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«Social Europe»?
Looking beyond the
Lisbon Strategy
paradigm**



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Is there a time for "Social Europe"? Looking beyond the Lisbon Strategy paradigm

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Table of contents

Introduction	4
1. The crisis and beyond.....	4
2. Shortcomings of the Lisbon strategy paradigm.....	5
3. The failures of activations policies	6
4. Revising the social dimension of Europe	8
References.....	10

Introduction

This opinion paper summarizes material presented and discussed by two authors at the OSE Lunchtime Session of January 6 2012 in Brussels. It provides a critical reading of the EU's socio-economic paradigm of the past (from a substantive and procedural point of view) and focuses on three main issues. First, the authors see the recent economic and financial crisis as the consequence of both economic and social problems affecting western societies. The idea of a crisis largely, if not totally independent from the socio-economic paradigm of the past decades seems too narrow and basically wrong. Second, re-examining the paradigm of the Lisbon strategy - mainly centred on employment growth - they see some key shortcomings which must now be reconsidered. In particular, activation policies have yielded unsatisfactory results, especially in the fight against poverty and inequality. Finally, the authors propose recalibrating the EU's socio-economic governance in line with the new priorities of Europe 2020 and a better balance between EU and national competences for: fighting poverty and social exclusion, employing stronger legal provisions to settle minimum income requirements, and strengthening access to social services. These insights represent a first contribution to inspire the stakeholders and policy analysts to whom the working paper series is dedicated.

1. The crisis and beyond...

Listening to high-level political interpretations of the "crisis", like the one offered by president Barroso when introducing the Europe 2020 perspective to the European Parliament, one gets the impression that the "deepest recession since the thirties" was no more than an unexpected accident, rather like the "aleas" or risks scenarios which economists put at the end of their predictions. In this respect, the crisis is interpreted merely as a loss in comparison to the long term trend. For economists, this begs the question of whether this loss is definitive, or whether the new trend will be affected by a loss of "growth potential". However, both expressions assume that the process of growth itself is independent from the crisis, i.e. that nothing within previous pattern of growth could have accounted for the crisis.

What is more, for most of the economic community, the notion of sustainability is defined in overly narrow terms. It deals with economic imbalances such as excessive inflation or increasing indebtedness, but fails to consider unsustainable social developments such as excessive income inequalities, or structural imbalances in the labour market.

For those who have tried to combat the dominant idea that increasing labour market participation should be sufficient to address the issue of unemployment and poverty, it is now time to consider the deeper causes of the crisis. Specifically, it occurred not just because of inadequate market

regulation, but also because macro-economic monitoring had ignored the fact that fighting social inequalities was as an important goal as searching for improved economic efficiency.

2. Shortcomings of the Lisbon strategy paradigm

Looking beyond the crisis means learning from it to broaden our perspective, especially on two points, namely:

- The traditional social cohesion perspective, meaning not just equality of opportunities, but also equality of outcomes, should receive more attention.
- Promoting inclusion is not equivalent to promoting access at any cost to an employment position.

Firstly, over the last two decades, we have been living through a cultural shift, driven notably by 'New Labour' thinking. It suggested that the old paradigm of the welfare state was inappropriate in a profoundly changed social, economic and demographic environment. As it had been unable to combat long term unemployment, it should be replaced by a new paradigm stressing equality of opportunities and a strong emphasis on individual responsibility. This new emphasis, it was argued would in the long run generate social cohesion through increased access to employment for those the most further from the labour market.

The new paradigm has proven to be ineffective. Undervaluing combatting inequality of outcome and efficient social redistribution, it did not contribute to better outcomes in terms of poverty and social inclusion in the mature welfare states. There the strategy of focusing on access to employment at any cost has proven inefficient. This is a point which is particularly relevant from the European experience.

Secondly, all of us familiar with the Lisbon strategy, as it has developed since 2004 ⁽¹⁾ will recall that the dominant thinking on combatting poverty at that time privileged a comprehensive employment and growth strategy (the core Lisbon). This strategy was to be closely and annually monitored, and stressed employment participation in general, and participation by women and seniors in particular. The main belief was summarised as "having a job is the main safeguard against poverty". Incentives to work, in other words "making work pay" were given as its main instruments, together with investment in child care, family policy as a productive factor and active labour market policies for achieving that goal. As a secondary matter, social protection and social

1. That is after a period of frustratingly slow growth following the bold European Council statement that the EU would become "the most competitive knowledge economy in the world".

inclusion were addressed in the framework of an "Open method of coordination" based on the "feeding in" and "feeding out" principles:

- Feeding in, meant that modernisation of social protection and social assistance should be orientated towards keeping or bringing people into the labour market. This was a direct echo to the main strategy.
- Feeding out, meant that growth and employment should support the aims of social inclusion. The latter had in fact little application except with pension reform which should be supported by an attempt of employment policies to encourage the provision of jobs for senior people.

3. The failures of activations policies

But what were the effects of these recommendations in practice? Having operated for a decade under the Lisbon strategy ⁽²⁾, we can draw some robust conclusions which are also lessons beyond the crisis and even beyond the last decade.

Firstly, levels and trends in employment, social spending and 'at-risk-of-poverty' measures show a striking divergence throughout the Union. However, within this diversity, two prevailing patterns can be discerned. Indeed, with the exception of Ireland, the dominant pattern in the EU-15 was one of more work, stable or declining social spending and stationary or rising income poverty. However, in many of the post-communist countries, on the other hand, the economic boom and associated employment growth did coincide with declining at-risk-of-poverty rates.

Secondly, and somewhat surprisingly given the attention attracted by the issue of in-work poverty in political and academic circles alike, EUROSTAT indicators suggest that in most other countries in-work poverty has remained largely unchanged. In other words, the social indicators do not support the often-discussed hypothesis that employment fails to reduce relative poverty because employment growth encompasses too many 'low-quality' jobs (notably temporary and part-time jobs, with lower pay), resulting in higher pre-transfer poverty and more in-work-poverty. It remains true, however, that in-work-poverty affects a substantial proportion of the poor.

Thirdly, the lack of correlation between employment growth and poverty in most of the old European welfare states may have been due to some extent to job polarisation (Corluy and Vandenbroucke, 2012). In many of these countries, the declining share of working-age persons living in jobless households has indeed been somewhat more moderate than might have been

2. i.e. during a period which has experienced a full business cycle between the two lows of 2002 and 2009.

expected on the basis of rising employment figures. According to the EUROSTAT indicator, in Germany, Ireland, Luxembourg and Portugal the number of job-poor households increased. By contrast, in the UK and in most of the new Members States (with the notable exception of Romania, Latvia, Slovenia and Hungary) a better distribution of jobs had a positive impact on at-risk-of-poverty.

Fourthly, the EU indicators overlook some striking differences between EU members. Indeed, while at-risk-of-poverty rates for the low work intensity households declined in a number of countries (mostly with the New and Southern Member States), risks seemed to have been rising in a substantial number of countries, mostly within the EU-15 (with the notable exception of Ireland, France, Denmark, Italy and Spain) but also in some of the new Member States (notably in Slovakia, Latvia and Lithuania). Where increases occurred, this points to a decline in the adequacy of social protection (Cantillon et al, 2012).

These results should not lead one to conclude that having a job is not an important means of preventing poverty. However, they do indicate that activation policies have important limitations. Some portion of the active population belonging to those most excluded from the labour market face obstacles, such that employment is not the solution for them. This was aptly pointed out by representatives of the civil society during the second part of the Lisbon strategy. However, activation policies have been able to move from inactivity to work a sort of "hidden reserve" within the labour force. While this is a positive development, rebalancing the cost of social inclusion policies in favour of making work attractive, risks making the lives of the core structurally unemployed even more difficult.

None of this is to say that the goal of bringing people back to work was inappropriate. However, the belief that this could be done solely merely through flexibilisation of labour market rules and a targeted conditionality of social assistance was misguided. Furthermore, the prevalence of deeply rooted obstacles to work have made it extremely difficult for some of the most vulnerable adults, including young people of working age, to participate in the labour market. Structural impediments to participation such as a health condition, limited access to child care, or a lack of proper housing close to job opportunities, are particularly worrying. Indeed, impediments such as these have preserved a proportion of adults living in households where nobody works, or works very little, even where the overall participation rate has been increasing. Other vicious circles were driven by precarious unemployment. Coupled with short employment spells, precarious employment also entails fewer training opportunities, with a higher risk of being trapped in poor employment. On top of that, conditional access to social assistance, when facing such bottlenecks, have in certain circumstances led to increased inequalities of outcome. This is clear in the case of access to child care facilities which often benefit highly qualified mothers and fathers, rather than to poorly educated single parents, as shown by the French and the Flemish case, for example.

These considerations bring us to unpleasant conclusions in the context of public spending restrictions:

- Unless an important social investment is undertaken to remove some of the structural obstacles facing those most excluded from work (housing, health, child care facilities), the proportion of inactive adults of working age will not be reduced.
- Further study is necessary on alternative forms of societal participation for those who are unable to join the labour market. One must accept that mainstream employment, or even precarious employment, is not a solution for all.
- If aggravated poverty is to be avoided for adults of working age unable to access "mainstream work", efficient social spending in form of minimum incomes or effective access to basic goods, such as housing and health must be prioritized.

To summarize, all over Europe, we need, to place on an equal footing the principles of economic efficiency and social cohesion, if we take seriously the goal of fighting poverty and exclusion. This confirms the relevance of what is usually called a "social market economy", a concept which has been introduced in 2009, as one of the fundamental aims of the European Union.

4. Revising the social dimension of Europe

These lessons come at a time when the social dimension of the European integration process is again changing, at least on two respects:

- Texte Directly, the Europe 2020 strategy has incorporated the goals of reducing poverty and exclusion at the same level as goals related to growth, employment and a low carbon economy.
- Because of the Euro crisis, the EU now plays a significant role in the monitoring of national fiscal and budgetary policies, notably through the Six pack decisions and their strengthening in a new intergovernmental Pact for stability and growth.

It is therefore legitimate to promote a new balance of responsibilities between the EU and its member states on social competences to accompany this revision of the substance of the European socio-economic paradigm. As a contribution to this debate, let us make a few stylised suggestions.

First of all, if the EU is now to impose a budgetary golden rule, to be incorporated within each national constitution, it should not stay neutral as to the consequences of such rules upon the structure of public spending. Consistent with the EU priority given to fighting poverty and exclusion, the rule should contain a kind of safeguard clause aiming at maintaining a core funding

for the national inclusion strategies. What sort of safeguard and how deep or large the funding should be is a matter to be accommodated, according of the specificities of each nation. This could perhaps be determined in the process of monitoring the EU 2020 process. For those member states experiencing fiscal imbalances and subject to strong EU and IMF surveillance, the safeguard would become particularly important. At the same time, it would certainly help the public perception of the EU.

Second, looking at the first pillar of active inclusion strategy, it would make sense that the EU goes along stronger legal provisions as to the settlement of minimum income requirements in all member states. Such provisions are still very loose, mainly in the form of a Commission's recommendation.

And thirdly, looking at the third pillar of active inclusion, which is about strengthening effective access to "non labour market" social services in the field of housing, child care or basic health care, it seems also logic to boost the provision of such services, under the responsibility of national authorities. This should, in our view, lead to some kind of EU legislation, based upon the new article 17 of the TFUE, deferring upon member states greater responsibilities and flexibility on how to promote the provision of such universal social services in an overall European quality framework.

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