

A New Social Europe

by Roger Liddle

About the author

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Preface

Ten years of European policy making have left me uneasy about the EU's future. This is not to say Europe is in a state of crisis (or no more than it perpetually is!) In truth the last decade has been one of considerable EU achievement with enlargement to 27, the creation of the Euro, progress with economic reform, and a much enhanced EU role in justice and home affairs issues and foreign and security policy. British influence has been decisive in many of these fields from St Malo on European defence, Lisbon on economic reform and Hampton Court on energy and climate change. Far from being marginalised, there is a big European agenda for Britain to pursue as Charles Grant sets out in his "European Choices for Gordon Brown": policy proposals with which I am in full agreement¹.

Nevertheless there is something both missing and troubling. It is not that the EU lacks a clear role. It is a vital means for its Member States to shape globalisation in the twenty first century. This is its modern purpose, just as in the second half of the twentieth century the founding fathers built Europe step by step in order to end war, create unprecedented prosperity and unify the Continent. The problem is not lack of an agenda. Rather it is how the EU wins the public legitimacy to enable it to deliver on a large agenda as effectively as it needs to do, and thereby realise its potential. This is the missing and troubling element. This is why hard reflection is needed to rethink our past and current policy stances.

Across our Continent, and not just among Eurosceptics in the UK, the question of legitimacy is rising in importance. Right and Left populism is gaining ground. Its nature differs from Member State to Member State, but everywhere it is deeply anti European. As mainstream parties move to counter these electoral realities, there is a near irresistible temptation to take populist pop shots at Brussels. Ironically almost in the same breath, their leaders realise that they need an effective EU to tackle the problems that Member States can no longer tackle on their own.

Some will say that this is the practical politics of the EU and this is how it will always be. But it means that the EU will for ever be hobbled. It will remain an essentially elite project that governments will use for positive purposes- but only when two conditions are met: first the perception exists that they can get away with it domestically and second the key Member States can agree amongst themselves about what needs to be done. But on these conditions, the EU will never gain a legitimacy that wins genuine popular support. It will never be a shining model of rules based multilateralism that offers hope of better global governance to the rest of the world.

The new Member States are quickly adopting the old Member States bad habits towards the EU. The lasting pains of transition provide happy hunting grounds for populist politicians on the make. Brussels presents an easy target when the EU's rules and disciplines impinge on hard won national sovereignty, even when polling suggests high levels of general approval for EU membership.

However enlargement is not the primary source of the Union's woes. The

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rejection of the Constitutional Treaty by Dutch and French voters – two founding Member States of the Union - was immensely significant for the EU's future. The agreement this July on a mandate for a new Reform Treaty addresses the institutional weaknesses that the original Constitution aimed to remedy, but Europe's leaders should not kid themselves that it resolves the underlying reasons for the NO votes of two summers ago.

Behind those NO votes lay a whole complex of motives. These include job insecurities due to new competition, delocalisation and the emergence of the "Polish plumber"; a more general rejection of globalisation and the new global capitalism; and hostility to immigration and the loss of traditional identities that multiculturalism is perceived to bring. In the referenda, people were asked to vote in favour of strengthening a European Union that they saw, at least in part, as responsible for what they disliked about the economic and social changes in their own societies. It was the losers from those changes – the unemployed and the less skilled and educated - who voted most heavily against the Treaty.

In British pro European circles it is often argued that the source of the EU's legitimacy problems is a so-called "delivery deficit". The President of the Commission, Jose Manuel Barroso, has reflected similar thinking when called for a "Europe of results". Doubtless more effective policy making would improve the EU's standing with the public. The institutional changes that the Reform Treaty envisages will improve Europe's effectiveness particularly in the external field. But this is not the heart of the problem. Indeed there is a classic "chicken and egg" issue. How can the EU ever be effective if the public sees it as a source of its social discontents, not its well being?

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Some hope that economic reform, which has contributed in part to the present wave of economic recovery, could in time diminish populist pressures. I am not that confident. Recovery could prove cyclical and temporary. But even if it proves longer lasting, the dynamic of the structural reforms which result from a deepening Single Market and financial market integration, spurred by the Euro and enlargement, will drive yet further and faster disruptive economic and social change – and this is before the wider impact of globalisation. For many ordinary citizens the present recovery is a qualified boon, because of emerging new (particularly generational) inequalities, the huge boost to temporary employment without contractual protections, and the social stresses of the new immigration that is accompanying growth in many Member States.

And of course global economic conditions have been exceptionally benign in the recent past. Who can say whether the political dynamics that have driven globalisation will prove sustainable and if they do not, what that will mean for political tensions within the EU itself. Beneath the present promise of better times, there remains an undertow of populist discontents which in worsening conditions could provoke tensions and explosions that undermine even more seriously the EU's legitimacy.

However both Eurofederalists and Euro sceptics are barking up the wrong tree when they put forward their remedies for Europe's legitimacy problem. Closing the so-called democratic deficit in the EU, as the Eurofederalists want, is not a persuasive answer to popular discontents though I personally support stronger powers for the unfairly maligned European Parliament.

Nor, as the Eurosceptics argue, does it make sense to roll back the powers of Brussels. The classic contradiction is that of those who want the EU to "go back" to being a free trade area. They forget that the Single Market they yearn for is only sustained by the supranational institutions they detest – the

European Commission's right of legislative initiative, qualified majority voting in the Council of Ministers and the supremacy of the Court of Justice over national law.

The EU is a complex world of multi-tier governance and mutual interdependence between Brussels and its Member States that exists because a hard won consensus between Member States has willed it. It is very difficult to cut back or even simplify the structure without pulling down the pillars that give the whole edifice support.

Indeed attempts to limit the EU to its so-called core competences is what might actually bring the whole structure crashing down. For the root of Europe's legitimacy problem is primarily social and this where EU competence is most contested. Yet European integration is not delivering a better life for the broad majority in the way it once did. To sustain a vibrant EU in future that is Open and Global, then it has to be a more Social Europe too.

Let me be clear. I am not calling for a centralisation of social competences, though I do believe that the UK has to be more open to the case for EU legislation in key areas of social policy and a larger role for the EU Budget. But I am calling for social justice to be put at the heart of the EU's mission and purpose in a new partnership of Member States and EU institutions. Europe should be about the promotion of its own distinctive European values internally as well as externally.

As a social democrat I would hope the parties of the Centre Left would take a lead in establishing this new progressive consensus. And as a British social democrat nothing would be more pleasing than that Gordon Brown's government would put itself at the head of such a movement. I hope at least they give it serious thought – and this is the purpose for which this paper is written.

Introduction

This paper argues that Gordon Brown should reinvigorate Labour's commitment to Social Europe. It should be a central plank of a new case for British engagement in the European Union built around using our EU membership to shape a progressive response to globalisation.

An Open and Global Europe needs also to be a Social Europe. The advancement of social justice, within Europe as much as externally, should be placed at the core of the EU's values and mission. A modernised European Social Model is essential for the EU to be economically successful, politically sustainable and gain the legitimacy to be effective in the wider world. Britain's Labour Government should take a lead in building such a progressive consensus across the European political spectrum.

However there is a need for fresh thinking about how a more Social Europe can be advanced. In a diverse EU of 27 it cannot be something built primarily from Brussels top down. Of course policy at EU level will have an important role to play: binding rules are necessary in key areas and there is much scope for more productive mutual learning. But the essential pre-condition of a new Social Europe is a new progressive consensus that is embedded in the politics of the Member States, recognising that as members of the EU we all live in a Union of interdependent multi-tier governance.

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On the Right socially conservative thinking about the welfare state and on the Left resistance to change in established rights, despite changing social realities, has enfeebled Europe's response to the major challenges of globalisation and demography that all Member States face in the coming decades. In shaping a new progressive consensus there is a need for sharper thinking than vague talk of balancing the "economic" with the "social". First it has to promote more open markets as a "means" of driving faster innovation and productivity growth, but with greater clarity about what kind of market capitalism it favours and where its boundaries are. Second, it has to devise a new agenda of social investment based on an up to date analysis and thinking of the new social risks our societies face and the new inequalities emerging in them. Third it has to develop new forms of social partnership for the knowledge and service economy.

There is a leadership vacuum in Europe on the moderate Left. On European policy Gordon Brown must rightly work closely with Germany's Angela Merkel and France's Nicholas Sarkozy. But he also has an opportunity to fill the vacuum on the Left as Europe's leader of a modernising, progressive social democracy that aims to shape globalisation with social justice.

A Europe that is Open, Global and Social as well

The Labour Government is strongly committed to the concept of a Global Europe that is outward looking, economically open and prosperous, and an effective "force for good" in the world. The new Foreign Secretary, David Miliband has spoken persuasively of an E(nvironmental) Union capable of meeting the challenge of climate change and transforming our existing economic and social model into a low carbon society. He has made building an effective EU one of the Foreign Office's three key priorities alongside national security and climate change. For the EU to be effective it requires an updated rule book – hence the necessity for the ratification of the Reform Treaty.

However to be truly effective Europe needs greater legitimacy with ordinary voters which it presently lacks. The argument of this paper is that crucial in winning this legitimacy is a unifying social project for the EU. Europe needs a new and clearer social identity sufficient to legitimise the economically beneficent but socially convulsing processes of economic integration that will arise both from a deepening of the Single Market in an EU of 27 as well as from the dynamic of globalisation.

There is nothing new in politics about the legitimacy problem. In the nineteenth century the rival nation states of Europe faced it acutely as the progress of the industrial revolution and the emergence of a new working class threatened the established social order. They attempted in part to solve the problem by appealing to patriotic, nationalistic and imperial sentiment. That contributed to bloody Two World Wars from which the dynamic of European political integration sprung.

In the immediate post war decades, the creation of lasting peace legitimised Europe's growing political integration with the Continental public. But today that peace is taken for granted. No one thinks of the institutions of the EU as essential to preventing war in Europe, though their role in keeping nationalist impulses under control is perhaps underestimated. The EU is searching for a new legitimacy for the twenty first century.

This new legitimacy should be built on the idea that as Europeans we share values that we should promote just as much at home as abroad. Fundamental to these values are ideas of democracy, equal citizenship and social justice - a modernised and reinvigorated European Social Model.

This point may come across to some as irrelevant intellectualising. After all, political anoraks in many Member States will say, “Who really cares whether the EU is legitimate? The only legitimacy that counts is provided through the representative democracy of the EU’s individual Member States. That is what voters identify with. As for the EU, it’s a useful mechanism for cooperation between nation states, but don’t let’s give it a symbolic significance that doesn’t mean much to people”.

There are of course important elements of truth in the instincts that inform this view. But Europe’s political leaders at least should be concerned about the question of the EU’s legitimacy. For there are worrying signs of social tensions that could in time blow the whole EU project apart.

Social unease about the future

The big Member States have more in common than they care to admit. There is an interesting contrast between contentment about the present and widespread social unease about the future. One must be careful not to exaggerate. Polling consistently shows very high levels of reported personal life satisfaction and happiness across the EU: highest in the Benelux and Nordic countries and in Ireland, but with Britain, France and Germany not that far behind. (Life satisfaction and happiness is unsurprisingly a lot lower in the poorer, newer members of the Union and lowest of all in Bulgaria.)

However alongside this high life satisfaction, there is a great deal of unease about the future. A recent Euro barometer poll suggested that 64 per cent of the European public believe life will not be as good for their children as it has been for them, with only 17 per cent thinking it will be better². This goes alongside widespread feelings that welfare states and pensions will not prove sustainable. On these subjective measures of social pessimism about the future, Britain comes in around average. Only 16 per cent of Brits think life will be better for their children. True this is higher than the depressingly low figures of 8 per cent and a mere 3 per cent respectively for the French and Germans, but Europe’s optimists are concentrated in “catch – up” countries, like the Baltic States, Finland, Greece, Ireland, Poland, Portugal and Spain. These feelings of unease about the future are combined with a worrying lack of trust in politics – where interestingly Britain is no better and no worse than the European average. They also feed into a growing Euroscepticism – greater in Britain than in many other Member States – but there are now sizeable numbers of the public in northern member States in particular who do not think that their country is benefiting from EU membership.

The dangers of Right and Left populism

Politically we now have a social situation in many EU Member States, including the UK, where there are potentially rich pickings for populists of both the Right and Left. The “No” voters in the Dutch and French referenda in 2005 were concentrated among social groups that one might typify as the “losers” from economic change – particularly older manual workers and the economically inactive. Right wing populism is making a significant political impact in many EU countries, including the new Member States. Left wing populist parties are emerging as serious political forces in Germany and the Netherlands. These political pressures could easily drag the EU down as its

leaders prove incapable of resisting the temptations of populism, protectionism and Brussels-bashing.

As Loukas Tsoukalis has pointed out,³ there is a flaw in the European system of governance that could well bring the process of economic and political integration in Europe crashing down. Many of the framework conditions that shape the functioning of domestic product, labour and capital markets are now determined at EU level: not just external trade and competition, but much legislation setting the rules for business, the Single Market and the flanking standards in the environmental, consumer and social fields. Enlargement policy has crucial economic and social impacts, as the wave of recent East European migration has brought home to many British citizens.

National politicians may not like to admit the pervasive extent of the EU's role and of course by being less than frank, they play into the hands of mounting Euroscepticism. But the reality is that as members of the EU, we live in a multi-tier framework of governance. What is decided at EU level (with the full participation of national Ministers) has a profound economic and social impact on our societies.

For the earlier decades of the Union's history, this wasn't a great problem. The broad division of responsibilities between the EU and its Member States worked smoothly enough. In the founding Six, the Common Market drove growth and Member States looked after questions of distribution by building up their welfare states.

But in the last twenty years, massive structural reforms at EU level have stripped away much of the nation state's ability to steer the national economy. Europe has been transformed by the Single Market, capital mobility, enlargement with its implications for free movement of labour, and (for its members) the creation of the Euro and its fiscal rules. Critics of the EU point to its sclerosis and resistance to reform: the truth is that the EU has seen massive economic change that will have long term effects that are only now working their way through European economies and societies. Witness for example the wave of structural reforms, mergers and takeovers at company level now underway.

Left wing and trade union critics of the EU are right that these developments have constrained (though not eliminated) the scope for nation state social democracy. Where they are wrong is in becoming negative about the EU itself, rather than thinking through what a European social democratic response might be.

Economic openness and integration across the EU drive innovation, growth and the creation of new jobs. Not only should living standards grow. But all Member States have benefited from a Single Market growth dividend that means that the resources available for public expenditure on social purposes are significantly higher than they would otherwise have been. This benefits the UK along with other Member States, possibly more so, if one could calculate the value of the increased tax revenues flowing to the UK Exchequer from the City as a result of the benefits of its dominance as the financial centre of Europe's increasingly integrated capital markets.

Nevertheless economic change brings with it wrenching social impacts. In the EU, the social and political implications of these new economic dynamics have been profound, yet poorly understood and inadequately anticipated by policy makers. Without a revitalised Social Model, the nation states of the EU will fail to combine economic openness and dynamism with social justice and cohesion.

The interplay between social unease and the future of Europe

The Union faces a profound paradox. Globalisation makes the case for European cooperation and integration much stronger. But winning that case with the European public is made much more difficult given the ambiguous, even negative role that many citizens now believe the EU plays towards their well-being. Increasingly national electorates blame Brussels for being a willing accomplice, if not directly instrumental, in promoting a process of liberalisation, globalisation and enlargement that they perceive as heightening the present insecurities that many Europeans feel.

In such a political climate of mistrust of the EU, elite compromises in Brussels lack public conviction. The potential of a deeper, more liberalised Single Market to strengthen Europe's competitiveness in the era of globalisation will not be fully realised. The chances of step by step building of a more cohesive and effective "Europe in the world" will be reduced.

Greater legitimacy from a unifying social purpose expressed in a new progressive consensus is essential if the economic benefits of European economic integration are to be sustained and deepened, and the EU's potential influence in a rapidly changing world is to be maximised where Europe's nation states will individually count for less.

Aspirations for greater social justice play a big part in the domestic politics of Member States. What is required is not for national politicians to shift to European level the policy changes that they want to achieve domestically, but to frame their social ambitions in the context of the European values we share and be open to the notion that there are areas of social policy where cooperation at EU level can achieve the better results they seek at home.

The need to re-think Social Europe

That in a nutshell is the European case for the revival of the idea of Social Europe. And if the Labour Government in Britain is serious about winning the forthcoming battles for a global, open Europe, it also needs to advance the idea of social Europe too. This is the best way to rebuild public confidence in the European Union. As Jacques Delors famously put it, "no one falls in love with a market"! But first there is a need to work out what precisely is meant by "Social Europe" and think through what the role of the EU might be in its realisation, given the diversity of Europe's Social Models.

In a diverse Union of 27, the need for subsidiarity cannot be lightly brushed aside. However the idea that as a consequence Brussels should nail itself exclusively to a neo liberal agenda of economic openness, increased competition, flexible labour markets, and free movement of labour and public spending restraints is not a logical consequence of diversity. European electorates most definitely do not want to see their welfare states run from Brussels, but it is striking when ordinary people are asked what kind of Europe they want, social ambitions stand out as important. In this, national electorates are probably well ahead of national governments.

To make this diverse, enlarged Europe work we need a new concept of subsidiarity. This should not be one that divides competences arbitrarily between tiers of government. One cannot say for example that the EU should look after competition, but Member States exclusively run social policy. For example on competition, in many sectors the principal barriers to a more integrated Single Market are at a national level and need to be tackled by

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national governments. Rather in each subject area whether it be social rights or competition rules, we need clearer criteria for establishing where and how action at EU level is appropriate. Where can EU action “add value” to what Member States on their own are able to achieve?⁴

Britain should engage constructively in such a debate. Yet the Labour Government since 1997 has had an uneasy relationship with the idea of a Social Europe. That unease still persists, despite the incoming Labour Government in 1997 signing up to the Maastricht Treaty’s Social Chapter, from which it is still the policy of David Cameron’s Conservative Party to withdraw. However there is now an opportunity for a social rethink. The Delors social agenda which focused on creating a basic framework of minimum employment standards across the EU (plus or minus some outstanding legislative debates on Working Time and Agency Workers) has now gone about as far as it can. EU enlargement to the much poorer East makes more ambitious harmonisation of employment standards an unrealistic goal for a decade or more ahead. The new Member States view such proposals as nothing more than a protectionist attempt by elements of the EU 15 to deter inward investment in their countries and prevent the export of jobs to the East.

This poses an acute dilemma for Europe’s trade unions. Their members feel threatened by low wage competition. But the leadership knows that the economies of the new Member States need to exploit their comparative advantage to catch up with the more developed Member States, just as in the last twenty years Greece, Ireland, Portugal and Spain have done – in the Irish case with spectacular success. The unions (with the exception of the Germans and Austrians) have also stuck steadfastly to their support for the free movement of labour within an enlarged EU. Where the unions have a legitimate case is in pressing for stronger enforcement across the EU 27 on issues such as discrimination and health and safety which should be treated as questions of fundamental labour rights, not legitimate comparative advantage. They are also right in insisting that the free movement of labour should not undermine minimum wages whether set by law or collective bargaining at national level.

There are difficult tensions here. There is no consensus among Member States about how to develop social Europe on the old Delors model. This makes the case for devising a new agenda for a modern social Europe from a fresh analysis.

Common social challenges?

Any new social agenda depends on the proposition that, for all Europe’s diversity, there are common social challenges. This question lies behind a public consultation that the Commission launched at the end of February “to take stock of Europe’s social reality”. In my Commission capacity I co-authored a paper⁵ that analyses the main social challenges facing Europeans today.

The analysis of our paper shows that Britain shares many common challenges with fellow Europeans: not least the challenge of recognising how fundamentally our societies have changed in the last generation. The social models of the past were built on the solidaristic foundations of a mass manufacturing industrial society and a male breadwinner welfare state. The social challenges of our societies today are now quite different. We now live in a world of a knowledge and service economy that is becoming rapidly post-industrial (two thirds of jobs are in services), with change speeded by European economic integration, but in origin the result of technological change and the new demands of affluent consumers as they climb up Maslow’s hierarchy of

needs. In this knowledge and service economy citizens define themselves more as consumers than producers, and values are becoming more individualist and post-materialist. Family life has changed out of recognition in a generation, partly as a result of falling birth rates, greater gender equality and the weakening bonds of the extended family. As a result, welfare states with an ageing demography have problems of sustainability, equity between the generations and difficulties in adjusting to new social risks.

There are big issues that stand out and affect most Member States. The transformation to a knowledge and service economy is as profound as the earlier switch from agriculture to industry. It is reshaping the nature of work. IT and personal skills are in huge demand. But equally the labour market position of the low skilled is worsening: without opportunities to learn and relearn skills, and manage labour market transitions better, too many run the risk of finding themselves stuck on a carousel of bad jobs and unemployment. This affects not just the economically inactive over 50s who have lost “good working class” jobs in successive rounds of industrial restructuring.

Young people are at risk too, too many of whom – 1 in 6 – are still leaving school early and even more lack the basic skills for economic survival in the knowledge economy. Yet when one examines the performance of European educational systems, there is still massive room for improvement. Yet in several countries educational performance appears to be in decline.

Birth rates at present levels threaten the sustainability of our societies. There are big issues of generational equity between young and old. Child care and work life balance issues around support for what is now the norm of the “dual earner” family are crucial.

At the same time, Europe needs more migrants but most Member States have great difficulty in integrating them successfully, both in their school systems and labour markets. Some Southern Member States such as Spain appear to cope with integration better. Why is this? What lessons do the traditionally solidaristic welfare states of the North have to learn?

Finally, there are new risks of social polarisation. Alongside new social risks of depression, mental illness, obesity and alcohol misuse, the incidence of child poverty appears to be rising in many Member States. Social mobility may well be in decline – as for instance measured by the percentage gap between the proportion of young people going to university from homes where their parents went to university and from homes where their parents did not.

Inequality in pre tax incomes is rising – with pay at the top racing ahead and with many younger people at the sharp end of disadvantage. There are serious risks of new forms of polarisation in our societies just as many thought the old social divisions had been overcome.

It is striking how many of the most pressing social problems in the Union concern younger people:

- disproportionately high unemployment;
- one in six 16 year olds still leaving school across the Union with few skills;
- the prevalence of job insecurity and short term employment contracts among younger people;
- rising wage inequalities that primarily affect the young: in Member

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States such as France, where the income distribution on the face of it appears stable, the earnings gap between younger and older workers has widened by 25 per cent in a generation;

- declining social mobility as the opportunity gap widens between families (including a new generation of active fathers) who are able to invest huge amounts of time and money in their children's future and those from disadvantaged backgrounds, often combining emotional as well as economic deprivation;
- the particular problems of poor educational performance and failed labour market integration among many of the EU's ethnic minorities;
- increasing pressure on young people in setting up households of their own and postponing the birth rate of the first child as a result of rising housing costs and inadequate social support for the "dual income" couple;
- migration of young people from some Member States when taken in this context of dramatically falling birth rate threatens population shrinkage and social sustainability.

Not all the problems of European societies fall on the young. One in six older people, mainly elderly women, live in poverty. There are huge challenges of social care for an ageing population. But Europe has made huge strides in overcoming the problem of post war pensioner poverty that so afflicted the post World War Two generation. For the majority pensions are adequate: it is the burden of financing them that is the greater problem and that inevitably falls in "pay as you go" systems on the younger generation.

Britain faces many similar challenges to the rest of Europe. We have made significant progress in reducing early school leaving and improving education standards and skills – but nowhere near enough. We still have major problems of poverty – though ours have declined overall since 1997 while in other European countries they are rising. There are major challenges facing us in public health, anti social behaviour, the successful integration of migrants and social mobility. In European league tables we are on some issues like employment better than average and on others like poverty and inequality worse. Better to think of ourselves as a European country just like any other and at least then we might be in a better position to understand what we can learn from others.

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Is Britain different?

So if we in Britain share common social challenges with our European partners, why not accept some form of common commitments at European level that demonstrate our seriousness in tackling these challenges? There are three main objections.

The first is one of high politics and ideology: Britain is not part of Europe in the way other European countries are. Put crudely, the Europeans may talk lyrically of their Social Model, but the British model is something very different. Sometimes this is described as an Anglo- Social model. For some this is unique and distinctive: an element of Britishness. For others it implies Britain's

perception of its shared identity of what Andrew Gamble has described as the idea of “Anglo America”.

The second is a more hard headed economic and business objection. “Social Europe” may in principle sound an appealing idea but in the real world, anything with the label “social” that comes out of Brussels will end up impeding labour market flexibility in Britain. It will throw grit in the wheels of what is perceived as a vital element of Britain’s recent economic success.

The third is a more pragmatic scepticism about the usefulness of policy at EU level in the social field. Labour market institutions and social protection systems display a rich diversity within the EU. Even if one accepts that there are large elements of commonality in the social challenges that Member States face, the institutional starting points are widely different. For academics Europe’s welfare states may provide an interesting subject for comparative analysis, but for policy makers diversity limits Europe’s usefulness even as a laboratory of mutual learning.

The following sections discuss the validity of each of these objections in turn.

Forget talk of a European Social Model: the British model is different

Although most experts would accept that there is no such thing as a single European Social Model, many argue that there are common values which most Europeans share which underpin Europe’s various social models. These are not *exclusively* European values (we share much with Australia, Canada and New Zealand for example and perhaps something with Japan) but they are nonetheless shared European values.

But these ideas are anathema to the ideological Right. For them in the post Reagan – Thatcher world Britain’s economy and social system are part of its unifying neo-liberal ideal of Anglo America. This posits the notion of a supposedly dynamic Anglo Saxon world against a sclerotic European Social Model. But it is high time Labour scotched the assumptions that lie behind this flawed idea. First is the assumption that Britain has more in common with the United States than with Europe in terms of its approach to the welfare state. Second is the assumption of US superiority to everything European.

Key features of the British welfare state have far more in common with Europe’s social models than the United States. The idea of Anglo America may have been realisable in the 1990s when parts of the Right aimed to residualise Britain’s welfare state and reduce public spending as a share of GDP first to 35 per cent and then to 30 per cent or below. It may still be a figment of the imagination of leading Conservative thinkers like John Redwood. However since 1997 there has been considerable convergence with our European partners in spending on public services. Indeed the Labour Government’s most dramatic and far reaching commitment of all – which has resulted in a doubling of NHS spending in real terms - was expressed in terms of bringing health spending in Britain up to the European average. Along with high and rising levels of public expenditure which are now not dissimilar to mainstream European countries, Britain shares with its European partners a strong commitment both to universal health care and to welfare entitlements for the male unemployed, neither of which even the most progressive of US Democrats are prepared fully to espouse. In addition UK fiscal practice supports large transfers that guarantee decent public services across the country and reduce what would otherwise be stark regional inequalities. There are no yawning gulfs like that between Minnesota

and Mississippi within Britain or most Member States of the European Union. Indeed Europe is notable for its commitment to social cohesion; the Structural Funds are now transferring up to 4 per cent of their GDP annually to the EU 12 (the poorer new Members).

Secondly the favoured Eurosceptic imagery of a dynamic United States outstripping and outmatching a sclerotic Europe is partial and grossly exaggerated. In the decade since 1995 – a decade when US productivity growth accelerated while the EU's declined, the Nordic Member States have managed to combine growth and employment records that match comparison with the US while maintaining a generous welfare state financed by high taxes. They invest far more in R&D than the UK which is no better than around the EU average and they have enjoyed much higher levels of innovation led growth. The evidence shows that there is nothing inherently detrimental to economic success in an advanced and European social democratic model.

Also while US growth and productivity performance in the last decade has been spectacular, the consequences for equity have been indefensible⁶. 50 per cent of the rewards of the productivity gains of the last decade have gone to 10 per cent of the population. Since 1979, only the top 10 per cent of wage and salary earners have enjoyed pay increases that match or exceed the national productivity growth rate. Not only has the share of national income of bottom the 20 per cent fallen from 7 per cent to 5 per cent in this period. Median wages have failed to match the national increase in productivity and at the same time Middle American families have come under increased pressure from rocketing health insurance costs and tuition fees.

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Also Britain's productivity record has more in common with the rest of Europe than the United States. The latest estimate from the National Institute is that "there has in fact been a slight decline in productivity growth from 1995-2004 compared with the 1970-95 period"⁷. Britain has substantially narrowed the gap in output with France and Germany but this is not because Britain has enjoyed a productivity miracle. Britain's strong growth performance has depended on growth in hours worked, not least as a result of immigration. In terms of value added per hour worked in 2004 Britain is still bottom of the league. With the UK at 100, the US is on top at 134, France second on 125 and Germany third on 111. The problem for the French and Germans is that in the last decade their productivity growth rate dropped to a rate slightly below the UK's when previously it had been 1 per cent or more a year higher.

Social Europe and labour market flexibility: still arch enemies or reconciled by "flexicurity"?

Labour's timidity on Social Europe is not what one would have expected in the early 1990s. It was Social Europe that had rallied Labour to a positive Europeanism in the 1980s. This was one of the defining features of Kinnockite modernisation. The defining moment - Jacques Delors' speech to the TUC Congress in 1998, and the trade unions' positive reaction to it - was one of the most significant events in the party's recovery as a potential governing force. Instead of Labour being deeply ambivalent and divided about Europe, only the old "Common Market Safeguards" fringe stood outside the party's new pro European consensus. This speeded Labour's progress on the long march to its Bad Godesburg and the abandonment of the old Clause Four in 1995. To be pro European was central to being a modern social democrat: it was to reject once and for all the notion of "nation state socialism" built on a planned economy that had influenced much Labour thinking since 1945.

At the same time Delors' advocacy of Social Europe established a dividing line with Thatcherism. The Commission President's successful wooing of the TUC convinced Margaret Thatcher that the values of the European project were an existential threat to her vision of a neo liberal, Anglo-American Britain. This had fatal consequences for the unity and cohesion of the Conservative party that still persist to this day and remain not so far beneath the smooth surface of false Tory unity.

But in the 1990s, Labour's advocacy of social Europe lost momentum. As Labour modernised, the public test of economic competence changed. The Conservatives could no longer credibly claim that Labour was committed to public ownership, re-nationalisation of privatised industries and state control. The issue became whether Labour would through over-regulating business ruin the hard-won labour market flexibility that was argued to be core to Britain's improved economic performance.

Labour stuck to its guns in criticising John Major's opt out from the Social Chapter of the Maastricht Treaty. Opting in was one of the first Manifesto pledges on which New Labour delivered in 1997, as Foreign Secretary Robin Cook memorably proclaimed "good-bye xenophobia": an early symbolic and substantive shift of how a Labour Government would differ from its Tory predecessors. Yet the government adopted a publicly cautious approach to what measures might be adopted under it.

It is easy to understand this early caution. As a Downing Street adviser at the time, I believed that Tony Blair and Gordon Brown were right politically in their determination to prevent New Labour being branded as "anti-business", and right economically in believing that it was a flexible labour market that would enable Britain to achieve near full employment without inflation. It has. But the desire not to alienate the CBI has led to some unnecessary battles over symbols rather than substance on issues like Information and Consultation and Working Time. On Working Time for example, it is difficult to argue that a maximum 48 hour week is a serious constraint on flexibility when the legislative proposal on the table allows the hours maximum to be calculated on an annualised basis. Despite these high profile disagreements, the UK has introduced significant new areas of European regulation to correct the unfairness of Britain's excessively deregulated labour market. The decision to sign up has been responsible for the general application in the UK for the first time of minimum standards affecting paid holidays; rights to maternity and paternity leave; equal treatment for part time workers and women; the establishment of European Works Councils; and after much stalling, statutory rights to information and consultation. It also led the Government to agree in the Amsterdam Treaty to the so-called Article 13 provisions on discrimination that have resulted in a comprehensive framework of new laws against all forms of discrimination. The Government chose to achieve good by stealth and not to trumpet these changes as a commitment to minimum employment standards across the EU.

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There is now however an opportunity to draw a line under this caution. Continental labour market reformers are now making a strong social justice case for "flexicurity". On the Continent, the purpose of "flexicurity" is to offer new forms of "employability" security to workers in return for greater flexibility in existing employment contracts. It is significant that the Member State where workers least fear unemployment is Denmark where "hiring and firing" protections are minimal but the flexicurity model of active labour market policies is most developed through the provision of generous social benefits when workers become unemployed, widespread availability of retraining and active labour market policies to assist unemployed workers into new jobs. This is unlike much of the Continent where labour markets are often characterised by

strong differentiation between “insiders” who enjoy high levels of legal protection against dismissal and “outsiders” on temporary contracts who have minimal security and no incentive to learn or be taught new skills. The EU has been very successful at creating new jobs in the past five years – but many of these are insecure jobs operating with few contractual protections. On social justice grounds, policy should be aimed at reducing, not accentuating these insider-outsider divisions.

The Labour Government should raise the “flexicurity” standard in Britain. It is important to recognise that this requires much needed improvements on the status quo in Britain. We have flexibility: the issue here is how we combine that flexibility with greater security.

- The Danes offer much more generous unemployment insurance than we do in the UK. Should Britain gradually seek to match Danish “replacement ratios”?
- The Danes invest heavily in active labour market policies, operated on a decentralised localised basis, that are effective at retraining and getting the unemployed back into work. Our model of “Job Centre Plus” is Danish “flexicurity” on the cheap. What changes should we seek to give the low skilled greater employability in the long term?

One new idea that might work in the UK is “wage insurance”: a temporary top up for unemployed people who accept jobs at lower wages than they previously enjoyed on the basis that “learning on the job” will improve their value to the employer and their earning potential.

Labour market flexibility should also be combined with the active promotion of a new model of social partnership for the knowledge and service economy. In this economy, there are fewer “jobs for life”, a premium on commercially “fleet of foot” innovation, more small firms, and a faster rate of job creation and destruction. This creates needs for job and skill flexibility, rights to lifelong learning, workplace employee involvement, and pension schemes that are attached to the individual not a single job. Without adjusting to this new economy, the unions face steady decline: this has been happening across the whole EU except for the Nordic countries. For example a mere 3 per cent of French private sector employees are now members of trade unions. There is no contradiction between high levels of trade union membership and economic success: witness the Nordic countries that have the highest levels of trade union membership in the EU. But the question is how trade unions see their role and can make themselves relevant to the modern labour market. The Labour Government needs to promote a new debate about the modernisation of social partnership across the EU.

Does diversity make Social Europe an impossibility?

Many times Gosta Epsing Andersen’s landmark analysis “The Three Worlds of Welfare Capitalism” is quoted as proof that EU action in the social field is a practical impossibility. Actually in the enlarged Union there may be as many as “six worlds” and according to experts like Anton Hemerick, the old typologies are slowly breaking down under the pressures of convergence.

Social Europe should not mean a centralisation of decision making in Brussels. What is needed is much clearer thinking about the circumstances in which action at EU level would be appropriate and what form it might take.

The potential risks of polarisation between “winners” and “losers” from economic change and globalisation need to be narrowed: a new focus is needed on better labour market transitions, particularly for the low skilled.

It needs to be recognised that in some areas legislative action at EU level may be necessary and indeed desirable. Existing legal instruments could be modernised to meet the challenges of the 21 century: for example the Working Time Directive should be focused on work–life balance through the life cycle, not weekly limits on hours. There are some genuine “cross-border” issues where a harmonisation approach needs to be applied, for example labour mobility issues, and proposals to strengthen social partnership at the workplace, where improvements should be made to our present systems of information and consultation through Works Councils.

Large companies are increasingly European and global; yet the frameworks of corporate law and governance are still largely set at national level. In some Member States, supervisory boards with worker representatives still in theory determine strategy for companies headquartered there, but the power of financial capital transcends national borders. Far better surely from a progressive perspective to think in terms of a European framework for corporate governance which clarifies a company’s responsibilities to all its stakeholders and builds on the experience of European Works Councils.

Action at EU level may also be a necessary consequence of innovative thinking about how to tackle the new inequalities of income and wealth that globalisation may be fostering. Could for instance a universalist approach to profit sharing (“share options for all”) be developed as a means of correcting the declining share of wages in national income? The difficult unanswered question is that if one wanted to introduce new “asset redistribution” policies of this kind, whether it would prove possible for Member States to adopt such new initiatives independently, given the risks of reinforcing tax competition and capital mobility. The case for comprehensive tax harmonisation is not yet made, but there may be a case for some common progressive initiatives at EU level.

The same is true when it comes to free movement of people. “Free movement” issues are incredibly complicated, but they are more and more significant as growing numbers of pensioners choose to retire in Southern Europe and Continentals move to countries like Britain where it is easy to get jobs. Progressives should support the right of fellow EU citizens to move home for the chance of a better life, but there is a need for a new balance of social rights and obligations. “Equal treatment” is a slogan not a policy. The question is what people regard as fair. For example should legal migrants immediately receive social benefits in the Member State to which they have moved, but to which there will be the argument that they have not fully contributed? After what period of time should full rights apply?

A modern social justice programme for a new Social Europe

It is clear from the analysis of the social challenges facing Europe that EU Member States as a whole need to invest more in their social future. Priority must be given to policies that improve life chances for children and young people to tackle emerging problems of generational inequity. New “social bridges” need to be constructed to create access to new ladders of opportunity at different stages of the life cycle. The potential risks of polarisation between “winners” and “losers” from economic change and globalisation need to be narrowed: a new focus is needed on better labour market transitions, particularly for the low skilled. Emerging social problems, such as the social exclusion of disadvantaged and child poverty, can only be tackled through sustained social investment. In particular there are clear policy areas where welfare and labour market systems within Member States have not sufficiently adjusted to changing social conditions:

- Investment in young mothers and babies to overcome embedded disadvantage (pre mainstream child care services).
- Early school leavers: how best reduce early school leaving, make up the ground for young people whose schools have failed to teach them basic skills and lessen the risks of delinquency.
- Lifelong learning policies for the low skilled, especially in private sector work, to offer second chances and opportunities for social progression.
- Support for the “dual earner” family to enable couples to better combine children and earning a living.
- Better integration of migrants through targeted action to overcome language and cultural barriers and raise levels of educational achievement and labour market participation.

Member States have the main responsibility for the social policy changes that are necessary. But this does not preclude a framework of objectives, targets, incentives and mutual learning that could be set at EU level. A common vision adopted by the European Council could be backed by the following instruments at EU level:

- *Common social objectives* could be set at European level for example in areas such as child care provision, the achievement of basic standards of numeracy and literacy and reductions in early school leaving.
- *Flexible common principles of policy* should be developed on crucial issues (as on flexicurity), with independent expert panel(s) to assess evidence and make policy recommendations on the basis of best practice.
- Common objectives could be reinforced by *a limited number of “binding targets”*, like those that the EU has recently agreed for renewable energy. A target might for instance be set for child poverty as a relative measure according to national median income in each Member State.
- The process of *“learning from each other”* needs to be revitalised so that it enters the political bloodstream of national and European debate, rather than is locked away in the present processes of the Open Method of Coordination. Its focus should be broadened to include vital but neglected questions such as the most successful strategies for integrating migrants and ethnic minorities. Benchmarking of best practice should be strengthened with greater involvement of national Parliaments, social partners and NGOs.
- As part of a wider EU Budget reform, *a new social programme could*

be developed at EU level to tackle social disadvantage through the life cycle. This could include initiatives to prioritise early intervention for disadvantaged children, tackle early school leaving, overcome declining social mobility in access to higher education, provide new entitlements to learning through life, and manage better more frequent labour market transitions for the low skilled. It is right to use the EU Budget as a laboratory for experimental social policy initiatives in tackling the newly emerging social risks of today where there are existing gaps in Member State provision. The offer of matched funding should be conditional on rigorous peer review of Member State initiatives to establish best practice. The EU Budget should become a catalyst for Member State's own reforms.

Conclusion

For Labour to take the lead in pushing for a New Social Europe would both rally pro Europeanism in Britain and enable Britain to engage in a new way with its European partners. For what seemed understandable reasons of "realpolitik", the Blair Government often ended up siding with centre-right rather than centre-left governments. But this too often obscured Labour's progressive achievements at home and put New Labour outside the European social democratic mainstream. A new commitment would allow Labour to return as an influential partner in its natural political home.

There is also a domestic political advantage. It would lay down a major new dividing line with the Conservatives, exposing the central contradiction that their continued ambivalence towards the EU makes them incapable of representing British national interests in the interdependent world of today. Where are the newly branded Cameron Conservatives on the issue of Social Europe? Answer - still fully committed to pulling Britain out of the Social Chapter. But such a step would need a new institutional Treaty. Like all institutional Treaties this would need to be agreed unanimously by all the other 26 Member States. In order to achieve this goal, a Conservative Government would have no alternative but to sacrifice other key British negotiating objectives in the EU, such as Budget and CAP reform.

Labour is well placed to be different. A central New Labour insight – the interdependence of the economic and social – the concept that competitiveness and cohesion go together as complements and are not opposites – has informed policy across many different fields. It is time to apply this key insight more boldly in our European policy 1997 in making the case for a Social Europe. Gordon Brown's advocacy of New Social Europe could help rebuild both the legitimacy of Europe throughout Europe and the case for Labour Europeanism in Britain.

Notes

¹ “European Choices for Gordon Brown” Charles Grant. Centre for European Reform. July 2007.

² Eurobarometer February 2007.

³ Loukas Tsoukalis “Global, Social and Political Europe”. Hellenic Foundation for European and Foreign Policy. July 2007.

⁴ Jean Pisani Ferry makes this point far better than I can in relation to European energy policy. Financial Times. August 2007.

⁵ “Europe’s Social Reality” by Roger Liddle and Frederic Lerais. February 2007.

http://ec.europa.eu:8082/citizens_agenda/social_reality_stocktaking/index_en.htm

⁶ See Robert J Gordon

⁷ O’Mahony and Robinson. UK Growth and Productivity in an International Perspective. National Institute No200 April 2007.