

Some Thoughts on the European Social Pillar

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On March 2016, the European Commission has launched a consultation on a European Pillar of Social Rights.² The establishment of the Social Pillar responds to the need to pay greater attention to the social dimension in the European unification process. The strategy sketched by the Commission is a neat attempt to give an operational content to the declaration in the Five Presidents' Report.³

A complete EMU is not an end in itself. It is a means to create a better and fairer life for all citizens, to prepare the Union for future global challenges and to enable each of its members to prosper.

The merit of this strategy can be assessed on three different grounds: *i*) its intrinsic value in characterising the relevant social dimensions; *ii*) its instrumental value in reinforcing social and economic progress in EMU (or EU) Member States; *iii*) its capacity to endow the Union with a truly social dimension. In this note I discuss these three aspects in turn, focusing more on the architecture of the Social Pillar than on its single elements.

Intrinsic value of the Social Pillar

The preliminary outline of the Social Pillar identifies 20 domains of social rights, grouped under three main headings: equal opportunities and access to the labour market, fair working conditions, and social rights in society. The Social Pillar outline does not only provide a clear identification of the dimensions that matter for (material) well-being, but it also offers a fairly precise characterisation of how each domain should be conceived (the Principles).

The multidimensional view of well-being that implicitly emerges from the list of 20 domains may be partial in focusing mostly on material aspects, but is broadly in accordance with conceptual elaborations that stress the multiple facets of quality of life. Economic resources, secure and good-quality jobs, housing and healthcare are all domains typically included in multidimensional approaches.⁴ We might quibble with details, but all in all the selection of relevant domains is comprehensive and balanced.

Conversely, the detailed specification of the domains is potentially more controversial, as in many cases rather strict requirements are fixed. Any list of social rights is intrinsically prescriptive, but this particular specification makes the document highly normative. There is implicit a normative view of the human lifecycle which is centred on stable employment, preceded by education and followed by retirement. This underlying normative view raises at least three problems. First, European citizens may have different visions of how each well-being domain should be characterised in practice. Second, there is a tension between the characterisation in the outline and the standard approach to economic modelling. Third, this view of the human lifecycle may be at odds with future developments of the labour market, and the economy and society at large. These problems, compounded with the difficulty to monitor achievements in those domains which are mainly defined in qualitative terms, may hinder a successful application of the strategy.

Problems in application may thwart the Social Pillar

As noted, the Social Pillar outline implicitly adopts a well-defined normative view of the human lifecycle, centred on stable employment. This view is deeply-rooted in European-level policy-making, as testified by the emphasis on targeting employment levels.⁵ The presumption is that paid employment is socially preferable, for an able-bodied person, both to non-working and to unpaid work. Personally, I broadly subscribe to this view, but we cannot ignore that it need not be unanimously shared. On the one hand, some could argue that people must be allowed to run their lives as they wish, including not working, so that even “surfers” are entitled to receive a minimum income support.⁶ On the other hand, “employment” refers to a social arrangement that values certain activities only if they are carried out in the market. Thus, childcare counts for the employment rate when performed by a paid nanny, but not when performed by a grandparent, though the effects on child well-being need not be different.

The public consultation initiated by the Commission is an effective way to test the support for this employment-centred normative view, but we must be aware that other normative conceptions may lead to question some Principles. For instance, Principle 15 states:

Adequate minimum income benefits shall be ensured for those who lack sufficient resources for a decent standard of living. For those of working age, these benefits shall include requirements for participation in active support to encourage labour market (re)integration.

Supporters of Van Parijs’ proposal for an “Unconditional Basic Income” would drop the requirements for working-age people altogether, whereas adherents of Atkinson’s “Participation Income” would define the participation requirements to include activities that may be outside the labour market, such as personal care.⁷ If personal care activities are socially valued even when they are unpaid, we might be also brought to interpret less stringently the preclusion to an early exit from the labour force set in Principle 13.

The second problem with the Social Pillar outline is that it is liable to the criticism that the establishment of these social rights imposes constraints to the behaviour of economic agents that might eventually jeopardise economic progress. Take for example Principle 2b:

Flexibility in the conditions of employment can offer a gateway to the labour market and maintain employers’ ability to swiftly respond to shifts in demand; however, the transition towards open-ended contracts shall be ensured.

In order to satisfy the second part of Principle 2b, Member States would be required to make the transformation of temporary contracts into permanent contracts mandatory. Later on, Principle 8a sets that:

... Minimum wages shall be set through a transparent and predictable mechanism in a way that safeguards access to employment and the motivation to seek work. Wages shall evolve in line with productivity developments, in consultation with the social partners and in accordance with national practices.

The first part calls for the introduction of a statutory minimum wage, which may be unfamiliar to the institutional tradition of some countries, Italy being a good case in point. The second part singles out a clear rule for the division of the value added that conceptually may entail a freezing, presumably in the longer run, of factor shares. (Here, I read wages to mean labour costs deflated by producer prices, or product wages, but the text is vague.)

There is a potential tension between the bulk of the Principles and most standard economic models, including those underlying many policy recommendations by the European

Commission or international organisations. It is not difficult to predict the outcome of the policy process every time that a perceived trade-off emerges between the economic and the social dimension.

A third problem is that the particular employment-centred normative view of the Social Pillar may eventually reveal outdated in the face of the evolution of labour toward growing fragmentation of work tasks and blurring of the boundaries between paid work and other activities (home production, voluntary activities, leisure).⁸ With reference to the Principles just mentioned, open-ended contracts may be difficult to enforce when people are bound to hold a portfolio of small activities for their living as it is difficult to imagine a role for social partners with Uber or Airbnb.

Finally, there is a difficulty to monitor achievements in certain domains which are mainly defined in qualitative terms. An example is Principle 11:

Social protection benefits and services shall be integrated to the extent possible in order to strengthen the consistency and effectiveness of these measures and support social and labour market integration.

Different views, tension between the economic and social dimensions, changing working arrangements, monitoring difficulties all point to serious potential problems in the application of the chart of social rights as analytically sketched in the outline. Comprehensiveness and consistency may not be sufficient to make this set of Principles effective and truly binding in practice.

Instrumental value: is the Social Pillar going to contribute to a well-functioning EMU?

The instrumental merit of the European Pillar of Social Rights depends on its ability to contributing to a well-functioning EMU. There is some ambiguity about what is supposed to “function well (or better)”.

The Commission’s document states that “the purpose of the Pillar is to express a number of essential principles to support well-functioning and fair labour markets and welfare systems”.⁹ The adoption of the Social Pillar as currently conceived envisages social convergence to some common standards within welfare and labour systems that are supposed to maintain their national distinctiveness, due to the subsidiarity principle. Its full implementation would speed up the process of social convergence, in continuity with the social policy followed so far by the EU, based on the harmonisation of regulation in various fields (labour law, working condition, safety at the workplace, gender equality, etc.) and a mutual evaluation of national policies through the open method of coordination. This policy has brought results, benefitting also from similar advice by other international organisations (e.g. the OECD). Paetzold and Van Vliet, for instance, document a convergence process among the most advanced economies regarding passive labour market policy efforts, with the European Employment Strategy fostering this trend even further.¹⁰ Daly remarks that “... the distinctiveness of family policy across countries is being eroded. While no country has exactly the same reform programme and none is following exactly the approach endorsed by the EU and OECD, they have in common a proclivity to ‘mix and match’. The result is a hybridization of existing systems ...”.¹¹ If we look at measures of labour and welfare institutions in Europe, however problematic this measurement is, we can observe convergence, and not at the lowest levels. This is the case for the indicators reported in Figures 1 and 2.

However, it is unclear why we need to harmonise social rights across countries in the EMU (or EU) to improve the functioning of their labour markets and welfare systems, especially

when we continue to reassert the principle of subsidiarity. In many European countries, there are failures in labour institutions and welfare systems that need to be amended, but adopting the common structure sketched in the outline would solve these problems only if it represented a labour and welfare model definitely superior to existing national models. The reference to “fairness” adds further complexity, in consideration of the variance of what is considered to be fair both within and between Member States.

On the other hand, conceiving the Social Pillar primarily for the EMU countries and the stress on social policy as “a productive factor” suggest that well-functioning may refer also, if not primarily, to the economy. Contrary to the idea that “a complete EMU is not an end in itself”, this may strengthen the impression that the social dimension is subordinated to economic objectives (single market and monetary union). As Sen observed two decades ago, it is surprising how these instrumental objectives overshadow the underlying “... bigger objectives that involve social commitment to the well-being and basic freedoms of the involved population”.¹²

From this alternative perspective, the strategy sketched by the Commission seems to be based on the idea that making the EMU countries more homogenous in terms of social rights is going to facilitate the functioning of their economies, and hence of the EMU. This could be perhaps necessary if social dumping was at the roots of the current difficulties of the unification process, but this is hardly the case. Thus, I wonder how this nationally-bounded strategy of social convergence can improve the economic functioning of the EMU. What is needed, in my view, is something that transcends national boundaries.

What is missing is a truly European dimension

The weakness of the social strategy outlined by the Commission is the lack of a truly European dimension. This is perfectly summarised by Allan Larsson, President Juncker’s Special Adviser for the European Pillar of Social Rights:¹³

... It is true that we have a common ground of basic social principles and rights. However, there is no unified social system in Europe. The reality is that we have several clusters of social models, a Continental, an Anglo-Saxon, a Scandinavian, A Mediterranean and a Central European. With a lot of differences among them – and inside each cluster.

This is the political reality from which we start, a reality that we have to respect in accordance with the principle of subsidiarity. Thus the aim is not unification, but the focus will be on social achievements. And on learning from each other.

As the last paragraph makes clear, the Social Pillar does not call for the adoption of a single social model, although it might not be so straightforward to reconcile the precise prescriptions of the 20 Principles with existing systems. More importantly, however, the Social Pillar shies away from advocating social policies at the E(M)U level. The political reasons are fully understandable, but the choice means failing to address the core of the problem: the lack of E(M)U-level social institutions that make Europeans to realise that they are citizens of the same polity.

By E(M)U-level social institutions I do not necessarily mean redistributive policies. For instance, the adoption of a single social-security identifier recently proposed by Boeri would allow “governments to track workers as they move from one country to another and ensures that welfare benefits are portable across national jurisdictions” and would “help reaffirm a

European identity regarding work and the welfare state”.¹⁴ Boeri’s proposal relates to a technical aspect (the identifier), but has profound implications for Principle 3b:

The preservation and portability of social and training entitlements accumulated during the career shall be ensured to facilitate job and professional transitions.

Inserting “across national jurisdictions” at the end of the previous statement, in line with Boeri’s hint, would affirm the European dimension of this social right, and would be a step facilitating labour mobility within the E(M)U. Another example of a possible E(M)U-level social institution is to adopt minimum wages (foreseen by Principle 8a) agreed at the E(M)U level and set as some fixed proportion of median national wages.

Yet, there is no doubt that increasing the EU spending capacity for social policies is essential to reinforce a sense of European identity (apart from any other macroeconomic considerations on the need of a fiscal capacity to absorb idiosyncratic shocks in a heterogeneous monetary union). There is no lack of proposals here but two are worth mentioning: an E(M)U-wide child benefit scheme and an E(M)U-wide unemployment insurance.

An E(M)U-wide child benefit scheme has been advocated by Atkinson.¹⁵ An E(M)U-wide basic income for children could be set for each child at some fixed proportion of median income per capita in each Member State; it could be paid from the EU Budget expanded by means of an equi-proportionate increase in the Member State contributions. By focusing on children, such a programme would target a population which has particularly suffered during the recent crisis and would be an investment on human capital that is going to yield economic and social returns in the future. It would actively demonstrate to EU citizens the importance of the social dimension to the unification process.

The E(M)U-wide unemployment insurance is another institution that would represent a tangible sign of European solidarity, although it has recently received considerable attention for its macroeconomic function to absorb idiosyncratic asymmetric shocks.¹⁶ It is possible to design such a centralised shock absorber in a way that attenuates moral hazard and cross-country redistribution.¹⁷ It could take the form of a Notional Euro-wide Unemployment Insurance (NEUI) that works through periodic aggregate transfers to and from a supranational fund parameterised to the expenditure that would be incurred by each country in presence of a common unemployment benefit scheme. The NEUI is “notional” because it mimics an individual-level insurance scheme but operates with transfers at the macro level. With respect to a rainy-day fund, this shock absorber would be less subject to political discretion and would be targeted to a specific shock clearly linked to the business cycle (entry into unemployment). To overcome problems of opportunistic behaviour, transfers could be activated only in case of large negative shocks and be parameterised to benefits of limited duration and replacement rate. By construction, the scheme would be in equilibrium in the long run. In accordance with the subsidiarity principle, national schemes would remain in place, based on rules set by national governments; but the NEUI subsidy would be explicitly acknowledged in order to make citizens cognisant of European solidarity. Simulations based on the historical experience of UME countries in the 2002-12 period show that the stabilisation achievable by such a shock absorber would be non negligible, especially if compared to the very limited cross-country financial flows involved. Apart from smoothing business cycles, the NEUI would have two positive side effects in line with the Social Pillar: it would encourage cross-national standardisation of national unemployment benefit systems and would stimulate national authorities to raise benefit take-up rates in order to take full advantage of supranational transfers.

Monitoring social convergence: a plea for adopting the EU-wide perspective

The practice followed in EU statistics is to calculate E(M)U-wide estimates as “population-weighted arithmetic average of individual national figures”.¹⁸ The picture of the union emerges only from the aggregation of the national evidence rather from a direct estimation of E(M)U-wide values. Yet, the level and evolution of income inequality and poverty measured for the E(M)U as if it was a single country provides basic information on social convergence within the E(M)U. As observed by Atkinson, in a different context, in 1989:

If the Community continues to assess poverty purely in national terms, taking 50 per cent of national average income, then the impact of growth on poverty in the Community will depend solely on what happens within each country. However, a central question concerns the possibility of moving to a Community-wide poverty line, with the same standard applied in all countries. In that case, the effect of growth on the extent of low income is affected by the relative growth rates of different member countries.¹⁹

Similarly, if we measure income inequality by the mean logarithmic deviation, which is exactly decomposable by population subgroups, the EU practice amounts to ignore the between-country component of inequality: how much the average German is richer than the average Portuguese does not matter for the calculation of the level of income inequality in the E(M)U (the same consideration applies to other inequality indices, although their decomposition may be messier than that of the mean logarithmic deviation). The consequence of ignoring between-country inequality is that measured inequality would change if someone moved from France to Greece retaining her income, although the inequality measured for the E(M)U as a whole would not be affected.²⁰

The monitoring of social convergence should focus on individual living conditions. Introducing a truly European dimension in the analysis of social progress requires shifting from population-weighted arithmetic averages of national figures to proper EU-wide measures. This allows us to look jointly at contrasting within- and between-countries trends in income inequality and poverty. My own estimates for the period 2007-2011 (Figure 3) show that the rise in inequality and poverty during the sovereign debt crisis would become evident with the latter measurement approach, as it accounts for the divergence between “core” and “periphery”. This shift may appear a methodological curiosity, but it has implications for the analytical interpretation as well as for its symbolic value.

¹ Bank of Italy, DG Economics, Statistics and Research. The views expressed herein are solely mine; in particular, they do not necessarily reflect those of the Bank of Italy or the Eurosystem.

² European Commission, “Launching a consultation on a European Pillar of Social Rights”, COM(2016) 127 final, Strasbourg, 8 March 2016; European Commission, “First preliminary outline of a European Pillar of Social Rights”, COM(2016) 127 final, Annex 1, Strasbourg, 8 March 2016.

³ J.-C. Juncker, in close cooperation with D. Tusk, J. Dijsselbloem, M. Draghi and M. Schulz, “Completing Europe’s Economic and Monetary Union”, 2015, p. 2.

⁴ For instance, in the “Scandinavian approach to welfare”: see R. Erikson, “Description of Inequality: The Swedish Approach to Welfare Research”, in M.C. Nussbaum and A.K. Sen (eds), *The Quality of Life*, pp. 66-83, Clarendon Press, Oxford, 1993. See also I. Robeyns, “Selecting Capabilities for Quality of Life Measurement”, *Social Indicators Research*, vol. 74, 2005, pp. 191-215.

⁵ A. Brandolini and E. Viviano, “Behind and beyond the (head count) employment rate”, *Journal of the Royal Statistical Society: Series A (Statistics in Society)*, vol. 179(3), 2016, pp. 657-681; A. Brandolini and E. Viviano,

“Extensive Versus Intensive Margin: Changing Perspective on the Employment Rate”, in A.B. Atkinson, A.-C. Guio and E. Marlier (eds), *Monitoring Social Europe*, Luxembourg, Publications Office of the European Union, forthcoming.

⁶ P. Van Parijs, “Why Surfers Should be Fed: The Liberal Case for an Unconditional Basic Income”, *Philosophy & Public Affairs*, vol. 20(2), 1991, pp. 101-131.

⁷ See Van Parijs, “Why Surfers”, and A.B. Atkinson, *Inequality. What Can Be Done?*, Cambridge, Harvard University Press, 2015.

⁸ B. Milanovic, “No one would be unemployed and no one would hold a job”, *globalinequality*, 25 October 2015, <http://glineq.blogspot.it/2015/10/no-one-would-be-unemployed-and-no-one.html>; D. Coyle, *GDP A Brief But Affectionate History*, Princeton, Princeton University Press, 2014.

⁹ European Commission, “Launching”, p. 7.

¹⁰ J. Paetzold and O. Van Vliet, “EU Co-ordination and the Convergence of Domestic Unemployment Protection Scheme”, *Journal of Common Market Studies*, vol. 52(5), 2014, pp. 1070-1089.

¹¹ M. Daly, “Families versus State and Market”, in F.G. Castles, S. Leibfried, J. Lewis, H. Obinger and C. Pierson (eds), *The Oxford Handbook of the Welfare State*, pp. 139-151, Oxford University Press, Oxford, 2010, citation at p. 150.

¹² A.K. Sen, “Social Commitment and Democracy: The Demands of Equity and Financial Conservatism”, in P. Barker (ed.), *Living as Equals*, pp. 9-38, Oxford, Oxford University Press, 1996, citation at p. 33.

¹³ A. Larsson, “A European Pillar of Social Rights”, Key note speech at the Annual Convention for Inclusive Growth, Brussels, 21 March 2016, p. 2.

¹⁴ T. Boeri, “Saving European Social Security from the Populists”, *Project Syndicate*, 19 May 2016, <http://prosyn.org/sNNmLPS>.

¹⁵ Atkinson, *Inequality*. See also H. Levy, C. Luetz and H. Sutherland, “A Guaranteed Income for Europe’s Children?”, in S.P. Jenkins and J. Micklewright (eds), *Inequality and Poverty Re-examined*, pp. 209-231, Oxford, Oxford University Press, 2007.

¹⁶ See, among others, L. Andor, “Basic European Unemployment Insurance—The Best Way Forward in Strengthening the EMU’s Resilience and Europe’s Recovery”, *Intereconomics*, vol. 49(4), 2014, pp. 184-189; M. Beblavý and I. Maselli, “An Unemployment Insurance Scheme for the Euro Area: A simulation exercise of two options”, CEPS, Special Report no. 98, 2014; M. del Monte and T. Zandstra, “Common Unemployment Insurance Scheme for the Euro Area”, European Parliamentary Research Service-EPRS, no. PE 510.984, 2014; M. Dolls, C. Fuest, D. Neumann and A. Peichl, “An Unemployment Insurance Scheme for the Euro Area? A Comparison of Different Alternatives using Micro Data”, ZEW, Discussion Paper no. 14-084, 2014; S. Dullien, *A European Unemployment Benefit Scheme. How to Provide for More Stability in the Euro Zone*, Gütersloh, Bertelsmann Stiftung, 2014; D. Gros, “A Fiscal Shock Absorber for the Eurozone? Insurance with Deductible”, *Intereconomics*, vol. 49(4), 2014, pp. 199-203; H.X. Jara and H. Sutherland, “The Effects of an EMU Insurance Scheme on Income in Unemployment”, *Intereconomics*, vol. 49(4), 2014, pp. 194-199.

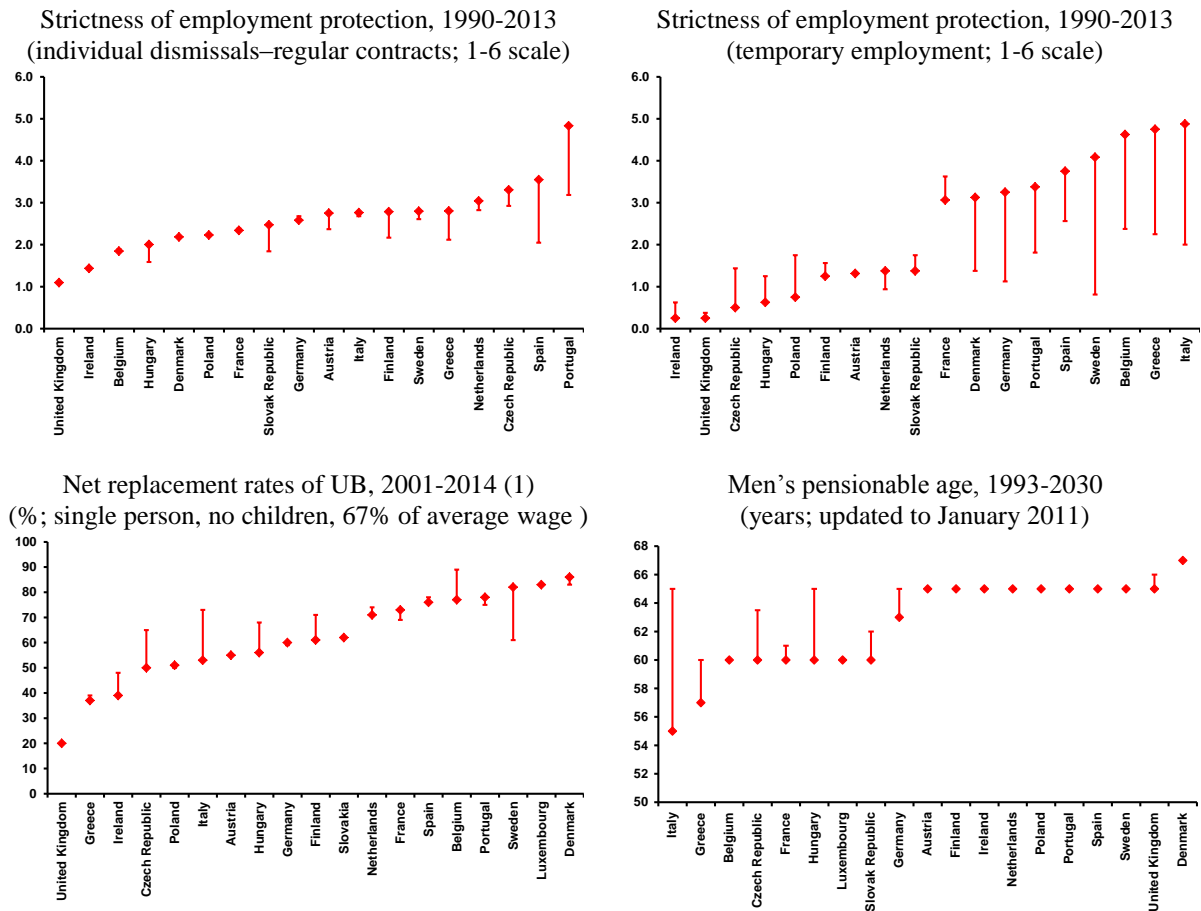
¹⁷ A. Brandolini, F. Carta and F. D’Amuri, “A Feasible Unemployment-Based Shock Absorber for the Euro Area”, Banca d’Italia, Questioni di Economia e Finanza (Occasional Papers) no. 254, November 2014, forthcoming in *Journal of Common Market Studies*.

¹⁸ Eurostat, “Income and living conditions (ilc). Reference Metadata in Euro SDMX Metadata Structure (ESMS). Compiling agency: Eurostat, the statistical office of the European Union”, last update 22 May 2015. http://ec.europa.eu/eurostat/cache/metadata/en/ilc_esms.htm#unit_measure1447079093421. For an example, see the tables in the statistical annex of European Commission, *Employment and Social Developments in Europe 2015*, Directorate-General for Employment, Social Affairs and Inclusion, Luxembourg, Publications Office of the European Union, 2016, p. 340.

¹⁹ A.B. Atkinson, “Poverty, statistics and progress in Europe”, in A.B. Atkinson, *Income and the Welfare State. Essays on Britain and Europe*, Cambridge, Cambridge University Press, 1995, pp. 64-77, citation at p. 71.

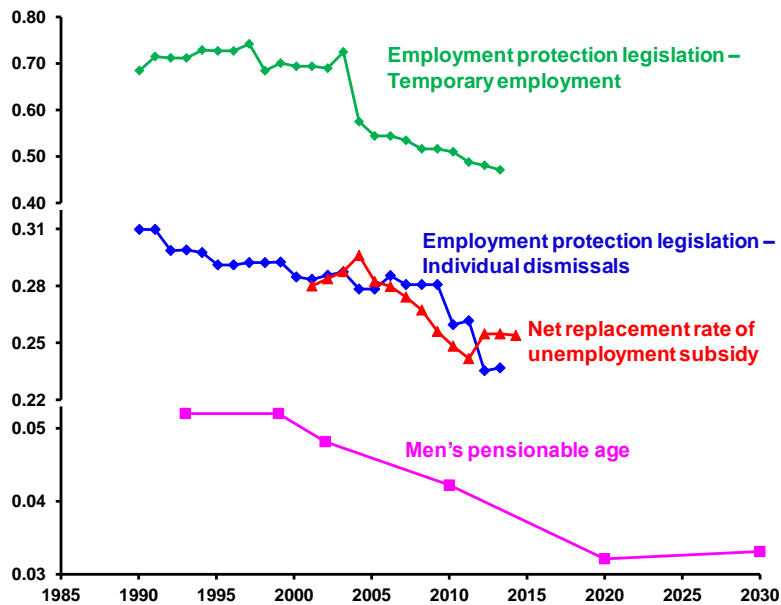
²⁰ For a discussion, see A. Brandolini and F. Carta, “Some Reflections on the Social Welfare Bases of the Measurement of Global Income Inequality”, *Journal of Globalization and Development*, forthcoming.

Figure 1: Selected measures of labour and social institutions in EU countries



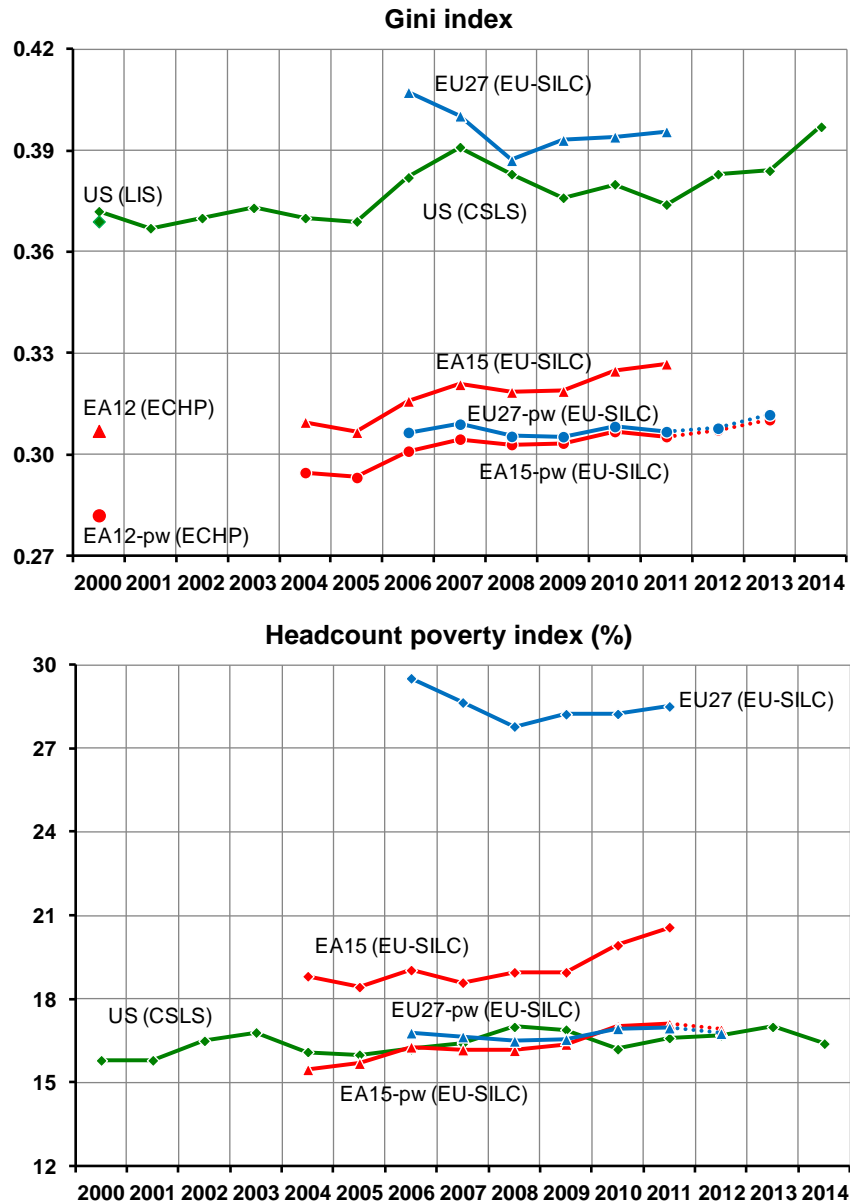
Source: my elaborations on OECD and European Commission data.
(1) After two months of unemployment; only unemployment benefits.

Figure 2: Cross-country coefficient of variation of measures of labour and social institutions across EU countries



Source: my elaborations on OECD and European Commission data.

Figure 3: Inequality and poverty in European Union (EU), Euro Area (EA) and United States (US)
(Equivalent disposable income, converted to euros by market exchange rates, modified OECD scale)



Source: EA12-pw (ECHP), EA12 (ECHP), US (LIS): A. Brandolini, "Measurement of Income Distribution in Supranational Entities: The Case of the European Union", in S.P. Jenkins and J. Micklewright (eds), *Inequality and Poverty Re-examined*, pp. 62-83, Oxford, Oxford University Press, 2007; EA15-pw (EU-SILC), EA15 (EU-SILC), EU27-pw (EU-SILC), EU27 (EU-SILC): my elaboration on Eurostat data (Malta not included for lack of data prior to 2007); US (CSLS): B. Andrews, J. Thomas and N. Palesch, "Estimation of EU-Comparable Poverty-Related Variables in the United States, 1995-2014", Centre for the Study of Living Standards (CSLS), Research Reports No. 2015-12, September 2015. Series denoted 'pw' are population-weighted averages of national values.