforms, show that the sphere of social reproduction is seriously at risk. Firstly, women are the majority of workers, and they are at the same time users of public and social services, especially services that support women as carers. Without new interventions, more women will be unable to access adequate care for themselves, their children, their frail elderly relatives and the disabled. Secondly, public sector jobs gain an important function for social reproduction itself.

For these reasons, a policy priority should be for governments to protect public sector jobs, public employees and wages. In particular, the creation of public and private employment in labour-intensive social services such as education, childcare, nursing homes, health, community and social services (social investment policies) should be promoted. This would require more public investment in social infrastructure to guarantee universal social protection (e.g. a universal basic income proposed by Atkinson, 2014). The shortcomings of social investment policies, particularly the risk of ‘instrumentalisation’ (the treatment of an idea as an instrument that functions as a guide to action) and undervaluation of social protection, care and redistribution per se need to be taken into account’ (Cantillon, 2014, p. 297).

Governments should also prioritise quality services and innovation in social services (Innoserv, 2013), and redress the imbalanced allocation of funds, also using EU funds. At the same time, they have to promote the qualification and protection of caregivers, as well as policies that prevent deskilling and favour the integration of skilled female migrants into the labour market.

Women are losing jobs in the public sector and at the same time, they do not seem to get good jobs, in terms of pay and work-life balance, in the private sector. So governments should also contrast ‘bogus’ self-employment, enabling women to create business start-ups and enter ICT. In addition, it is necessary to avoid job segregation that leaves out women when financ-

ing interventions in male-dominated sectors and occupation (for example in the construction or ICT sector). Governments should plan action to face gender imbalance as part of such intervention.

A further aspect connected with social reproduction is a renewed attention to the local dimension of economies, policies and contexts of everyday life. Instead of promoting the financialisation of the economy and spending to save banks, policy makers should look at the ‘foundational economy’, namely ‘that part of the economy that creates and distributes goods and services consumed by all (regardless of income and status) because they support everyday life’ (Bentham et. al, 2013). This implies a broader attention to the local and community dimension of the economy, civic engagement and the search for a new consensus with civil society and social partners in defining policy priorities and the allocation of resources.

The local dimension of economic and every-day life also includes family economy and unpacking households’ dynamics to assess the condition of women. Policy makers should design new flexible measures targeted at the different needs of families (including the distribution of care and unpaid work) and address the issue of child poverty. Schemes should be encouraged, for example, that support families who are dependent on non-standard forms of employment and low quality jobs. From the financing point of view, although funding policies and social protection are distinguished by fields of action or targeted groups, the goal should be a universal caregiver model of welfare provision that guarantees access to social protection and decent work.

A second guiding principle for developing gendered alternative policies is intersectionality. Intersectionality involves examining how distinctive social hierarchies mutually construct one another (Crenshaw, 1989) highlighting the structured interlocking nature of oppressions that occur on multiple levels, from the individual to the social structural, which are part of a larger matrix of domination (Collins, 1990). Multidimensionality and context-dependency are corollaries. Policy makers should develop alternative policies to austerity, bearing in mind the interconnections between different axes of inequalities and areas of life and policy fields, and they should be able to assess the potential interactions and effects on the structure of gender inequalities. At macro-level, this translates into the need to: contextualise and evaluate the potential effects of alternative policies within the gender regime and within recent trends in gender relations and gender-related policies (Rubery, 2014); and also place local social policies and economies into a broader vision of social development that includes a change of macroeconomic policies. Strong signals on structural economic processes like overqualification, ‘financialisation’ (reducing all economic exchange to a financial instrument) of the economy, precarious employment and migrants movements are needed to effectively achieve a more gender equitable society.

Strictly related, with an intersectional approach, is the attention to the life-course, which leads to the following gender aware policy indications:

- a. Designing targeted measures for groups of women who lose most from the combined effects of intersectional inequalities and effects of both the crisis and austerity measures.

- b. Developing individualised, flexible and life-course policies which encompass the different position of women ('social locations') in the household, the labour market and society over time. To deal with the issue of involuntary part-time of female workers - who are also more likely to experience cumulative disadvantages like having low wages, few fringe benefits, and insecurity in employment - policy makers should evaluate, in their specific context, the introduction of working time reduction or modulating working time over professional life in order to keep workers in full-time contracts.
- c. Combining governments funds with direct-funding practices.

Table 1 gives an overview of some implications of using intersectionality-based policy approach in terms of policy priorities, evaluation and monitoring, and financing.

	<b>Policy priority</b>	<b>Evaluation and monitoring</b>	<b>Financing</b>
<b>Social reproduction</b>	Care economy and distribution of unpaid work between gender, generations and ethnicities; Face the gendered implication of global social reproduction and inequalities along with class, race and nationality, produced by skill selectivity and immigration policies (Kofman and Raghuram) 2015);	Evaluate the impact of economic and social policies on the care systems and the distribution of unpaid work within households.	Stop cuts in social policies and more investment in social infrastructure. Combine government funds with direct-funding models.
<b>Unpacking the household</b>	Guarantee gender equality, also in the distribution of paid and unpaid work, across different kind of households. New measures for jobless and low-intensity job households; Contrast the polarisation between migrants and native households; Targeting within universalism	Evaluate the impact of economic and social policies on women's economic independence and condition within households by class, race and nationality.	Use and combine different funding lines of policies and social protection to guarantee universal access to social protection and decent work.
<b>Life-course approach</b>	Contrast gender segregation in the labour market and introduce flexible schemes to support job stability, minimum income and decent work all over the professional life; Adjust pensions reforms to favour intra-redistribution over the life-course and inter-redistribution between groups.	Evaluate the impact of economic and social policies on the current and following phases of the life-course of different groups of women according to the intersection of gender, class, and ethnicity; Evaluate the capacity of policies to redistribute work over the life course.	Life Course Savings Scheme sustained by employers' contributions and governments for career breaks. More progressive personal income tax.

*Table 1 – Some implications of using intersectionality-based policy approach for developing gendered alternatives to austerity*

## 5. Conclusions and policy recommendations

In order to encourage ‘gender aware’ alternatives to austerity for a more Social Europe, the following recommendations to policy makers are proposed corresponding to the three key tasks: evaluation and monitoring, policy design, and financing.

### **Evaluation and monitoring**

- Member states and local authorities should be encouraged to conduct ex-ante evaluation, evaluation and monitoring of economic and social policies, and tax systems should be encouraged to follow a gender and intersectional perspective;
- Evaluate direct and indirect effects of policies and measures on the gender gap, intersectional inequalities (particularly intersections between gender and ethnicity) and different kind of families;
- Develop stronger accountability mechanisms and establish, at national level, an external gender group that guarantees that gender analysis should inform policy design and policy implementation. Organisation and activities carried out by the ‘women’s budget group’ in the UK might represent an example;
- Gender indicators and gender-disaggregated data, as well as gender data breakdown by ethnicity and class, should be systematically used in monitoring and evaluation.

### **Policy design**

- In the care sector, equality in the distribution of care and unpaid work between gender, generations and ethnicities and working time arrangements are issues that should be prioritised when developing alternative policies;
- Promote intervention aimed at the qualification and protection of caregivers and avoid female’ deskilling;
- More public investment in social infrastructure, innovation and quality in social and public services;
- Protect public employment, public wages and working conditions in the public sector;
- Enable more women to launch business start-ups and enter ICT; contrast ‘bogus’ self-employment and introduce complementary programmes to address gender imbalances when interventions in male-dominated sectors are implemented;
- Favour permanent employment and working time reduction or modulate the working time all over the professional life in order to maintain workers in full-time contract;
- New family support in the era of new working models involving more part-time, other flexible forms of employment, low intensity at the household level and gender imbalances;
- Family friendly policies favouring a universal caregiver model;
- Guarantee universal social protection and at the same time develop targeting measures aimed at the most disadvantaged and groups most at risk of intersectional inequalities.

### **Finance**

- More progressive taxation reforms;
- Introduce tax on wealth stocks and a Financial Transaction Tax and tackle tax avoidance and evasion (Oxfam, 2013);
- Combine different funding lines of policies and social policies to guarantee universal access to social protection and decent work;
- Gender mainstreaming in planning fund allocations and promoting systematic gender budget analysis.

### **Bibliography**

Atkinson, A. B. (2014), After Piketty? *The British Journal of Sociology*. 65:2.

Bentham, J. et al. (2013). Manifesto for the foundational economy. CRESC Working Paper 131. Retrieved on October 13, 2015, from: <http://www.cresc.ac.uk/medialibrary/workingpapers/wp131.pdf>.

Cantillon B. (2014). Beyond social investment. Which concepts and values for social policy making in Europe? In Cantillon B., Vandenbroucke F. (Eds.), *Reconciling Work and Poverty Reduction. How successful are European welfare states?* Oxford: Oxford University Press.

Cochard, M., Cornilleau, G. & Périvier, H. (2011). A gender analysis of the economic crisis on labour market in six European countries.

Collins, P. H. (1990). *Black Feminist Thought: Knowledge, Consciousness, and the Politics of Empowerment*, Boston: Unwin Hyman.

Corsi, M. (2014). Is the economic crisis reducing gender gaps in Europe? Brief at the seminar 'Beyond austerity, towards employment: a gender aware framework'. Brussels 11th and 12th February 2014.

Crenshaw, K.W. (1989). Demarginalising the intersection of race and sex: a black feminist critique of antidiscrimination doctrine, feminist theory and antiracist politics, *University of Chicago Legal Forum*, 139, 139–167.

Daly, M. & Lewis, J. (2000). The concept of social care and the analysis of contemporary welfare states. *The British Journal of Sociology*, 51 (2), 281-298.

De Rosa, E. (2014). Gender stactivism and NGOs. Development and Use of Gender Sensitive Data for Mobilizations and Women's Rights. *The Open Journal of Sociopolitical Studies*, 7(2), 314-347.

De Rosa, E. & Marzilli, E. (2015). *Lavoratori e famiglie straniere in Italia negli anni della crisi: quali profili di rischio e divisione di genere del lavoro?* *Mondi Migranti*. Soon to be published.

- EIGE. (2014). Gender Equality and Economic Independence: Part-time work and Self-employment. Luxembourg: Publications Office of the European Union.
- EIGE. (2015). Gender Equality Index 2015 - Measuring gender equality in the European Union 2005-2012. Retrieved on October 13, 2015, from: <http://eige.europa.eu/sites/default/files/documents/mh0415169enn.pdf>.
- ENEGE - Bettio et al. (2013). Economic Crisis and Gender Equality. Retrieved on October 13, 2015, from: [www.enege.eu](http://www.enege.eu).
- European Commission (2014). Employment and Social Developments in Europe 2014. European Union: Luxembourg.
- European Commission (2015). Labour Market and Wage Developments in Europe 2015. European Union: Luxembourg.
- European Foundation for the Improvement of Living and Working Conditions (Eurofound). (2010). Selfemployed workers: industrial relations and working conditions. Publications Office of the European Union: Luxembourg.
- European Foundation for the Improvement of Living and Working Conditions (Eurofound). (2014). Third European Quality of Life Survey - Quality of life in Europe: Families in the economic crisis. Publications Office of the European Union: Luxembourg.
- EPSU (2013). Retrieved on October 13, 2015, from: <http://www.epsu.org/a/6713>.
- Hankivsky, O. (Eds.). (2012). An Intersectionality-Based Policy Analysis Framework. Vancouver, BC: Institute for Intersectionality Research and Policy, Simon Fraser University.
- Innoserv project (2013). Social platform on innovative social services. Retrieved on October 13, 2015, from: <http://inno-serv.eu/>.
- Kofman, E. (2014). Gendered migrations, social reproduction and the household in Europe. *Dialect Anthropol.* 38, 79–94.
- Kofman, E. & Raghuram. P. (Eds.). (2015). *Gendered Migrations and Global Social Reproduction*, Palgrave Macmillan.
- Laslett, B. & Brenner, J. (1989). Gender and social reproduction: historical perspectives. *Annual Review of Sociology.* 15, 381–404.
- Lewis, J. (1997). Gender and Welfare Regimes: Further Thoughts' Social Politics. *International Studies in Gender, State and Society.* 4 (2): 160-177.
- Moreno Mínguez A. (Eds.). (2013). *Family well-being: European perspectives*. Dordrecht: Springer.
- Glenn, E. N. (1992). From servitude to service work. Historical continuities in the racial division of paid reproductive work. *Signs. Journal of Women in Culture and Society.* 18(1), 1–43.

Pearson, R. & Elson, D. (2014). Transcending the impact of the financial crisis in the United Kingdom: towards plan F—a feminist economic strategy. *Feminist Review*. 109, 8–30.

Rubery, J. (2014). Women and austerity: some reflections on the impact of austerity on the prospects for gender equality. Presentation at the European Work and Employment Research Centre, Manchester Business School.

Rubery, J. & Karamessini, M. (Eds). (2014). *Women and Austerity – the economic crisis and the future for gender equality*. New York: Routledge.

Schulten, T. & Müller, T. (2013). A new European interventionism? The impact of the new European economic governance on wages and collective bargaining, in: Natali, D. & Vanhercke, B. (Eds.) *Social developments in the European Union 2012*, Brussels: ETUI/OSE, 181-213.

SOLIDAR (2014). *Social Progress Watch 2014*. Retrieved on October 13, 2015, from: [http://issuu.com/solidar\\_eu/docs/country\\_studies\\_web](http://issuu.com/solidar_eu/docs/country_studies_web).

Truong, T-D. (1996). Gender, international migration and social reproduction: implications for theory, policy, research and networking. *Asian and Pacific Migration Journal*, 5(1), 47.

Villa, P. & Smith, M. (2014). Towards a Gender-Equitable Macroeconomic Framework for Europe. Brief at the seminar ‘Beyond austerity, towards employment: a gender aware framework’. Brussels 11th and 12th February 2014.

WBG (2015). The impact on women of July budget 2015: A budget that undermines women’s security. Retrieved on October 13, 2015, from: <http://wbg.org.uk/wp-content/uploads/2015/04/July-budget-briefing-2015-WBG.pdf>.

# Basic Income as a Realist's Transformative Strategy

Gabor Scheiring, University of Cambridge

Miklós Sebők, Hungarian Academy of Sciences

Bence Tordai, Progressive Hungary Foundation

## 1. Introduction

'Precariousness' is on the rise in most parts of the globe (Standing, 2011) and Europe is no exception. The economic turmoil of the EU has intensified social tensions throughout the continent and threatens not only a prolonged social crisis but the erosion of democracy as well (Streeck, 2014). Instead of a regime of structural reforms that further diminishes Europe's most valuable resource - the people - we need structural transformations that equalise life chances and political influence. In recent years, Hungary has undergone a profound process of social and democratic erosion (Bozóki, 2011 and Kornai, 2015). The country is perhaps ahead on the road but many countries are now travelling in the same direction. Social polarisation has gone hand in hand with the rise of illiberal politics throughout Europe.

Progressive politics need bold new visions that can be contrasted with the current processes of erosion. Based on research conducted at the Progressive Hungary Foundation, as well as on already existing policy proposals (Ackerman, Alstott, & Van Parijs, 2006; LÉT Working Group, 2014; Standing, 2011; and van der Veen & Groot, 2000), we elaborate a basic income scheme in line with the recent proposal of Iván Szelényi (2014) that could be immediately implemented in Hungary.

'Not all desirable alternatives are viable, and not all viable alternatives are achievable', wrote Erik Olin Wright (2007, p. 28) in his guidelines for envisioning real utopias. Our proposal is designed to pass Wright's criteria of desirability, viability and achievability. This approach requires a low level of abstraction, we therefore focus on one particular country that



we know best: Hungary. Our scheme nevertheless responds to trends that are also present in other countries, and in our conclusion we point to the first steps toward an EU approach. By focusing on one country, we gain clarity and exactness but we lose universality. As a semi-peripheral country with limited budgetary resources and a culturally rather conservative society, Hungary is not that far from other similarly positioned economies in Europe. Countries at the middle level of the ‘GDP per capita’ hierarchy face comparable obstacles when talking about progressive transformative strategies, so we hope that our proposal might prove to be useful for a wide range of countries.

In this chapter we first analyse the political rationale of the proposal illuminating the careful balance between desirability, feasibility and achievability. The most important moral argument in favour of a basic income is that it allows a basic freedom and a basic sense of security for everyone (Van Parijs, 1995). These general arguments have been laid out in detail already so we concentrate on the politics of our scheme. Next we describe in detail the working of the scheme as divided into various eligibility groups, and we also present detailed financial evidence that the proposal can be introduced immediately without impairing the balance of the budget. We conclude our proposal by pointing out the social effects of the scheme, as well as elaborating the first steps towards implementing the proposal at the EU level.

## 2. The politics of realistic transformation

Our purpose was to come up with a proposal that can break the current deadlock in left wing politics in Hungary. Elaborating a social vision that provides a comprehensive alternative to the neo-conservative and illiberal social policy of the current regime is a major challenge for progressives. A policy proposal designed to be implemented in the foreseeable future needs to be able to catch the attention of the majority of the population. A critique often levelled against basic income is that it presents a burden on the budget that makes it almost impossible to implement, and it also serves as a disincentive to work (Van Parijs, 2001). In response to these criticisms, we drafted a proposal that is not only desirable but viable as well, both financially and politically.

Sources of finance could come from taxes on capital, consumption, wealth or on personal income. Taxing capital in the age of liberalised capital accounts represents a challenge for countries that want to introduce taxes unilaterally (Tanzi, 2000). International capital taxes are theoretically a better option, but the political feasibility of such taxes is unclear. Even though the European Commission has come up with a proposal for an EU-wide Financial Transaction Tax, it is still very far from implementation (European Commission, 2013). The harmonisation of capital gains taxes among EU countries faces harsh opposition - especially from countries operating with a low tax regime to attract foreign investment.

A politically feasible basic income scheme therefore needs to focus on national taxation which limits the amount of budgetary revenues collected through taxes on capital. Taxing consumption is not only morally less attractive, as it would disproportionately hurt lower income groups, but is financially also not feasible in Hungary given the already very high 27

per cent rate VAT. There have been several attempts at taxing wealth in Hungary, but all have failed. The Constitutional Court ruled that value-based wealth taxes are unconstitutional (8/2010. I.28 Resolution of the Hungarian Constitutional Court). Forms of wealth taxes targeted at luxury goods have failed to yield significant budgetary revenues in previous years. General wealth taxes levied on the whole population face harsh rejection by all income groups in the country. International wealth taxation would be a theoretically better option as also proposed by Piketty (2014), but this is even further away from becoming reality than international capital taxation. Taxing offshore wealth would be a major step forward, but there needs to be a lot of political work done to achieve this (Henry, 2012).

This leaves us with personal income taxation as a major source of sustainable and feasible revenue. However, previous research has shown that introducing a minimally meaningful universal basic income would require such an increase in personal income tax (LÉT Working Group, 2014) that it would pit the working middle class strongly against such a proposal. Financing the basic income solely through personal income tax would actually reduce the net average wage that is already one of the lowest throughout the OECD, making such an approach politically very unattractive (OECD, 2010, p. 155).

The political support of the working poor and the working middle class is crucial for the implementation of the basic income. If the basic income is perceived as solely beneficial to the most disadvantaged groups in society while at the same time increasing the already high tax burden on the middle class, then it will be strongly opposed by the majority. Decreasing the net average wage to simultaneously introduce an unconditional income would also make this proposal vulnerable to attacks as it would be argued that it decreased the incentive to work.

We propose a basic income that is directly implementable, financially sustainable and possibly attractive to a variety of groups, including those on a low income, the unemployed, the working poor and the working middle classes. Our approach rests on a mix of income sources and on a mix of actual payment methods that makes it both financially and politically viable. A basic criterion for our proposal was that it should be viable in budgetary terms: it should not impose additional burdens on future generations and should not cause an increase in sovereign debt. This can be achieved through an unprecedented, radical budget reform: we want to reduce taxes on working and tighten up the rules on pollution, wastage, high incomes and profits, corruption and wealth of dubious origin.

Our figures are given in Hungarian Forints (HUF) and based on Hungarian public finance data. The average net monthly salary in the country currently is around HUF 150,000 (€480) and the minimum wage is currently ca. net HUF 70,000 (€225). A similar proposal viable in other peripheral EU countries should be adjusted to local financial characteristics.

### 3. The proposal: 25–50–75–100

In this section we provide a detailed description of the working of the scheme as divided into four eligibility groups. Individuals entitled to a basic income are Hungarian citizens living in Hungary for at least eight years. They could be divided into four major groups, which

at the same time determine the technical means for receiving their respective basic income. To sum up the different varieties of basic income we use the sequence of 25-50-75-100 which means the monthly benefit of each eligibility group in thousand HUF. Everyone would be entitled to at least this amount of basic income, in parallel for which the current, lower benefits would be phased out, while higher benefits would be reduced by the amount of the basic income.

The first group consists of children and young people under 18. They would be entitled to HUF 25 thousand, which would be transferred by the State Treasury to an account specified by their parents. In a family with one or two children, this measure amounts to doubling the family allowance implemented with immediate effect. In the case of the second eligibility group, the inactive population aged 18 and over (e.g. old-age pensioners, disabled workers, students in higher education, etc.), people with undeclared work and the unemployed, the introduction of a basic income guarantees a subsistence allowance of no less than HUF 50 thousand per capita. The third group consists of expectant mothers. The community would provide them with a monthly income of HUF 75 thousand in order to support them in having a child, or, in other terms, unborn children become entitled to a basic income as early as six months before birth. The fourth group comprises those in employment. The State would guarantee they receive a minimum pay of HUF 100 thousand (the ‘100 thousand net minimum wage’), which represents a monthly growth in earnings of no less than HUF 30 thousand. From the average income upwards, the amount of the supplement decreases in a way that the majority of those in employment would be better off than with the current tax system.

According to available data, the number of those belonging to the four eligibility groups would be as follows: of the population of 9.9 million, 100 thousand people are foreign nationals, while 400 thousand people are engaged in a professional or trade activity abroad. Of the remaining 9.4 million people, 1.9 million are minors under 18, while the number of expectant mothers is around 90 thousand a year. The adult population in possession of a certificate of domicile is about 7.5 million, of which 2,841,000 people were employed at the end of 2014. However, the number of individuals with at least one month’s declared personal income was significantly higher. Of the remaining 4.7 million people, over two million receive the old-age pension. Therefore, the sum of the inactive population between the age of 18 and retirement age and of the unemployed active population is around 2.7 million people; many of whom, around 1.4 million, have declared income.

In case of children and young people (i.e. under 18 years of age), the amount of the basic income is HUF 25 thousand. In addition to the amount of the basic income, the most important change would be that fragmented benefits that have been granted from several different sources, and handed out under different schemes, would be replaced by one single scheme, since this is the only way to ensure that all children are treated equally by society. Accordingly, those benefits that could not be used by all families with children, such as the family tax relief, would be eliminated. Allowances that are lower than the basic income, even in aggregate terms, would be phased out, while in all duly justified cases, disability or sickness

benefits would be established or maintained in order to compensate for any additional expenses (see Table 3). As a general rule, the basic income would be transferred to an account specified by their parents (or whoever is their carer).

The group of Hungarian nationals over 18, living in Hungary without employment (hereinafter abbreviated as 18+) is the most diverse of all four eligibility categories. So we will only refer to some basic payment principles for this group, and to the precise definition of the basic income of major stakeholder groups. In all cases members of the 18+ group would be entitled to a monthly basic income of at least HUF 50 thousand (reduced only by their health insurance contributions, explained later). Taking into account the existing complex scheme of social, pension or jobseekers' benefits, the basic income would result in different increases in income for all those entitled to payment. This applies particularly to two major parts of the group: the inactive population and those working but not employed or the active jobseekers.

Starting with the largest group of inactive population, currently about two million people receive the old age pension. In their case, their basic income ensures that the value of their old-age pensions reaches HUF 50 thousand. For pensions that are higher than the basic income, this scheme would bring no positive change. According to our calculations, if we take into account, inter alia, revenues to the state from widows' pensions, then 30 thousand old-age pensioners would be affected in 2015. In the second half of 2014, 411 thousand people received disability and rehabilitation benefits, for an average value of HUF 67 thousand. They would also be guaranteed the basic income of HUF 50 thousand, which may mean a benefit supplement for approximately 150 thousand people. Social transfers above the value of the basic income would remain intact. In the case of full-time students in tertiary education, the basic income of HUF 50 thousand may replace, for example, the existing social-based scholarships. Adults of working age not belonging to any of the above groups, that are either 'passive' unemployed or active jobseekers, would receive a basic income of HUF 50 thousand until retirement age.

One of the novelties of our proposal concerns the fourth group - the working population. Taking into consideration the 2015 minimum wage level (net HUF 68,775 or €220) the basic income of a worker in an employment relationship would be net 100,000 HUF. This could be achieved through raising the 'net minimum wage' which requires only a single modification to the current regulation. A means of doing this is the negative tax that would top up the net wage to the level of basic income, and deduct the sources required for this income supplement both from the personal income tax (PIT) paid by the worker, and also from the social contribution paid by the employer.

At the minimum wage level, this means that the obligation to pay PIT would no longer exist, while the employer would transfer HUF 31,225 not to the state but to the employee. As a result of this proposal, the income received by the employee should increase from the current HUF 68,775 to HUF 100,000. These changes, however, would not affect employers in any way as the costs of employment would remain unchanged. Table 1 contains a comparison between the current and the proposed minimum wage structure.

<b>Current minimum wage</b>	<b>HUF 105,000 /person/month</b>	<b>Proposed minimum wage</b>	<b>HUF 105,000 /person/month</b>
Total employer's cost	134,925	Total employer's cost	134,925
All employee deductions	36,225	All employee deductions	36,225
Net wage	68,775	Net wage	68,775
Basic income	None	Basic income	Negative tax
		Income supplement + tax credit	31,225
Employer's net position	-134,925	Employer's net position	-134,925
Individual's net position	68,775	Individual's net position	100,000
Net budgetary position	66,150	Net budgetary position	34,925

*Table 1 – The impact of the HUF 100 ‘net minimum wage’ on personal income*

In proportion to the increase of the taxable income (that is, the basis for PIT payment), the wage supplement released from the social contribution would be replaced by tax credits. According to 2015 data, this replacement would reach its maximum at a gross wage of HUF 200 thousand. The upper limit for the full use of basic income could be drawn somewhere above the average wage, above which the tax credits could be gradually phased out. In the case of half-time employment, 80 per cent of the basic income (HUF 40,000) would be guaranteed.

#### 4. Budgetary implications

In this section we present detailed financial evidence that the proposal could be introduced immediately without impairing the balance of the budget. The introduction of a significant, comprehensive public policy programme such as basic income could not occur without similarly important budgetary rearrangements. Table 2 presents in detail the cost of the basic income for each eligibility group. Here we do not elaborate on each category in more detail, our estimates are all based on current budgetary expenditure and population data provided by the Central Statistical Office.

The costs of the introduction of the basic income scheme would be covered by six main sources of funding: expenditure replaced by the basic income; the restoration of a fair tax system; additional revenues stemming from the introduction of the basic income; measures against wasteful public spending; a progressive change in economic policy; and anti-corruption action.

More than half of the costs of the introduction of the basic income could be financed through the reform of social expenses and of the PIT scheme. Accordingly, a decisive part of the coverage for the basic income of minors could derive from restoring the upper income tax rate and eliminating family tax benefits, not available to low-income families and families with no wage income. The situation would be similar in the case of the transformation of

Form of basic income	Eligibility group	Number of recipients	Gross change (billion HUF)
25 thousand/month	Minor (under 18 years)	2,027,000	590
Top up to 50 thousand	Pension and pension-type benefits	2,679,756	
	Including: old age with under 50k income	30,000	4
	Including: on disability allowance	102,000	14
	Including: annuities (disability, rehabilitation, etc.)	40,000	8
50 thousand/month	18 + (including 200k public workers)	1,005,000	510
	Including: on jobseekers' allowance	58,000	
Top up to 50 thousand	On scholarship	123,386	27
75 thousand/month	Pregnant	90,000	31
Income supplement	With wage income and social security	4,235,231	390
Tax credit	With wage income and social security	4,235,231	585
	TOTAL EXPENDITURE		2159
	TOTAL REVENUES		2164

*Table 2 – Budgetary impact of the proposal*

social spending: it provides ample coverage for the basic income of people over 18 without wage income and for expectant mothers.

The third and also the largest item would be the introduction of the HUF 100 thousand 'net wage'. This could be financed through reducing the money that goes into the public work programme, eliminating the redundant or even harmful public expenses (such as the planned extension of the Paks nuclear power plant in central Hungary), and savings and revenue increases available through the action against corruption.

The increase of the net minimum wage to HUF 100 thousand would be embedded into a more general progressive change in economic policy. This would reduce deductions on work, while restricting economic support for tax-evading, polluting or restricted groups. There would always be winning bidders at public procurement tenders, however, the tax imposed on the biggest winners would force those receiving the majority of government orders to assume an extra tax burden. The overall improvement of the economy as a result of the introduction of the basic income would create a macro-economic climate in which, according to the estimates of standard macroeconomic models, several billions in VAT and other budgetary revenue could be obtained.

The overall reform to the budget would be 2160 billion HUF on the expenditure side, and a similar amount on the revenue side. This would be equal to a 15 percent reshuffling of the total national budget. An intervention on this scale is without precedent, but we designed our scheme so that it could be implemented immediately. Table 3 represents the main sources of revenue in detail.

	<b>Billion HUF</b>
<b>I) Expenditures lower than the basic income</b>	<b>565</b>
Small amounts of aid	85
Family allowance	327
Child care allowance	62
Child raising support	13
Maternity allowances	5
Cash and in-kind child protection allowance	6
Care allowance	21
Free public healthcare	18
Means-tested compensation fund	-30
Supplements to certain wage subsidies paid by local governments	13
Childcare fee/Childcare fee extra	45
<b>II) A fair tax system</b>	<b>488</b>
Restoration of the upper Personal Income Tax rate	165
Family tax benefit (Personal Income Tax)	255
Family tax benefit contributions	68
<b>III) Macroeconomic effects</b>	<b>193</b>
VAT surplus revenue	193
<b>IV) Measures against wasteful public spending</b>	<b>146</b>
Capital increase of Paks II. Nuclear Power Plant Development Private Company Limited by Shares	28
Cost reduction at unnecessary institutions (Hungarian Academy of Arts, Counter terrorism Centre, Office of the Prime Minister)	15
Sport development concepts	5
National Stadium Development Programme	7
National Olympic Centre	41
Administrative savings through the introduction of a basic income	0.1
Public media	25
Cost reduction of 20% of the Investment Fund	25

<b>V) A progressive change in economic policy</b>	<b>597</b>
Public Sector Wage Compensation Scheme becomes redundant	47
Phasing out of Start/Public work programme	210
Special tax on financial institutions	100
Restriction of corporate income tax benefits, cutting the tax benefits on capital income	145
Legalisation of shadow employment (as a result of the reduction of the 'tax wedge' between minimum wage and average wage)	15
The nominal restriction of the expenditure of public economic function	65
Excise tax increase, modification of fuel subsidies	15
<b>VI) Anti-corruption action</b>	<b>175</b>
Fight against VAT fraud	75
Special tax on public procurement	15
Action against offshore tax evasion	25
Area-based land tax	28
Improved tax collection through advanced enrichment tests	32

Table 3 – A detailed breakdown of the sources of basic income (billion HUF)

## 5. Social effects

The first and most important thing to know about the basic income is that the vast majority of Hungarian citizens residing in Hungary would be better off with it. Table 4 shows, according to types of households, how disposable income would vary in terms of gross wages, replaced transfers, a progressive PIT table and the introduction of the basic income. The table shows that everybody with the basic income would win up to twice the amount of average income. The extra burdens would affect only the upper 10-20% of the population, which would be people who earn more than twice the average income. Our estimations are based on publicly available income statistics, and on an income tax system with more than one tax rate. At the lowest rate (up to the minimum wage), there would be no income tax. At the second rate (from the minimum wage up to approximately twice the average wage) the current 16% rate would apply. At the top rate, from approximately twice the average wage, a 30% rate would apply.



Type of household	Gross monthly earnings	Net variation of the household income		
		No children	1 dependent child	2 dependent children
Couple earning above average	800,025	38,000	30,000	-1,000
Couple earning an average salary	251,459	29,000	27,000	11,000
Couple earning less than the average wage	166,084	49,000	65,000	83,000
Single parent earning below the average wage	201,101	57,000	33,000	37,000
Single, working-age, with income from emoluments only		29,000	29,000	29,000

Table 4 — The impact of basic income on monthly household incomes (HUF)

Apart from the primary redistribution effects, the introduction of basic income would have a number of other direct and indirect positive public policy impacts:

- In the short term, it would reduce by half the number of people living in poverty. According to the calculations by the LÉT Working Group (2014), the poverty rate might fall from 16.4% to 8.6%, and the proportion of people living below the subsistence level might fall from 40.7 to 29.1% with the introduction of a basic income similar to the one presented in our proposal.
- It would result in a significant stimulus to domestic demand. The lack of solvent domestic demand is the main obstacle to Hungarian economic growth. The introduction of a basic income, if we take everything else as given, could cause a significant expansion in household consumption, primarily on behalf of those earning less than the average wage, while the reduction in the consumption from very high wage earners would be limited.
- The introduction of basic income creates new incentives for the inactive population, particularly with the creation of ‘legal’ jobs. The radical raise in net minimum wages might guide masses of the inactive population back to the labour market. Commuters could afford to buy a monthly pass, there would be financial resources for job searches (telephones, the internet, postage, subsidised travel, etc.) while the measure would create a solvent demand and also a demand for a labour force for SMEs.
- Replacing the current, non-transparent, discretionary system of benefits, where means-testing is often arbitrary and unpredictable, with a simple and transparent system of basic income would bring about substantial administrative cost savings. The often humiliating forms of assistance would be replaced by an automatic remuneration, ensuring equal dignity.
- Over the past half-decade hundreds of thousands of young Hungarian citizens abandoned the country. The basic income could be a first step to reversing this tragic proc-

ess. The radical 'recapitalisation' of scholarships would make university and college studies more accessible for students from less affluent families. Job growth and the higher starting salaries, and a greater contribution to the costs of having children could keep low-skilled young people at home, or it could convince the emigrants to return to Hungary.

## 6. Conclusion: Basic income in Europe

In this chapter we have elaborated a politically and financially viable basic income scheme. According to our proposal, the basic income would range from HUF 25,000 (ca. €80) up to HUF 100,000 (ca. €330) divided into four eligibility groups. The essence of the proposal is the sequence 25-50-75-100, which corresponds to the monthly benefit for each eligibility group in a thousand Hungarian forints. Everyone would be entitled to this amount of basic income at the very least, in parallel of which current transfers below the level of the basic income would be phased out. The total annual cost of the introduction of the basic income for the four eligibility groups would be around HUF 2,200 billion, almost half of which would be transferred to those with declared jobs. The costs of the introduction would be covered by six main sources of funding, including the elimination of some of the existing social assistance programmes, introducing various new taxes on capital, and a progressive income tax.

Of course, a guaranteed income does not solve all problems of the deprived. Further development of public services such as health care, education and access to drinking water and sanitation are also needed to enable every citizen of the country to participate in society. However, we are convinced that a basic income scheme would not only represent a completely new structure of social policy, and a progressive structural transformation instead of socially and economically unsustainable structural adjustments. It would also represent the basis of a new progressive social vision as well. This vision is based on equality and the creation of a society that helps all members to realise their potential and develop their capabilities. The basic income offers a new progressive vision that rescues institutional solidarity and social citizenship (Marshall, 1950) and transforms it to suit the economic realities of contemporary capitalism (Esping-Andersen, 2002).

Though our approach might appear as a step back from its original progressivity, it would still be able to halve poverty, increase employment and provide a sense of basic security for everyone. Our proposal is designed to be attractive to the majority of society, both for the 'precariat' and for the working middle classes. Our intention was to increase the viability of the scheme without sacrificing its essence to providing a basic security net for everyone. Further work is needed to elaborate the details of each eligibility category, as well as adapting the scheme to other countries. Further policy research and political work could uncover additional sources of financing, like international financial and wealth taxes, which would allow a higher basic income than the current scheme. Our proposal is directly implementable, financially sustainable and politically viable: a transformative strategy with a capacity to bring Hungarian society much closer to an egalitarian democracy.

For the sake of clarity we chose to focus on one country, Hungary. However, the European Social Model is under pressure throughout the continent with social polarisation and precariousness on the rise throughout the EU. Therefore, some form of basic income would be desirable throughout Europe. Instead of centrally imposing a regime of structural reforms upon countries, the EU should promote structural transformations that equalise life chances. As welfare and social policies are mainly in the hands of the national governments, and because the social and financial situation varies across countries to a large extent, there is no top down model of basic income in Europe. Philip van Parijs (2013), one of the main theoreticians of the basic income, proposed an EU wide solution: The Euro Dividend. This EU level basic income could vary from country to country tracking the cost of living, and it could also vary according to age group.

As van Parijs suggests, the Euro Dividend could be financed by Value Added Tax. To fund a Euro Dividend averaging €200 per month for all EU residents, one would need to tax the EU's harmonised VAT base at a rate of about 20%. However, by following a multi-dimensional basic income scheme as elaborated in this chapter, the cost of the Euro Dividend would be much lower. As elaborated in our proposal, there could be other sources as well to finance the Euro Dividend, like a future European tax on financial transactions, taxes on luxury goods, or carbon emission allowances, as well as combining the introduction of basic income with progressive income and capital taxation. Transforming the idea of quantitative easing into 'quantitative easing for the people' opens up the possibility of financing basic income through the European Central Bank. Instead of the ECB injecting money into the financial markets, the new money created by Eurozone central banks could be used to finance a citizens' income of €175 per month as proposed by 19 economists in a letter to the Financial Times (2015).

There is a political basis for a universal basic income at the EU level in the existing EU *acquis communautaire*. The Charter of Fundamental Rights, Article 2 of the Treaty on the European Union (TEU) on human dignity and equality, as well as Article 3 on social exclusion and social justice, provide a theoretical framework for a European Basic Income. There is a base for the coordination of member states' social policies and their employment policies which could be extended towards basic income. Minimum income schemes already exist throughout Europe to a varying extent, harmonising these social policy tools is feasible at the EU level and would create a major EU wide social policy breakthrough. Based on these principles, the European Citizen's Initiative for an Unconditional Basic Income aimed at urging the Commission to support the idea of the EU Basic Income. Although the Citizens Initiative did not manage to collect the one million signatures needed for the petition to be legally binding, it did manage to put the issue on the agenda throughout the EU. Recently, the idea of 'Quantitative Easing for the People' got increasingly popular both among activists and experts as well. Building on this momentum, the idea of an EU level basic income could be brought forward.

A bold new European system of basic income might help the EU to get closer to a truly social Europe, a Europe of the citizens for the citizens. As van Parijs put it in an interview

after the conference on the 'Unconditional Basic Income' (UBI) organised in the European Economic and Social Committee (EESC):

*'It's very important for the EU to be perceived by the people as a caring union, not only one that lifts protection to promote productivity and benefits for Europeans in a very unequal way. It must be perceived (by) all the Europeans, not only the movers, but also the stay-at-homes, that the EU is doing something for them.'* (Euractiv.com, 2014)

## Bibliography

Ackerman, B., Alstott, A. & Van Parijs, P. (2006). *Redesigning Distribution: Basic Income and Stakeholder Grants as Cornerstones for an Egalitarian Capitalism*. London: Verso.

Bozóki, A. (2011). *Occupy the State: The Orbán Regime in Hungary*. *Journal of Contemporary Central and Eastern Europe*, 19(3), 649-663.

Esping-Andersen, G. (2002). *Why We Need a New Welfare State*. Oxford: Oxford University Press.

Euractiv.com. (2014). *Van Parijs: An unconditional basic income in Europe will help end the crisis (interview)*. EurActiv, 2014(11 April).

European Commission. (2013). *Proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax*. Brussels: European Commission, 14.2.2013, 2013/0045 (CNS).

Financial Times. (2015). *Better ways to boost eurozone economy and employment*. *Financial Times*, 2015(26 March).

Henry, J. S. (2012). *The Price of Offshore Revisited*. Chesham, Bucks: Tax Justice Network.

Kornai, J. (2015). *Hungary's U-Turn*. *Capitalism and Society*, 10(2), 1-10.

LÉT Working Group. (2014). *25-50-75: A proposal to the Hungarian Society (in Hungarian: 25-50-75: Ajánlat a magyar társadalomnak)*. Budapest: LÉT Working Group.

Marshall, T. H. (1950). *Citizenship and social class and other essays*. Cambridge: Cambridge University Press.

OECD (2010). *Table I.21, Annual gross wage and net income, 2009 Taxing Wages 2009-2010*. Paris: OECD Publishing.

Piketty, T. (2014). *Capital in the Twenty-First Century*. Cambridge, MA: The Belknap Press.

Gabor Scheiring, Miklós Sebők, Bence Tordai

Standing, G. (2011). *The precariat: The new dangerous class*. London: Bloomsbury.

Streeck, W. (2014). *Buying Time: The Delayed Crisis of Democratic Capitalism*: Verso Books.

Szelényi, I. (2014). Variations to the Theme of Poverty (In Hungarian: Variációk szegénység témára). In T. Kolosi & I. G. Tóth (Eds.), *Social Report 2014* (In Hungarian: Társadalmi Riport) (pp. 629-635). Budapest: Hungary.

Tanzi, V. (2000). Globalization, Technological Developments, and the Work of Fiscal Termites. *IMF Working Papers*, 2000(WP/00/181), 1-22.

van der Veen, R.-J. & Groot, L. (2000). *Basic Income on the Agenda: Policy Objectives and Political Chances*. Amsterdam: Amsterdam University Press.

Van Parijs, P. (1995). *Real Freedom for All: What (If Anything) Can Justify Capitalism?* Oxford: Oxford University Press.

Van Parijs, P. (2001). *What's Wrong With a Free Lunch?* Boston: Beacon Press.

Van Parijs, P. (2013). *The Euro-Dividend*. *Social Europe Journal*, 2013(3 July).

Wright, E. O. (2007). Guidelines for envisioning real utopias. *Soundings*, 36(Summer), 26-39.

PART II

**SHAPING  
SOCIAL INVESTMENT**



# Economic democracy as a structural reform: The case for socialising investment

Sacha Dierckx, Ghent University

## 1. Introduction: Investment as a key economic variable

It is well-known that productive investment is an important driver of the economy, as both one of the main components of aggregate demand and as the key variable defining future supply. It has the potential to substantially raise productivity and therefore lead to higher living standards and/or less working hours. The rate of investment is therefore one of the most important elements defining the current and future macroeconomic situation.

Investment is also central in what kind of world we leave behind for our children. A good example is infrastructure: if we invest in roads or railways now, it means our children will still be able to enjoy the benefits in the future. Another clear example is energy: whether we invest in renewables on the one hand, or oil wells and coal plants on the other hand, will still define the world in many decades. A final example is what the European Commission calls ‘social investment’, investment in people in areas such as health care, childcare and education.

As will be shown below, private investment currently trumps public investment by a long way within the European Union. In this chapter, it is argued that this dependence on private investment and decision-making is excessive. The private sector is not delivering stable and sufficient investment, it insufficiently takes the social usefulness and collective good into account, and it suffers from a lack of democracy because a large part of the European citizenship is excluded from investment decisions.



The next section claims that the private sector is not living up to its promises. It is argued that a Keynesian concept, the ‘socialisation of investment’, could provide a solution to this problem. More public involvement in investment decisions could be able to avoid the downsides of private investment. In the subsequent section, three ways towards socialising investment are outlined: government investment; public and development banking; and state ownership and cooperatives. Finally, it is argued that there should be reflection on and experiments with innovative forms of democratic decision-making, instead of technocratic and bureaucratic procedures.

In the concluding section, the findings of this paper are summarised, and the policy recommendations are reiterated. These recommendations include putting an end to austerity, including a ‘golden rule’ to exempt investment from excessive deficit calculations, and introducing a benchmark for government investment; creating a National Investment Board with the capacity to define investment priorities; a stronger role for the European Investment Bank with more democratic and civil society involvement, as well as revitalizing and reappraising national development banks; exempting public companies from European competition and liberalisation regulations; and creating incentives to develop a bigger and stronger co-operative sector.

## 2. The dependence on private investment

This section contends in its first subsection that the private sector is not fulfilling its economic promises. Therefore, in the second subsection, the ‘socialisation of investment’ is put forward as a way to reduce the excessive dependence on private sector investment. The third and fourth subsections argue that private investment is also insufficient to deliver on both social values and economic democracy.

### 2.1 The private sector is not delivering

The data on investment demonstrate that a large share of investment in Europe is undertaken by the private sector (see Figure 1). In fact, the private sector accounts for more than four fifths of total investment in the European Union as a whole, reaching around 90% in some countries.

This implies a strong reliance on the private sector for investment and, therefore, the current and future economic state of affairs. However, the private sector does not seem to be delivering on its promises in various ways. The main cause is that, as many have argued (see e.g. Banerjee, Kearns & Lombardi, 2015, p. 70 and Tapia Granados, 2013), business investment is based on (expected) profitability - investment will only be undertaken if the profits made out of the investment are projected to be high enough. This feature has been reinforced by the so-called ‘shareholder revolution’. In the contemporary world economy, this has many problematic effects.

First, private investment is in general considered to be by far the most volatile component of aggregate demand (Banerjee, Kearns & Lombardi, 2015, p. 67; Tapia Granados, 2013; and Mankiw, 2011). As such, it is the main driver of expansions and recessions in the business

## Economic democracy as a structural reform: The case for socialising investment

cycle. Because private investment is based on profits, it implies that fluctuations in profitability also cause fluctuations in investment. In this way, swings in (expected or actual) profitability lead to a boom-bust pattern of private investment and the economy.

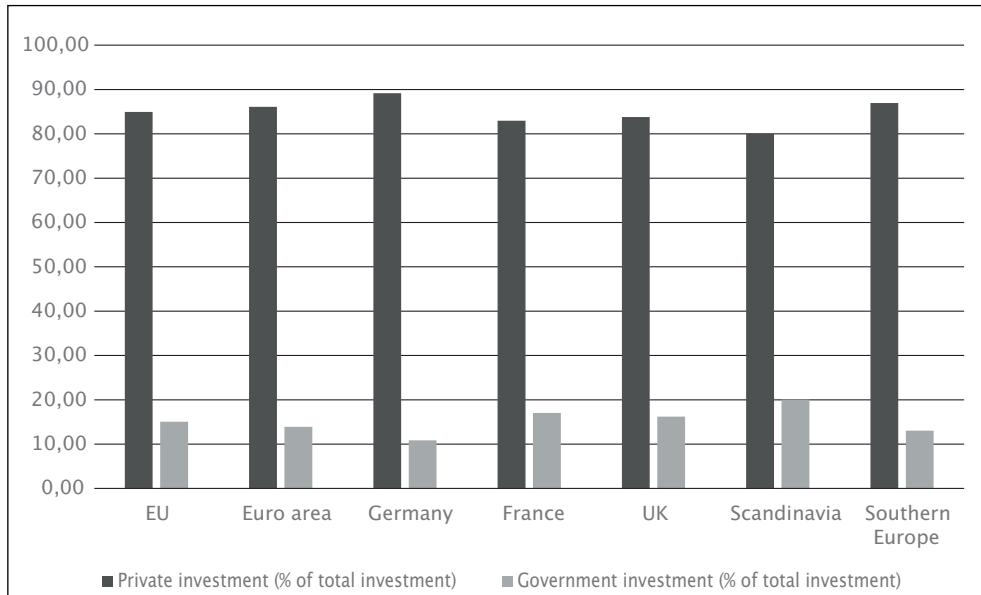


Figure 1: private and government investment as a % of total investment, 2014 (own calculations, data from AMECO, 2015)<sup>1</sup>

Second, after the crisis, the private sector has been unwilling to invest, which is one of the key issues holding back recovery. As the OECD notes in its Economic Outlook in June 2015 (OECD, 2015): ‘By and large, firms have been unwilling to spend on plant, equipment, technology and services as vigorously as they have done in previous cyclical recoveries.’ Instead, businesses are hoarding cash or spending it on stock buybacks, dividends, mergers & acquisitions, and chief executive remuneration (Lazonick, 2014; Monga, Benoit & Francis, 2015; and Skapinker, 2015).

The question is whether this is a cyclical or a structural phenomenon. Several authors have argued that low business investment might be a permanent feature of the contemporary world economy. One of the lines of reasoning is that the global economy has become ‘financialised’, due to the higher profits available from speculative financial instruments, to the detriment of productive investment in the ‘real’ economy. The recent discourse on ‘secular stagnation’ is also related to worries about structurally lower private investment rates. This

<sup>1</sup> Throughout the chapter, the data for ‘Scandinavia’ refer to the unweighted average of the data for Finland, Sweden and Denmark; the data for ‘Southern Europe’ refer to the unweighted average of Greece, Italy, Portugal and Spain. The data for Germany are based on data for West Germany before 1992; data for Germany are missing for the period 1992-1995.

would be a continuation of the downward trend of private investment as a share of GDP in Europe (see Figure 2).

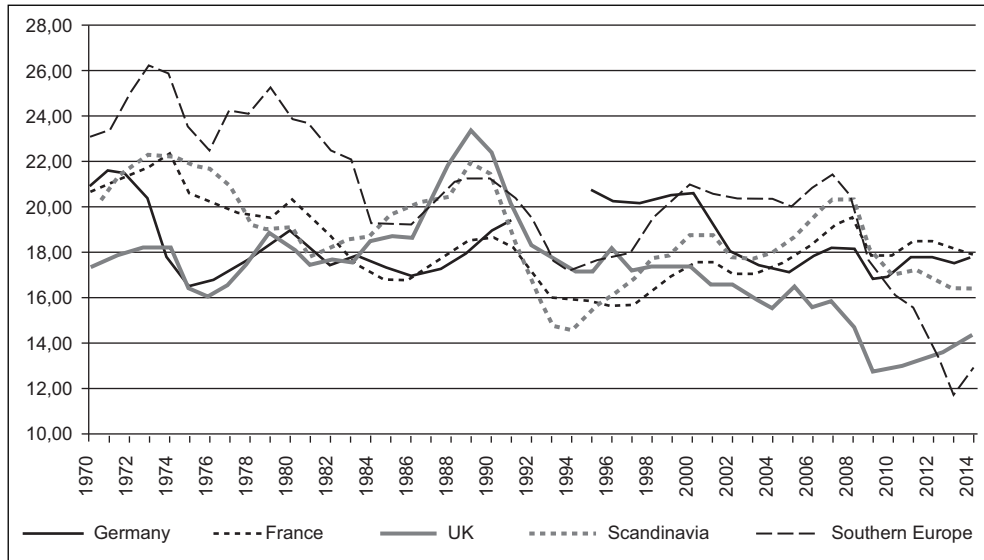


Figure 2: Private investment rates as a % of GDP, 1970-2014 (own calculations, data from AMECO, 2015)

## 2.2 (Beyond) Keynes and the socialisation of investment

The problems associated with the dependence on private investment, which is simply based on profitability, imply that a more sustainable, democratic and socially just economy should reduce its dependence on private capital. We can therefore turn to a concept developed by John Maynard Keynes, the ‘socialisation of investment’. Keynes argued that ‘an optimum rate of investment’ would not be reached if investment is left to the private sector.

Therefore, he conceived ‘that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment’ (Keynes, 2008, p. 346). He expected the state to take ‘an ever greater responsibility for directly organising investment’ (Keynes, 2008, p. 147). In Keynes’s proposals, public and semi-public bodies would directly influence between two thirds and three quarters of total investment (see Crotty, 1983, p. 60). This would imply a greater ‘public-utility component of investment to give greater stability to the investment function’ (Skidelsky, 2011, p. 11).

On the other hand, in Keynes’ view, the socialisation of investment should not go too far. For instance, he argued, first, that it ‘need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative’; second, that there is no case for socialising investment except for defining an optimum rate of investment; and third, that socialisation should be a gradual and cautious process (Keynes, 1936, p. 346). This middle road has been criticised by Bellofiore (2014), who maintains that ‘Keynes’s readiness to compromise

with private initiative, together with his acceptance of the neoclassical view that the market does a good job on a micro allocative level, aborted the socialization of investments.’

However, in this chapter, it is contended that there are other, more profound reasons for socialising investment. Below both instrumental arguments – the challenge to create a more just and sustainable economy cannot be met without more public control over investment flows – and normative arguments – political democracy is incomplete without economic democracy – are outlined.

### 2.3 The neglect of social usefulness and the collective good

One of the main pitfalls of relying on private investment based on profitability is that it does not take the social usefulness (or social damage) of investment decisions into account. While there are several mechanisms to influence these decisions to some extent, such as subsidies, taxes and regulations, the profit motive in the end trumps social values and the challenges society faces as a whole. Consequently, public investment might provide higher ‘social rates of return’ than private investments (Bivens, 2012).

The challenge of climate change and the transition towards an economy based on renewable energy is one of the major areas for which relying on profit-oriented, private investment is insufficient. In the past, nations have responded to fundamental threats through government spending, especially, but not only, in research & development. To tackle climate change, a similar investment programme is needed (see e.g. King et al., 2015). Another area where profit-oriented investment is arguably deficient is social investment. Investment based on financial returns is unlikely to deliver in social investment areas such as health care, childcare, education and lifelong learning in a socially acceptable way that benefits society as a whole, including less affluent layers of the population. Beside climate change and social investments, there are other areas as well where investment could deliver social and environmental goals without necessarily being highly profitable, such as public transport, housing, and a more sustainable food system.

A second reason why being overly dependent on private investment does not go together well with social values is that internationally mobile investors and corporations are able to play off states against each other with the possibility of ‘regime shopping’ or ‘regulatory arbitrage’ (Lesage & Vermeiren, 2011, p. 45). States have subsequently become ‘competition states’, being primarily concerned not with the well-being of citizens but with competitiveness, investor confidence, policy credibility and financial discipline (Fougner, 2006).

The problem is that the range of policies that are compatible with an attractive investment climate is rather narrow (Grabel, 1996, pp. 1763-1764). Moreover, an ‘international competitive dynamic’ means that ‘institutional change in one or more countries induces similar changes in other countries’ (DeMartino, 1999, p. 346). This implies that the dependence on private investment creates the danger of a race to the bottom, whether in terms of social policies, corporate taxation and taxation on wealthy investors, employment relations, environmental norms or the provision of public services.

## 2.4. Economic democracy

Finally, another motivation for socialising investment is to give citizens more influence on investment decisions. This is not only valuable because it could lead to more attention being given to social usefulness instead of private profit, but also because it deepens democracy. The dominance of private sector investment means that an important aspect of decision-making is left to wealthy investors and shareholders, as well as managers and some employees of multinational corporations and private banks (Cumbers, 2012, p. 150).

In other words, ordinary citizens cannot ‘vote’ on how much to invest, in which sectors, and with what priorities. The principle of ‘one man, one vote’ in political democracy contrasts with, and is hollowed out by, the reality of leaving investment decisions to a small group of wealthy and powerful individuals. To deepen democracy, political democracy should be complemented by a degree of ‘economic democracy’. As Cumbers (2012, p. 149) writes: ‘The role of the state and institutional mechanisms beyond the market is critical here, therefore, in allowing all groups and citizens in society to participate at some level in economic decision-making.’

## 3. From the flawed Juncker Plan to real alternatives for private sector investment

As the previous section claimed that the reliance on private sector investment is excessive, this section outlines proposals to socialise and democratise investment. The Juncker Plan, the solution put forward by the European Commission to the problem of inadequate private investment, was discussed and criticised in the first subsection. The three following subsections introduce alternatives that could play a role in socialising investment, firstly, increasing government investment, secondly, a larger role for public development banks, and, thirdly, revitalising and renewing state ownership and the co-operative sector. In the final subsection, it is argued that throughout all these alternative means of socialising investment, innovative mechanisms should be developed to deepen democracy and public participation and avoid bureaucratic and technocratic decision-making.

### 3.1 The Juncker Plan: The socialisation of the risks, and privatisation of the profits?

Within the European Union, the downward trend of private investment (see above) has turned into a larger ‘investment gap’ after the crisis. As the European Commission (2015b) states: ‘Since the global economic and financial crisis, the EU has been suffering from low levels of investment. (...) Compared to the 2007 peak, investments have dropped by around 15% in the EU.’ While there are some sceptics (e.g. Gros, 2014), estimates of the investment gap range from €160bn to €800bn (Claeys et al., 2014 and Dalton, 2014).

The solution that has been presented by the European Commission is the so-called ‘Investment Plan for Europe’ (or the ‘Juncker Plan’ as it has become known) approved by the

European Parliament in June 2015. The Juncker Plan is based on the creation of a ‘European Fund for Strategic Investments’ (EFSI) at the European Investment Bank (EIB). This fund is intended to stimulate investment through various means, such as equity stakes, guarantees and loans. However, the largest contribution is still supposed to come from the private sector. The EFSI will primarily work as a lever, and €21bn of public money is projected to leverage by a factor of 15 so that productive investments worth at least €315bn will be generated over the next three years (Claeys, Sapir & Wolff, 2014 and EIB, 2015). Vice-President of the European Commission, Jyrki Katainen, has explained that the success of the Juncker Plan will ‘also be determined by the input of the private sector (2014).’

The Juncker plan has been criticised from many points of view (see e.g. Claeys, 2015; Claeys, Sapir & Wolff, 2014; Debruyne, 2015; Mazzucato & Penna, 2014b; Myant, 2015; and Pop, 2015). Amongst other criticisms, it has been claimed that the Juncker Plan is still too small to close Europe’s investment gap, and the question has been raised whether the projects will all be *new* investments which would not have been carried out anyway regardless of the Juncker Plan. Furthermore, social investment has been almost entirely excluded from the Juncker Plan.

But perhaps the major pitfall from the perspective of this chapter is that the logic behind EFSI loans is still profitability (see Myant, 2015 and Stupp, 2015). As the implementation of projects is still dependent on private profit-oriented money, the financial return on investment will be more decisive than the social return on investment. This implies that socially useful but less profitable projects might not get the financing that is needed.

Moreover, the Juncker Plan might turn out to be another example of the ‘socialisation of the risks, privatization of the profits’. EC Vice-President Katainen (2014) himself has stated: ‘By mitigating some of the risk, the improved financial structure of these projects will make them more attractive for private sector participants to invest in.’ However, if things go wrong, the burden will first and foremost be borne by the public money. As three researchers from the Bruegel think tank, who are themselves very much in favour of using public money to guarantee private investments, write in a blog post (Claeys, Sapir & Wolff, 2014): ‘Conversely, for pure public good investment, countries with fiscal space could use their ability to borrow to invest in public infrastructure.’

### 3.2 Government investment: Putting an end to blind austerity

This brings us to the first way of socialising investment, namely government (or public) investment. However, as has been argued, ‘public investment is not playing its role in mitigating Europe’s investment problem’ (Claeys et al., 2014). Government investment as a share of GDP has somewhat declined than increased in the past decades (see Figure 3) (see also Barbiero & Darvas, 2014 and IMF, 2014, pp. 79-80).

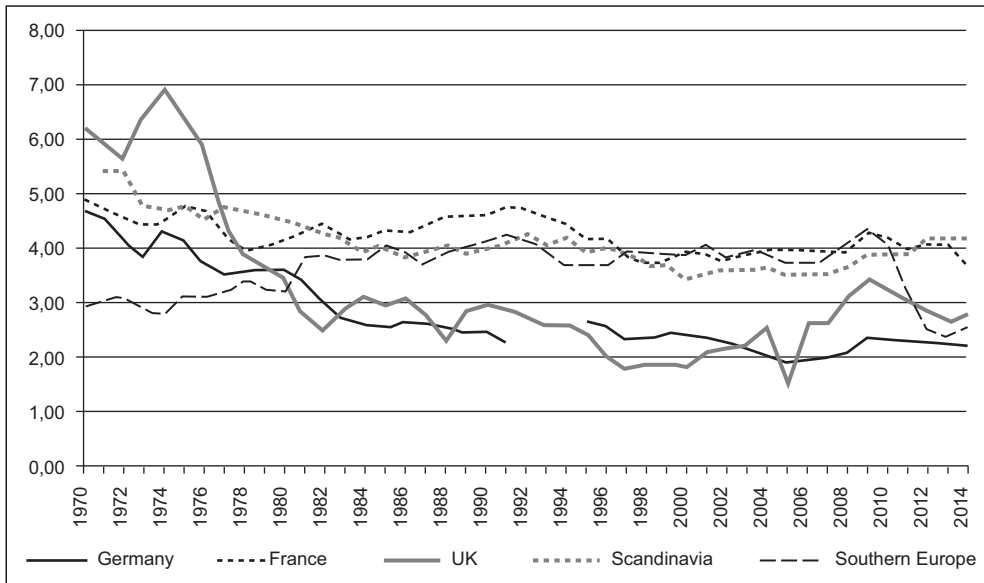


Figure 3: Government investment as a share of GDP, 1970-2014 (own calculations, data from AMECO, 2015)

As private investment has declined, it has not been replaced by public investment. There does not seem to be an upward trend in the share of government investment in total investment (see Figure 4).

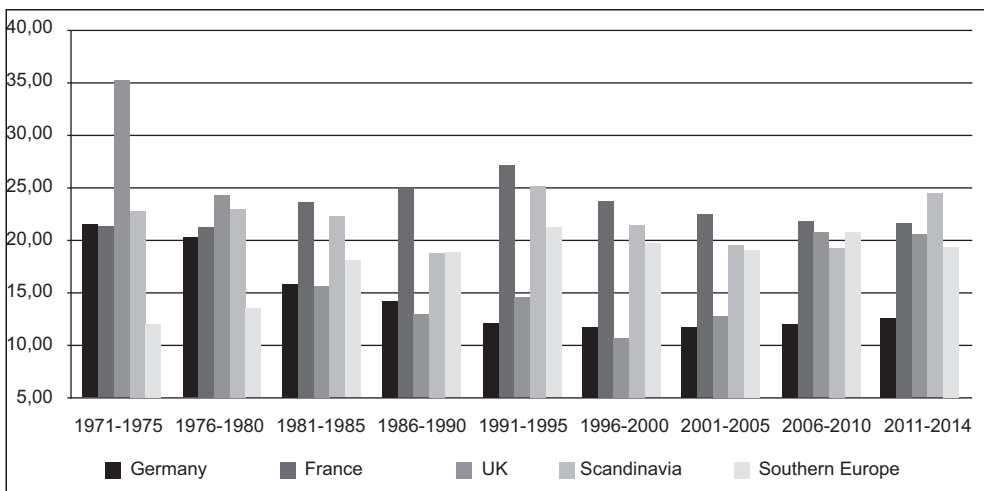


Figure 4: Average government investment as a share of private investment, 1970-2014 (own calculations, data from AMECO, 2015)

This is despite the fact that, because it is not based on volatile profits, public investment could be much more stable than private investment. Whereas private investment is usually pro-cyclical, public investment could even be counter-cyclical, increasing during recessions and decreasing during expansions. Several studies have also confirmed that the fiscal multiplier of government investment is probably high, especially in periods of economic stress (see e.g. Bivens, 2012; Dreger & Reimers, 2014; Rannenberg, 2015; and IMF, 2014, p. 82). As a recent IMF study found assessing seventeen developed countries, higher public investment ‘raises output, both in the short term and in the long term, crowds in private investment, and reduces unemployment’ (Abiad, Furceri & Topalova, 2015).

Besides possible profits from earlier investments, public investment can be tax-financed or debt-financed. There are good reasons to let investment be debt-financed (as investments in theory lead to future earnings which can be used to repay the debt), and the IMF study stated that public investment was more effective at raising output when it was debt-financed (Abiad, Furceri & Topalova, 2015).

At the level of the European Union, two strategies could be considered to facilitate and stimulate public investment at the national level. First, the austerity drive and excessive focus on budget consolidation are not conducive to public investment, which has been strongly affected by fiscal consolidation efforts (Barbiero & Darvas, 2014 and Myant, 2015). As Truger (2015) writes, ‘there can be no doubt, that austerity policies in the Euro area have negatively affected public investment in a disproportionately strong manner’.

Nevertheless, even if the policy direction is not changed, there are ways to leave government investment untouched by austerity. The European Commission has already built in some flexibility in applying the existing rules of the Stability and Growth Pact (SGP) with regard to government investment (European Commission, 2015a). However, it also emphasised that there is no rule which exempts government investment from the deficit and debt calculations. This ‘golden rule’ has nonetheless been proposed by several economists to safeguard public investment (Barbiero & Darvas, 2014; Blanchard & Giavazzi, 2004; and Truger, 2015). It could be one way of making sure that public investment is not affected by austerity measures (and it would also somewhat soften austerity).

A second way government investment could be stimulated at the EU level is through benchmarking. There already exists a benchmark of ‘combined public and private investment in R&D to 3% of GDP’ by 2020 in the Europe 2020 strategy (European Commission, 2014). A similar benchmark could be introduced with regard to government investment in general, e.g. keeping average public investment at (a minimum of) 4% of GDP over the medium term. A ‘naming and shaming’ strategy could play a role in stimulating member states to devote attention to public investment.

### 3.3 Revaluing public and development banks

A second way to socialise investment would be through state-owned banks (SOBs) and public development banks, or state investment banks (SIBs) as they have also been called



(Mazzucato & Penna, 2014a). However, publicly available data point to the diminishing share of state-owned banks in the past decades. According to various sources, state-owned banks' assets as a share of total banking assets in the developed world dropped from around 40% in the 1970s to around 25% in the mid-1990s, and only 8% today in developed countries (Levy Yeyati, Micco & Panizza, 2007; Marois, 2014; and World Bank, 2012).

While there has thus been a wave of privatisation during the past decades, recent research has argued that the criticism of public banks has been unjustified, that the evaluation of public banks has been based on inadequate indicators, and that public or development banks can play various roles which are not sufficiently taken into account by most of the (economic) literature (Griffith-Jones & Tyson, 2013; Levy Yeyati, Micco & Panizza, 2007; Marois, 2014; Mazzucato & Penna, 2014a; and Skidelsky & Martin, 2014).

Whether financed by the ECB or by the member states, the EIB could play an important role at the transnational level. It has been argued the EIB has been able to avoid the procyclicality of private banks, and has played a positive role through the facilitation of low-cost, long-term financing (Darvas, 2014; Griffith-Jones & Tyson, 2013; and Mazzucato & Penna, 2014a). However, it must be noted that the EIB has been criticized from various perspectives. For instance, it has been stated that the EIB has taken a conservative and cautious approach, that it has insufficiently taken a proactive leadership role, and that its accountability mechanisms have been inadequate (Griffith-Jones & Tyson, 2013; Myant, 2015; and Sol, 2015).

In any case, the EIB should be complemented by national investment banks. Some of these already exist, such as the German Kreditanstalt für Wiederaufbau (KfW), the French Caisse des Dépôts (CDC) or the Italian Cassa di Risparmio di Roma (CR). However, not all EU member states have these national investment banks, and it must be acknowledged that they are not always large enough within the banking landscape to fundamentally socialise investment.

### 3.4 Revitalizing public ownership and cooperatives

A third way to influence investment is to revive public ownership. Like public banking, state ownership as a whole has also declined (Christiansen, 2011 and Davydoff, Fano & Qin, 2013). However, after the global economic crisis, the idea of public ownership has come more to the foreground. Various studies have contested the claim that the private sector is always more efficient than public companies (Bowman et al., 2013; Chassy & Amey, 2011; Cumbers, 2012, p. 52; and Guinan & Hanna, 2015). Mariana Mazzucato (2013) has recently demonstrated that the state has played a leading role in achieving innovation-led growth in various countries.

Next to state ownership, (worker-owned) co-operatives are also a more socialised form of investment than private investment (see e.g. Abell, 2014; Davis et al., 2014; and Jenner, 2015). These co-operatives could be a model for a less hierarchical economic system with democracy institutionalised at the workplace. As Cumbers (2012, p. 132) writes: 'While not all cooperatives necessarily operate differently to more conventional privately owned firms, there is nevertheless an important set of possibilities for alternative economic practice opened up by such collectively owned endeavours.'

### 3.5 Deepening democracy, avoiding bureaucracy and technocracy

While public investment, national investment banks, state corporations and co-operatives are able to provide forms of socialised investment, it is important to be critical of their operations. These forms have not always been more democratic than their private counterparts. As Cumbers (2012, p. 5) states, ‘past and existing forms of public ownership have done little to deliver genuine economic democracy and public participation because they were, on the whole, over-centralized, bureaucratic and lacking democratic participation.’

Analysts and officials now often emphasise that investment decisions should be taken by independent ‘experts’, without political interference (e.g. Claeys, Sapir & Wolff, 2014). As Vice President Katainen said of the Juncker Plan, ‘the selection of the projects will steer clear from any political influence by national governments, as it will be done by a special committee of independent experts’ (in Pop, 2015). While this rightfully tries to make sure that projects are not chosen for their electoral appeal or prestige, or because of special interests, the result is that the decisions are taken by some individuals without democratic debate or citizen involvement. The undemocratic profit-seeking of the private sector is then replaced by the undemocratic technocracy of the public sector.

If the potential of socialised forms of investment is to be fulfilled, innovative ways to involve citizens and civil society in decision-making procedures will have to be developed. As a report from the Public Services International Research Unit states (Hall, 2014): ‘Such mechanisms include formal accountability to elected public bodies, such as municipalities or governments; structures for public participation in decision-making, including full transparency of information; and active involvement of representative organisations, such as community associations.’

Cumbers (2012, p. 154) emphasises ‘the importance of diversity and variety in institutional arrangements and organization forms.’ In other words, there is no ‘one-size-fits-all’ approach, or a magical solution that can be applied everywhere. One could for instance draw on and learn from the experience of participatory budgeting. Another proposal would be to create a National Investment Board defining national investment priorities, composed of elected members, as well as academic experts, members of representative trade unions, environmental NGOs, consumer rights organisations, and other civil society organisations. The board of the state investment banks could have a similar composition. In any case, it will be important to create a culture of vibrant public debate and a devotion to democratic deliberation and participation, without which formal procedures will be devoid of meaning.

## 4. Conclusions

This paper has claimed that the over-dependence on private investment makes it difficult for Europe to meet the challenges of economic revitalisation, social justice, sustainability and democracy. It therefore advocates a substantial socialisation of investment, a concept developed by Keynes. It was argued that socialising investment could be a way to make up

for the pitfalls of the reliance on private sector investment, to take the social usefulness and collective good into account when making investment decisions, and to democratise economic decision-making.

Next, it was contended that the Juncker Plan, which was approved by the European Parliament in June 2015, is insufficient as a road towards socialised investment. Three preliminary alternatives were presented. It is important to note that these are initial proposals, that are not fully worked out, and that should evolve through a trial-and-error approach. First, government investment should be upgraded. Besides an end to the current austerity measures, a ‘golden rule’ could be introduced to exempt government investment from the deficit and debt limits. Moreover, benchmarks could be introduced for government investment, such as keeping government investment at (at least) 4% of GDP over the medium term. Moreover, each member state could create a National Investment Board, comprised of elected citizens, academic experts, and representatives from trade unions and other civil society organizations, to define investment priorities, as well as social and environmental criteria for investment.

Second, public and development banks could be revived. At the EU level, a stronger role for the European Investment Bank should be encouraged. However, there should be more democratic debate and public participation about the function and projects of the EIB. At the national level, where state investment banks do exist, their roles and importance in the banking sector could be expanded; where they do not yet exist, national investment or development banks should be established, based on best practices within and outside the EU.

Third, the revitalisation of state ownership and cooperatives was advocated. While this might not be turned into direct policy measures, at the EU level there should be more tolerance towards sectors and public companies exempted from the competition and internal market regulations. This is especially true for sectors such as banking, railways and public transport, energy, health care, education, and the food industry. Additionally, there should be reflection on ways to stimulate the cooperative sector. For instance, the creation of a public knowledge bank on cooperatives could encourage best practices and information sharing. Further, at the national level, states could install tax breaks, subsidies and other advantages for (worker-owned) cooperatives. Again, this will have to break with the conviction that every sector and company should be subject to EU internal market and competition rules.

Finally, it was argued that it is crucial to think about innovative mechanisms to democratise all these forms of socialised investment so that public participation and deliberation are guaranteed. Instead of bureaucratic and technocratic socialised investment, investment decisions should be democratically made with the involvement of citizens and civil society. The ‘democratic deficit’ of the excessive reliance on private investment should not just be replaced by a new ‘democratic deficit’ in socialised investment.

## Bibliography

Abiad, A., Furceri, D. & Topalova, P. (2015). The macroeconomic effects of public investment: evidence from advanced economies. IMF working paper, WP/15/95. Washington D.C.: International Monetary Fund.

Abell, H. (2014). Worker co-operatives: pathways to scale. Takoma Park: The Democracy Collaborative.

AMECO (2015). Annual macro-economic database. Retrieved September 21, 2015, from [http://ec.europa.eu/economy\\_finance/db\\_indicators/ameco/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/ameco/index_en.htm).

Banerjee, R., Kearns, J. & Lombardi, M. (2015). (Why) Is investment weak? BIS Quarterly Review, March 2015, 67-82.

Barbiero, F. & Darvas, Z. (2014). In sickness and in health: protecting and supporting public investment in Europe. Bruegel Policy Contribution, issue 2014/02 (February 2014). Brussels: Bruegel.

Bellofiore, R. (2014). The socialization of investment, from Keynes to Minsky and beyond. Levy Economics Institute Working Paper, no. 822. Annandale-on-Hudson: Levy Economics Institute.

Bivens, J. (2012). Public investment: The next 'new thing' for powering economic growth. EPI Briefing Paper, no. 338. Washington D.C.: Economic Policy Institute.

Blanchard, O. & Giavazzi, F. (2004). Improving the SGP through a proper accounting of public investment. CEPR Discussion Papers, no. 4220. London: Centre for Economic Policy Research.

Bowman, A., Folkman, P., Froud, J., Johal, S., Law, J., Leaver, A., Moran, M. & Williams, K. (2013). The Great Train Robbery: Rail privatisation and after. CRESC Public Interest Report, June 2013. Manchester: Centre for Research on Socio-Cultural Change.

Chassy, P. & Amey, S. H. (2011). Bad business: Billions of taxpayer dollars wasted on hiring contractors. Washington D.C.: Project on Government Oversight.

Christiansen, H. (2011). The size and composition of the SOE sector in OECD countries. OECD Corporate Governance Working Papers, no. 5. Paris: OECD Publishing.

Claeys, G. (2015). 'Juncker Plan': the EIB in the driver's seat. Retrieved September 18, 2015, from <http://bruegel.org/2015/06/juncker-plan-the-eib-in-the-drivers-seat/>.

Claeys, G., Hüttl, P., Sapir, A. & Wolff, G. B. (2014). Measuring Europe's investment problem. Retrieved September 20, 2015, from <http://bruegel.org/2014/11/measuring-europes-investment-problem>.

Claeys, G., Sapir, A. & Wolff, G. B. (2014). Juncker's investment plan: No risk – no return. Retrieved September 18, 2015, from <http://bruegel.org/2014/11/junckers-investment-plan-no-risk-no-return/>.

Crotty, J. R. (1983). On Keynes and capital flight. *Journal of Economic Literature*, vol. XXI, 59-65.

Cumbers, A. (2012). *Reclaiming public ownership: making space for economic democracy*. London: Zed Books.

Dalton, M. (2014). Will Juncker's €300 billion plan close the euro investment gap? Retrieved September 20, 2015, from <http://blogs.wsj.com/brussels/2014/10/13/will-junckers-e300-billion-plan-close-the-euro-investment-gap>.

Darvas, Z. (2014). The European Investment Bank should invest more, not less. Retrieved September 21, 2015, from <http://bruegel.org/2014/09/the-european-investment-bank-should-invest-more-not-less>.

Davis, J., Hanna, T., Krimerman, L., & Mcleod, A. (eds.) (2014). *Scaling-Up the Cooperative Movement*. Retrieved September 21, 2015, from <http://democracycollaborative.org/sites/clone.community-wealth.org/files/downloads/book-davis-hanna-krimerman-mcleod.pdf>.

Davydoff, D., Fano, D. & Qin, L. (2013). Who owns the European economy? Evolution of the ownership of EU-listed companies between 1970 and 2012. Retrieved September 14, 2015, from [http://ec.europa.eu/finance/finservices-retail/docs/fsug/papers/1308-report-who-owns-european-economy\\_en.pdf](http://ec.europa.eu/finance/finservices-retail/docs/fsug/papers/1308-report-who-owns-european-economy_en.pdf).

Debruyne, M. (2015). The Juncker Investment Plan: where are the social investments? RE-InVEST Policy Brief, no. 1, March 2015. Brussels: RE-InVEST.

DeMartino, G. (1999). Global neoliberalism, policy autonomy, and international competitive dynamics. *Journal of Economic Issues*, 33 (2), 343-349.

Dreger, C. & Reimers, H. (2014). On the relationship between public and private investment in the euro area. Department of Business Administration and Economics Discussion Paper, no. 344. Frankfurt (Oder): European University Viadrina Frankfurt.

EIB (2015). Investment Plan for Europe. Retrieved September 18, 2015, from <http://www.eib.org/about/invest-eu/index.htm>.

European Commission (2014). Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth, COM (2014)130, 19 March.

European Commission (2015a). Commission issues guidance to encourage structural reforms and investment – Frequently Asked Questions, MEMO/15/3221, 13 January.

European Commission (2015b). The Investment Plan for Europe: Questions and answers, MEMO/15/5419, 20 July.

Economic democracy as a structural reform: The case for socialising investment

Fougner, T. (2006). The state, international competitiveness and neoliberal globalisation: is there a future beyond 'the competition state'? *Review of International Studies*, 32 (1), 165-185.

Guinan, J. & Hanna, T. M. (2015). Don't believe the Corbyn bashers – the economic case against public ownership is mostly fantasy. Retrieved September 11, 2015, from <https://www.opendemocracy.net/ourkingdom/joe-guinan-thomas-m-hanna/dont-believe-corbyn-bashers-economic-case-against-public-owners>.

Gabel, I. (1996). Marketing the Third World: the contradictions of portfolio investment in the global economy. *World Development*, 24 (11), 1761-1776.

Griffith-Jones, S. & Tyson, J. (2013). The European Investment Bank: Lessons for developing countries. WIDER Working Paper, No. 2013/019. Helsinki: UNU-Wider.

Gros, D. (2014). Europe's misguided investment mania. Retrieved September 20, 2015, from <http://www.politico.eu/article/europes-misguided-investment-mania>.

Hall, D. (2014). Public and private sector efficiency: A briefing for EPSU by PSIRU. Retrieved September 21, 2015, from <http://www.epsu.org/IMG/pdf/efficiency-2.pdf>.

IMF (2014). World Economic Outlook October 2014: Legacies, clouds, uncertainties. Washington D.C.: International Monetary Fund.

Jenner, J. (2015). The efficiency of worker cooperatives is just fine, thank you. Retrieved September 21, 2015, from <http://www.populareconomics.org/the-efficiency-of-worker-cooperatives-is-just-fine-thank-you>.

Katainen, J. (2014). Financing Europe's Investment. Speech/14/2272, 1 December.

Keynes, J. M. (2008) [1936]. The general theory of employment, interest and money. New Delhi: Atlantic.

King, D., Browne, J., Layard, R., O'Donnell, G., Rees, M., Stern, N., & A. Turner (2015). A global Apollo programme to combat climate change. Centre for Economic Performance, Unpublished Report. London: The London School of Economics and Political Science.

Lazonick, W. (2014). Profits without prosperity. *Harvard Business Review*, September 2014, 46-55.

Lesage, D. & Vermeiren, M. (2011). Neo-liberalism at a time of crisis: the case of taxation. *European Review*, 19 (1), 43-56.

Levy Yeyati, E., Micco, A. & Panizza, U. (2007). A reappraisal of state-owned banks. *Economía*, 7 (2), 209-247.

Mankiw, N. G. (2011). How to make business want to invest again. Retrieved September 17, 2015, from <http://www.nytimes.com/2011/09/11/business/business-investment-as-a-key-to-recovery.html>.

Mazzucato, M. (2013). *The entrepreneurial state: Debunking public vs. private sector myths*. London: Anthem Press.

Mazzucato, M. & Penna, C. (2014a). *Beyond market failures: the market creating and shaping roles of state investment banks*. SPRU Working Paper Series, SWPS 2014-21. Brighton: University of Sussex.

Mazzucato, M. & Penna, C. (2014b). *Juncker's investment plan: how to radically transform it*. Retrieved September 19, 2015, from <http://www.theguardian.com/science/political-science/2014/nov/27/junckers-investment-plan-how-to-radically-transform-it>.

Monga, V., Benoit, D. & Francis, T. (2015). *As activism rises, U.S. firms spend more on buybacks than factories*. Retrieved on June 1, 2015, from <http://www.wsj.com/articles/companies-send-more-cash-back-to-shareholders-1432693805>.

Myant, M. (2015). *Juncker's investment plan: a start, but we need more*. ETUI Policy Brief, no. 3/2015. Brussels: European Trade Union Institute.

OECD (2015). *OECD Economic Outlook, volume 2015, issue 1*. Paris: OECD Publishing.

Pop, V. (2015). *EU countries may run higher deficits if they invest, reform*. Retrieved September 18, 2015, from <https://euobserver.com/economic/127193>.

Rannenberg, A. (2015). *Increasing public investment – A shot in the arm for the Euro Area economy*. Retrieved September 16, 2015, from <http://www.socialeurope.eu/2015/01/investment-in-the-euro-area>.

Skapinker, M. (2015). *Shareholder value is a cover for over-mighty chief executives*. Retrieved September 9, 2015, from <http://www.ft.com/intl/cms/s/0/31a92b74-3519-11e5-b05b-b01debd57852.html>.

Skidelsky, R. (2011). *The relevance of Keynes*. *Cambridge Journal of Economics*, 35 (1), 1-13.

Skidelsky, R. & Martin, F. (2014). *For a National Investment Bank*. In J. Colombano & A. Shah (eds.). *Learning from the world: New ideas to redevelop America* (pp. 106-113). Basingstoke: Palgrave Macmillan.

Sol, X. (2015). *Towards a reinforced accountability architecture for the European Investment Bank*. Retrieved September 20, 2015, from [http://www.counter-balance.org/wp-content/uploads/2015/07/CB\\_Towards-accountability\\_print\\_web\\_hyperlinks.pdf](http://www.counter-balance.org/wp-content/uploads/2015/07/CB_Towards-accountability_print_web_hyperlinks.pdf).

Stupp, C. (2015). *Regions warn Juncker Plan could overlook small-scale infrastructure*. Retrieved September 9, 2015, from <http://www.euractiv.com/sections/eu-priorities-2020/officials-warn-juncker-plan-could-overlook-small-scale-infrastructure>.

Tapia Granados, J. A. (2013). *Does investment call the tune? Empirical evidence and endogenous theories of the business cycle*. *Research in Political Economy*, volume 28, 229-259.

Economic democracy as a structural reform: The case for socialising investment

Truger, A. (2015). Implementing the golden rule for public investment in Europe. Materialien zu Wirtschaft und Gesellschaft, Working Paper Reihe der AK Wien, no. 138. Vienna: Kammer für Arbeiter und Angestellte für Wien.

World Bank (2012). Global Financial Development Report 2013: Rethinking the role of the state in finance. Washington D.C.: World Bank.





# Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals

Andrea Ciarini, Sapienza University of Rome

## 1. The European social model and the care labour market: An overview

Despite its crucial contribution to minimising the social costs of the crisis started in 2008, the future of the European Social model is seriously under threat from the aftermath of the sovereign debt crisis. Austerity-focused policies and raising budget constraints necessitated by fiscal consolidation reforms are contributing to reinforce structural divergences between countries that retain some manoeuvring space in promoting reforms that reflect the objectives of the European social agenda, and countries that are de facto unable to promote any kind of reform beyond the progressive reduction of social benefits, whether they are related to pensions, social assistance or

unemployment benefits. With varying length of time and effects depending on the different national contexts, the growing asymmetries inside the European area are weakening those processes of recalibration that before the crisis had sustained the European social agenda.

This idea of recalibration found ample space in the debate on *Social Investment*. This approach, formally recognised by the European institutions with the launch of the *Social Investment Package for Growth and Social Cohesion* in 2013, was based on the idea of a possible virtuous combination of a ‘productivist’ view of social intervention and a significant investment in welfare services and life-long learning designed to better respond to the societal challenges entailed by the transition to a service economy. According to many scholars (Esping-Andersen et. al., 2002; Taylor-Gooby, 2004; Bonoli, 2005; Vandenbroucke, Hemerijck and Palier, 2011; Bonoli, 2012; and Morel, Palier and Palme, 2012), this supply side and preventive approach requires a policy shift towards a new welfare paradigm capable of only passively protecting the employees or the citizens with respect to the damage suffered (illness, disability, loss of employment or old age) and even in its own terms this is less successful. This was the compensatory view of the Fordist welfare, based on the stability of work and family structures, public redistribution and scarce incentives to the accountability of welfare recipients.

Conversely in the face of changes in the labour market and in family, the social investment approach presupposes a step towards complementary and active measures aimed at preparing people to confront the ‘new social risks’. These can be related to the problem of balancing paid work and family responsibilities, upgrading skills and preventing inequalities, reducing unemployment, promoting and the availability of in-kind services for children, for the frail elderly and for dependent people. In fact, the increase in labour market participation, especially for those who are most likely to be marginalised, is a crucial condition for ensuring social inclusion and long-term sustainability of the European social model. However, in order to be achieved, this objective requires a ‘productive’ expenditure able to provide opportunities for employment, to prevent inequalities, to enhance human capital and improve the employability of both women and men. The productivity of social expenditure is substantially different from the one considered in the Fordist-Keynesian expansion cycle, as it gives priority to the components of labour supply, without directly supporting the components of labour demand. The latter is not the objective of these new welfare policies, which essentially follow a supply-based perspective aimed at indirectly stimulating growth factors.

Health and social care services, as well as personal and household services, have a crucial function in this long-term strategy towards high rates of economic returns and social rewards, as they contribute to addressing new social needs, balancing care responsibilities and strengthening the long-term productivity of labour (Hemerjick, 2012). In order to achieve these objectives, especially those related to care needs, the adoption of social investment-based strategies necessarily implies an expansion of jobs in personal and social care services. As a point of fact, together with indirect support for labour market participa-

Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals

tion, the creation of employment opportunities in this area of the welfare supply is a very important issue, especially in view of the impact of significant demographic changes and new needs for long-term care and work/life balance. Some data on European employment trends<sup>1</sup> highlight the relevance of this phenomenon, even in the years of crisis (see fig. 1). From 2002 to 2009, 4.2 million jobs were created in health and social work activities, accounting for more than one-quarter of the total employment (about 15 million new jobs) in the EU-15 (those countries that were member states of the EU prior to its enlargement in 2004). Between 2008 and 2013 (during the peak of the crisis), while manufacturing sectors lost 4,5 million jobs (EU-15), health and social work activities enjoyed an increase of more than 2 million positions (+9%). Even if they still represent a small portion of the total employment, their share is constantly rising as a consequence of the ageing population, making up a total of 25 million jobs.

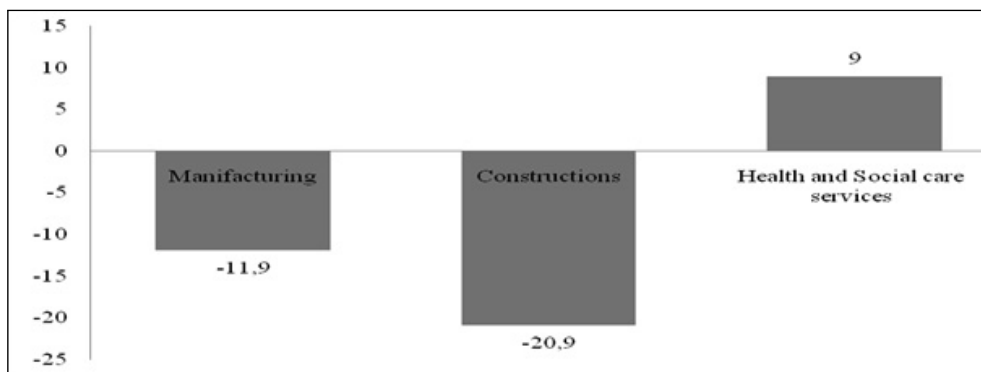


Fig. 1 The employment trends in manufacturing, construction and the health and social care services Source: Eurostat – Labour Force Survey

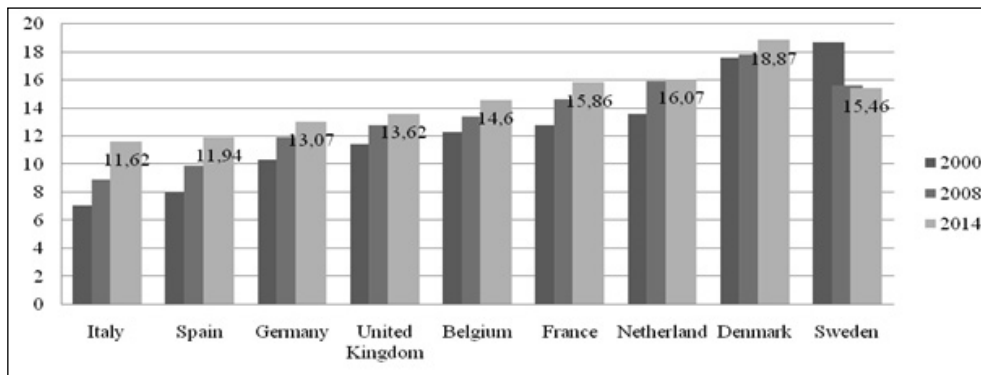


Fig. 2 The employment trends in health services, residential and domiciliary services, and domestic work in Europe, % of total employment, Years 2000-2008-2014

1 Data from Eurostat – Labour force survey

Although differences in national settings remain, the potential of these services in terms of job creation has been widely recognised by the European institutions. The *Employment Package* and the *Social investment Package*, launched by the European Commission in 2012 and 2013, granted special attention to the employment potential of the *white jobs* - jobs in the health, social and personal services. The European Commission claims that these services have one of the highest growth potentials in the Union, together with green jobs and the digital economy sector. However these services are facing several challenges. As many analyses have demonstrated (Simonazzi, 2009; European Commission, 2012a; Colombo et. al., 2011; Geerts, 2011, Saraceno and Keck, 2011; Eichhorst and Marx, 2012; Farvaque, 2013; OECD, 2013; European Commission, 2014), the employment growth forecast for these service sectors, although promising, is limited by structural characteristics (see next section) affecting the quality of the jobs created, especially in personal and household services<sup>2</sup>, with a high incidence of low-paid and low qualified jobs, high female segregation and a wide variety in the forms of employment, including an expanding low-paid workforce based at home. Moreover, increasing budget constraints are limiting the potential for job creation in public services, where wages are higher than those offered by private providers, both profit-making and non-profit organisations. The aim of this chapter is to analyse the emergent relationship between social investment-based policies and the employment growth in white jobs.

The objective is to highlight the critical factors that insist on this relationship under the current budget constraints imposed by structural reforms. The chapter is organised as follows. In the first part, we compare the care employment models that are emerging in the main European welfare regimes. In view of this, we analyse how the national welfare regimes as well as the European institutions have promoted an employment growth in the services sectors related to white jobs. Special attention will be paid to personal and household services and the job creation strategies promoted in order to boost regular employment in the care sector. In the second part, we illustrate how fiscal consolidation reforms are contributing to reinforce a trade-off between employment growth and low paid jobs in the labour care market. Lastly, in the final part we will try to highlight how, and to what extent, the Social investment approach could benefit from a more labour-demand orientation of the investment in welfare services and social infrastructures. The key idea is to promote a social agenda based on public and private investments in the infrastructures of the care industries and personal and social services as a strategic way of stimulating productive reforms and social innovation.

---

2 According to Eurostat definition personal and household services (PHS) covers a broad range of activities that contribute to wellbeing at home of families and individuals: child care (CC), long term care (LTC) for the elderly and for persons with disabilities, cleaning, remedial classes, home repairs, gardening, ICT support.

Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals

## 2. National employment models and job creation strategies in the care sectors

Repeating the points made in the first section, in most European countries employment growth in the white jobs sector, although promising, suffers from a wide diffusion of low-paid and low qualified jobs. As a recent report from the European Commission (2015) underlines, the fiscal consolidation currently under way, besides reducing social spending, is leading to a gradual move away from previous social investment policies to more short-term and selective measures. Although relevant differences in national settings remain, signs of this kind of 'retrenchment' can be detected, both in countries more damaged by the economic crisis and also in countries whose economies have risen in the recent years (ibid). This is the crux of the issue. If the governments want to create new jobs through investments in the wide range of health and social care services, then the essence of this policy relative to the quality of work, and the professionalism that must be sustained, needs to be examined. How can governments create jobs in this service sector, whether they are related to elderly care, long-term care, and childcare, given their structural low unit productivity, or the increasing costs that certain kinds of services require?

This is not the classic industrial context in which the expansion of productivity is driven by machinery and technology investments. We are in a field that co-exists with a structurally lower labour productivity (Esping-Andersen, 2002). As argued by Iversen and Wren (1998; see also Esping-Andersen, 2002) wage inequality is a necessary condition for the expansion of private employment in these labour-intensive service sectors, as productivity increases are minor compared to manufacturing sectors. It has to be considered that productivity in some of these sectors, especially long-term care and integrated home care services for frail elderly, may be positively affected by the use of new technologies. They may be related to the strengthening of those functions not implying direct hands-on care (such as for instance information, counselling, supervision, and networking with other patients/carers) or they may be related to the wide development of health care technologies. Medical devices, 'telehealth', telemedicine, assistive technologies at home can both contribute to qualifying employment and labour productivities in a wide range of health and social care activities, as they are a useful support, as much for the care professionals in the homes as for the users and caregivers involved in assistance. They are of great importance for the strengthening of the treatments at home in more intensive medical and rehabilitative care, contributing to the emergence of new professional needs that must be governed with targeted actions. However the wide development of these devices is limited to a specific segment of the welfare supply. Besides these services, a wide range of low-paid and low-output ('low productive') services remain in the field of personal and household services. There is obviously an alternative: governments can choose to boost high wage employment through public jobs as they do in Scandinavia but at the price of increasing fiscal pressure. However, this option is currently under pressure in these countries. More general increases in budget constraints are limiting the potential for job creation in public

services all over Europe, in places where wages are higher than those offered by profit and non-profit private providers.

Historically, countries have neither followed the trajectories of Anglo-Saxon countries, which first expanded formal jobs through low wage private employment, nor followed the Scandinavian trajectory, in which the expansion of social care services has traditionally been supported by public employment. In these countries, in contrast, the employment model characterising the care labour market has long been affected by a combination of low employment rates in low-end service sectors, as well as rigidity in protecting standard jobs, including public ones (Eichhorst and Marx, 2012). In recent years they have stimulated the creation of new jobs in the low-end sector using a mix of formal jobs with private providers, both profit and not for profit, and in direct employment at home, through vouchers and an explicit job creation policy within households. A typical example of this model is in France and, in a more limited manner, Germany (Simonazzi, 2009; Kross and Gottschall, 2012; Farvaque, 2013). As far as Mediterranean countries are concerned, these are countries where formal employment is lower compared to the higher incidence of informal work within the family. In contrast to other welfare regimes, the high component of household services is higher in these countries that have expanded through to periodical regularisation, especially in Italy. The lower formal employment in social services – residential and domiciliary – is also due to the lack of an explicit job creation policy in personal and household services.

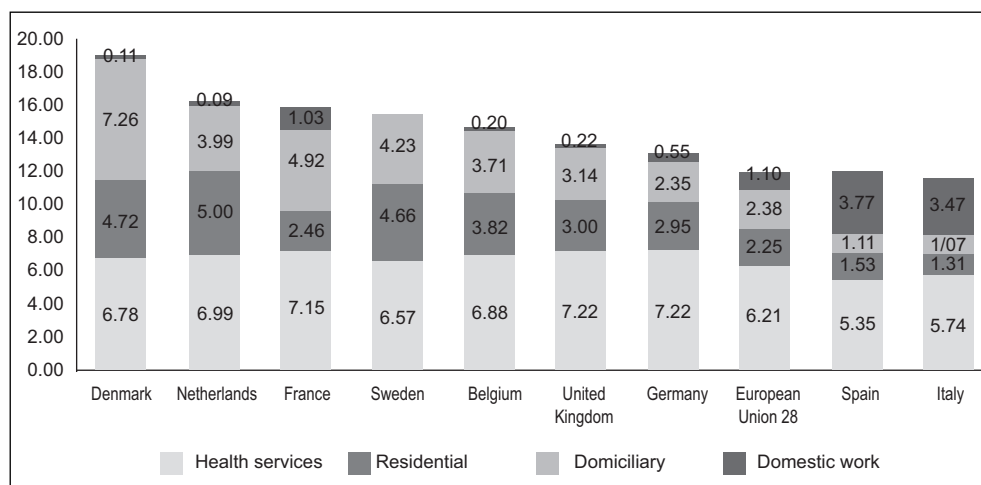


Fig. 3 The employment trends in health services, residential and domiciliary services, and domestic work in Europe, % of total employment, Year 2014

Source: Eurostat – Labour Force Survey

In order to boost regular employment in personal and household services the Commission’s Employment Package of 2012 encouraged the adoption of reforms aimed at reducing the price of these services in three ways. Firstly, they supported vouchers and subsidies to

Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals

households, secondly they wanted to simplify the procedures to employ regular workers at home, and finally they proposed increasing the flexibility of the care labour market. In fact, vouchers and the introduction of quasi-markets contributed to expand regular employment in the personal and household services, also enabling users and families to choose between various alternatives in the care packages they chose, either formally or informally. The problem is that this development has actually promoted the growth in the number of jobs, but without an equal growth of qualifications for the employment created, often at lower wages or deprived of adequate skills.

### 3. New and better jobs through the expansion of a Social investment based agenda

The fiscal consolidation required by the structural reforms does not allow large margins of investment in favour of high quality welfare services, making the contradiction between the goals set by the European Union social agenda - included those that explicitly refer to *Social investment* - and the budgetary constraints imposed by the EU institutions themselves (Saraceno, 2013). Caught between the cuts in public spending and the advance of 'short-term oriented measures', the welfare reforms, even those inspired by *Social Investment*, run the risk of not being able to produce an inclusive recovery. But instead, in a minimal 'work first' approach, there is a widening of the distances between those high skilled workers at the centre of the labour market and those at its margins, who are structurally confined in bad jobs without great chances of social mobility, especially those in low-end services such as personal and household services.

European economies are facing changes in the labour market that are structurally different from the ones in which these attempts of recalibration have been promoted. Many of the targets set by the social investment approach, including the enhancement of skills, the investment in *life-long learning* and education, in high quality welfare services, still remain valid and are important to pursue due to their intrinsic value. However, this strategy also shows some limits, which we cannot ignore today, especially with regard to social services and care jobs. The fact is that these *supply-side reforms* alone, that is without investment to promote high quality jobs and social infrastructures, are unable to respond to the urgencies of the crisis. The solution to these problems does not appear to lie in further curbing social spending or in promoting low-wage and low-qualified jobs in personal and household services, as it has negative consequences on working conditions for workers already disadvantaged in the labour market. Instead, this trade-off between employment growth on the one hand and low wages and low qualified jobs on the other, as tends to be seen in some national social agendas, represents a crucial part of the problems that European welfare state are facing. As Crespy and Menz pointed out (2015), the austerity responses to the crisis have marginalised social policy objectives, making the European social policy agenda a mere rhetorical exercise.

In contrast to the current low-cost strategies, the circuits of growth should revert to being addressed with tolls and reforms aimed at relaunching public and private investment towards



social investment goals. Welfare services are no strangers to this objective. This work provided, however, that its range of action can be modified towards the creation of new and good jobs, not just any job, nor a job of community service for the unemployed. The jobs created need to be useful and high quality care jobs in order to respond to the emerging social needs in our society, such as those that the *Social investment* would like to address. This different demand-side orientation in favour of the welfare services should aim to mobilise investments that can qualify the care service. It should also be based on a different ability to attract additional resources, including financial ones that can be allocated for the launch of a European plan that helps all member states, both debtors and creditors, invest in services related to the approach of social investment.

The Open Method of Coordination relied on a close cooperation among member state in order to reach European common goals. It was at the core of the Europe 2020 agenda and previously the Lisbon Strategy. However, its implementation was controversial, because of the limited effects on the national social agenda, especially in those countries that are far from achieving the European social goals. Overcoming the ambiguities of the European social agenda means not only setting targets and prescriptions, but also allowing member states to achieve these targets with European financial resources. If the Juncker Plan has opened up possibilities in this direction, although on a very limited scale, a lot more could be achieved by allowing member states to separate from the budget deficit the expenses incurred for the modernisation of services related to *Social Investment*. The Fiscal Compact, which requires public budget spending to break even, does not allow for the large manoeuvring margins that are needed, in order to deduct from the debt/GDP ratio, the investment destined to growth.

What would be desirable in this case is a remodelling, at a European level, to allow the use of a Golden Rule that is wider with respect to the flexibility clauses already contained in the Stability Pact. As pointed out by Vandenbroucke, Hemerijck and Palier (2011), the social investment strategy must be embedded in macroeconomic governance and financial regulation that support durable and balanced growth in the real economy. Considering their benefits for the long-term return on social investments for the European economy and society, various strategies - including investments in childcare services, long-term care infrastructures and family services, and training and education - can be seen as strategic way to stimulate productive reforms and social innovation (Hemerijck 2012). From this point of view, financial tools such as Eurobonds or 'social Eurobonds' can play a pivotal role in order to fund specific European projects in the realm of social investment (ibid.).

The Juncker Plan is a siren call in promoting long-term investment for growth as it previews the creation of a new European Fund for Strategic Investments (EFSI) and the involvement of the European Investment Bank (EIB), to finance long-term projects primarily in transport, energy, research and training projects. The investments include new venture capital funds, loan guarantees and new benefits for start-ups and SMEs. The proposals that have been advanced for the re-launch of growth relate largely to productive factors in the broad sense. With some exceptions, the welfare issues, included those related to the social invest-

Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals

ment approach, are not included in the group of priority areas for investment. Actually, if the derogations (exceptions that are made) from the European rigour seem to concern investments in physical infrastructure, the same could be expected for investments in *Social Investment-based services*, in line with the objectives of the European social agenda. To this end, it is necessary that the Golden Rule planned by the Juncker Plan, and the clause on flexibility provided by the Stability Pact, should be extended to those investments in social infrastructure related to an approach of *Social investment* consistent with the European guidelines.

#### 4. How to re-launch long-term investment in social services

Under the current conditions Europe finds itself in the typical Keynesian situation of the *Liquidity trap*. It continues to focus on ‘supply side’ policies when the problem is now the question of ‘internal demand’. However, with public debt so high, and it will probably will remain high for years to come, the future funding of welfare services will necessarily have to change its structure. In order to facilitate the raising of funds allocated in social investment based services, we should consider alternative sources of funding, including private ones. In this regard, the adoption of dedicated financial instruments to raise funds to invest in the social economy and in the development of social services, also at a European level, deserves attention. The European Parliament and the European Commission have recently supported the adoption of financial instruments of this type. In several European countries, some banks have launched Social Bonds to finance initiatives of the third sector or innovative welfare programmes. The theme is interesting and worthy of attention. In the same way, even more complex financial instruments such as Social Impact Bonds, initially introduced in the United Kingdom but which have spread to other European countries, are emerging. These are investment vehicles used to raise capital for welfare projects in partnership with the financial institutions. Reimbursement of private investors by part of the state is bound by certain standards or the achievement of a specific goal by the beneficiary entity (see OECD, 2015).

Some problems with tools such as Social Bonds, and especially Social Impact Bonds, concern the relationship with the financial channels. The development of a ‘socially’ dedicated finance for single welfare projects, or third sector organisations, can result in the risk of excessive financial exposure, in the absence of adequate public planning and where there are weak external evaluation processes. The fact is that the perspective of certain short-term financial investments does not work well for projects that rather require ‘patient’ investors and long-term timing, especially when it comes to funding great social infrastructure plans, whether they are related for example to full coverage in childcare age 0-2 years, to enhance the services of long-term care, or even the development of integrated home care services. It must also be said that the development of these initiatives, while it can enable the financing of projects or individual initiatives that are otherwise unobtainable with public funding alone, does not guarantee that the problem of low wages and low-skilled jobs connected can be avoided. It would be important in this regard to include clauses on decent work as a necessary prerequisite for the activation of any public-private partnerships scheme.

Despite the fact that the use of public-private partnerships is recommended by the European institutions, this mode of financial investment has not yet widely taken off, with the exception of countries like the UK, the Netherlands and Belgium. According to the EIB, in the period 1990-2012, the social infrastructures financed in public private partnership (PPP) in Europe were equal to 11% in education and health. More generally, although we are witnessing a growth of PPP compared to direct public funding, its share still remains in the minority. A strategic direction for these initiatives is what is lacking. An economic and financial policy strictly dedicated to social issues, specifically the financing of the social infrastructure that can impact positively on the process of re-organisation of the welfare state in Europe, is required.

In this direction, more opportunities emerge through the involvement of long-term investors, such as pension funds, the European Investment Bank (EIB), or national long-term investors (KfW, CDC, CDP, etc.). In Europe, the role of these institutions has greatly increased with the crisis, as they offer liquidity and they can raise funds to be allocated in long-term projects. If we want these investments to have a multiplier effect on the GDP and improve infrastructural facilities, including social ones, we need to set up standardised architectures through the creation of dedicated national or European funds, such as, for example in the European Long Term Investment Fund (ELTIF), proposed by the Commission in 2013. On April 2015 the European Council introduced a specific regulation on ELTIF, aimed at increasing the amount of long-term investment that does not rely on finance from banks.

The adoption of these different tools can help re-launch long-term investments in tangible assets and services related to a social investment-based strategy. Investments in social infrastructures do not constitute a simultaneous improvement in working conditions in personal and household services. Along with social clauses with regards to decent work, they can contribute, however, to social services of higher quality and to stimulating social innovation.

## 5. Conclusions

In this chapter we have argued that the adoption of social investment-based strategies necessarily implies an expansion of jobs in personal and social care services. Data on employment trends highlight the relevance of this phenomenon, even during the financial crisis. Jobs in health and social care services represented one of the main sources of employment in Europe in those years. Although differences in national settings remain, the potential of these services in terms of job creation has also been widely recognised by European institutions. However, the fiscal consolidation required by the structural reforms does not allow large margins of investment in favour of high quality welfare services and jobs. Rather, given the current state of public finances a downward pressure appears to emerge pushing all countries towards the classic trade-off between employment growth on the one hand and low wages and low qualified jobs on the other.

Many of the targets set by the Social investment approach, including the investments in high quality welfare services, still remain crucial in the political discourse on the European social

Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals

agenda. However, this strategy also shows some limits, which we cannot ignore today, especially with regard to social services and care jobs. The fact is that these *supply-side reforms* without investments, also acting on the demand side, are unable to respond to the urgencies of the crisis. Here the crux of the matter emerges. If the objective of creating new jobs in the wide range of health and social care services is undertaken, then the European social agenda should be oriented to promoting direct and long-term investment welfare services and social infrastructures as a way of stimulating social innovation and productivity of labour.

As we have argued, investments in childcare services, long-term care infrastructures and family services can be seen as a strategic way to stimulate productive reforms that are able not only to better challenge the new social risks, but also to boost economic recovery. From this point of view, new financial tools, such as Eurobonds, can play a pivotal role in funding specific social investment projects. It also has to be said that the Juncker Plan can contribute to stimulating public and private investments in high quality welfare services. Under current conditions projects related to the social investment approach are not included in the group of priority areas for investments. Actually, if the derogations from the European austerity seem to concern investments in physical infrastructure, the same could be expected for investments in *Social Investment based services*, in line with the objectives of the European social agenda. To achieve this, it would be extremely important to extend the Golden Rule envisaged in the Juncker Plan, and to extend the clause on flexibility provided by the Stability Pact to those social infrastructures related the *Social Investment Package*, in line with the objective of the European social agenda.

At a national level, we recognise the role that can be assumed by alternative source of funding for social infrastructures, including private ones. With public debt so high, and it will probably remain high for years to come, the future funding of welfare services will necessarily have to change format. In view of this, we examined the role of public-private partnerships, especially those financial instruments such as Social Impact Bonds, in particular Social Impact Bonds that can expand the range of public and private investments towards welfare services. In doing so we highlighted some critical factors that affect this ‘socially’ dedicated and sometimes short-term finance for welfare.

As we have argued, the necessity of promoting long-term investments require ‘patient’ investors and long-term timing. This is especially true when it comes to funding great social infrastructure plans, whether they are related for example to full childcare for the Under Threes, or enhancing the services of long-term care, or even the development of integrated home care services. To achieve this, more opportunities must emerge through the involvement of long-term investors, such as pension funds, the European Investment Bank or the National Long-term investors (KfW, CDC, CDP, etc.). The European social agenda could benefit from a more socially-oriented function played by these national institutions and long-term investors. From this perspective, they can contribute to better embedding the social investment agenda in macroeconomic governance and financial regulation, both at national and at a European level. It is necessary however to set up standardised European guidelines and

rules, through the creation of dedicated national or European funds, such as the recent European Long Term Investment Fund (ELTIF). ELTIF has been launched recently by the European Commission. It is necessary to reinforce these kinds of long-term investments to promote high quality social infrastructures. Together with social clauses regarding decent work in the care sector, they can promote new dedicated financial resources, so as to contrast the current pressure towards a low-cost social investment agenda imposed by austerity measures.

## Bibliography

Abrahamson, P. (2010). European Welfare States beyond Neoliberalism: toward the Social Investment State. *Development and Society*, (1), 61-95.

Angermann, A. & Eichhorst W. (2012). Eldercare Services – Lessons from a European Comparison Working Paper No. 6 of the Observatory for Socio-political Developments in Europe, IZA Research Report, Berlin.

Bonoli, G. (2005). The politics of the new social policies: providing coverage against new social risks in mature welfare states. *Policy & Politics*, (3), 431-449.

Cantillon, B. & Vandenbroucke, F. (Eds) (2014). *Reconciling Work and Poverty Reduction. How Successful are European Welfare States?* Oxford: Oxford University Press.

Colombo, F., Nozal, A. L. Mercier, J. & Tjadens, F. (2011). *Help Wanted? Providing and paying for LTC.* OECD Health Policy Studies, Paris.

Cour de Compte. (2014). *Le développement des services à la personne et le maintien à domicile des personnes âgées en perte d'autonomie, Enquête demandée par le Comité d'évaluation et de contrôle des politiques publiques de l'Assemblée nationale*, Paris.

Crespy, A. & Menz, G. (2015). Commission Entrepreneurship and the Debasing of Social Europe Before and After the Eurocrisis. *Journal of Common Market Studies*, (4), 753–768.

Eichhorst, W. & Marx, P. (2012). Whatever Works: Dualisation and the Service Economy in Bismarckian Welfare States, in P. Emmenegger S. Häusermann, B. Palier, M. Seeleib-Kaiser. (Eds.), *The Age of Dualization: The Changing Face of Inequality in Deindustrializing Societies.* (pp. 73-99). Oxford: Oxford University Press.

Emmenger, P., Häusermann, S., Palier, B. & Seeleib-Kaiser, M., (Eds.). (2012). *The Age of Dualization The Changing Face of Inequality in Deindustrializing Societies.* Oxford: Oxford University Press.

Esping-Andersen, G. (Eds). (2002). *A Child-Centered Social investment Strategy, in Why we need a new welfare state.* Oxford: Oxford University Press.

Will the crisis be able to bring about a change in the current supply-side social investment agenda? Constraints and opportunities for new long-term investment strategies aimed towards social investment goals

European Commission, (2012a). Towards a job-rich recovery, Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions, COM(2012)173, 18 April.

European Commission, (2012b). Long-term care: need, use and expenditure in the Eu-27, Economic papers 469, November

European Commission, (2015). Social investment in Europe. A study of national policies 2015, Directorate-General for Employment, Social Affairs and Inclusion, Brussels.

Farvaque, N. (2013). Developing personal and household services in the EU. A focus on housework activities. Report for the DG Employment, Social Affairs and Inclusion, Brussels

Geerts, J. (2011). The LTC Workforce: Description and Perspectives. ENEPRI Research Report, n. 93, August.

Hemerijck, A. (2012). When Changing Welfare States and the Eurocrisis Meet. *Sociologica*. Retrieved October 10, 2015, from: <http://www.sociologica.mulino.it/doi/10.2383/36887>.

Iversen, T. & Wren, A. (1998). Equality, Employment, and Budgetary Restraint: The Trilemma of the Service Economy. *World Politics* (4.), 507-546.

Jenson, J. (2012). Redesigning citizenship regimes after neoliberalism: moving towards social investment, in N. Morel B. Palier J. Palme (Eds.). *Towards a social investment welfare state? Ideas, policies and challenges*. (pp. 27-44). Bristol: The Policy press.

Kross D, & Gottschall, K, (2012). Dualization and Gender in Social Services. The Role of the State in Germany and France, in P. Emmenegger S. Häusermann, B. Palier, M. Seeleib-Kaiser. (Eds.), *The Age of Dualization: The Changing Face of Inequality in Deindustrializing Societies* (pp. 100-123). Oxford: Oxford University Press.

Morel N., Palier, B. & Palme J. (Eds.). (2012). *Towards a social investment welfare state? Ideas, policies and challenges*. The Policy press: Bristol.

OECD (2015). *Social Impact Investment. Building the evidence base. Preliminary version*. Report, Paris.

Saraceno, C. & Keck, W. (2011). Towards an Integrated Approach for the Analysis of Gender Equity in Policy Supporting paid Work and care, *Demographic Research*. (11), 3-30.

Saraceno, C. (2013). Three concurrent crises in welfare states in an increasingly asymmetrical European Union. *Stato e Mercato*. (3), 339-358.

Simonazzi, A. (2009). Care Regimes and National Employment Models. *Cambridge Journal of Economics*. (2), 211-232.

Taylor-Gooby, P. (2004). *New Risks, New Welfare: The Transformation of the European Welfare State*. Oxford: Oxford University Press.

Andrea Ciarini

---

Vandenbroucke, F., Hemerijck, A. & Palier, B. (2011). The EU Needs a Social investment Pact. OSE Paper Series. (5), May 2011, retrieved October 10, 2015, from: [http://www.ose.be/files/OpinionPaper5\\_Vandenbroucke-Hemerijck-Palier\\_2011.pdf](http://www.ose.be/files/OpinionPaper5_Vandenbroucke-Hemerijck-Palier_2011.pdf).

# The role of employers in implementing social investment reforms: The case of disability

Menno Soentken, Erasmus University

## 1. Introduction

Preventing benefits dependency and increasing labour market participation among vulnerable groups in society has become one of the key aims of EU social policy strategy. In the recent EU ‘Social Investment Package for Growth and Social Cohesion’ (SIP), the Commission argues that novel welfare policies are needed to ‘prepare’ individuals, families and societies to respond to the new risks of a competitive knowledge economy, by investing in human capital and capabilities from early childhood through old age, rather than in policies that simply ‘repair’ damages after moments of economic or personal crisis. As mentioned in the package, social policies should strengthen people’s current and future capacities. This policy objective is pursued by providing services that help prepare for (re-)entry into society and the labour market, creating incentives and removing disincentives for labour market participation, and promoting inclusive labour markets.

Surprisingly, the responsibilities, opportunities and constraints of employers in achieving social investment policy objectives are largely overlooked in the debate. This is problematic as employers are key actors in hiring and retaining people, especially those people that are in a precarious position such as the low-skilled, the (long-term) unemployed, migrants, single mothers, and those suffering from health problems. Without the employers choosing to include those groups in the labour market on equal terms with people with better employment



opportunities, the central aims of the social investment package are likely to fall short. The European Commission urges member states to ‘encourage employers to address workplace discrimination, adapted workplaces, diversity management and programmes for up-skilling and training’ (European Commission, 2013, p. 11). Yet, how employers should be encouraged is left unaddressed. The role of employers in creating inclusive labour markets and facilitating the (re-) entry of vulnerable groups is also absent from the policy roadmap for the implementation of the social investment package (European Commission, 2015). Finally, in a detailed and comprehensive report, Bouget et al. (2015), make an assessment of social investment policies across EU member states. The main focus is on policies providing adequate, activating and enabling support for those experiencing social and labour market exclusion. Yet, no mention is made of policies enabling and incentivising employers to include those people in the labour market.

This chapter argues that policies targeting employers can support and strengthen the central goals of the European social investment strategy. I illustrate this argument by discussing the case of disability in the Netherlands. At the end of the 1980s, the Netherlands was considered ‘the sick man of Europe’ with an out of control inflow in its disability benefit scheme. Over a period of 20 years, the Dutch government initiated a series of policy reforms consisting of increasing activation measures and the recommodification (the denial of benefits to citizens to make them more likely to adapt to the demands of employers) of benefits. Eligibility criteria were tightened, benefit levels and benefit duration were reduced and medical reassessments and activation trajectories of recipients introduced. The return of benefit recipients to work was set as the norm rather than the exception. Despite these major policy reforms, the number of disability benefit recipients continued to grow. It was only when the disability governance system was reformed with increased employer responsibilities that the people with disabilities were accommodated better in the labour market, and inflow in the disability scheme was curbed. On the basis of qualitative data I further evaluate the central role of employers in this transition. Interviews with employers and other stakeholders indicate that employers have changed their internal processes and investment decisions concerning people with disability in the context of increased responsibilities. This chapter shows that no policies recommodifying benefits or targeting clients groups have proven successful in creating a more inclusive labour market for people with disabilities, but, in contrast, policies targeting employers were successful in this. These policies should however be supported by public investments in public employment services that organise services for those people without employer attachment (the unemployed).

## 2. The case of disability and the role of employers

The share of the working age population that do not return to work as a result of work disability, such as low back pain, depression or burn-out, and end up receiving disability benefits is high among EU member states. The number of disability benefit recipients is close to, and in some countries even larger than, the rate of unemployment benefit recipients (OECD, 2010, p.

67). Being out of work with a disability increases the risk of poverty, impairs career perspective and fosters social deprivation (Coutu, Cote & Caril, 2013). The large number of people with disability who are out of work is especially problematic from an individual quality of life perspective. For people with disabilities, having work contributes to regaining structure in their daily life, benefiting from social contacts and social support from colleagues and supervisors and ultimately helping overcome the negative effects of treatment (Szymanski, et al., 2003; Waddle & Burton, 2006; and Costa-Black et al., 2010). In general, people encountering work disabilities are committed to resuming employment or staying in the workplace, even though this is accompanied by the necessary work place adaptations and flexibility in their work schedules (Young et al., 2005). Also, evidence from the medical sciences indicates that a large share of the people encountering disabilities can stay in the workplace with the necessary adaptations. Even more, continuing to participate in the labour market also facilitates the process of recovery. Given the importance of work for people with disability, why does a large share of this risk group end up unemployed, instead of remaining in the labour market?

The role of employers provides an answer. Employers have a crucial position in retaining people with disability in the workplace. Employers ultimately decide not to hire people with disability and make decisions about workplace adaptations that are necessary for workers to reconcile disability with actively participating in their jobs. The behaviour of employers is thus a crucial factor in determining the success and failure of a social investment strategy aimed at promoting an inclusive labour market and removing disincentives for people to participate. For instance, the possibilities for people with chronic low back pain to engage in employment is dependent on support on the job such as a graded activity programme and participatory ergonomics, involving an occupational therapist and a physiotherapist (Lambeek et al., 2010). Another example is the return to work of people with common mental disorders such as burn-out and depression. Studies show that a reduction of working hours is not enough to facilitate the return to work of this group, but that facilitation should involve more intensive work accommodations such as adaption of the job content, peer support from colleagues and improvement of communication at the workplace (Andersen et al., 2012). In addition, management and staff should be trained how to cope with specific disabilities and how to support employees in the return to work process (Noordik et al., 2011). In short, employers not only need to decide to hire people with a disability, but also need to make considerable human capital investments to make activation effective. Under which conditions are employers likely to make these investments? Part of the answer is found in the particular way that sickness and disability insurance is organised in European welfare states.

## 2.1. Collectivisation of sickness and disability insurance

Most developed welfare states today have some kind of compulsory insurance scheme that provides security against risks of (long-term) sickness and disability. The common denominator of these schemes is the existence of an, implicit, 'social contract' between employers and the state (Mares, 2003). Individual liability of employers for sick and disabled work-

ers is replaced by a pooling of risks among all employers of an industrial sector or even the nation as such, meaning that employers became less responsible and the risk more *collectivised*. In exchange, employers accepted the need to contribute to the costs of disability in this common risk pool through a fixed premium to national disability insurance and give up some of their control over the implementation of disability benefits. The likely effect of this institutional arrangement is a de-alignment between individual (firm) responsibilities and incentives for health investments. The reason is that investments of employers in health do not pay-off in lower statutory contribution to national disability and sickness insurance. As a consequence, employers who invest are confronted with double costs - the fixed contribution and the costs for investments. On the other hand, employers who decide not to invest in health will eventually benefit from lower fixed contributions in the long run and save the additional costs of investments. In addition, each employer that invests in the health of its employees runs the risk that these investments will 'leave' the firm and that competitors can profit without making the accompanied costs. This situation suggests that employer's investment in occupational health will be systematically undersupplied to the extent that workers are expected to leave the firm (Greer & Fannion, 2014). The opportunities for free-riding in a system with a high collectivisation of risks (instead of individualisation of risks) are therefore high. This creates an unfavourable condition for employer's investments in workplace (health) adaptations that should support people with health problems to stay in their job. This discussion indicates that a *recoupling* between contributions and risks can have propitious effects on the efforts of employers to retain people with health problems in the workplace, and thereby curb the inflow in disability benefits - in other words, increasing the responsibilities of employers. In the remainder of this chapter, I assess the effects of such a policy change on the behaviour of employers in the context of the Netherlands.

### 3. The case of disability in the Netherlands

#### 3.1. The disability crisis 1980-2002: Changing policies, failing outcomes

In the context of a sharp rise in the number of people receiving disability benefits, the Dutch government initiated a series of policy reforms in the 1980s. Eligibility criteria were tightened and benefit levels and benefit duration were considerably reduced in this period (van der Veen & Trommel, 1999; Kuipers, 2006; van Gerven, 2008; and Yerkes & van der Veen, 2011). A coalition between the Conservative Liberal VVD party and Christian Democrat CDA (1982-1989) suspended disability benefits from indexation four years in a row, cut benefit levels by six percent and lowered the maximum payment from 80 to 70 percent of previously earned income. Despite all this, the number of beneficiaries did not fundamentally alter.

When the number of benefit claimants exceeded 800,000 (and was still rising) out of a working population of seven million, in July 1991 a red-green cabinet proposed wide scale reforms in the disability benefits which became known as the 'disability-crisis'. The reforms not only contained a further retrenchment in benefit levels and shortening of their duration, but it also

included new medical re-assessments of all recipients between 18 and 50 on the basis of stricter rules. Thereby, the disabled were obligated to accept offered work if the medical test allowed it. Non-compliance was sanctioned with cuts in benefits. The return of benefit recipients to work was set as the norm rather than the exception (van Gerven, 2008, p. 149). Despite these huge political risks, the coalition continued with the reform and in 1993 it announced yet another round of re-assessments and reduction in benefit levels and their duration. Despite the major policy changes, no stark drop in the number of claimants occurred after the mid-1990s, although the numbers did somewhat stabilise. Yet, from 1996 onwards, the number of disability recipients steadily rose again, reaching a historical high of more than 800,000 WAO (general disability insurance) claimants in 2002 (see figure 3). In sum, the changing focus on activation and curtailing generosity of disability benefits did not have the anticipated effect.

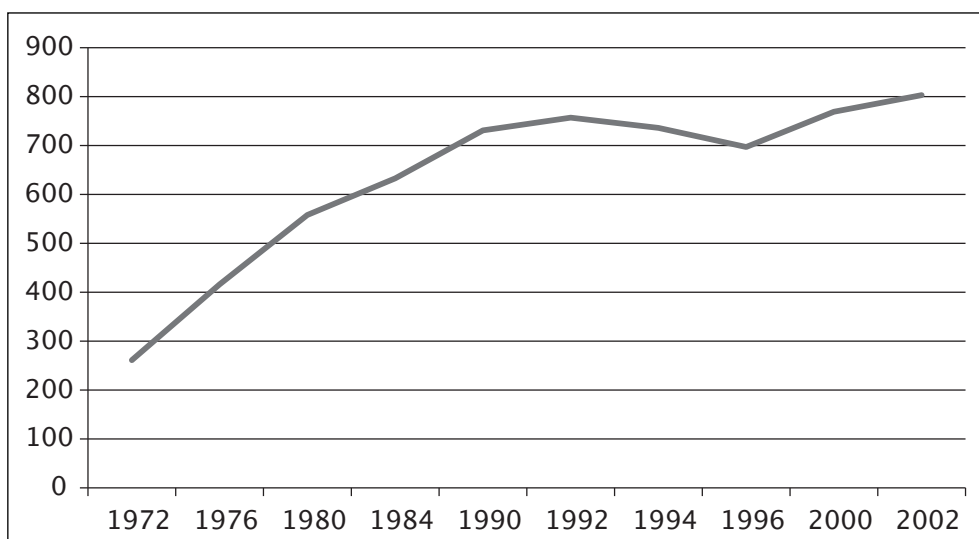


Figure 1: Number of disability claimants x1000 in the disability scheme 1972-2002  
(a) WAO is the general disability insurance act implemented in 1967. This covers all employees who have been sick for one year or more (from 2005 this was 2 years).  
Source: UWV statistical time-series, 2012

### 3.2. New employer responsibilities 2002-2006: (de-)collectivisation in sickness and disability insurance

The situation of failing policy outcomes started to change from 2002. The Dutch government introduced a series of new measures (starting before 2002, but extending it in this period) aimed at reducing sickness absenteeism and stimulating sick people into getting back to work. The core idea was that by shortening the length of sickness absenteeism that employees were allowed, this would also prevent them by end up receiving disability benefits. The reason is that the most common route towards receiving disability benefits is via long-term sick leave, showing an intimate link between sickness and disability. The main difference

with the previous period is that the new measures clearly targeted employers by improving incentives to reduce sickness absenteeism in their firm. These measures entailed a process of *de-collectivisation* by making employers more responsible for both return to work activities and financial compensation for sick and disabled workers (Van Oorschot, 2006).

The first set of measures consisted of the *privatisation* of the Sickness Benefit Act that increased employers' responsibility to compensate at least 70 percent of an employee's salary from day one. In 1996, employers became responsible for the sick pay of their employees for one year, and this was extended in 2004 to two years (Wet Verlenging Loondoorbetalingsverplichting bij Ziekte, VLZ).

The second set of measures were introduced in 1998 and consisted of differentiated contributions paid by employers for the sickness and disability benefit schemes. Either employers could buy insurance against the disability of their employees, where the contributions employers paid for the disability scheme were differentiated according to the disability risk of their firm, or the employer could choose to bear the risk of a disabled employee on its own (opting out). The premium differentiation was designed such that employers had to pay higher contributions the more their employees ended up in disability. This applied to employees up until the fifth year after they entered the disability scheme. However, the differentiation of the premium that small firms need to pay to the disability scheme was not based on the disability risk of the individual company, but on the general disability risk of the sector of which included the company.

The third set of measures focused on smoothening the re-integration process with detailed legal obligations for employers. In 2002 the Gatekeeper Improvement Act (*Wet Verbetering Poortwachter*) was introduced. The aim of this act was to prevent workers from ending up with more permanent disability insurance, by improving the reintegration process during their sickness period. New obligations were inflicted on employers in this reintegration process. They had to write a reintegration plan, and also put in effort to put the sick employee back to work, whether at the employer's company or at another company. The employer is also required to use the services of a health and safety organisation (*arbodienst*) when it comes to putting together the file of the sick employee, making and evaluating the reintegration plan together and writing the reintegration report. The employer is required to report all sickness absenteeism to the *arbodienst*. This organisation then should judge whether or not the employee is at risk of being long-term absent. In this case, the *arbodienst* has to provide a problem analysis about the sick employee six weeks after an employee has reported sick. The *arbodienst* has to report in this analysis what the capabilities and restrictions of the employee actually are. Also, it should pay attention to the extent the employee is able to resume his or her work or perhaps even other suitable work. Then the *arbodienst* must provide an estimation regarding the spell of absenteeism and advice on bringing the employee back to the workplace. Two weeks after the finalisation of the problem analysis, the problem analysis needs to be followed by a reintegration plan, which includes both the goal and the means by which this goal is to be realised. Although much of the action towards reintegration must be taken by the employer, there are also important obligations to the employee. For one, he or she has to cooperate with the employer in reintegration. During the reintegration process, the

different parties need to document all the steps taken towards reintegration. This file then serves as the basis for the reintegration report that the employee needs to hand in to the Disability Benefits Administration (UWV) after one year since they first went sick (*eerstejaars evaluatie*). After 87 weeks, the employee can apply for a disability benefit. The UWV determines whether or not both employer and employee have put in enough effort in the reintegration process. If the UWV considers the employer to be negligent in this respect, the consequence could be that the employer is obliged to continue paying the employee for an extra year.

A fourth set of measures consisted of changing the administration of sickness and disability. Before 1996, the administration of sickness and disability benefits was run by the social partners (the employer organisations and the trade unions). The legitimacy of social partner involvement declined due to allegations of mismanagement in delivering disability benefits. According to the Parliamentary Committee (Buurmeijer, 1993), social partners used these schemes as a labour market exit route for older workers (Visser & Hemerijck, 1997). The committee advised them to diminish their role in the administration. This led to the 1995 and 1997 Act on social insurance administration (OSV). In these Acts, sectoral organisations were abolished and merged in a tri-partite governed 'national institute for unemployment insurance' (Lisv). The administration of social insurance was subsequently subcontracted to independent administration offices ('uvi's'), formally recognised by the Ministry of Social Affairs. In this structure, social partners were no longer directly involved in the administration, but still had control as principles of the independent offices. Rather than diminish it, this structure reinforced the position of the social partners in disability insurance (Bannink, 2014). Eventually, after intense political struggle (Soentken & Weishaupt, 2014), the government implemented a far-reaching labour market reform in 2001 (the SUWI Act) that further reduced the role of social partners. The independent benefit administration offices were merged into an administrative agency for social insurance (UWV) under the control of the Ministry, and without representation of the social partners. This meant that social partners had no further say in the collection of contributions, the assessment of claims and the disbursement of benefits (TK 27588, no.3, pp. 3-4 In: Bannink, 2014, p. 295).

Finally, in 2006 the disability act that had been in place since 1967 was replaced with the Work and Income according to Labour Capacity Act (WIA). This act distinguishes between partially disabled (known as WGA) and the permanent disabled (known as IVA). The minimum degree of 'disability' was raised from 15 to 35 percent. Those considered between 35 and 80 percent disabled are classified as 'partially disabled' and who are 80 per cent disabled, or more, are classified as 'fully disabled'. The goal of this act is to focus more on what a disabled person *can* do in terms of labour market participation. For employers, this implies that more persons will be 'capable' of work, and employers are obliged to take care of the return to work of employees with a remaining work capacity of more than 65 percent after two years of sickness absence.

This process of de-collectivisation had a considerable impact on the development of disability benefit caseloads in the Netherlands. Since the introduction of the Gatekeeper improvement Act, the total number of disability claimants has dropped steadily.

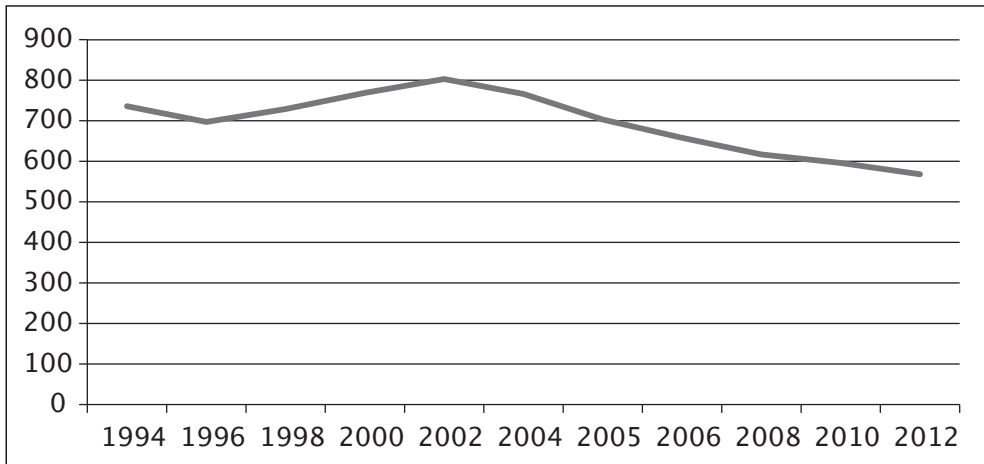


Figure 2: Number of disability claimants x1000 in the WAO/WIA 1994-2012

Note: From 2006, the total number of disability claimants were a combination of the former disability scheme (WAO) and the new disability scheme (WIA).

Source: UWV statistical time-series, 2012

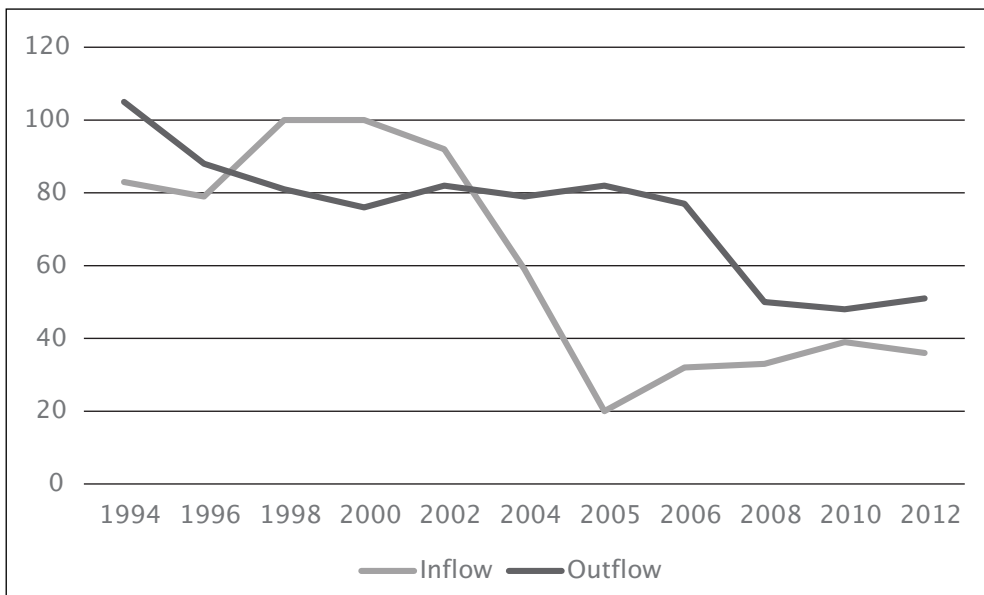


Figure 3: Number of disability claimants x1000 entering (inflow) and leaving (outflow) the WAO/WIA 1994-2012

Note: From 2006, the total inflow and outflow figures are a combination of the former disability scheme (WAO) and the new disability scheme (WIA).

Source: UWV statistical time-series, 2012

While the cut in benefit levels, the shortening of benefit duration, the medical re-assessments and the activation measures in a period of more than two decades (1980-2002) did not have a substantial effect on the number of disability claimants, the change in disability governance with far stronger employer responsibilities signals a clear break with the past. In particular, the number of people entering the disability scheme (inflow) changed considerably since the introduction of strong employer responsibilities and obligations in the 2002 Gatekeeper Law, while the people leaving (outflow) remained more or less stable, and even declined in the mid-2000s. The sharp drop in inflow numbers also occurred before the introduction of the new disability scheme (WIA) that changed the ‘minimum degree’ of disability from 15 to 35 per cent. In other words, it was not eligibility criteria for entering the disability scheme that seemed to have the largest effect on the development of caseloads, but the changing ‘gatekeeping’ function of employers that had the largest effect.

### 3.3. Alternative explanations

There are three alternative explanations for the decline in the total number of disability recipients. First, it could be the round of reassessments in the period 2004-2009 that explains declining number of disability recipients. Indeed between 2004 and 2009 275,285 WAO-recipients were re-examined and 22 per cent of them lost their right to a disability benefit (UWV, 2009a). Yet, this affects the outflow rate, and not the inflow rate. Despite these reassessments the total outflow rate further declined after 2005. Hence, the overall decline in disability benefit recipients is the result of declining inflow rates, not outflow. Secondly, in 2004 the rules for receiving disability benefit became stricter (*aangepast Schattingsbesluit*). Insurance physicians now judge any incoming claim on disability. Parallel to a change in the governance structure, the norms the insurance physicians had to use also became stricter. The result is that under these new norms, people have a higher chance of holding a ‘remaining earnings potential’ and thus they are not being classified as fully disabled. This might explain the large reduction in inflow since 2002. Research to the effects of these changing norms show that these have led to 5 to 7 per cent more rejection of disability benefit compared with the old rules (UWV, 2009b). Yet, inflow rates before the governance reforms (2000) were about 100,000 on a yearly basis, while after the governance reforms and after the changing norms (2005), inflow (WAO and WIA combined) was only around 20,000, a reduction of 20 per cent. In short, the changing norms only explain part of the large drop. Finally, the sharp drop in inflow numbers had already occurred before the introduction of the new disability scheme (WIA) in 2006 that changed the ‘minimum degree’ of disability from 15 to 35 per cent. In other words, the eligibility criteria to enter the disability scheme did not seem to have the largest effect on development of caseloads, in fact the changing ‘gatekeeping’ function of employers had a greater effect.

In sum, reforms that targeted employers have kept more people with health problems in the labour market, while the benefit policy measures in the period before did not had this



effect. Changing the incentive structure for employers thus seems a crucial factor in understanding the labour market participation of people with disability. The changing governance of disability in the Netherlands, particularly after 2002, in part solved collective action and free riding problems by *recoupling* contribution, obligations and risks.

#### 4. A qualitative assessment of the effect of increased employer responsibilities

The results of the macro analysis is corroborated by qualitative interview data. HR-managers and occupational physicians said that their firm had changed their internal processes concerning people with disability. Both the new financial risks and the obligations regarding the re-integration trajectory that are part of the governance reforms altered the perception of firms. Whereas before the 2000s, the health of employees was not a core issue, after the reforms, both HR-managers and occupational physicians were given new tasks firstly relating to the prevention of disabilities among the workforce and secondly relating to the early return to work for those that encountered health problems. Management of health has become a part of the core strategy of firms, alongside, for instance, product development, innovation, market strategy and communications. As a member of the board of directors of the Dutch Association of Employment Experts (NVVA) put it:

*'We see that firms increasingly use 'integral health management to systematically enhance the health of their employees in order to achieve company ambitions....employers bear more responsibilities for the health of employees and keeping them on the job, so yes, the health management of firms becomes more important.'*

Whereas in the past, employers could 'use' social security arrangements to discard unproductive workers, the reforms in the governance of disability have averted this route:

*'Employers and employees have less possibilities for falling back on a social safety net. We (employers) and employees have a common responsibility to keep people healthy on the job by investing in workplace adaptations and changes in the content of work. We should focus on what people still can do.'* (policy advisor employers association VNO-NCW)

A specific company example was mentioned during the focus group that illustrates this shift. In Siemens in the 1990s, absenteeism was around the 9 per cent. By the late 1990s, Siemens had developed and implemented a health management policy. Today their outflow to the disability scheme is close to zero. The governance of disability is now mentioned by the company as a reason for the increased focus on health management:

*'This approach contributes in large part to the mentality change that is needed to curb the inflow in the disability scheme. The focus within Siemens has shifted. It is not about what somebody cannot do, but what the possibilities are. Therefore we increasingly look for other functions within a department or within the company for a person with disability.'* (an occupational physician working at Siemens)

This example is in line with the main conclusion of an evaluation of the Gate keeping Law that ‘the new employer responsibilities and obligations have led to a significant increase in the efforts of employers and occupational physicians to retain people with disabilities compared with the period before the introduction of the Gatekeeping Law.’ (Reijenga, Veerman & van den Berg, 2006, p. 9)

## 5. Additional policy recommendations

The main policy lesson of this chapter is that employers can support and strengthen the central goals of the European social investment strategy. This lesson has been empirically substantiated by discussing the case of Dutch disability insurance. The results of both quantitative and qualitative data indicate that only when the disability governance system was reformed with increased employer responsibilities were the people with disabilities accommodated better in the labour market. Policy reforms consisting of increasing activation measures and the recommodification of benefits proved to be rather unsuccessful. Further research should indicate to what extent this mechanism is applicable to other precarious groups such as migrants, the long-term unemployed and older workers. For instance, it seems unlikely that increasing the retirement age will automatically lead to a better labour market position for older workers. To the contrary, evidence from the Dutch context shows that although older workers do not lose their jobs more often, when they become unemployed the likelihood of becoming long-term unemployed is almost twice the average (CPB, 2015). In addition, in the Netherlands almost 50 per cent of all long-term unemployed are 50 years old or older. Without supportive measures to incentivise employers to retain and hire older workers, the labour market position of this group is unlikely to improve.

Increasing the responsibilities of employers should be supported by measures that prevent a growing divide between labour market insiders and outsiders. In the Dutch context, it seems that increased responsibilities for employers have resulted in a discrepancy between those workers with a permanent contract (insiders) and those with a weaker employer attachment such as those on temporary contracts, the self-employed and unemployed workers (outsiders). These groups do not benefit from the increasing efforts of employers to keep people with disabilities in the labour market. Today, people with health problems without employer attachment (temporary workers at the end of their contract and unemployed people) make up the largest share of inflow in the disability scheme. In 2008, 45 per cent of the inflow in the disability scheme consisted of this group of former employees, in 2013 this grew to 59 per cent (UWV, 2014a). The weak labour market position of outsiders with a disability might be an unintended effect of increasing employer responsibilities. Precisely because of their increased responsibilities, employers might be more unwilling to hire workers with an increased risk of disability that would incur future costs on employers. This should explain why unemployed people with health problems encounter much more difficulties in finding work than unemployed people without disabilities. The Dutch government implemented legislation in 2013 that aims to increase the labour market participation of people with disabilities without

employer attachment. The responsibility for sick pay of those on temporary contracts is increased. Small employers have to pay an additional premium based on the sickness level of temporary employees in their sector, the additional premium for mid-sized employers is based on the actual level of sickness of temporary employees in their firm and large employers are fully responsible for the sick pay of every individual employee. Future research should assess to what extent these increased responsibilities lead to a better employment position for disabled workers on temporary contracts.

Workers who no longer have an employer also rely on the public employment service for support and benefit payment. In a way, the public employment service has the same tasks and responsibilities concerning labour market re-integration as an employer. This also means that the public employment service can live up to these tasks. In the Netherlands, the public employment service, UWV, has several support measures at its disposal to promote employment amongst unemployed people with disabilities (UWV, 2014b and OECD, 2014):

- **Wage dispensation for the employer.** If granted, the employer can pay less than the legal minimum wage and this amount is topped up by UWV. Dispensation is only granted if a disability beneficiary has a lower performance than colleagues without a disability (which is assessed by UWV).
- **Employer subsidies.** Employers can obtain a subsidy for the additional costs they incur for the hiring of a disability beneficiary.
- **Trial placement.** Under this option, the employer does not have to pay a wage to the disability beneficiary for two months to give them the opportunity to find out whether the candidate is suited for the job. During the two-month trial period, the disability beneficiary continues receiving a disability benefit.
- **Job coach.** The job coach helps the employee to adapt in the workplace and cope with health related issues. The job coach also advises the employer, and coordinates the employer, the employee and the public employment service.
- **'No risk' policies.** A no-risk status implies that the employer does not have to pay sickness benefits in case of illness as they are paid from the collective sickness fund of UWV. Nonetheless, the employer remains responsible for the reintegration into work of the employee.
- **Support trajectories to acquire work.** In regular trajectories, a reintegration office supports the disability beneficiary for a maximum of 2.5 years in finding and retaining a job. Other possible support trajectories are education, skills training and 'learn-to-work' trajectories.

Despite the existence of these instruments, the re-integration services offered by the UWV are not extensive. Only one in four beneficiaries get a reintegration opinion from UWV and 80 per cent of those opinions are not followed up by a reintegration plan (Cuelenaere and Veerman, 2011). This is related to budget cuts that have been imposed on the public employment service. The UWV simply have less means of offering re-integration services. Re-integration services are also repealed for unemployed people that are considered less than 35 per

cent disabled (and thus do not qualify for a disability benefit). Those persons are expected to find work without additional help. Yet, the labour market integration of this group seems problematic. While around 60 per cent of people without health problems that lose their job find another employer within a year, this is only 30 per cent for ex-workers with a disability that are not ‘disabled’ enough to qualify for a disability benefit (UWV, 2014b). In order to stimulate the labour market integration of outsiders, additional public investments are needed in employment services. Increasing responsibilities for employers should not come at the expense of public responsibilities.

## Bibliography

- Andersen, M. F., Nielsen, K. M. & Brinkmann, S. (2012). Meta-synthesis of qualitative research on return to work among employees with common mental disorders. *Scandinavian Journal of Work, Environment & Health*, 38(2), 93-104.
- Bannink, D. (2014). Social policy from Olson to Ostrom: a case study of Dutch disability insurance. *Social Policy & Administration*, 48(3), 279-299.
- Bouget, D., Frazer, H., Marlier, E., Sabato, S. & Vanhercke, B. (2015). Social investment in Europe: A study of national policies, European Social Policy Network (ESPN). Brussels: European Commission.
- CPB (2015). Langdurige werkloosheid. Afwachten én hervormen. CPB Policy Brief, June 2015.
- Costa-Black, K. M., Loisel, P., Anema, J. R. & Pransky, G. (2010). Back pain and work. *Best Practice & Research Clinical Rheumatology*, 24(2), 227-240.
- Coutu, M. F., Côté, D. & Baril, R. (2013). The Work-Disabled Patient. In P. Loisel & J.R. Anema (Eds.), *Handbook of Work Disability* (pp. 15-29). New York: Springer.
- Cuelenaere, B. & Veerman, T. (2011). *Onderzoek evaluatie WIA*. Leiden: AStri Beleidsonderzoek en advies.
- European Commission (2013). *Towards social investment for growth and cohesion - including implementing the European Social Fund 2014–2020*, COM(2013)83, 20 February.
- European Commission (2015). *Policy roadmap for the implementation of the social investment package*, August.
- Greer, S. L. & Fannion, R. D. (2014). I’ll be gone, you’ll be gone: Why American employers under-invest in health. *Journal of Health Politics, Policy and Law*, 39(5), 989-1012.
- Kuipers, S. (2006). *The crisis imperative: crisis rhetoric and welfare state reform in Belgium and the Netherlands in the early 1990s*. Amsterdam: Amsterdam University Press.

Lambeek, L. C., van Mechelen, W., Knol, D. L., Loisel, P., & Anema, J. R. (2010). Randomised controlled trial of integrated care to reduce disability from chronic low back pain in working and private life. *Bmj*, 340-347.

Noordik, E., Nieuwenhuijsen, K., Varekamp, I., van der Klink, J. J., & van Dijk, F. (2011). Exploring the return-to-work process for workers partially returned to work and partially on long-term sick leave due to common mental disorders: a qualitative study. *Disability and Rehabilitation*, 33(17-18), 1625-1635.

OECD (2010). *Sickness, disability and work: breaking the barriers. A synthesis of findings across OECD Countries*. OECD Publishing.

OECD (2014). *Mental health and work: Netherlands*. OECD Publishing.

Reijenga, F. A., Veerman, T. J. & Van den Berg, N. (2006). *Onderzoek evaluatie wet verbetering poortwachter [Evaluation of the Improved Gatekeeper Act]*. Leiden: Astri.

Soentken, M. & Weishaupt, J. T. (2014). When social partners unite – explaining continuity and change in Austrian and Dutch labour market governance. *Social Policy & Administration*, 49(5), 593–611.

Szymanski, E., Parker, G., Ryan, C., Merz, M., Trevino-Espinoza, B. & Johnston-Rodriguez, S. (2003). Work and disability: Basic constructs. In E. Szymanski & R. Parker (Eds.), *Work and disability* (pp. 1-26). Austin: PRO-ED.

UWV (2009a). *UWV Rapportage afronding eenmalige herbeoordelingsoperatie*. Retrieved September 15, 2015, from: <https://www.rijksoverheid.nl/documenten/kamerstukken/2009/06/22/uwv-rapportage-afronding-eenmalige-herbeoordelingsoperatie>

UWV (2009b). *Schatting effect aangepaste schattingsbesluit op aandeel afwijzingen WIA*. Retrieved September 15, 2015, from: <http://www.stvda.nl/~media/ca5ae297450d4226a6b80a8b985f5620.ashx>

UWV (2014a). *UWV jaarverslag 2014*. Retrieved August 12, 2015, from: <http://jaarverslag.uwv.nl/>

UWV (2014b). *UWV monitor arbeidsparticipatie 2014. Aan het werk zijn, komen en blijven van mensen met een arbeidsbeperking*. Retrieved September 8, 2015, from: [http://www.uwv.nl/overuwv/Images/UWV\\_Monitor%20Arbeidsparticipatie\\_2014\\_eindversie.pdf](http://www.uwv.nl/overuwv/Images/UWV_Monitor%20Arbeidsparticipatie_2014_eindversie.pdf)

Van der Veen, R. & Trommel, W. (1999). Managed liberalization of the Dutch welfare state: A review and analysis of the reform of the Dutch social security system 1985–1998. *Governance*, 12, 289–310.

Van Gerven, M. (2008). *The broad tracks of path dependent benefit reforms. A longitudinal study of social benefit reforms in three European Countries, 1980–2006*. Doctoral Thesis. Kela.

The role of employers in implementing social investment reforms:  
The case of disability

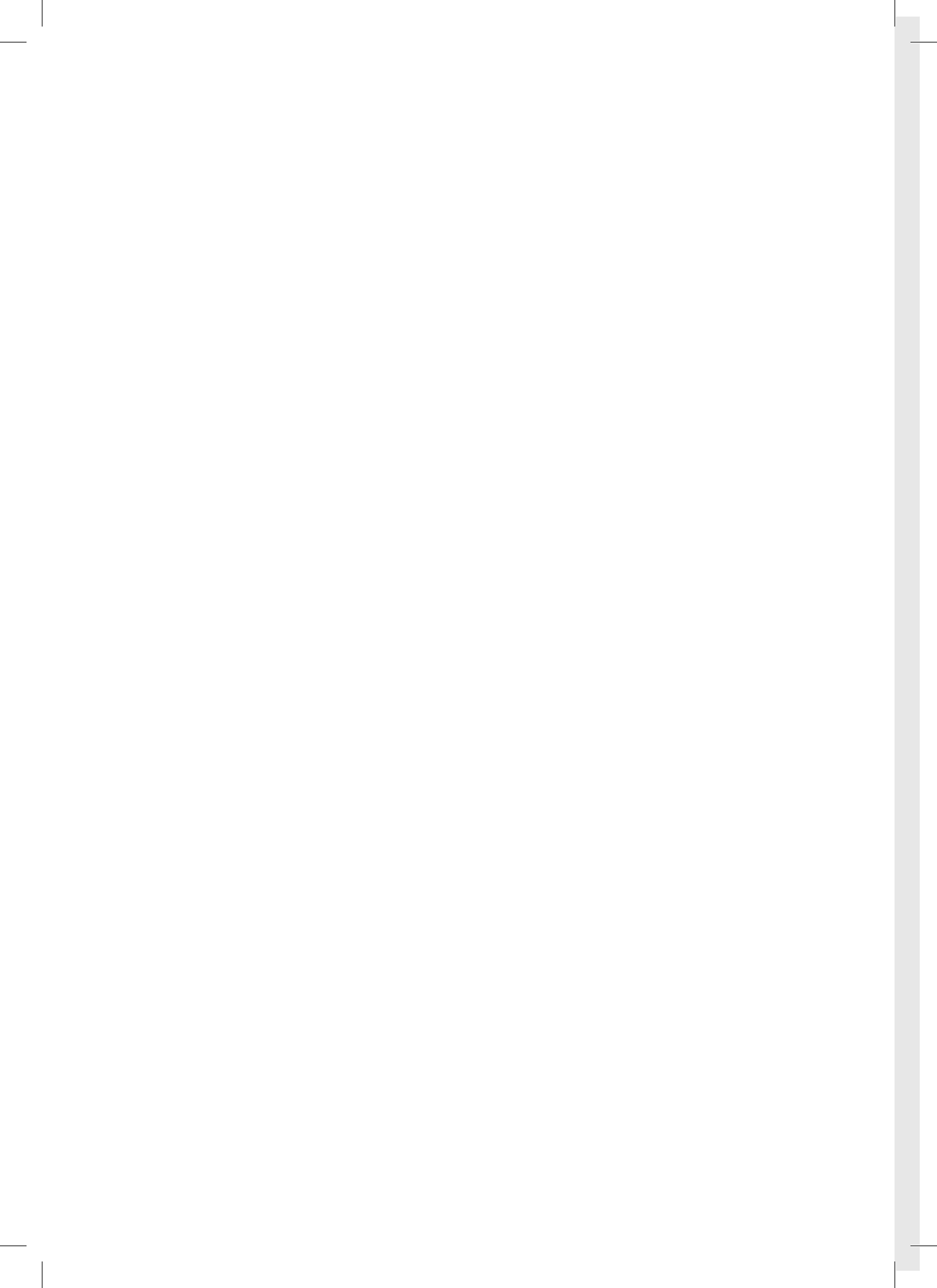
Van Oorschot, W. (2006). The Dutch welfare state: Recent trends and challenges in historical perspective. *European Journal of Social Security* 8, 57-76.

Visser, J. & Hemerijck, A. (1997). *A Dutch miracle': job growth, welfare reform and corporatism in the Netherlands*. Amsterdam: Amsterdam University Press

Waddell, G. & Burton, K. (2006). *Is work good for your health and wellbeing?* London: TSO.

Yerkes, M. & van der Veen, R. (2011). Crisis and welfare state change in the Netherlands. *Social Policy & Administration*, 45(4), 430-444.

Young, A. E., Wasiak, R., Roessler, R. T., McPherson, K. M., Anema, J. R., & Van Poppel, M. N. (2005). Return-to-work outcomes following work disability: stakeholder motivations, interests and concerns. *Journal of Occupational Rehabilitation*, 15(4), 543-556.



PART III

**EUROPEAN POLICIES  
AFFECTING SOCIAL  
SAFEGUARDS**





# TTIP and Labour Rights: a Trade Union Perspective

Daniele Basso, European Trade Union Confederation (ETUC)

## 1. Introduction: Trade and labour rights and their importance in TTIP

Negotiations between the European Commission and the United States Trade Representative (USTR) on the Transatlantic Trade and Investment Partnership (TTIP) have focused on a range of issues, including labour standards. The European Union and the US have already included social clauses in their respective free trade agreements. This reflects a global trend, as shown in a recent ILO study (ILO, 2013), pointing to the fact that trade agreements conditioned by social clauses have increased significantly over the last 20 years, both in absolute and in proportional terms. This is important for the purpose of understanding the backdrop to TTIP in terms of social clauses. It is also worth noting that the United States has been involved in negotiations since 2005 with 12 countries with a view to concluding the Trans-Pacific Partnership (TPP), which contains a significant social chapter. The European Union has also concluded a free trade agreement with Canada (CETA), which also contains a chapter on sustainable development and labour.

The US and the European Union have been keen on including social clauses in their Free Trade Agreements (FTAs) but are not on an equal footing regarding the ratification of international labour standards. The United States has only ratified two ILO Conventions (the Abolition of Child Labour Convention and the Worst Forms of Child Labour Convention). Even though the European Union is not itself a member of the ILO, all of its member states have ratified all eight of the Core Labour Conventions. As is shown in the following section, this has a significant impact on the actual way the EU and the US include commitments on labour rights in their FTAs.

This paper seeks to examine the effects of TTIP on labour rights in Europe and in the US. It starts by describing and comparing the US and EU approaches regarding the inclusion of

labour provisions in their concluded bilateral free trade agreements. In a second stage, the paper addresses the main challenges the TTIP poses to the European and American trade union movement, outlining their joint position on the TTIP negotiations. This paper does not seek to assess the possible positive/negative employment effects of the TTIP as the main focus has been put on the labour provisions. It concludes with a set of recommendations that European and American trade unions may wish to support.

## 1.1. EU and US approaches to labour rights in FTAs

Both the European Union and the United States have included social clauses in their respective free trade agreements with third countries. However, they have adopted different approaches. These two approaches are described in an ILO study (2013) as ‘promotional’ and ‘binding’ respectively. The study defines the social clauses as ‘binding’ if they are linked to economic sanctions. It describes ‘promotional’ clauses as those that combine commitments to labour standards with cooperation, dialogue and monitoring mechanisms.

It should also be mentioned that both sides have different approaches to the recognition of ILO standards. The European Union makes a clear reference to them in its free trade agreements, whereas the United States, in that it has only ratified two ILO Conventions, does not make reference to the Decent Work Agenda, which is an integral part of the European Union’s trade agreements. In contrast, the US merely refers to the 1998 ILO Declaration on Fundamental Principles and Rights at Work in its free trade agreements.

### 1.1.1. The United States’ binding approach

The United States has traditionally adopted a binding approach by attaching economic conditionality to the social clauses. For example, the North American Free Trade Agreement (NAFTA) provided for the creation of a North American Agreement on Labour Cooperation (NAALC) establishing legally binding clauses on child labour, minimum wages and issues relating to occupational health and safety. However, certain significant labour law aspects of this Agreement were not binding, such as freedom of association and industrial relations, discrimination at the workplace and migrant worker rights. The infringement procedure in this agreement could only be triggered if the infringement in the sectors mentioned had a negative impact on trade with the other Party.

NAALC includes provisions to set up a national administrative office to handle infringements of the social clauses of the agreement. Cases involving child labour, minimum wages and issues relating to occupational health and safety are subject to the following procedure: a complaint can be filed, which triggers consultations between competent national ministries. If these consultations are unsuccessful, an Evaluation Committee of Experts can be convened in order to examine the infringement and prepare recommendations. If no consensus is reached, an arbitral panel can be convened, whose ruling is binding on the Parties. If the panel’s ruling is not observed, a financial penalty can be imposed and, if the penalty is not paid, it may be converted into trade sanctions. To date, no case has led to the convening of an

Evaluation Committee of Experts. The ILO report (2013) concludes that the NAFTA signatories have preferred to resolve complaints amicably rather than invoking such a procedure. The specificity of NAFTA is that only a very small number of chapters of the Agreement relating to labour issues are actually likely to give rise to real trade sanctions.

#### 1.1.1.1. The case of Guatemala

This situation changed with the Central America - Dominican Republic Free Trade Agreement (CAFTA-DR), followed by the 10 May 2007 compromise. These two documents reflect changes in the United States' approach to labour law in its trade agreements.

The case of Guatemala within the framework of CAFTA-DR is particularly significant. Following ratification of the Agreement by Guatemala, respect for workers' rights continued to deteriorate. The United Nations' International Commission Against Impunity in Guatemala (CICIG) reported that 30 unionised workers were murdered between 2008 and 2013.<sup>1</sup> There have also been numerous cases of attempted murder, torture, kidnappings and death threats against trade unionists. Moreover, the workers' 'right of association' is generally not respected, particularly due to the administration's lethargy in implementing this right. In April 2008, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) together with six Guatemalan trade unionists filed a complaint under chapter 16 of the Agreement based on the argument that the government was not correctly applying labour laws. Following this complaint, the United States Department of Labour conducted an investigation, carrying out onsite visits and interviewing workers, employers and government officials. However, even though the Department of Labour's final report concluded that the trade unions' accusations were well founded, the US authorities only started formal consultations in 2010. As it was not possible to reach an amicable settlement with the Guatemalan authorities, the USA requested that an arbitral panel be convened. In response, and in order to avoid an arbitration procedure, Guatemala agreed, in 2013, to establish a binding 18-point Action Plan, which included, for example, strengthening labour inspections, the application of labour standards by exporting companies and the enforcement of court rulings. The decision by the two governments to establish this Action Plan was also influenced by another factor: in 2012, several Guatemalan trade union delegates to the ILO International Labour Conference had requested that an investigative Commission be set up to shed light on the violations of Convention 87 relating to freedom of association and the protection of trade union law in Guatemala.

---

1 The CICIG was set up to investigate and dismantle criminal organisations thought to be responsible not only for the widespread crime in Guatemala, but also for the paralysis of the judicial system through their infiltration of state institutions. The CICIG differs from existing international tribunals in that it works with the local judicial system and in close partnership with the Public Prosecutor's Office. The twin goal is to strengthen the national criminal justice system and to issue public policy recommendations designed to help combat these criminal groups. The CICIG was set up in December 2006 under an agreement between the United Nations and the Guatemalan government, and was then ratified in August 2007 by the Guatemalan Congress. It has a two-year mandate, which can be renewed at the request of the government.

The USTR has since criticised the lack of enthusiasm shown by the Guatemalan authorities in implementing this Action Plan, which was due to enter into full force in April 2014. In the meantime, Guatemala has been given several extensions to its deadline to allow it to comply with its obligations. Consequently, in September 2014, the US government decided formally to launch an international arbitral procedure against Guatemala for violations of workers' rights. It is the first time a country has launched international arbitral proceedings against another country for violations of labour standards (ITUC, 2014). Under the provisions of CAFTA-DR, the arbitral panel submits a preliminary report setting out conclusions and recommendations. Failure by the Guatemalan government to implement these recommendations would expose the country to fines and, failing payment of the fines, trade sanctions. Under CAFTA-DR, the fines in disputes relating to labour standards are capped, which is not the case in other chapters of the Agreement.

It is striking that, while the US has been finalising this infringement procedure in respect of the labour law provisions under CAFTA-DR, the European Commission decided unilaterally, on 27 February 2014 (European Commission, 2014c), to include Guatemala on a list of countries benefitting from preferential trade conditions for exports to Europe.<sup>2</sup>

#### 1.1.1.2. The agreement of 10 May 2007

In addition to the case of Guatemala, the US government's approach to social clauses in free trade agreements noticeably changed when it concluded the 'May 10 Agreement' in 2007. Based on a compromise agreement between Republicans and Democrats in the US Congress, this document establishes a new template for trade agreements. This is a template that US parliamentarians impose on negotiators appointed by the US administration. This template, which upgraded social rights significantly, was then applied to its trade agreements with Peru, Columbia and South Korea. The most significant change was the abandonment of the 'Enforce Your Own Laws' approach in place prior to the May 10 Agreement. Under this agreement, as pointed out by Jeffrey Vogt (2014, p. 128), each Party 'adopts and maintains' the 'rights enshrined in the 1998 ILO Declaration on Fundamental Principles and Rights at Work'. At the same time, 'the Parties must enforce their national labour laws [...] through a sustained course of action or inaction, in a manner affecting trade or investment between the parties'. Under the compromise, the social clauses, as well as the other chapters of the agreement, are legally binding.

However, several legal issues remain unresolved in the wake of this reform. According to Jeffrey Vogt (2014, p. 128): 'the requirement to adopt and maintain in law the rights as stated in the ILO Declaration (and only the ILO Declaration) introduces some uncertainty about the

---

2 Guatemala has been included in the EU's Generalised System of Preferences (GSP). The GSP grants customs duty reductions or duty-free access to the Community market for exports from 178 developing countries and territories. The Community system grants special advantages to the 49 least developed countries and to the countries that apply certain labour or environmental standards. The EU grants these preferences without requiring anything from the beneficiaries in return. In the case of Guatemala, the GSP will operate in tandem with the EU-Central America Trade Agreement (which grants more trade preferences than the GSP) for a period of two years, after which the EU-Central America Agreement will replace the GSP.

full extent of the obligation'. This is because there is a distinction between the 1998 Declaration and the Core Conventions: although all ILO members are bound to comply with the standards in the Declaration, only those that have ratified the Conventions are legally bound to comply with the standards therein. The Conventions, unlike the Declaration, are legally binding international treaties, which are subject to a specific ILO monitoring procedure. This would thus suggest that the Parties to trade agreements are legally bound by the principles of the Declaration, but not by the detailed provisions of the Conventions. Moreover, the phrase 'through a sustained course of action or inaction' – calls into question the amount of proof required in a complaint for it to be declared admissible. The phrase 'in a manner affecting trade or investment between the parties' could also be a source of ambiguity.

The US approach described above has shown that implementing trade sanctions in relations to breaches of international labour standards can be a lengthy and cumbersome process, with mixed results. This approach put into question the effectiveness of such binding clauses in bringing about significant improvements to labour conditions in third countries. On the other hand, the very existence of the threat to impose sanctions concerning the non-respect of labour standards can be used as a tool of political pressure to require a more firm commitment from the other Parties to not undermine labour standards.

### 1.1.2. The European Union's promotional approach

The European Union regards the promotion of democracy, the rule of law, human rights and the principles of international law as the cornerstones of its external action.<sup>3</sup> As already mentioned, all member states of the European Union have ratified the ILO's Core Conventions and its principles are enshrined and expanded in the European Union's Charter of Fundamental Rights, which officially recognises trade unions as social partners and integrates them into the European decision-making process.

This is also reflected in the free trade agreements that the European Union has concluded or is currently negotiating with third countries. As regards the more specific issue of social clauses in its free trade agreements, its approach has changed over time, but can be described as 'promotional' in nature: the European Union systematically makes reference to the ILO Declarations on rights at work in its free trade agreements, but does not make use of trade sanctions in the event of non-compliance. The 2003 EU-Chile Agreement, for example, considers labour standards a political cooperation issue, but does not provide for any legally binding mechanisms. The 'new generation agreements' are more ambitious, even though they do not always include legally binding mechanisms.<sup>4</sup> The EU-South Korea FTA is a good case in point, as it shows how the EU's promotional approach on labour rights has been included in the Agreement.

3 Article 21, Treaty on European Union

4 The 'new generation' agreements were presented by the Commission in its 2006 Communication 'Global Europe: competing in the world - A Contribution to the EU's Growth and Jobs Strategy.'

### 1.1.2.1. The EU-South Korea Agreement

The EU-South Korea Agreement (European Council, 2010) is the first of these new generation agreements. It includes a common chapter on the environment and labour, which is entitled ‘Trade and Sustainable Development’. This chapter is of particular importance with the framework of the TTIP negotiations in that it has already served as a template for the negotiations between the EU and Peru, Colombia, Central America and Canada (CETA). The scope of the chapter on labour rights is more wide ranging than the US approach. As well as making reference to the ILO’s Core Conventions, it also mentions the Decent Work Agenda, which covers social protection, social dialogue and job creation.<sup>5</sup> The Agreement states (European Council, 2010, Art. 13.4) that the Parties ‘reaffirm the commitment, under the 2006 Ministerial Declaration of the UN Economic and Social Council on Full Employment and Decent Work, to recognising full and productive employment and decent work for all as a key element of sustainable development for all countries [...] and to promoting the development of international trade in a way that is conducive to full and productive employment and decent work for all, including men, women and young people’. The chapter also states (Art. 13.2) that ‘each Party shall seek to ensure that those laws and policies provide for and encourage high levels of environmental and labour protection, consistent with the internationally recognised standards [...] and shall strive to continue to improve those laws and policies’ even though it is stipulated that ‘The Parties recognise that it is not their intention [...] to harmonise the labour standards’ and that ‘The Parties stress that environmental and labour standards should not be used for protectionist trade purposes. The Parties note that their comparative advantage should in no way be called into question.’

The major difference between the US and European models lies in the monitoring process in their respective agreements, and in the fact that the European Union adopts a far less litigation-based approach than the United States. The EU-South Korea agreement stipulates that implementation of the ‘Trade and Sustainable Development’ chapter shall be monitored by a Committee on Trade and Sustainable Development comprising senior officials from within the administrations of the Parties, as well as by Domestic Advisory Groups established by each Party and comprising a balanced representation of environment, labour (trade union) and business organisations from within civil society.

---

5 Article 13.4.3 states: ‘3. The Parties, in accordance with the obligations deriving from membership of the ILO and the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, adopted by the International Labour Conference at its 86th Session in 1998, commit to respecting, promoting and realising, in their laws and practices, the principles concerning the fundamental rights, namely:

- a) freedom of association and the effective recognition of the right to collective bargaining;
- b) the elimination of all forms of forced or compulsory labour;
- c) the effective abolition of child labour; and
- d) the elimination of discrimination in respect of employment and occupation.

The Parties reaffirm the commitment to effectively implementing the ILO Conventions that Korea and the member states of the European Union have ratified respectively. The Parties will make continued and sustained efforts towards ratifying the fundamental ILO Conventions as well as the other Conventions that are classified as ‘up-to-date’ by the ILO.’

The ‘Trade and Sustainable Development’ chapter of the EU-South Korea Agreement also stipulates that the Domestic Advisory Groups may request consultations ‘on any matter of mutual interest’. In such cases, the consultations shall commence promptly after such a request is delivered and ‘The Parties shall make every attempt to arrive at a mutually satisfactory solution’. As regards labour standards (Art. 13.14) ‘The Parties shall ensure that the solution reflects the activities of the ILO [...] so as to promote greater cooperation and coherence between the work of the Parties’. If a Party considers that the matter requires further discussion, it may request that the Committee on Trade and Sustainable Development be convened to consider the matter and endeavour to agree on a resolution. If no resolution is found, a Party may request that a Panel of Experts be convened to examine the matter and draft a report containing recommendations, implementation of which is monitored by the Committee on Trade and Sustainable Development. However, subsequent to this process, no provision is made for fines or sanctions of any kind. Thus, if the Parties fail to amicably settle their disputes relating to implementation of the ‘Trade and Sustainable Development’ chapter, no provision is made for judicial resolution of the matter. This approach has also been included in the EU free trade agreements with Colombia, Peru and Central America. However, it has been seen as unsatisfactory from the trade union side as it does not allow for a proper binding mechanism. Conversely, as we will examine in the next subsection, according to the documents that have been published by the European Commission, it seems that the European executive body is replicating into the TTIP the approaches adopted in the sustainable development chapters of the previous agreement.

#### 1.1.2.2. Sustainable Development and TTIP

In July 2013, the European Commission (European Commission, 2013) published on the website of the Directorate General for Trade a concept paper setting out its position on the trade and sustainable development negotiations within the framework of TTIP. The paper reaffirms the Commission’s commitment to high levels of protection for workers, emphasizing that the starting point for discussions with the United States should be the 1998 ILO Declaration and the 2008 ILO Declaration on Social Justice for a Fair Globalization. The Commission considers that the ILO core labour standards enshrined in the core ILO Conventions are an essential element to be integrated in the context of the TTIP, which could be further complemented by other ILO standards/Conventions of interest, such as the ILO Decent work agenda. The paper also states that, as with the EU-South Korea Agreement, the inclusion of social clauses in TTIP should be without prejudice to the Party’s right to regulate in order to reflect its own priorities. The aim of the ‘sustainable development’ chapter under TTIP should be to ensure that trade and economic activity can expand without undermining the pursuit of social policies. As in the South Korea Agreement, the Parties’ respective labour standards should not be used as a form of disguised protectionism. The Commission is committed to ensuring that public authorities do not fail to enforce and will not relax their own domestic labour laws as an encouragement of transatlantic trade and investment.



The Commission's paper (2013, p. 3) also reaffirms its intention to establish priority areas 'for the share of information and dialogue on the impact of inter-linkages between trade and full employment, labour market adjustment, core labour standards, labour statistics, human resources development and life-long learning, social protection floors and social inclusion, social dialogue and gender equality'. Finally, the paper calls for the establishment of a monitoring mechanism that involves civil society through regular dialogue; any disagreements would be addressed via government consultations and backed up by independent assessments. No reference is made to potential trade sanctions. It should, however, be noted that the Commission has created a civil society advisory group (2014b) – the first of its kind – for the purpose of the TTIP negotiations, of which ETUC and IndustriALL are members.<sup>6</sup> The members of the group can have access to the positions defended by the Commission, but not those of their US counterpart. Thus, it seems that the negotiating position adopted by the Commission regarding the TTIP has not changed considerably in relations to the past Agreements.

## 2. How TTIP should promote labour rights

The American and European labour movements have been following the TTIP negotiations since the beginning. The cooperation between the two trade union movements has translated into concrete proposals to the negotiators in June 2014, when the ETUC and the AFL-CIO adopted a declaration of joint principles entitled 'TTIP Must Work for the People, or it Won't Work At All' (2014), which outlines trade union demands for the EU-US Agreement.

The Declaration outlines the main demands of the trade union movement, which will be summarised in the following section. One of the key points it makes is the importance of involving social partners in the negotiating process. In that, it states that TTIP must 'deeply integrate legislatures and social partners in the negotiating and implementation process as well as in the monitoring process after the agreement is in place. Labour rights must be enshrined in the body of the agreement and be applicable to all levels of government' (ETUC & AFL-CIO, 2014, p. 3). The issue of applying labour rights to all levels of the administration (i.e. sub-federal level) is particularly important in the US where 22 States (mainly in the South and South-West) apply particularly controversial 'Right to Work' laws, which the AFL-CIO regards as unfair because they discourage workers from joining a trade union.

As it is illustrated in the next subsection, the demand of an effective and binding mechanism to settle disputes on labour issues is of paramount importance for the trade unions. In addition, other items are equally important as 'mainstreaming' labour conditionality to other parts of the agreement and not to limit labour issues to a Sustainable Development chapter.

---

6 IndustriAll Europe is a European trade union organisation bringing together workers from the metal workers, chemicals and textile sectors. Industriall Europe represents 7.1 million workers from some 200 European trade union federations.

Moreover, the inclusion of investors' responsibilities and the clear exclusion of any investor-to-state dispute settlement mechanisms, together with fostering best practices by including transatlantic works councils, are also part of key points of the Declaration.

## 2.2 . TTIP must include binding rules on compliance with international labour standards

One of the main demands of US and European trade unions in relation to the TTIP negotiations is the establishment of a dispute settlement system comprising trade sanctions for labour rights issues. By way of an example, the ETUC, in conjunction with the International Trade Union Confederation (ITUC), has developed some useful principles that would need to be applied in order for a legally binding social clause to effectively function in practice (Kirton-Darling, 2013, p.3):

- Clearly defined stages of procedure including time frames;
- Established review and investigation procedures with the participation of trade unions that include public hearings and fact-finding missions;
- In order for the sanctions to be effective and to deliver results through their dissuasive effect, they must be sufficiently stringent and cause an effective suspension of the trade benefits in the form of countervailing duties. The sanctions must be accompanied by a precise action plan, which could include the reform of labour laws;
- The sanctions should increase by 50% for every year of non-compliance;
- In those cases where sanctions are not effective, sanctions should be broadened to include other sectors;
- The violating party must refrain from all subsidies of the sectors targeted by the sanctions and from other measures aimed at nullifying the trade sanctions.

In addition to the principled outlined above, it would be essential to clearly define the sharing of the financial or trade burden between the Commission and the member states if an EU member state were to be found guilty of a violation of labour standards by an arbitral court. It is important for the ILO to be involved in the procedure in its capacity as the competent international body for assessing compliance with international labour standards. It is also important that this dispute settlement system should not constitute a 'parallel jurisdiction' to that of the ILO, and that it should not issue rulings that are not in line with existing interpretations of ILO conventions and recommendations. Dispute settlement should be based on an independent and transparent complaints handling process, which would allow trade unions and other representatives of civil society to refer matters to the competent bodies.

Social and labour rights are overlapping issues that are relevant to all economic matters. It is thus crucial that they are not 'circumscribed' to a single chapter dedicated to 'Trade and Sustainable Development'. Instead, systematic reference should be made to them in other chapters, particularly in the chapter on public procurement. The European Union has recently revised its legal framework in the area of public procurement by intro-

ducing a mandatory social clause that guarantees respect for labour rights and collective bargaining agreements in the workplace. It is therefore essential that such legislation not be undermined by TTIP. Against this backdrop, reform of the existing policy frameworks should take special account of ILO Convention 94 on public contracts and collective bargaining agreements.

Another important point of the AFL-CIO-ETUC joint position regards investment protection, where they outline their firm opposition to the introduction of an Investor-State Dispute Settlement (ISDS) mechanism. Investors must, of course, shoulder their responsibilities rather than simply enforce their rights. It is imperative that the observance of instruments is an integral part of TTIP. This includes, for example, the OECD's Guidelines for Multinational Enterprises - the recommendations that governments issue to multinationals in order to encourage them to adopt reasonable practices in terms of working relationships, human rights, the environment, taxation, the reporting of information, combating corruption, consumer interests, science and technology, and competition.

Moreover, in order for TTIP to be a vector for disseminating best practices, the scope of European Union Directives on the establishment of European Works Councils would need to be broadened to cover the United States. European Works Councils are transnational bodies, which were created by a 1994 Directive, and which are responsible for representing the European employees of a transnational company. Through these bodies, workers are provided with information and consulted by management on business developments and on any decision of significance at European level that is likely to affect their working or employment conditions. The European trade union movement viewed the adoption of this Directive as a step forward. Applying the Directive on European Works Councils would confer on US workers the same information and consultation rights as those of European workers. Similarly, US companies established in the EU would have to agree to representatives of US workers sitting on Works Councils in Europe.

### 3. Conclusion

The TTIP, if successfully concluded, will bring even closer commercial and investment ties between the two major economic powers in the international arena. It is still 'under construction' but from its very broad scope there is little doubt to note that it has the intention to shape globalisation and the international trade system. The TTIP will possibly also have consequences on the way social and labour standards will be implemented and monitored in other free trade negotiations. Thus, trade unions from both sides of the Atlantic have made clear that If TTIP is to be a model for the rest of the world, or a 'gold-standard' agreement, it should include an effective binding mechanism to ensure the respect of international labour standards. This would act as an effective political driver for enhancing social standards in the United States and in Europe. In this regard, in the eyes of the European and American labour movement, the ILO standards must be central to the Agreement, even though the United States has only ratified two of the eight Core Conventions. Implementation of these Conven-

tions is even more important in the United States, particularly at State level, as some States have an openly anti-trade union policy, which falls outside the remit of the Federal Government. Non-ratification of the main ILO standards is a fundamental obstacle to the US and the EU establishing a free trade agreement as equal partners.

## Bibliography

AFL-CIO (2014). NAFTA at 20. Retrieved August 28, 2015, from [http://www.aflcio.org/content/download/121921/3393031/March2014\\_NAFTA20\\_nb.pdf](http://www.aflcio.org/content/download/121921/3393031/March2014_NAFTA20_nb.pdf).

AFL-CIO (2015). Right to Work. Retrieved August 31, 2015, from <http://www.aflcio.org/Legislation-and-Politics/State-Legislative-Battles/Ongoing-State-Legislative-Attacks/Right-to-Work>.

Bolle, M. J. (2014). Overview of Labor Enforcement Issues in Free Trade Agreements. Congressional Research Service. Retrieved August 28, 2015, from <https://www.fas.org/sgp/crs/misc/RS22823.pdf>.

Compa, L. (2014). Labor Rights and Labor Standards in Transatlantic Trade and Investment Negotiations: An American Perspective. Retrieved August 28, 2015, from <http://transatlanticrelations.org/sites/default/files/CompaFESTTIPpaperJune20.pdf>.

ETUC & AFL-CIO (2014). Declaration of Joint Principles ETUC/AFL-CIO - TTIP must work for the people, or it won't work at all. Retrieved August 28, 2015, from [https://www.etuc.org/sites/www.etuc.org/files/document/files/afl-cio\\_ttip\\_report\\_uk\\_1.pdf](https://www.etuc.org/sites/www.etuc.org/files/document/files/afl-cio_ttip_report_uk_1.pdf).

European Commission (2006). Global Europe: competing in the world a Contribution to the EU's Growth and Jobs Strategy, COM (2006)567, 4 October.

European Commission (2013). EU - US Transatlantic Trade and Investment Partnership - Trade and sustainable development – Initial EU Position Paper. Retrieved August 28, 2015, from [http://trade.ec.europa.eu/doclib/docs/2013/july/tradoc\\_151626.pdf](http://trade.ec.europa.eu/doclib/docs/2013/july/tradoc_151626.pdf).

European Commission (2014a). EU Issue Paper - Roundtable on labour rights and civil society participation in TTIP. Retrieved August 28, 2015, from <http://www.eesc.europa.eu/?i=portal.en.events-and-activities-ttip-labour-rights-documents.33727>.

European Commission (2014b). Expert group to advise European Commission on EU-US trade talks. Retrieved August 31, 2015, from <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1019>.

European Commission (2014c). Commission delegated regulation (EU) No 182/2014 of 17 December 2013 amending Annex III to Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences, EU(2014)182, 27 February.

European Council (2010). Council Decision on the signing, on behalf of the European Union, and provisional application of the Free Trade Agreement between the European Union and its member states, of the one part, and the Republic of Korea, of the other part, EU(2011)265, 14 May. Retrieved August 28, 2015, from [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2011.127.01.0001.01.ENG#L\\_2011127EN.01000601](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2011.127.01.0001.01.ENG#L_2011127EN.01000601).

International Labour Organization (2013). The Social Dimensions of Free Trade Agreements. Retrieved August 28, 2015, from [http://www.ilo.org/global/research/publications/WCMS\\_228965/lang--en/index.htm](http://www.ilo.org/global/research/publications/WCMS_228965/lang--en/index.htm).

International Trade Union Confederation (2014). US take Guatemala to arbitration for anti-union violence. Retrieved August 31, 2015, from <http://www.ituc-csi.org/us-take-guatemala-to-arbitration?lang=en>.

Kirton-Darling, J. (2013, November 27). EP INTA Hearing on Sustainable Development Chapters in Trade Agreements. Retrieved August 28, 2015, from [http://www.etuc.org/sites/www.etuc.org/files/EP\\_INTA\\_Hearing\\_on\\_Sustainable\\_Development\\_Chaptersspeechtemplate\\_1.pdf](http://www.etuc.org/sites/www.etuc.org/files/EP_INTA_Hearing_on_Sustainable_Development_Chaptersspeechtemplate_1.pdf).

Vogt, J. S. (2014). Trade and Investment Arrangements and Labour Rights. In L. Blecherr & N. Kaymar Stafford & G. C. Bellamy (Eds.), *Corporate Responsibility for Human Rights Impacts* (pp. 121-175). Chicago, Illinois: American Bar Association.

# A Job Guarantee for the Eurozone: The role of the European Central Bank and an alternative approach toward full employment

Diego Del Priore, University of Teramo

*'High unemployment represents a waste of resources so colossal that no one truly interested in efficiency can be complacent about it. It is both ironic and tragic that, in searching out ways to improve economic efficiency, we seem to have ignored the biggest inefficiency of them all.'*

Alan Stuart Blinder, economist, Princeton University  
(Mitchell & Muysken, 2008, p. 18)

## 1. Introduction

On 26 March of this year, a number of eminent academics and economists sent a letter to *The Financial Times*, a few days after an announcement by the President of the European Central Bank (ECB), Mario Draghi. He had stated that he wished to inject a dose of Quantitative Easing (QE), as an 'unconventional measure' with a view to boosting economic growth and stimulating the credit capacity of banks. In the letter, the group of economists stressed the need to directly finance government spending whilst avoiding the injection of even more liquidity into the finan-

cial markets. Instead, they called for a mix of monetary and fiscal policies designed to combat unemployment, arguing that monetary policy alone would not work. The European Central Bank has arguably taken on a pivotal role in the current architecture and governance of the Eurozone. This article aims to provide an alternative perspective with regard to the role of the ECB in the current economic and social landscape of Europe. As the European Central Bank forecasts unemployment in the Eurozone to remain at 10 per cent even after €1.1tn of quantitative easing (Chick et al., 2015), this paper deals with a series of potential reforms and alternative approaches that the Frankfurt-based Institution might adopt in order to achieve what should be considered the foremost priority of any political and social agenda: full employment.

The goal is to offer a range of elements that will enable a critical assessment of the current state of affairs in the Union. This study suggests possible alternative approaches based on post-Keynesian economic literature. With the sound conviction that, quoting John Maynard Keynes, governments must do everything that is humanly possible to produce ‘a reduction of the unemployed to the sort of levels we are experiencing in wartime...that is to say, a level of less than 1 per cent unemployed’ (Tcherneva, 2011). In the first part, the paper offers a critical analysis of the current role of the ECB and the potential ways to reform its remit and political structure. Also, this section briefly addresses the thorny question of its accountability, its independence and the democratic deficit. The second paragraph provides the theoretical contribution by the neo-Keynesian literature to the ‘inflation-full employment’ debate. In particular, this part briefly presents the potential advantages of a full employment-addressed policy, in terms of social and economic benefits. Thus, the third and final part scrutinises the job guarantee policy (JG), as it is considered a crucial means at governments’ disposal in order to ensure full employment. This final paragraph - after having retraced the implementation of JG initiatives in Argentina at the beginning of the 2000s - offers a range of concrete proposals whose adoption might constitute credible and feasible alternatives to the current EU economic agenda.

## 1. The new issuer of the currency: the European Central Bank

### 2.1. Functions and objectives: A critical analysis

By virtue of the adoption of the common currency, a crucial change has occurred in Europe, in the framework of the economic governance and of the political economy. Since 2002, the European Central Bank has assumed the position of single ‘issuer’ of the new currency. At the same time, the member states – in line with the architecture of the Eurozone – have transformed themselves from ‘issuers’ of their national currencies to mere ‘users’ of the euro. This transfer of monetary sovereignty has entailed a range of consequences for the functioning of the economies of the Eurozone members.

The role of the European Central Bank is brought out in the European Treaties – above all the Treaty on the Functioning of the European Union (TFEU) – and the Statute of the European System of Central Banks (ESBC). Article 126 of the TFEU affirms: ‘The primary objec-

tive of the European System of Central Banks [...] shall be to maintain price stability'. The article adds that 'without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union'. Paragraph 3 of Article 126 of the provision recalls that – after having emphasized the need to establish the internal market – the Union 'shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment'.

The Statute of the European System of Central Banks and of the European Central Bank contains the same rationale. In terms of objectives, Article 2 defines price stability as the 'primary' goal. Thus, full employment is not part of the ECB's mandate, at least not as an overriding goal. With regard to tasks, Article 3 affirms that the ESBC should 'define and implement the monetary policy of the Union; to conduct foreign exchange operations consistent with the provisions of Article 219 of that Treaty; to hold and manage the official foreign reserves of the member states; to promote the smooth operation of payment systems'. Indeed, price stability is the core objective of the ECB and the use of monetary policy constitutes its most privileged mode of operation. Recent figures testify the difficulties –and the controversial degree of success – experienced by the Institution in pursuing its objectives. The inflation rate in the Eurozone was at the negative value of -0.6% in January 2015, with an increase to 0.2% registered in June; something that has resulted in eliminating the threat of deflation that had loomed on the horizon over the course of the last few months. Nevertheless, this performance is far from the reference value of around 2% declared by the ECB's Governing Council. On the other hand, the situation in the employment and labour markets in Europe appears gloomy, to say the least, despite the adoption of a series of instruments on the part of the EU establishment designed to improve economic governance. Joan Muysken, professor of economics at Maastricht University, points out that 'the dramatic increase in unemployment in the so-called GIISP countries - Greece, Italy, Ireland, Spain, Portugal - after the financial crisis (doubling in Italy and Portugal and tripling in Ireland, Spain and Greece) is an indication that the main cause of unemployment is demand deficiencies imposed by austerity measures, instead of the dominant view of rigidities on the labour market' (Muysken, 2015, p. 5). The Organisation of Economic Cooperation and Development (OECD) also recognises that, in most countries, weak aggregate demand remarkably weights on the persistence of high unemployment (Muysken, 2015, p. 12).

## 2.2. Political changes needed: Accountability, independence and democratic deficit

Identifying full employment as the principal objective of the European economic and social agenda supposes a politically remarkable set of changes involving the European governance and in particular the European Central Bank's structure. First, a reformulation of



objectives is required, in order to include high and sustainable levels of employment under the terms of the Statute of the ECB. Second, the principle of the independence of the institution has to be submitted to a critical review. Article 130 of the TFUE states that:

*'When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a member state or from any other body. The Union institutions, bodies, offices or agencies and the governments of the member states undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks.'* (TFEU, 2008, art.130)

With full employment as its foremost priority, the ECB should operate with regard to national governments within the European Monetary Union in the manner in which a national central bank operates with regard to a national government. On a political level, the necessity for a more effective and stronger role on the part of the European Parliament is considered consistent with our analysis. This would contribute to reducing the democratic deficit that many associate with the ECB (Arestis & Sawyer, 2013, p. 253). As the single directly elected Institution of the European Union, the Strasbourg-based Assembly should exert greater control over and seek to render this Institution more accountable. A comparison with the US Federal Reserve is useful in order to consider what institutional features of a Central Bank the ECB might encompass. For instance, in the US system, the presidential appointments to the Bank's membership are subject to confirmation by Congress while, in Europe, the Parliament has but the mere right to be consulted. Stronger parliamentary oversight over the ECB might entail greater control when dealing with cases of misconduct among members. In the United States, Federal Reserve officials are, similarly, subjected to impeachment procedure by the US Congress should the need arise. With regard to the principle of independence, it is interesting to note that there is a potential conflict of interest involving ECB members that simultaneously sit the board of other institutional or political bodies. For instance, this is the case with the current president Mario Draghi who – like his predecessor, Jean-Claude Trichet – is a member of the Group of Thirty. Established in 1978, the Group defines itself as 'a private, non-profit, international body composed of very senior representatives of the private and public sectors and academia. It aims to deepen understanding of international economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and policymakers'.<sup>1</sup> A further controversial phenomenon is that of the 'revolving door'. To prevent conflicts of interest, an assessment

---

1 See [www.group30.org](http://www.group30.org) (retrieved October 10, 2015). To deepen the topic, see also: Tsingou, E., (2012). Club model politics and global financial governance: the Case of the Group of Thirty. Amsterdam Institute for Social Science Research (AISSR). Retrieved October 10, 2015, from: <http://dare.uva.nl/document/2/145922>.

procedure has been set up to deal with those cases where senior ECB executives are hired in the private sector in paid jobs that might represent a degree of incompatibility with their role in the ECB. Again, it might be suggested that the European Parliament might play a more prominent role, in this respect, contributing to the greater political credibility of the Frankfurt-based institution as pivotal actor in the EMU (Transparency International, 2012).

## 2. An issue of priorities: The inflation-full employment debate

### 3.1. Lerner, Kalecki and the Modern Monetary Theory: The advantages of full employment

Competitiveness, flexibility of labour markets, fiscal consolidation, structural reforms, and price stability are all core ingredients in the European establishment's recipe for the EU crisis. While – according to the EU economic machine – inflation remains the principal concern, the insufficiency of aggregate demand and the necessity of paying greater attention to demand-side economics in general is something that has been repeatedly emphasised by a whole batch of Keynesian economists, who have called for an alternative approach to the contemporary crises.

The issue was addressed by the Polish economist, Abba Lerner, the father of the 'functional finance'.

'The central idea - he argues - is that government fiscal policy, its spending and taxing, its borrowing and repayment of loans, its issue of new money and its withdrawal of money, should all be undertaken with an eye only to the results of these actions on the economy and not to any established traditional doctrine about what is sound and what is unsound. [...] The principle of judging fiscal measures by the way they work or function in the economy might be termed Functional Finance.' (Lerner, 1943, p. 39)

In his works, Lerner focused on the advantages of full employment. First, it increases efficiency in a context in which the costs of unemployment remain dramatic. These include the permanent loss of output of goods and services alongside the social costs resulting from increased crime, illness, and other social problems. Second, a policy devoted to full employment might have a direct effect on ethnic discrimination – or on discrimination in general – with regard to available sources of labour. There is, perhaps, a lesson to be learned here with regard to the current difficulties Europe is experiencing in managing migration flows and the growing reluctance of European societies to take in migrants. On this point, Lerner underlines that a group of workers has the economic interest in protecting their scarce jobs against competition from outside (Forstater, 1999). This tendency would be significantly decreased were there to be less scarcity on the job market. Moreover, full employment is central to social stability. Without employment and security of income, citizens remain vulnerable and are, hence, more susceptible to the lure of anti-democratic political movements.

On 27 August 2010, Jean-Claude Trichet, then President of the European Central Bank, stated that ‘a recurrent suggestion for solving a debt overhang is the creation of surprise inflation. Again, let me clearly dismiss this type of action. The history of the debasement of money through hyperinflation has been disastrous everywhere. Even before reaching extremely high levels, surprise inflation produces an arbitrary redistribution of wealth and creates a burden for the unprepared, especially the weakest’ (Trichet, 2010).

An effective response to the statement of the former president of the Banking institution might be found in the work of the economist Michal Kalecki, who has added his voice, crucially, to debates about inflation. Kalecki argued that

*‘it may be objected that government expenditure financed by borrowing will cause inflation. To this it may be replied that the effective demand created by the government acts like any other increase in demand. If labour, plants, and foreign raw materials are in ample supply, the increase in demand is met by an increase in production. But if the point of full employment of resources is reached and effective demand continues to increase, prices will rise so as to equilibrate the demand for and the supply of goods and services.’* (Kalecki, 1943, p. 2)

Kalecki and Lerner constitute, along with other economists and academics, the scientific references of the school of economics known as Modern Monetary Theory (MMT). MMT represents a sophisticated and theoretically elaborate description of the role of money, one that underlines the role of government budget deficits in achieving the primary objective of any political, economic and social policy: full employment. Modern Monetary Theory builds its economic principles on the heritage of John M. Keynes, Friedrich Knapp, Abba Lerner and his ‘functional finance’, Hyman Minsky, Wynne Godley, father of ‘sectoral balances’ analysis, and Charles Goodhart of the Bank of England and the London School of Economics. Today, its contemporary exponents are a group of economists including Warren Mosler, Randall Wray, Stephanie Kelton, Mathew Forstater, William Mitchell, Marshall Auerback, Alain Parguez, Michael Hudson. These economists provide a significant contribution to the comprehension of monetary systems and of the European Monetary Union, also offering arguments relating to the potentiality of money – sovereign currencies – in pursuing public interest and full employment.

### 3. Toward full employment: Lessons from the past and proposals for the future

#### 4.1. The Job Guarantee

Public policies that might properly tackle a lack of demand – such as that currently experienced by the Eurozone economies – include direct public benefit job creation. This economic proposal is based on the theoretical framework offered by Hyman Minsky and his notion of the ‘Employer of Last Resort’ (ELR). It is a policy under which government offers a job guarantee to ensure full employment when markets fail to do so. The job guarantee (JG)

envisages a job paid at the minimum wage for all who are willing and able to work but cannot find alternative employment opportunities. The advantages that would derive from the adoption of a policy of this sort include the creation of demand for labour. Indeed, it represents a step that would absorb the unemployed in productive activities that improve public infrastructures, both social and physical whilst improving the standard of living and the well-being of individuals in general (in the form of public buildings, care for the elderly, parks, computerisation of public records and services, etc...). Furthermore, an employment policy that was developed along these lines would arrest the downward pressure in labour markets, particularly with regard to wages and work conditions. In fact, the programme offers a minimum wage and a secured threshold of social protection, in respect to existing wage arrangements. This effect is particularly welcome in times of crisis and high unemployment, preventing the proliferation of informal and precarious working conditions. A further benefit brought about by this policy in the social and economic environment is the generation of positive multiplier effects in other sectors of the economy. This would be generated by, for instance, the spending of wages by employed workers and through the purchase of input for the new work undertaken (Antonopoulos, Adam, Kim, Masterson & Papadimitrou, 2014, p. 7). Particularly consistent with the realisation of the public interest is the consideration of environmental projects. These represent a specific and ideal engagement considered by JG initiatives and would constitute a measure that would actively contribute to sustainability, which is among Europe 2020's priorities.

With specific regard to the current ECB remit, a JG programme would not conflict with the objective of price stability. As advocated in a study by Muysken and Mitchell, 'from a macroeconomic perspective it is important to note that a JG will be paid according to the mandatory minimum wage, thus keeping the earnings below the prevailing wage rate on the labour market. The JG acts as a job buffer, ensuring that there is full employment over the business cycle, while inflation is kept under control' (Mitchell & Muysken, 2008). This concept is also defended and further elaborated by Pavlina R. Tcherneva, associate professor of economics at Bard College. 'In recessions - she argues - workers who are laid-off from the private sector find jobs in the ELR programs, expanding government spending counter-cyclically. Once the economy recovers, they are hired away from the public sector into better-paying private sector jobs, reducing public expenditure' (Tcherneva, 2012, p. 3).

#### **4.2. Argentina, the economic crisis and the 'Plan Jefes': A case in point**

There are a number of examples in the recent history in which employment initiatives of such a nature have found concrete implementation. Amongst these, a policy carried out in Argentina arguably constitutes a case in point. It was the 'Plan Jefes y Jefas de Hogares', embraced by the Argentinean government in 2002, more than ten years after the adoption of a currency board based on the US dollar and three years of recession. The currency board established a fixed exchange rate under which the Argentinean peso was pegged to the US

dollar. While the measure seemed to work in the short-run, the economic and social situation of the country began to worsen. The 'straitjacket' created by the currency board and the staggering effects on the Argentinean economy gave rise to a number of violent demonstrations in the streets of Buenos Aires that caused more than thirty deaths at the hands of the police. After a decade of the currency board, unemployment had spiralled to almost 25% of the active population and poverty affected nearly 42% of households and more than half of the population. 'The currency board – Daniel Kostzer, Coordinator of the Social Development Cluster of the United Nations Development Programme (UNDP), affirms – was characterised by a reduction in the degree of freedom of macroeconomic policies, mainly monetary. The pressure for fiscal surpluses implied a lack of tools for intervention in the midst of a recession for more than three years' (Kostzer, 2008, p. 8).

The increasing pressure from the civil society and in the social environment that has just been described resulted in the collapse of the fixed-exchange rate regime and the elaboration of the Plan Jefes, an employment programme with a number of aspects. The Plan Jefes provided a payment of 150 pesos per month to a head of household for a minimum of four hours of daily work. Participants worked primarily in community projects and were directed to training programmes, including a back to school programme. To be eligible, members of the household were to include either a pregnant mother, children under the age of 18 or persons with disabilities. Generally speaking, only one member of the household was eligible to receive the benefits of the programme, whose total spending amounted to 1 percent of GDP, a sum that was distributed amongst almost 2 million participants. This was equivalent to around 5 percent of the population and 13 percent of the labour force (Tcherneva, 2012. p. 9). Work undertaken by the World Bank and the Ministry of Labour testified to the positive results achieved by the Plan, with the 3 million unemployed in May 2003 being reduced to 1.3 million by 2006. The unemployment rate was halved from 21.5% in 2002 to 10.4% in 2006 whilst the purchasing power of the minimum wage at the end of 2006 was more than double that of December 2001 (Kostzer, 2008, p. 28).

Some have underlined the similarities between the situation of the countries belonging to the Eurozone and the Argentine currency board. 'Much like the 'Eurostates' that adopted the euro - Randall L. Wray, professor of economics at the University of Missouri Kansas City, claims - Argentina from that point forward (the adoption of the currency board) surrendered currency sovereignty as it became a user of a currency rather than an issuer. The 'Eurostates' that have adopted the euro are now non sovereign governments in the sense that they have become users of a currency, not currency issuers, essentially like American states or like a dollarised Argentina. The new potentially sovereign entities are the ECB and the European Parliament, not the nation states.' (Wray, 2003, p. 7)

#### 4.3. A Job Guarantee Programme for the Eurozone

In the Eurozone, the role of the European Central Bank in the framework of a proposal of 'Job Guarantee' has aroused a great deal of interest, above all against the background supplied by budget constraints imposed on member states in terms of fiscal rigidities. As has

been pointed out, since the adoption of the common currency, the Frankfurt-based institution has acquired the crucial function of ‘issuer’ of the euro, and in the process now possesses a monopoly on emission. In the light shed on this question by post-Keynesian literature – and in the context of the monopoly the bank enjoys – the ECB has all the necessary prerogatives and powers to effectively rescue the economies of the Eurozone countries. The main ground of debate remains political given the downplaying of the importance of full employment in the Treaties and the Bank’s Statute.

A concrete proposal that would restore growth and full employment is the use of money to finance job guarantee programmes in the Eurozone. There are a series of means through which this JG might be pursued. These include, firstly, the putting into question of the validity of a recent initiative presented by the President of the European Commission, Jean-Claude Juncker: ‘An Investment Plan for Europe’, known as the ‘Juncker Plan’. It seeks to invest 315 billion euro – either from private or public funds– in the European economy, with a core funding role of other institutions including the European Investment Bank. As the economic and social approach of this paper suggests, this amount, or part of it, might be invested in the implementation of job guarantee initiatives. Such direct job creation – ‘guaranteed’ by the European Central Bank – could provide more effective benefits to the economy of the Eurozone member states, with full employment as a foremost priority. A second option takes into account the necessity to reconsider the exclusive use of the monetary arm by the ECB, as was done with QE.

The measure has been criticised by a series of analysts, who have stressed the argument ‘that by providing the injection through bond purchasing programs there is a threat of a new asset bubble from which only the already wealthy will profit’ (Muysken, 2015, p. 17). In this respect, the efforts achieved through the Quantitative Easing - an amount of 1.3 trillion euro - might be re-allocated, even partially, with a view to fostering employment policies including initiatives that aim to provide employment for the most vulnerable social groups. A further solution, where the ECB casts of the garb of its monetary function and adopts the robes of a real fiscal authority might also be found in a Draft Report of 11 June 2013 by the then Deputy president of the European Parliament and Rapporteur of the Committee of Economic and Monetary Affairs of the EP, Gianni Pittella. In this document it was suggested that the ‘ECB might investigate the possibilities of implementing new unconventional measures aimed at participating in a large, EU-wide pro-growth programme, including the use of the Emergency Liquidity Assistance facility to undertake an ‘overt money financing’ of government debt in order to finance tax cuts targeted at low-income households and/or new spending programmes focused on the Europe 2020 objectives’ (European Parliament, 2013). Even though the draft report was amended many times, and its original rationale was largely buried under successive revisions, it contains a worthy alternative proposal, and one that addresses the question of the prerogatives of the ECB and which is coherent with the approach proposed in this paper.

For his part, Biagio Bossone a member of the Centre d’Études pour le Financement du Développement Local has proposed a ‘large pro-growth stimulus programme’. This propos-

al, rejecting the measures associated with QE, consists in undertaking ‘overt money financing’ (OMF) of government debt through the Emergency Liquidity Assistance (ELA), provided under the Statute of the European System of Central Banks. ELA should be used to finance government programmes of spending or tax reduction through permanent purchases of newly issued public debt. Thus, a fiscal function of the ECB combined with monetary policy is offered as an alternative to the instrument of Quantitative Easing, which ‘injects money to Wall-Streeters, not to Main-Streeters. Traders, hedge funds, investors, financial engineers, banks, high-wealth individuals, and speculators benefit from QE-inspired bond and asset price bubbles. But that tiny minority has a low propensity to consume ordinary goods and services’ (Bossone & Wood, 2013). William B. Mitchell, professor at the University of Newcastle (Australia), adds that the adoption of the OMF proposal might allow member states to have sufficient deficit spending to increase employment and to immediately introduce a job guarantee programme (Mitchell, 2013).<sup>2</sup>

## 5. Conclusions

The determination with which austerity policies based on fiscal consolidation have been pursued and the alarming consequences for employment levels that derive from this has resulted in a desire to investigate alternatives to a, hitherto, often hegemonic economic theory. Post-Keynesian literature suggests that the pursuit of policies that seek to generate full employment – not simply in terms of a fundamental individual human right as in Article 23 of the Universal Declaration of Human Rights<sup>3</sup> but also in terms of an effective core instrument in the formulation of macroeconomic policy - would contribute directly to resolving the Eurozone crisis. The debate around alternatives and otherwise ‘heterodox’ solutions to the crisis inevitably includes political and ideological considerations.

Such considerations are all the more pertinent against the background supplied by the Greek crisis and in light of the measures taken by the EU establishment with a view to bringing the crisis to an end. These measures are not simply neutral or objective: they derive from a neo-liberal doctrine that is prone to bury its head in the sand when the question of the actual results of this policy is raised. Such an approach is directly contrary to the advice proffered by Abba Lerner and adherents of ‘functional finance’. This approach stresses the advantages of furthering full employment and using this full employment as a means of providing direct benefits not only to citizens but also to businesses. In this context, it remains the case that the question of the role of the ECB is of central importance. The first option avail-

---

2 Mitchell, W. (2013, 28 November). OMF – paranoia for many but a solution for all. Billyblog. Retrieved October 10, 2015, from: <http://bilbo.economicoutlook.net/blog/?p=26300>.

3 Article 23 of the Universal Declaration of Human Rights declares: ‘Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. Everyone, without any discrimination, has the right to equal pay for equal work. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, by other means of social protection. Everyone has the right to form and to join trade unions for the protection of his interests.’

able to it is that it develops a more ‘political’ role with regard to labour policy and the achievement of full employment – given its key function as the unique issuer of a common currency – as this supposes the pursuit of the neo-Keynesian policies that have been touched on above. Alternatively, it might pursue the path that it has already followed for some time. The danger is that this will lead to European fragmentation and a centripetal movement as states seek to re-gain economic sovereignty. The price to be paid for the pursuit of a more ‘social’ policy in such circumstances might well be a drastic weakening of the European Union.

## Bibliography

- Antonopoulos, R., Adam, S., Kim, K., Masterson, T., & Papadimitrou, D., B. (2014). Responding to the Unemployment Challenge: A Job Guarantee Proposal for Greece. Observatory of Economic and Social Developments, Labour Institute, Greek General Confederation of Labour.
- Bossone, B. & Wood, R. (2013, 22 July). Overt Money Financing of Fiscal Deficits: Navigating Article 123 of the Lisbon. EconoMonitor. Retrieved October 10, 2015, from: <http://www.economonitor.com/blog/2013/07/overt-money-financing-of-fiscal-deficits-including-navigation-through-article-123-of-the-lisbon-treaty/>.
- Chick, V., et al. (2015, March 26). Better ways to boost Eurozone economy and employment, Financial Times. Retrieved October 10, from: <http://www.ft.com/cms/s/0/7bc99348-d40b-11e4-99bd00144feab7de.html#axzz3mfIwXAhV>.
- Consolidated Version of the Treaty on the Functioning of the European Union, Official Journal of the European Union, C/115/47, 9 May 2008.
- European Parliament (2013). Draft Report on the European Central Bank Annual Report for 2012, 2013/2076(INI), 11 June.
- Forstater, M. (1999). Functional Finance and Full Employment: Lessons from Lerner for Today? New York: The Jerome Levy Economics Institute.
- Kalecki, M. (1943). Political Aspects of Full Employment. Cambridge: Political Quarterly.
- Kostzer, D. (2008). Argentina: A Case Study on the Plan Jefes y Jefas de Hogar Desocupados, or the Employment Road to Economic Recovery. New York: Levy Institute of Bard College.
- Lerner, A. (1943). Functional Finance and the Federal Debt. Social Research, 10 (1), pp. 38-51.
- Mitchell, W. (2013, 28 November). OMF – paranoia for many but a solution for all. Billyblog. Retrieved October 10, 2015, from: <http://bilbo.economicoutlook.net/blog/?p=26300>.
- Mitchell, W. & Muysken, J. (2008). Full Employment Abandoned: Shifting Sands and Policy Failures. Cheltenham: Edward Elgar.



- Muysken, J. (2015). *Inclusive Labour Market: A role for Job Guarantee*, Centre of Full Employment and Equity. Maastricht University: Center of Full Employment and Equity Europe (CofFEE).
- Sawyer, M. (2013). *Alternative economic policies for the economic and monetary union. Contributions to Political Economy*. Oxford, UK: Oxford University Press.
- Tcherneva, R.P. (2011). *Fiscal Policy Effectiveness: Lessons from the Great Recession*. New York: Levy Economics Institute of Bard College.
- Tcherneva, R.P. (2012). *Beyond Full Employment: The Employer of Last Resort as an Institution for Change*. New York: Levy Economics Institute of Bard College.
- Transparency International (2012). *Improving the accountability and transparency of the European Central Bank*. Retrieved October 10, 2015, from: [https://www.transparency.de/fileadmin/pdfs/Themen/Finanzmarkt/2012-10-18\\_TI\\_ECB\\_position\\_paper\\_final-1.pdf](https://www.transparency.de/fileadmin/pdfs/Themen/Finanzmarkt/2012-10-18_TI_ECB_position_paper_final-1.pdf).
- Trichet, J. (2010, 28 June). *Central banking in uncertain times: conviction and responsibility*. Speech at the symposium on “Macroeconomic challenges: the decade ahead”, Jackson Hole.
- Tsingou, E. (2012). *Club model politics and global financial governance: the Case of the Group of Thirty*. The Amsterdam Institute for Social Science Research (AISSR).
- Wray, L. R. (2003). *Is Euroland the Next Argentina?* Missouri Kansas City: Center for Full Employment and Equity.

# Rapidly changing labour markets: Is EU flexicurity still the answer?

Florian Ranft and Renaud Thillaye, Policy Network

## 1. Introduction

The EU has been constantly prompting member states to undertake structural reforms of labour markets towards a model of flexicurity over the last decade. Flexicurity, as defined by the European Commission, is ‘an integrated strategy to enhance, at the same time, flexibility and security in the labour market’ (European Commission 2007, p. 4). In practice, this has often been perceived as easing job protection only at a time when the nature of employment is changing at a rapid pace. Gone are the days when people were either in work or not (Atkinson, 2015). Instead, atypical forms of labour—part-time employment, temporary agency work, fixed-term contracts and self-employment—are on the rise in European economies. These developments risk resulting in increasingly polarised labour markets of ‘insiders and outsiders’- those with stable jobs and those in precarious employment or without a job. Yet insiders might also feel more insecure today since another recent trend has been the development of ‘internal flexibility’, namely the possibility for companies to adjust working time and wages in difficult times.

This paper is a contribution to the debate on the limits of flexicurity, and it addresses the question of how progressives can reclaim ownership of the debate on structural labour market reform at EU level. A key assumption in this piece is that flexible working arrangements can only be regarded as positive if they are chosen by workers and not forced upon them. In the context of the service economy and the digital economy, greater individual choice and the effective ability to ‘move on’, change career or combine several activities should be promoted.

Overall, we argue that the EU's flexicurity agenda started from good intentions, but that its inconsistent implementation and a new context following the crisis have revealed a number of downsides and risks. It is time for the EU to reconsider its recommendations for labour market reforms at a moment when career insecurity is structurally high in many EU countries, and when public resources to support workers are under pressure.

The paper starts by reviewing how the EU's flexicurity strategy has evolved over the last 15 years, showing significant tensions between some of its stated objectives, and the lack of compelling achievements. This retrospective shows that governments inadequately translated 'flexicurity' into national legislation, thereby deflating the original goal of the concept. The second part widens the scope and looks at the structural shifts on labour markets, such as polarisation and the rise in atypical unemployment, which are due to a combination of technological change and political choice. We find that the current dynamic in Europe's labour markets questions the early philosophy of 'flexicurity' as a win-win model for all employees, because the rise in flexibility has not been matched by adequate safety nets. The third section reviews the evidence on the impact of those trends on employment, career prospects and job/life satisfaction, and how these trends conflict with 'flexicurity'. Finally, the paper formulates some recommendations to reboot the EU's flexicurity strategy, both addressing the risk of excessive flexibility on labour markets, and the insufficient support given to life-long career security and mobility through choice.

## 2. The EU's flexicurity approach: Historical background and implementation

### 2.1 Flexicurity before the crisis

Labour market reforms are not a new objective of European policy. In many respects, this agenda has only been pressed ahead in the wake of the recent financial and economic crisis. In 2000, the Lisbon Strategy made it plain clear that Europe needed 'more and better jobs'. The 2003 Employment Guidelines list a number of areas in which member states need to undertake structural reforms, including the 'promotion of adaptability and mobility [...] with a view to diversifying contractual and working arrangements, and to creating a better balance between work and private life and between flexibility and security.' (European Council, 2003). In 2007, following a request from the European Council, the European Commission issued a communication on flexicurity that sought to develop a 'set of common principles' (European Commission, 2007).

In the 2007 communication, 'flexicurity' is presented as an integrated, 'win-win' strategy for both workers and companies. 'It is not limited to more freedom for companies to recruit or dismiss, and it does not imply that open-ended contracts are obsolete'. Indeed, flexibility refers both to employees' 'successful moves' and 'flexible work organisations' (European Commission 2007, p. 45). The security leg must guarantee that workers enjoy adequate unemployment benefits and skills. The communication also emphasises broad popular support

for the strategy, with 72% of Europeans being in favour of more flexible contracts ‘to encourage job creation’.

What is striking in the EU’s early approach to ‘flexicurity’ is the firm belief that ‘flexible and reliable contractual arrangements’ – one of the four components of ‘flexicurity’ identified alongside ‘comprehensive lifelong learning’, ‘active labour market policies’ and ‘modern social security systems’ – are beneficial to the employee. Interestingly, the document adds that ‘although the impact of strict EPL (employment protection legislation) on total unemployment is limited, it can have a negative impact on those groups that are most likely to face problems of entry into the labour market, such as young people, women, older workers and the long-term unemployed’ (European Commission 2007, p. 5), leading to labour market fragmentation by pushing up the number of short-term, insecure contracts.

The EU’s flexicurity agenda was designed before the 2008 financial crash at a time when economic prospects were upbeat. It barely acknowledged the risks associated with such a strategy.

## 2.2 Flexicurity after the crisis

A 2012 assessment report from GHK, a consultancy firm, noted that neither the Europe 2020 Strategy nor the 2010 Employment Guidelines departed fundamentally from the Lisbon ‘flexicurity’ paradigm. The Commission, however, became aware of the challenge of financing costly active labour-market policies for member states under budgetary strain. Therefore more attention was paid to ‘internal flexicurity’, namely flexible arrangements within companies in order to retain workers through flexible work arrangements. This also came from the realisation that, in a deteriorated economic and social environment, an ‘over-emphasis on flexibility in governments’ reform efforts [may come] at the expense of job and/or income security’, with dramatic consequences on individuals’ life trajectory (GHK, 2012, p.18).

The shift was visible in the document ‘An Agenda for new skills and jobs’, one of the Europe 2020 ‘flagship initiatives’ (European Commission, 2010). On contractual arrangements, the EC suggests ‘focusing on reducing labour market segmentation, including by making greater use of open-ended contracts and putting greater weight on internal flexibility to help employers adjust labour input to the temporary fall in demand while preserving jobs.’ The prescriptions are more precise in the 2012 ‘Employment Package’: the Commission prescribes the use of internal flexibility and differentiated minimum wages to save existing jobs. At the same time, given the high uptake of atypical contracts (part-time, fixed term and temporary), it advocates ‘measured and balanced reforms in employment protection legislation in order to remedy segmentation or (reforms) to halt the excessive use of non-standard contracts and the abuse of bogus self-employment’. The document also stresses that ‘all types of contractual arrangements should give jobholders access to a core set of rights (including pension rights) from the signature of the contract, including access to lifelong learning, social protection, and monetary protection in the case of termination without fault’ (European Commission 2012, p. 10-11).

Hence, starting with very optimistic rhetoric on ‘more and better jobs’ in the early 2000s, the EU moved to a more low key emphasis on keeping and opening up existing jobs. Its reaction to the post-2008 economic and social crisis was to advocate flexicurity further as a way to contain rising unemployment in a deteriorated macroeconomic environment. This approach faces potential contradictions and tensions, which appear not to have been properly thought through:

- ‘Internal flexicurity’ might be detrimental to outsiders and lead to further dualism;
- Looser employment protection legislation (EPL) might translate into more atypical forms of employment rather than into the creation of open-end contracts for all;
- More jobs might not mean better jobs.

To complete this overview of the EU’s flexicurity agenda, we look next at the way in which the European Commission translated general thinking into policy prescriptions for member states over the last few years.

### 2.3. EU recommendations on labour markets: Case studies 2011-2015

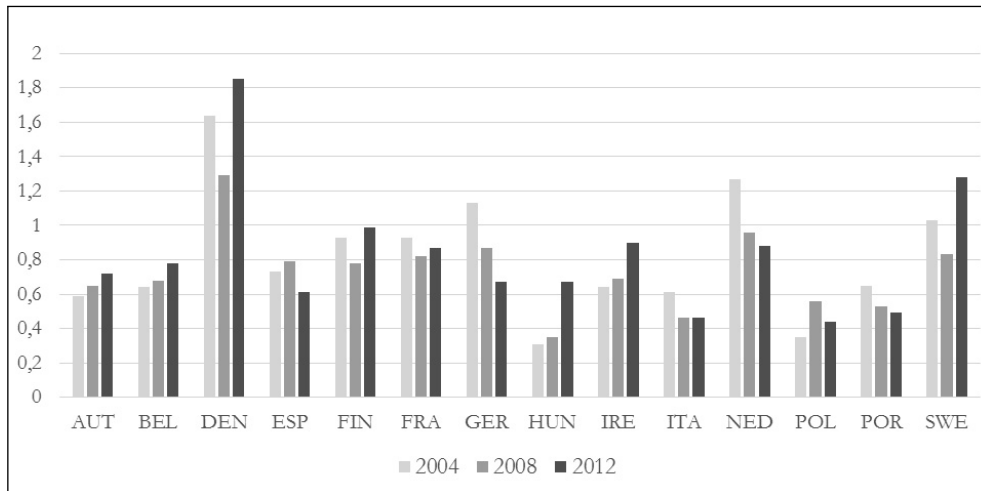
A look at the Annual Growth Survey (AGS; the overarching document kicking off the European Semester every year) and Country Specific Recommendations (CSRs) over the last 5 years (2011-2015) shows that the Commission (and, by extension, the Council, which signs CSRs off) has, on paper, tried to balance between the various dimensions of ‘flexicurity’. Table A1 in the Annex provides a snapshot of the recommendations for labour market reforms to the whole bloc, and to four countries representative of distinct clusters or welfare models in 2011, 2013 and 2015. The AGS tends to promote both more flexible permanent contracts and greater internal flexibility. When it comes to individual countries, the EU urges national governments both to tackle fragmentation and exclusion on the one hand, and to promote upgrading towards quality, skill-intensive jobs on the other.

Nevertheless, the recurrence of recommendations (raising young people’s skills in the UK, tackling mini-jobs in Germany, improving active labour market policies in Spain, support for outsiders in Sweden) implies that governments have not delivered at all, or only delivered a little. This confirms an observation made in the 2012 GHK report, according to which member states have a tendency to narrow ‘flexicurity’ down to contractual arrangements issues (overlooking the ‘security’ aspects). Both the GHK report and a study by the European Trade Union Institute (ETUI; Clauwaert & Schömann, 2012) have identified the creation or the extension of atypical contracts (fixed-term contracts, temporary agency work, part-time work, or special contracts for young people) as a major trend throughout the EU since the crisis. The ETUI also found ample evidence of the softening of rules on dismissals (such as shorter notice periods, the extension of the ‘economic reasons’ motive, the limitation of workers’ consultation rights and of companies’ social obligations) throughout the EU, especially in the Anglo-Saxon and Mediterranean region.

The promise of ‘flexicurity’, as promoted by the EU, is that the flexibility of contractual arrangements is counterbalanced by adequate unemployment benefits and active labour market

## Rapidly changing labour markets: Is EU flexicurity still the answer?

policies. Yet, in the light of austerity following the financial crisis, governments have instead widely restrained spending and curtailed social protection in order to stay globally competitive.



Graph 1: Expenditures for active labour market programmes as a % of GDP, selected EU countries: 2004, 2008 & 2012.<sup>1</sup>

Graph 2 depicts the GDP share (in %) of active labour market programmes (ALP) representing the security-side activities of EU governments before (in 2004), at the beginning (in 2008) and after the crisis (in 2012). In general, active labour market programmes include measures that enhance job qualifications as well as vocational guidance, job search assistance or leave schemes and thus are targeted at increasing the chances for the jobless. The graph shows that a profound structural divergence across EU member states is a key trend. Whereas countries such as Italy, Spain and Portugal that suffered considerably from economic distraction and high unemployment after 2007/08 saw a decrease in ALP spending, others have either returned to pre-crisis levels, or scaled up their efforts, at labour reintegration. At the same time the Southern European countries alongside Hungary have undertaken structural labour market reforms, introducing more flexibility by cutting employment protection. Although, aside from Italy, employment figures in the EU are getting better after their severe post-crisis slump, it is uncertain whether this trend can continue in the future given the current global economic disruptions.

Therefore, in practice, the ‘flexicurity’ concept has transferred imperfectly into national legislation and spending. After the crisis, EU member states have put more emphasis on flexible contractual arrangements than on security. In the following section we analyse the underlying structural trends that are shaping labour markets in the EU, and assess whether these

<sup>1</sup> Data on ‘Public expenditure and participant stocks on labour market programmes’ by OECD (2015): <http://stats.oecd.org/Index.aspx?DatasetCode=LMPEXP> (retrieved on October 9, 2015).

changes are caused by technology or politics, both prevalent explanatory determinants in current research on labour markets.

### 3. The changing nature of work and labour markets

A major trend in labour markets is the changing nature of employment itself. This does not come as a great surprise as the structure of employment is always changing.<sup>2</sup> What is different to previous shifts in labour markets is the pace and impact of these alterations in a globalised economy that are predominantly characterised by two features, namely labour market polarisation and atypical forms of employment.

Firstly, empirical evidence shows that the employment structure in European job markets is undergoing severe polarisation (Fernández-Macías, 2012). At the beginning of the 2000s, scholars debated that deregulation in Europe would result in a two class system in the labour market that is sectorally divided along two income groups, low wage service jobs and high-paid industrial jobs (Esping-Andersen & Regini, 2000). These predictions of a ‘dual economy’ have mostly become true but plugging (un)expected technological progress into the equation turned out to be slightly different. A widely regarded study by Goos, Manning and Salomons (2009) finds that it is indeed semi-skilled employment which is slowly melting away in the EU. Using data from the European Union Labour Force Survey, the authors find that low-skilled and high-skilled occupations increased significantly between 1990 and 2006 whereas the share of middle-income jobs declined. As a main reason for this job polarisation, the authors highlighted the intense spread of technology in EU economies. Modern technology and automation has replaced routine work concentrated in manufacturing and clerical work (Goos, Manning & Salomons, 2009, p. 59; see also Autor, Katz & Kearney, 2006). The winners are the top income earners whose tasks are too abstract for machines to take over and which often require higher education. Further, jobs in construction, transport and housework which fall into the low income category are neither in decline nor on the rise because their tasks cannot yet be replaced by machines (see also Autor, Katz & Kearney, 2006).<sup>3</sup>

The argument that technology is foremost in disrupting the EU job markets is somewhat insufficient. The restructuring forces across different types of jobs and occupations in modern labour markets are not only driven by technological changes, but by politics too (Fernández-Macías 2012, pp. 6–8). State regulators can set the framework for employment and wages by adjusting labour market policies. In post-industrial economies, private and public employers

2 In the 1990s politics and academia debated the move from an ‘industrial’ to a ‘service economy’ in Europe and across the Atlantic (Solow, 1987).

3 This trend of job polarisation in European labour markets first took place in the Netherlands, Germany, France and the UK (Fernández-Macías, 2012, p. 15). Southern European countries that scaled up in middle-paid jobs prior to 2008 converged with this polarisation pattern after the financial crisis. Nowadays, the picture is more homogenous across the EU as job polarisation also affected labour markets in Spain, Italy, Portugal and Belgium between 2011 and 2013 (Fernández-Macías, 2015).

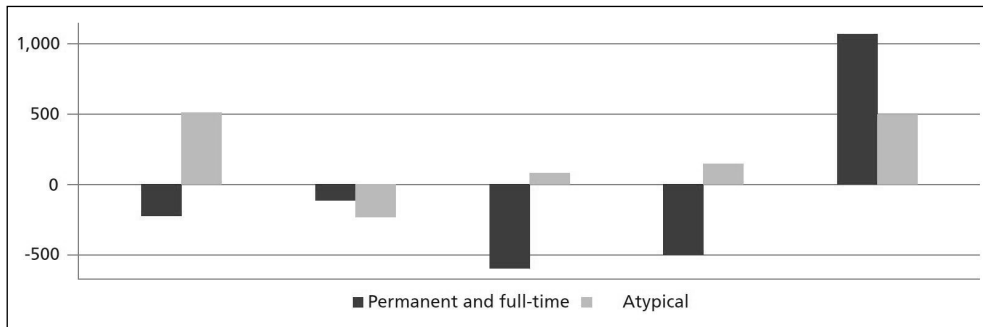
outsource more and more tasks to places where production costs are lowest. In order to prevent vast job loss resulting from outsourcing and the centre of world economy gravitating east, governments in Europe have to a varying degree introduced more flexibility to labour markets. These measures were also undertaken as a response to the recession following the global financial meltdown in 2008 in countries that were hit hardest by the disruptions in the global economy and Eurozone.

Secondly, closely intertwined with job polarisation is the trend that the standard full-time job model is going out of fashion. Recent figures show that non-standard forms of employment are on the rise, which is interpreted as a direct consequence of more flexible labour market policies and technological changes (Eichhorst & Tobsch, 2014). Having a job used to be understood as either working or not working, but workers increasingly find themselves in contractual part-time or atypical arrangements (Atkinson, 2015, pp. 133–7). The share of atypical forms of labour—part-time employment, temporary agency work, fixed term contracts and self-employment—is growing, having almost doubled from 7.5% to 14% since the 1980s (Bentolila, Dolado & Jimeno, 2012). The use of temporary contracts, and managing employees through the internet, have facilitated the practice of hiring employees on an ‘as-needed basis’ transforming labour into a variable rather than a fixed cost for companies (Manyika et al., 2012, p. 3).

Taken together, both trends, polarisation and atypical employment, are key determinants of the changing nature of employment in EU. Graph 1 depicts these developments by plotting the employment shift by employment status and employment income quintile between the second quarter of 2011 and 2014 (European Job Monitor, 2015, p. 25). The data shows that permanent and full-time employment is in a steep decline for the four lowest income groups, accounting for 80% of the workforce. Only workers in the top quintile saw an increase in well-protected and highly paid employment, but also in flexible forms of labour. This trend is likely to gain further momentum when the effects of the most recent labour market reforms, e.g. in Italy, Spain or Greece, and the lawlessness of the ‘sharing economy’ kick in. Further, it shows that increasingly it is high earners who get to choose between permanent or atypical employment. For all the others, flexibility is instead imposed due to effects of technology and weakening labour rights protection. This observation is in line with a study by Heyes and Lewis (2012, p. 12), who find that ‘increases in non-standard work are largely being filled by workers who would prefer full-time and permanent contracts.’ It risks creating a more polarised and unequal labour market between ‘insiders and outsiders’ or ‘winners and losers’: those with well-paid employment who choose between permanent or flexible work, and those without choices, protection and lower wages.

This trend of creating more jobs at the top and at the bottom, but with secure jobs only at the top, should raise alarm among EU policy-makers. Indeed, their promise of ‘win-win’ flexicurity might not be fulfilled if low-income workers have increasingly been forced to accept insecure jobs. The next section turns to the evidence of dissatisfaction and risks related to atypical forms of employment.





Graph 2: Employment shift (in thousands) by employment status and employment income quintile in EU, 2011–2014.<sup>4</sup>

#### 4. The effects of flexibility: Altering career security, satisfaction and productivity

In this section we discuss the impact of polarisation and atypical employment on European labour markets and how this relates to the EU's overarching 'flexicurity' goals of promoting employment, modern social security systems and lifelong learning. Based on our assessment that flexible contracts might decrease the job satisfaction of workers and reduce the incentives for employers to educate their staff, we argue that flexibility risks contradicting the agenda of the EU's goal of 'more and better jobs'. If flexibility is to work at all, it can only work if people choose it and not if it is imposed on them.

To begin with, there is evidence that flexibility contributes to the polarisation of labour markets in Europe but its positive effect on job creation is less certain. Recent studies show that labour market adaptations towards more flexibility led to an increase of atypical employment, at least in Germany (Eichhorst & Tobsch, 2014) and Spain (Bentolila, Dolado & Jimeno, 2012). Referring to atypical or non-standard work arrangements, they identify employees with permanent/fixed vs. temporary full time and part time jobs, including seasonal, agency, casual and project workers. Eichhorst and Tobsch (2014) also argue that the liberalisation of non-standard contracts contributed to the good performance of the German labour market. In contrast, comparative studies question whether flexibility and looser rules on employment protection add jobs and boost economic growth. Whereas the deregulation of labour market institutions is often politically justified as intending to kick start the economy scholars are less optimistic about their record in job creation (Heyes & Lewis, 2012; IMF 2015, Chapter 3; and Oesch, 2010).<sup>5</sup>

4 See European Job Monitor (2015, p. 25). The horizontal x-axis depicts job-income quintiles in EU between 2011 and 2014.

5 A recent study by the International Monetary Fund finds no evidence for the relationship between labour market deregulation and an economy's potential for economic growth. Whereas 'the intense use of high-skilled labor and ICT capital inputs, as well as higher spending on R&D activities, contribute positively and with statistical significance to total factor productivity' there is no statistically significant effect with labour market deregulation (IMF, World Economic Outlook: Uneven Growth Short- and Long-Term Factors. 2015, p. 105).

The most obvious and important aspect of atypical employment is job security. Empirical evidence shows that flexible working arrangements and atypical employment have a negative influence on job satisfaction of which security is a key factor (Bardasi & Francesconi, 2003; Chadi & Hetschko, 2013; and Green & Heywood, 2011). A temporary worker needs to plan ahead of their current working arrangement, as she or he will lose their employment otherwise (Chadi & Hetschko, 2013). The lack of job security can add further pressure on temporary workers, as the prospects of staying with their current employer may set incentives to do unpaid overtime hours while having less control over their working time (Engellandt & Riphahn, 2005). In a study of the German labour market, Chadi & Hetschko (2013) find that atypical employment reduces overall job satisfaction and perceived job security significantly. Their findings also indicate that even when safety nets of active labour market policies and unemployment benefits exist, workers still prefer a permanent to a temporary position. Slightly contradicting with this result, Green & Heywood (2011) make the point that in the UK employees with flexible contracts are more satisfied. Their empirical analysis reveals that workers in the UK with non-permanent contracts enjoy higher wages because they allow employers to save on other costs and coordinate labour across workers in the least costly fashion. The authors also conclude that atypical employment has a negative impact on perceived job security but not on overall life satisfaction. With reference to their study, this means that flexible working arrangements play no role in diminishing worker's life satisfaction outside the realm of their job (Green & Heywood, 2011, pp. 17).

Aside from the aspect of job security, atypical employment is associated with a variety of potential market failures in which the long-term economic and social costs of flexible employment outweigh the short-term benefits of higher employment. Among them is the substantial risk that firms do not sufficiently invest in the education and 'up-scaling' of their staff any more (Draca & Green, 2004). While temporary employment increases insecurity for workers, a less attached workforce also reduces incentives for managers to invest in human capital. In this respect, flexible working arrangements defeat the logic of 'comprehensive lifelong learning' because uncertainty becomes a crucial feature of labour relations in companies, for both workers and employers. The insufficient training of staff may add to Europe's widening productivity gap with the US in the long run, and it may hinder the ubiquitous adoption of information and communication technologies (ICTs) by profit and non-profit organisations in the EU.

Finally, atypical arrangements can also affect people's private lives. A study on the consequences of flexible working arrangements in Germany, where three out four new jobs created between 1991 and 2012 were atypical, found that non-married couples are more likely to separate if one of the partners has a temporary working contract (Gerlach et al., 2015). When it comes to membership of flexible workers in works councils and trade unions, the analysis reveals that flexibility decreases participation, making it more difficult for them to influence labour negotiations, and further increasing the risk of polarising labour markets.

## 5. How to promote choice: A progressive reform agenda for labour markets

The paper has highlighted the contradictions, and the lack of implementation and resources, of EU policies in the field of flexicurity. This comes at a time when structural trends in labour markets, such as polarisation and the rise in atypical employment, threaten in particular low income, less-skilled workers. It would be unfair to accuse EU institutions of blindly pursuing ‘neo-liberal’ labour market structural reforms. However, they fail to address the risk of fuelling further insecurity, underinvestment and inequality associated with a narrow interpretation of ‘flexicurity’, and in the context of spending restrictions.

For progressives, these observations should not lead to dropping the concept of ‘flexicurity’ outright. Giving up on mobility, the freedom to change career and to choose flexible work arrangements would be a mistake in an economy based on innovation and specialisation, in which careers are increasingly individualised. Also, digital tools help create new collaborative ways of working that might not any longer require being tied to an organisation. Finally, labour mobility in Europe should be seen as an opportunity rather than a constraint.

However, delivering on the ambitious promise of flexicurity requires substantially revisiting the concept of structural labour market reforms. Structural reforms should not lead to further fuelling insecurity. Our recommendations suggest coming back to the four components of flexicurity identified in the 2007 Commission communication, and making sure they reinforce rather than contradict each other.

On the one hand, the flexibility of contractual arrangements should be treated with greater caution in a context where employers resort extensively to atypical employment. Member states and social partners should be left to identify the most adequate means to address dualisation<sup>6</sup> and give outsiders more opportunities. That might mean tackling the abuse of short-term, part-time jobs in the low-pay sectors by making reasonably flexible permanent contracts with associated rights more attractive. Moreover, internal flexibility should be encouraged only where social dialogue is strong, and by making sure that employees asked to work less are offered training or placement opportunities.

On the other hand, the EU institutions should substantially improve support to career security and mobility, which represent three of the four components of flexicurity. These may include the following reforms:

- Promoting the creation of lifelong learning accounts for all, regardless of their job situation – the EU could provide seed-funding to an individual capital endowment.
  
- Extending the Youth Guarantee to the long-term unemployed, this would entail supporting the upgrading of employment services and financially assisting countries in difficulties.

---

6 Labour market dualisation is the split between those on insecure low wages, and those on secure high wages.

### Rapidly changing labour markets: Is EU flexicurity still the answer?

- Boosting funds allocated to mobility in order to help EU workers avail themselves of career opportunities in other countries.
- Toughening the EU's stance on education attainment, since basic skills are a significant determinant in people's job trajectories and career prospects.

Ultimately, sustainable and quality employment depends also, if not more, on a country's economic situation and its future prospects, than on the flexibility of its job market. Tackling the current imbalances affecting the euro area, which condemn Southern European countries to permanent internal devaluation, would presumably have a greater impact on the job front than any structural reform of the labour markets. Both issues need to be addressed together, and EU economic governance should be reformed in a way that takes social outcomes better into account.

## 6. Annex: Table A1: Promotion of Flexicurity in the EU: UK, Germany, Spain & Sweden<sup>7</sup>

	AGS <sup>1</sup>	UK	Germany	Spain	Sweden
<b>2011</b>	Remove over-protection of workers with permanent contracts  Introduce more open-ended contracts to replace existing temporary or precarious contracts	Measures to improve young people's employability and skills	Improve access to education and training system  Reduce high tax wedge on labour  Increase fulltime childcare mobility	Adopt and implement a comprehensive reform of the collective bargaining process and the wage indexation system	Improve the labour market participation of young people and other vulnerable groups
<b>2013</b>	Develop flexible working arrangements, including short-time working arrangements.  Reduce the gaps in employment protection between different types of work contracts	Address youth unemployment  Raise employers' engagement for provision of skills/ quality apprenticeships  Improve young people's basic skills	Activation measures for the long-term unemployed  Facilitate the transition from non-standard employment (mini-jobs) into more sustainable forms of employment	Speed up implementation of 2012 reform - stress on re-skilling and guidance to the unemployed  Monitor the effectiveness of measures to fight youth unemployment	Improve the employability of young people and people with migrant background  Facilitate the transition from school to work
<b>2015</b>	Do more to remove obstacles to job creation, with the involvement of social partners, including where necessary by reforming labour dispute resolution schemes	Increase employers' engagement in the delivery of apprenticeships  Raise young people basic skills  Raise availability of affordable, high-quality, full-time childcare	Incentives for later retirement  Reduce high labour taxes and social security contributions, especially for low-wage earners  Facilitate the transition from mini-jobs to other forms of employment	Promote the alignment of wages and productivity  Take steps to increase the quality and effectiveness of job search assistance	None

<sup>7</sup> Annual Growth Survey of the European Commission, available on the European Commission's website at [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm) (retrieved on October 9, 2015).

## Bibliography

Atkinson, A. B. (2015). *Inequality: What can be done?* Cambridge, MA: Harvard University Press.

Autor, D. H., Katz, L. F. & Kearney, M. S. (2006). The Polarization of the U.S. Labor Market *Working Paper 11986*. Cambridge, MA: National Bureau of Economic Research.

Bardasi, E. & Francesconi, M. (2012). The impact of atypical employment on individual wellbeing: evidence from a panel of British workers (Vol. Number 2003-2). Colchester: University of Essex: Institute for Social and Economic Research.

Bentolila, S., Dolado, J. J. & Jimeno, J. F. Reforming an insider-outsider labor market: the Spanish experience. *Journal of European Labor Studies* 2012, 1(4). Retrieved October 9, 2015, from: <http://www.izajoels.com/content/1/1/4>.

Chadi, A. & Hetschko, C. (2013). Flexibilisation without Hesitation? Temporary Contracts and Workers' Satisfaction *IAAEU Discussion Paper Series in Economics* (Vol. No. 04/2013). Trier: Institute for Labour Law and Industrial Relations in the European Union (IAAEU).

Clauwaert, S. & Schömann, I. (2012). The crisis and national labour law reforms: a mapping exercise. Brussels: European Trade Union Institute.

Draca, M. & Green, C. (2004). The incidence and intensity of employer funded training : Australian evidence on the impact of flexible work. *Scottish Journal of Political Economy*, 51(5), 609–625.

Eichhorst, W. & Tobsch, V. (2014). Not So Standard Anymore? Employment Duality in Germany (Vol. IZA DP No. 8155). Bonn: Forschungsinstitut zur Zukunft der Arbeit - Institute for the Study of Labor.

Engelland, A. & Riphahn, R. T. (2005). Temporary Contracts and Employee Effort. *Labour Economics*, 12, 281–299.

Esping-Andersen, G. & Regini, M. (Eds.). (2000). *Why Deregulate Labour Markets?* Oxford: Oxford University Press.

Eurofound. (2015). Upgrading or polarisation? Long-term and global shifts in the employment structure: European Jobs Monitor 2015. Luxembourg: Publications Office of the European Union.

European Commission (2007). Towards Common Principles of Flexicurity: More and better jobs through flexibility and security. Brussels: COM(2007) 359 final (En). Retrieved October 9, 2015, from: <http://ec.europa.eu/social/main.jsp?catId=102>.

European Commission (2010). An Agenda for new skills and jobs: A European contribution towards full employment. Brussels: COM/2010/0682 final (En). Retrieved October 9, 2015, from: <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52010DC0682>.

## Renaud Thillaye

European Commission (2012). Towards a job-rich recovery. Brussels: COM(2012) 173 final (En). Retrieved October 9, 2015, from: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012DC0173&from=EN>.

European Council (2003). The employment policy guidelines (2003-2005). Brussels: Decision (EC) No°578/2003. Retrieved October 9, 2015, from: <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=URISERV:c11319&from=EN>.

Fernández-Macías, E. (2015). Job Polarisation In Europe: Are Mid-Skilled Jobs Disappearing? Retrieved 20.08., 2015. Retrieved October 9, 2015, from: <http://www.socialeurope.eu/2015/07/job-polarisation-in-europe-are-mid-skilled-jobs-disappearing/>.

Fernández-Macías, E. (2012). Job Polarization in Europe? Changes in the Employment Structure and Job Quality, 1995-2007. *Work and Occupations*, XX(X), 1–26.

Gerlach, I., Ahrens, R., Laß, I., & Heddendorp, H. (2015). Die Bedeutung atypischer Beschäftigung für zentrale Lebensbereiche. Münster: Forschungszentrum Familienbewusste Personalpolitik.

Goos, M., Manning, A. & Salomons, A. (2014). Explaining Job Polarization: Routine-Biased Technological Change and Offshoring. *American Economic Review*, 104(8), 2509–2526.

Green, C. & Heywood, J. (2011). Flexible contracts and subjective well-being. *Economic Inquiry*, 49(3), 716–729.

Heyes, J. & Lewis, P. (2012). *Employment protection under fire: why labour market deregulation will not deliver jobs*. Paper presented at the SPERI Inaugural Conference, University of Sheffield.

IMF (2015). World Economic Outlook: Uneven Growth Short- and Long-Term Factors. Washington: International Monetary Fund.

Manyika, J., Lund, S., Auguste, B., & Ramaswamy, S. (2012). Help wanted: The future of work in advanced economies: McKinsey Global Institute.

Oesch, D. (2010). What explains high unemployment among low-skilled workers? Evidence from 21

OECD countries. *European Journal of Industrial Relations*, 16(1), 39–55.

Pavlovaite, I., Irving, P. & Weber, T. (2012). Evaluation of flexicurity 2007-2010: Final Report. Brimingham: ICF GHK.

# CONCLUSION AND REFLECTION





# Progressive structural reforms – the way forward to achieve upward social convergence – social investment for a better future

Dr Lieve Fransen, Special Adviser  
to SOLIDAR's Social Progress Lab

SOLIDAR has taken the great and timely initiative with the Social Progress Lab by creating a space that brings decision-makers, scholars, and civil society together to develop solutions for more social cohesion through better social investments. I welcome the proactive leadership role that SOLIDAR again demonstrates with this initiative, recognising how progressive solutions facing the realities of the twenty-first century can and will only be created by working across silos.

Europe is faced with an ageing population, potential future labour market shortages, changing family structures, changing roles of women, increased migration flows and scarcer public resources, while at the same time we have to reform our welfare states to make them resilient (reaching beyond our ability to cope with and overcome all kinds of adversities, including adaptive and transformative capacities), adequate and sustainable for a knowledge-based and transformational economy and society.

At the same time, the protracted economic and financial crisis and slow growth have increased social challenges as well as created further fiscal constraints. These new realities have far reaching implications, and call indeed for changes in the social models to limit the damage already caused by increased inequality, divergence and dualisation of the economies that has occurred recently in Europe. Time has come to change the tide and move towards more cohesion and upward social convergence.

The social policies and welfare systems need to transform through adequate investment in people, as early as possible and on a continuous basis, along each individual's life course. Welfare systems should also provide stronger buffers, or social floors, to guarantee support to people in difficult times. In short, we need more adequate sustainable social systems and integrated solutions to support people and make them even more resilient and prepared to face the challenges. Social policies should unlock the potential of everyone in society and help economies thrive in the face of the 21<sup>st</sup> century realities.

Fiscal constraints have been used by some governments as an opportunity to help create more effective and efficient social protection systems and more cooperation between public and private actors, but other governments have abused the effect of fiscal constraints to further decrease the role and finances of social services and benefits.

However evidence proves that countries that made timely moves in the direction of social investment, such as the Nordic countries, have weathered the crisis better, and people in those economies are more resilient and services are better adapted to the needs of people and society. Those same countries also prove better at respecting the rights of their citizens and have more competitive economies. However, some argue that despite effectively reducing unemployment rates, the Nordic approach has also contributed to growing inequalities and these critics have pointed to a process of dualisation. The countries which failed to invest in their human capital, working on the assumption that in times of economic crisis the costs of investing in people and transforming a welfare state into a social investment state were too high, have in fact created new challenges such as increased inequality and divergence. These countries suffer from a more "poorly" educated or less skilled workforce, an increased number of deprived households in poor health and a lack of opportunities especially for the young.

Indeed cross OECD countries – despite some variation – the top 1% of households has become richer in terms of real income while the bottom 40% has become poorer. This has exacerbated both the inequality gap that has become a drag on economic recovery and the vicious circle Europe has to reverse as soon as possible.

It is with this in mind that the EU adopted the social investment package in 2013, including a strategy for investing in children and in health, the youth guarantee initiative and even the 2020 strategy for growth and cohesion. It is also with this in mind that further initiatives have been taken to include some indicators and benchmarks in the Economic and Monetary Union. It is with this in mind that networks such as SOLIDAR have embraced the logic of a social investment approach to modernising social protection systems - based on social safe-

guards, progressive structural reforms and upward social convergence - and SOLIDAR supports further concrete developments in this area.

Indeed, in modern advanced economies, social and economic goals are two sides of the same coin. This is the only way to rekindle upward social convergence, which inspired European integration in the past, and must now guide its future. The only progressive path is to recognise that, in fact, the main strength of Europe is its human capital made more resilient through its social welfare, health and education systems. It is time to recognise the need to deviate from a narrow definition of fiscal discipline towards investing in people and further nurturing the development of integrated social services. Governments can then see this as a longer-term return, and not merely as a cost and then act accordingly.

As the European Union continues its march through an ongoing social crisis, it is now also more important than ever for partnerships to form to discuss and develop alternative and progressive policies and reforms that should be implemented at EU, national and regional level. The chapters in this edited volume show that ambitious action is needed at all levels to break the vicious circle of poor social investment, lack of respect of rights of people, one-sided structural reforms and sluggish economic recovery.

This edited volume provides alternative solutions to reforms pursued until now too often consisting of poorly informed and performed public financing cuts in spending on education, health care and social services and benefits. The proposals presented in this publication start pointing at a way out of the social and economic crisis Europe has been suffering from for more than seven years while building more resilient systems for the future. Reflecting on the chapters in this edited volume and their messages to decision-makers at European and national level, I find many interesting reflections and proposals. Without going into each of the valuable contributions, I want to highlight just some of them.

In the first part, the limits of current welfare states and the potential for actions directed towards young people warrant further discussions. At this stage, I mainly would want to highlight the need for social investments to be organised in an integrated way without creating even more silos and separate structures. The targeting of specific populations sometimes gives the impression that some populations are groups in the social definition of the term, and it also enhances the notion that some populations will always remain dependent, hence it undermines the vast empowerment opportunities offered by the social investment approach. It also provides an excuse for further discrimination and exclusion. The papers also start challenging societies to find the right inter-generational balance of social investments and bring the issue of resource allocations to the foreground.

Some authors stress the effect of financial distress and poverty on the development of a child, and recognise the need to collectively ensure the adequate investment in children while respecting their rights.

I very much appreciate the call for a gender-sensitive perspective on the economic crisis and on the counter-crisis measures. Most of the discussions on the effects of the crisis have been gender blind or even wrong. Some of it is caused of course by the statistical and ana-

lytical tools focussing on households and some by straightforward gender bias. Some of the authors call for a basic income for everyone as a realistic transformative strategy and I naturally welcome this. The work recently performed on reference budgets should further inform this discussion and campaign.

Our response to the crisis creates constraints, risks, and opportunities for a renewed commitment to a long-term investment strategy which touches on the political economy we are confronted with. Given this background, some authors ask whether our response to the crisis should give us an opportunity to create the change needed in the European social models. Beyond the general set up of the social protection systems, the efficiency and effectiveness of social benefits and services also depend on how they are implemented on the ground. Social policy innovations, which are products of the inventiveness of citizens, civil society organisations, public authorities and businesses, can help social policies or programmes do even more with equal or less resources. Innovations can address the current and future societal challenges in a more effective manner. I agree with most authors, recognising that a comprehensive social system is needed that sets high social safeguards for everyone instead of bare minimum levels for “the most vulnerable”. This will indeed be the only way Europe can turn the tide of dual and diverging economies, and achieve upward social convergence that includes all of its citizens.

Finally, efficient and effective implementation of social investment requires strengthened partnerships with the key actors involved in the design and delivery of social policies and programmes (e.g. public authorities, the third sector, social enterprises and the private sector). It is important to maximise the complementarity of efforts and ensure that we are all rowing in the same direction. In this regard, SOLIDAR has taken an important first step with the creation of the Social Progress Lab, a thinking space for decision-makers, academic scholars, and civil society to discuss and exchange policy ideas, strategies and actions. However, more remains to be done.

Following up on the conclusions born out of this edited volume, it will be important to further pursue the debate, share lessons learned and deepen the dialogue. We should develop creative solutions that break the boundaries between public and private, as well as between different levels of institutions, to unlock the value of investing in people and shape our common future.

I am personally convinced Europe has an incredible opportunity as well as a duty to transform its welfare states into social investment economies where people’s rights are respected and their potentials nurtured. Europe has been at the forefront of the development of the most progressive and effective social models in the past and has all that is required to develop solutions to create value and well-being for all in the future.

SOLIDAR and its impressive network are showing the way, and I am proud to be part of the efforts to develop solutions and help ensure they are implemented for the benefit of people.



Rue du Commerce | Handelsstraat 22  
1000 Brussels  
Belgium  
T +32 2 500 10 20  
F +32 2 500 10 30

Twitter: @SOLIDAR\_EU  
Facebook: SOLIDAR  
[www.solidar.org](http://www.solidar.org)  
[solidar@solidar.org](mailto:solidar@solidar.org)



During the crisis, Europe's focus was narrowly concentrated on financial and fiscal consolidation, leaving aside the urgently needed social consolidation exposed by the failure to reach the anti-poverty and employment targets of the Europe 2020 strategy. Despite this, the European Commission keeps promising it will earn a social AAA rating, while necessary reforms to achieve a meaningful shift towards upward social convergence, redistribution and equality are absent. (Neo-liberal) austerity measures that hit public services, education, health and social services, can no longer be an option to restart the European economy.

This publication presents the results of the **SOLIDAR Social Progress Lab 2015** – a space for academics, policy-makers and civil society actors to think about necessary strategies and policies to achieve a more social and inclusive Europe. It collects the analysis of 10 academic scholars from across Europe, with a focus on identifying and targeting inequalities, shaping social investment and shaping European policies that affect social safeguards, thereby seeking to enrich the policy debate about alternative structural reforms at European and national level.

This edited volume includes forewords by **Nicolas Schmit**, Luxembourg's Minister for Labour, Employment and the Social and Solidarity Economy, as well as **Thomas Händel** MEP, Chair of the European Parliament's Committee on Employment and Social Affairs. It has been developed with the support of the Social Progress Lab's scientific advisory group consisting of **Dr. Rémi Bazillier** (Université d'Orléans, France), **Dr. Giovanni Cozzi** (University of Greenwich, United Kingdom), **Dr. Amandine Crespy** (Université Libre de Bruxelles, Belgium), **Prof. Dr. Ferdi De Ville** (Ghent University, Belgium) and **Dr. Angela Wigger** (Radboud University, the Netherlands), with guidance by **Dr. Lieve Fransen**, special adviser to the Social Progress Lab process.

With contributions by

**Lorenza Antonucci**,  
Teesside University

**Marta Barazzetta**,  
Université du Luxembourg

**Daniele Basso**, European  
Trade Union Confederation

**Andrea Ciarini**, Sapienza  
University of Rome

**Maurice Claassens**, SOLIDAR

**Andrew E. Clark**, Paris School  
of Economics – CNRS

**Conchita D'Ambrosio**,  
Université du Luxembourg

**Eugenia De Rosa**, Sapienza  
University of Rome

**Diego Del Priore**, University  
of Teramo

**Sacha Dierckx**, Ghent  
University

**Florian Ranft**, Policy Network

**Conny Reuter**, SOLIDAR

**Bregt Saenen**, SOLIDAR

**Gabor Scheiring**, Progressive  
Hungary Foundation

**Eva-Maria Schneider**,  
SOLIDAR

**Miklós Sebők**, Hungarian  
Academy of Sciences

**Menno Soentken**, Erasmus  
University Rotterdam

**Renaud Thillaye**, Policy  
Network

**Bence Tordai**, Progressive  
Hungary Foundation