4. Towards A Social Europe[23]

Brigitte Unger

In analogy to the Fiscal Pact, the financial crisis can only be countered by also establishing a Social Pact in the EU. The summary of the European Council from December 2012 commented that the EU Commission was supposed to present a social roadmap in June 2013 towards a social Europe which we have failed to receive so far. After all, the measures suggested by the EU Commission on Oct 2, 2013, for a better and earlier identification of employment and social issues are not satisfactory. Together with Anne-Marie Grozelier, Bjoern Hacker, Wolfgang Kowalsky, Jan Machnig and Henning Meyer, we therefore published a Roadmap to a Social Europe in English in October 2013 by which we intend to stimulate an in-depth discussion of what a "Social Europe" would involve. From the point of politics, and peace policies in particular, it is important to sketch the vision of a Social Europe rather than indulging in a debate on 'Getting back to the nation state' and 'Us first'.

Below I will first outline the background of the debate on a 'Social Europe' in the aftermath of the financial crisis, before presenting models for a Social Europe and potential obstacles we can expect to be facing within this context before outlining specific suggestions on reforms and who should enforce them. In my capacity as an economist I will then focus on ways to fund a Social Europe, because money should not be an issue.

1. The threat to social policies after the financial crisis

In the aftermath of the financial crisis, the financial markets pulled off a coup with threefold implication:

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1. Firstly, the harm it caused was paid for using tax payers' money. Consequently, most of those who caused the crisis, the banks and other financial institutions, did not incur any major damage as a result of bad speculations and bad investments. Instead, it was the public budgets which incurred deficits, while government debts kept rising.

2. Next, government bonds of highly indebted countries presented themselves as a perfect new lucrative object of speculation for the financial markets, and even more so, if combined with credit default swaps, a kind of bet on which countries could be expected to go bankrupt. This way, the players involved were able to speculate on countries hit by the crisis, e. g. on an impending insolvency on the part of Greece, thus pushing the interest rates on Greek bonds up, making a lot of money in doing so and, should Greece actually become insolvent, cash in the insurance monies for the credit default swaps, which would be just as lucrative. In other words, this was a sure fire business at the expense of the Greek population. This business could even be expanded to include other EU countries, most of them from the South.

3. Since explicit and implicit government debt (e. g. in the form of state guarantees for the banking sector) increased as a result of the financial crisis, the public sector was forced to implement austerity measures. This way, it became possible to—rather than giving rise to fundamental criticism with regard to the way the financial markets and the markets in general work, followed by implementing a strict regulation of the financial markets in particular—dedicate the public sector to a new purpose, making it a guarantor for the financial system rather than for the *res publica*, the public affairs and the welfare state.

This way, the financial markets succeeded in using the crisis to kill three birds with one stone: (1) they did not incur any damage of their own; (2) they were able to expand their business based on government debt; and (3) they managed to undermine public finances in order to reinforce neoliberal tendencies shouting "less state, more private" even louder.

Taking the neoliberal stance, the need to cut expenses came to be defined in a very biased way, with productive, innovative, government spending contributing to human resources being acceptable, and unproductive, consumptive government spending which is of little or no benefit to the market becoming candidates for drastic austerity measures. The tenor of the debate is that, more than anything else, it is welfare spending—aid for the elderly, the sick and the most deprived—which is deemed 'unproductive', in other words, not worth anything. This kind of argumentation is dangerous, since it shakes the welfare state with which have also prospered economically for more than half a century after all to its very foundation.

2. Models for a Social Europe

What might a social Europe look like and how do we want it to be? A Europe with national social politics slowly beginning to crumble more and more (see 2.1)? A Europe with a core euro zone pursuing a common social policy (see 2.2)? Or an EU of nations and citizens, in other words, a democracy (see 2.3)? A Europe of variety, with the EU determining the social framework conditions for self-regulation which are intended to protect the EU countries from the excesses of competition just like the dykes protecting the Dutch polders from becoming flooded (see 2.4)?

2.1. Euroscepticism

A number of distinguished German political scientists, particularly from the Max Planck Institute in Cologne, believe that creating a Social Europe is impossible and that therefore it would be appropriate for every nation to focus on its own policy. Books such as Wolfgang Streeck's *Gekaufte Zeit* ("Buying Time"*)* and Fritz Scharpf's *call to* return to the European Currency System reveal this type of pessimism with regard to Europe. From this standpoint, coping with social crises should be left to the nation states and social pacts from the past have to be renewed under now more difficult circumstances in view of the crisis.

Arrangements between the social partners, promoted by a grand coalition have to be made. Bipartism in Germany between trade unions and labour associations, with a labour market and social policy subsidizing low wages based on the Hartz IV laws (financial support for the unemployed but also applied to low wage jobs) and thus mixing labour market and social policy. Tripartism in Austria between trade unions, labour associations and the state. Arrangements between the social partners take place under now more challenging circumstances such as companies threatening to leave the country, but with political and democratic backing nevertheless. The problem about this euro pessimistic model, however, is: there is no way back, since the integration process in Europe has already progressed too far. In a globalised world and within the Europe we are facing, returning to national states is not possible. And Scharpf's European monetary system would collapse within 24 hours due to speculation by unregulated financial markets.

2.2. A core Europe of the Euro zone countries

A more optimistic take on the state of affairs for Europe has been presented by the German philosopher and sociologist, Jürgen Habermas. From his point of view, our current dilemma is that technocrats (the EU Commission, the European Central Bank and the European Court of Justice), the European Council and European Parliament rather than working along the same lines and having a vision for a common EU Policy, just dare to take small steps for fear of a complete collapse of the European project. What contributes to the dilemma is the fact that the EU policy implemented by the technocrats massively interferes with citizens' lives, while at the same time being cut off from any kind of democratic control[24]. In this context, the British political scientist, Colin Crouch, uses the term 'post democracy', namely that, instead of democratically legitimized politicians, institutions which are not democratically legitimized (the EU Commission, the European Court of Justice, the ECB) take political decisions. In view of the lack of democracy found here, the anger and rage expressed by the EU population after the financial crisis had no appreciable effect on EU decisions. In spite of massive protests in many countries, where citizens who had always been told that there were no funds for schools, education and welfare suddenly witnessed billions being pumped into the financial markets started a revolution, the EU policy failed to show any response. In contrast, the European Council consists of democratically elected Heads of State or Government, but with the latter pursuing their national interests rather than EU interests. And then there is the EU Parliament, which should constitute a bridge between national interests and EU decisions, which in particularly during the financial crisis had had little say. Habermas, however, views the EU Parliament as chance to transcend national interests, since it is comprised of different parties rather than of representatives of different nations. This, he says, makes it easier to respond to European concerns (for example Social Democratic parties responding to social concerns) beyond national interests.

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[24] A more appropriate quote by Habermas reads: "when economic constraints imposed by markets happily meet the flexibility of a free-floating European technocracy…"

According to Habermas, neoliberal economists wrongly claimed a convergence of unit labour costs and growth under conditions of free competition and mobility of goods, services, labour and capital within the Monetary Union. Today, even the EU admits that the Monetary Union was designed the wrong way. Common financial, economic and social policies, he said, were required to maintain the euro zone.

Habermas calls for a Europe in which the euro countries exist as a political union, as a core Europe making supranational decisions based on a joint economic policy, and the European periphery which agrees to remaining outside of the euro zone. Thus, the national scope of action in the core European countries would be reduced significantly for the benefit of a common European economic and social policy. Modification of the EU treaties and surrender of national sovereignty requires solidarity, which Habermas, however does not view as an act of altruism, but as something in the fundamental interest of all parties involved. After all, he comments, welfare states, too, had only been established after two world wars.

This kind of national solidarity, which was important for the welfare of both labour and capital, only took shape when both parties realised that they would benefit from solidarity. The challenge today is to transcend national borders and to practice solidarity in the sense of a common economic and social policy within the euro zone in the form of a political union. Here, too, according to Habermas, solidarity is not an end in itself, but a means towards shared growth and prosperity (cf. Habermas 2013).

2.3. Democracy – A people's and citizen's Europe

Kalypso Nicolaidis (2013), a political scientist of International Relations at Oxford University, pleads for a European *Democracy*, a Union of peoples, with states and citizens alike governing, though not as one. First, democracy should prevail and be ensured on the national level. Secondly, negative spillover effects of national democracies should be corrected on the EU level, thus implementing a transnational democracy. And thirdly, a consensual democracy of peoples should be ensured on the supranational level. Any discrepancies between the views and requests of the peoples involved (e.g. with regard to austerity policy) need to be reconciled (rather than imposing austerity packages to the South).

2.4. A Europe of self-regulation – in Varietate Concordia

Nicolaidis idea is conformable with van Waarden´s, the 'devisor' of the Dutch polder model.

Van Waarden (2013) sees a major difference between the kind of solidarity required to establish a national welfare state, and the solidarity called for between the North and the South of Europe. From his viewpoint, the different languages within Europe form a major barrier to solidarity. In order to identify commonalities, and also shared benefits, you need to understand each other. Although Abraham de Swan's prognosis that English would begin to dominate more and more as a lingua franca the more countries would join the EU has proven to be true, he states, language still separates the EU countries and prevents a common policy. Van Waarden advocates an EU which stays true to its original motto, '*In Varietate Concordia*', meaning 'Unity in Diversity'. To achieve that, he stresses, the EU needs to establish regulations ensuring a balance between competition on the one hand and cooperation of labour and capital on the other hand both on the national and on the EU levels. The EU, he admonishes, needs to rely on self-regulation, a model which is based on the medieval European guilds, after all, like the Dutch polder model which is superior to the neoliberal competition models.

The majority of these models developed on a small-scale level, with few parties involved (trade unions, but it could also consist of e. g. 10 multinationals on the EU level or of farmers specializing on organic food). In this framework, trade unions, labour associations, social partnerships and social policy have to be protected by regulations like dykes protecting the country against being flooded by competition, while at the same time enabling competition within the dykes.

Van Warden challenges the EU to ensure regulatory interventions broadly reflecting the polder model in order to protect these national arrangements and to also establish them on the EU level. The need for regulatory action, according to him, encompasses trade, production, labour, income and investment and must not be reduced to wage negotiations between the social partners. The extension of collective agreements to many areas by the Dutch government (e.g. a national book award promoting Dutch-language books), he explains, is just as much part of the polder model as are retirement pensions, education and the redistribution of wealth.

For him, the EU is responsible for guaranteeing that these five areas are protected both on the national and supranational levels in order to balance competition against cooperation and thus achieve sustainable prosperity.

3. For a Social Europe a broad social meaning is necessary

When designing a Social Europe, another certainly significant aspect is what "Social" is supposed to cover. Do we mean "social" in the sense of a social policy? In other words, a policy focusing on social security systems such as retirement pensions, health, families and unemployment? Or do we want to use the term in a broader sense? Frank Bsirske, the Chairman of the German services trade union ver.di, and Klaus Busch (2013), ver-di's EU advisor, argue in favor using the term "Social Europe" in a broad meaning, stating that it should cover all social affairs affecting employees and thus include labour market policies, wage and income policies and the fallback systems provided by the welfare state alike. They propose a number of indicators for inequality on the labour market, the social situation faced by adolescents and precarious employment and ways to reduce them. For pensions, for example, minimum income replacement ratios could be introduced, along with additional investments into health and training which help to raise the actual retirement age. A Social Europe should be achieved and made transparent by deepening the social dimension by means of a kind of benchmarking of target variables within a particular corridor.

Berthold Huber (2013), the Chairman of the IG Metall trade union and President of the International Metalworkers' Union, views education and fighting youth unemployment as the top priority. In other words, a Social Europe inspiring hope in young people, also for the sake of preventing the risk of a ticking time-bomb in the form of a lost generation.

Seeing the new developments in labour and social affairs, which mean a merging of labour market and social policy issues, like atypical jobs, sabbaticals etc., a broad definition of social policy is necessary in order to cover the whole life of workers.

4. What are the specific suggestions for creating a Social Europe?

The suggestions for creating a Social Europe refer to the EU architecture (4.1), to minimal standards (4.2) and to financial support (4.3).

4.1. Reforms of the EU architecture and institutions

The experiences around the financial crisis revealed that countries with strong welfare states are more robust than those with a weak welfare state. Simon Deakin (2013) from Cambridge University demonstrates that, in order to be sustainable, any EU policy needs to combine growth and social cohesion. An egalitarian approach to labour market and social policies ensures a solid foundation for tax revenue on the part of the EU and its member states. A good vocational education, solidarity-based wage policy and active labour market policy help to overcome a recession. The EU institutions have been able to demonstrate a **high level of flexibility** during the crisis (e.g. with the ECB buying up government bonds to prevent speculation). This level of flexibility, Deakin states, would now also be required for a Social Europe.

The US political author Steven Hill (2013) suggests that first of all the **European institutions** were in need of reforms. As he points out, their very names – Council of Europe, the European Council, the Council of the European Union (also referred to as 'the Council') – including their respective Presidents were something only Europhiles could keep track of. The ordinary EU citizen, however, he claims, has no way to find out who is in charge of what, be it the Council of Europe, the European Council, or the Council of the European Union. Similarly, the Council of Ministers, the exact composition of which in any given case depends upon the topic in question both with regard to the number of representatives and the competence areas to be covered. The EU Parliament, he argues, still has not developed into a fully-fledged legislature, since all it can do is approve or reject laws, without being able to initiate any new ones. Accordingly, Hill concludes that the deficit in democracy and the small role that social issues play in EU politics also was the result of poorly designed European institutions.

The European Trade Union Confederation (ETUC, EGB) demands political reforms in Europe, and a fundamental **reform of the European Treaties** in particular. **Fundamental rights** with regard to labour and social rights should be included in the new treaties and guaranteed by them.

4.2. Minimum standards

Can there be a Social Europe for all? And, if yes, what would be the legal and political changes required to achieve it? What minimum standards should apply for everyone in this type of Europe? It would be the highly developed welfare states in particular who would have reason to be worried that discussions about a Social Europe would result in lowering their own higher social standards, since the average social standard in the EU would of course be significantly below the standard of a country such as Germany.

Thorsten Schulten from the WSI (2006 and 2011), Jean Paul Fitoussi and Xavier Timbeau (2013) from Science Po and the OFCE in Paris would like to see a **minimum wage for Europe** leaving room for a variety of national arrangements which would take account of the varying collective bargaining practices in the different member states.

Martin Seeleib Kaiser (2013) from Oxford University calls for a European welfare state providing the basic essential minimum needs e. g. in the form of a **minimum pension.** As for pensions, Bsirske from ver.di Germany proposes, among other things, **minimum income replacement ratios** as well as complimentary investment into health and fitness helping to increase the actual retirement age.

The Belgian philosopher, Philippe van Parijs (2013), suggests a **euro dividend** which would secure a basic income for every EU citizen or at least for every euro citizen. A (harmonized EU-wide) 20-percent value added tax would equal approx.10 percent of the GDP of the EU and guarantee 200 euros per month as a basic income (= euro dividend) for every single citizen. This measure, he argues, would provide a basic level of social security all over Europe, and, even more importantly, would partly compensate for the low mobility of the European labour force compared to the US. In addition, it would reduce economically induced migration from the South and therefore spread more money from the centre into the periphery. Proceeding this way, van Parijs explains, would reduce competition and social dumping between the EU countries. Also, he points out, the EU would become the distributor of something visible and tangible, which would change its perception from being a heartless bureaucratic institution to a caring and providing one and thus increase its legitimacy.

The negative side of the Euro Dividend is that it is first too little for the poor and second a waste on the rich. Furthermore, financing it through a value added tax which is a regressive tax, would burden the poor even more. So, I do not think that this is a model for the future.

4.3. Financial Support

Michael Sommer (2013), the Chairman of the DGB (German Trade Union Configuration) advocates a kind of **Marshall Plan for Europe**, an investment and development program for all 27 EU countries to run for 10 years.

Martin Seeleib Kaiser (2013) from Oxford University is in favor of a **transfer union** in order to bridge different perceptions of Europe and as an act of solidarity

5. Who could build up a Social Europe?

Who can and should take the initiative to build a Social Europe? Is it the Social Democratic Parties (Wilson 2013)? Is it Self-regulating organizations (Van Waarden 2013)? Is it the trade unions (Huber 2013, Bsirske 2013, Sommer 2013) on the national level and Europe-wide caring not only for their traditional but also their potential clientele? The national employers' associations coming to understand that asocial behavior and increasing crime rates are bad for business? The multinational corporations which are well aware that they will not be able to sell their products in revolting countries? Social protest movements such as Attac or Occupy Wall Street generating fear of revolution and a paradigm shift among the ruling elites? The reformed and enlightened European Council with Heads of State or Government thinking Europe? Or the Council of Europe, with its judges, suddenly declaring social well-being a fundamental human right? The European Parliament with successful Social Democratic European political parties? The European Commission drafting new EU social pacts? The European Court of Justice suddenly coming to treat social issues as equally important as competitiveness, and refraining from rulings such as in the Viking, Laval and Rüffert cases, which massively interfered with the labour and social legislation of the member countries, in the future? The European

Central Bank deciding to buy up all government bonds, so that is will no longer make a difference whether we have Eurobonds or national bonds? Or even the financial markets which – as predicted by J. M. Keynes, a child of the Age of Enlightenment – finally arrive at the insight that they want to return to contributing something useful to society and end up bringing about Keynes' "death of the rentier" themselves?

6. Options to fund a Social Europe

Finally I will focus on options to fund a Social Europe, because money should not be an issue.

6.1. New taxes for a Social Europe

In times in which money seems so terribly important, one should not forget to make those pay who caused the financial crisis, namely financial markets. They should at least have to take some of the responsibilities. When one takes into account the damage and misery that has been done to European welfare states, the introduction of a financial transactivity tax seems more than appropriate. In May 2013, the EU calculated, that a tax of 0.1% on bonds and equity sales and of 0.01% on derivative transactions, would bring about 20 billion Euros by 2020. If one would add a tax on foreign currencies, the total revenue would be as much as 50 billion Euros.

The Financial Activities Tax (FAT) currently discussed as an alternative which would amount to 5% of the wage and profit income generated by the financial institutions, would yield 25 billion Euros.

6.2. Tax avoidance– closing tax loopholes

When the British Parliament accused Starbucks, Google and Amazon of unethical conduct because they had taken advantage of tax loopholes, for a short time it seemed as if a new era was being heralded. Even more so, when offshore leaks daily began to reveal new corporate strategies to avoid paying taxes. Suddenly, global players found themselves being rebuked in public for their unethical (legal) demeanor. Starbucks, though claiming to sell 'fair trade coffee' in its advertising slogan, had procured its entire coffee supplies worldwide from a country which neither grows a single coffee bean nor offers cheap prices: in Switzerland. The high purchase costs enabled the company to keep its profits low and to also be paid at a low rate. Not a very fair business, according to the British Parliament. Amazon UK keeps all his stocks of books in warehouses in Great Britain, where it also sells its books, but pays its taxes in Luxembourg. And Google saved a significant amount of taxes via tax arrangement such as the Double Irish Dutch Sandwich, which involve founding two Irish subsidiaries (double Irish), one of them with foreign management, because a loophole in the Irish tax system says that no corporate income tax will accrue for companies managed abroad. A Dutch tax loophole, on the other hand, stipulates that inner-European transactions are tax-exempt. So first the money is transferred to one of the Irish subsidiaries, and then via the Netherlands (Dutch Sandwich) tax free to the second Irish subsidiary, which is managed from abroad, so that no corporate tax needs to be paid in Ireland, too, and from there to some tax free Caribbean island.

James Henry from the Tax Justice Network estimates that the offshore financial assets worldwide total 32 trillion USD. Offshore Leaks identified more than 122,000 “letterbox companies” in offshore centers such as the British Virgin Islands, the Cayman Islands or in Singapore.

Closing tax loopholes within the EU and Europe in particular would significantly increase tax revenues from corporate tax in particular, the tax on corporate profits in particular. Among other sources, these revenues could be used to fund a Social Europe.

6.3. Tax evasion – collecting tax monies

While large groups have legal ways to avoid paying taxes with the help of their in-house financial advisors and tax consultants specifically dedicated to the purpose of inventing tax tricks, SMEs and private individual have to resort to illegal channels if they want to avoid tax. Using hidden cameras, the German TV station ZDF succeeded in exposing tax-saving foundation structures and filming cash-filled suitcases in the triangle between Austria, Liechtenstein and Switzerland quite clearly. Swarovski’s attorney was stopped at Dutch customs carrying a suitcase filled with 3 million in cash. Estimates of tax evasion vary greatly between 15% and 3% of the GDP (Unger 2013). According to findings by Booz and Company in Zurich in 2011, 102 billion euros from tax-evading German firms and individuals are stored in Swiss bank accounts. The GDP for the EU amounts to 12.8 trillion Euros; social expenditures vary between 17.8% of the GDP in Slovakia, 26% in Germany and 32% in France. If we were to assume that an EU welfare state would also cost approximately 20% -30% of the EU GDP and to consider that a European welfare state according to German or French standards would cost around 3-4 trillion euros, this welfare state could be funded exclusively by subjecting the financial markets to taxation and by recovering evaded taxes.

Consequently, there is enough money. Therefore money should not prevent a Social Europe from happening!

Conclusion

As the models for a Social Europe show, establishing a Social Europe is possible. There are numerous options concerning the shape it might take, as specific proposals show. And it is financially feasible. There are actors which can become involved in shaping it, such as political parties, associations and social movements. The solidarity required for this purpose does not arise from philanthropy alone, but is also an end in itself which will contribute to a joint peace project which everyone will benefit from.

After all, according to the Eurobarometer survey of the EU, the perceived legitimacy of the EU is very poor at the present: 59% of the Germans, 69% of the British, 72% of the Spanish distrust the EU. To put it differently, the EU has lost the approval of 2/3 of its citizens! So, trying to establish a Social Europe seems urgent. As the Austrian economist Kurt Rothschild once said: we are richer than we ever were, the GDP per capita rises, and, yet we suddenly cannot afford the welfare state anymore?

Today, a Social Europe still remains in the realms of utopia. The welfare state, however, also started out as a utopian idea. And Bismarck did not establish the public pension system, which also became the model for the Austrian pension system, because he was such a kind-hearted person, but because he was concerned that the French Revolution would also begin to spread in Germany. So what are we waiting for?

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