

CHALLENGE EUROPE

Yes, we should!

EU priorities for 2019-2024



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Give citizens what they want: The case for Social Europe and fiscal justice

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MAIN RECOMMENDATION ▶ Build a more social Europe based on clear initiatives (especially when it comes to fair taxation) that can address people's grievances while breathing new life into the European project.

WHAT TO DO:

- ▶ EU citizens should turn their anger and frustration into an effective vote that is coherent with their preference for a more social Europe.
 - ▶ Identify clear, concrete, and visible initiatives that would 'give a face' to Social Europe and re-energise Europe's social fabric.
 - ▶ More actions at the EU and international level against tax fraud and evasion.
 - ▶ Kick-start a serious dialogue with multinational corporates and identify possible solutions to increase their support and contribution to the European welfare systems.
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Since the financial crisis of 2007-2008, social unrest, widespread anger, and violent protests have become part of the political landscape in most European countries. Unfettered globalisation and the rise of new technologies have created unprecedented levels of wealth both in Europe and the rest of the world, but have also led to an increase in inequality and feelings of insecurity among European citizens. The old recipe of redistribution is running out of steam and the European dream of economic and social convergence seems further away than ever.

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The policy answers to these challenges have, so far, been too weak, lacked credibility or have favoured a retreat into nationalism, revealing policymakers' inability to address public outcry, on any political level. That is why robust solutions to

these trends must be central to the new upcoming politico-institutional cycle of the European Union (EU) and a priority in the future design of 'Social Europe'. Building a more social Europe, based on clear, concrete and visible initiatives can address people's most fundamental grievances while breathing new life into the European project.

It will not solve all the economic and social challenges of the 21st century, which would require a profound change of our growth model and a reinvention of our social and institutional frameworks. But it will definitely

make Europe stronger in the face of the ongoing transition and better prepared for upcoming changes. It will also bring more stability and enhance trust in the future.

EU citizens should now seize the opportunity of the upcoming European elections in May 2019 to make it possible. Their vote is necessary to ensure that 'Social Europe' will feature highly on the post-2019 policy agenda. This will require more than an implementation and consolidation of previous agreements, but also real progress on sensitive issues such as taxation and a thorough rethink of the social contributions of businesses.

The sleeping giant of social unrest

More recently, the French *gilets jaunes* (yellow vests) have become the embodiment of the social and political malaise plaguing Europe. While their initial target was the French government's plan to increase fuel prices, demonstrations soon turned into a protest against poor working conditions, rising inequality, a decline in purchasing power, and most importantly, against the French President Emmanuel Macron. Social discontent and resentment have become the unifying banner and common factor of different parts of society, which may have different views on the necessary policy recipes.

Some commentators argue that the revolt of the *gilets jaunes* belongs to France's cultural heritage. Although the movement's national peculiarities are undeniable, it would be too simplistic to reduce it to a cultural phenomenon. Social unrest is not new in Europe. Over the course of the past decade, Europe has already witnessed a wave of protests, such as the *Indignados* in Spain and the spread of the Occupy movement to several European cities, with hundreds of thousands of people occupying public squares and calling for more social justice.¹

Evidently, today's protests are no longer targeted at anti-austerity measures as was the case with the *Indignados* or the Occupy movement. Expressions of dissent and frustration might take different forms and do not affect EU countries to the same extent. But despite the variety in the timing and scope of the protests, their repetitive nature and sequence are not a coincidence. They have much in common. They are symptomatic of a sense of insecurity that is shared by many Europeans and the expression of what is often described as a deep social malaise.²

This feeling of insecurity stems from a combination of factors, both real and imagined. Many people feel threatened by the ongoing changes, such as globalisation, increased economic competition, the massive use of new technologies and the emergence of new business models, the consequences of migration, or the disappearing of public services, and the continuous need for swift adaptation. In a context of aging societies, the combination of increased inequality on the labour market and subdued growth has fuelled anxiety among nearly all social and age groups.

Young people feel that they will not fare as well as their parents did. The middle class fears a race to the bottom and to be 'socially downgraded'. Many older people withstand changes in an attempt to protect their assets, by, for instance, opposing tax reforms aiming at intergenerational redistribution. Europeans are also slowly coming to the realisation that economic and political power has shifted to other world regions, exacerbating the feeling that they have lost control over their own destiny and that Europe is no longer 'making history', but is rather threatened by gradual marginalisation.

Against this background, mainstream politicians strive to (re-)gain people's trust. However, the solutions developed so far fall short of people's expectations and fail to address the causes of their call for more social justice. In a nutshell, people have lost trust in Europe's social dream.

Europe's fading social dream

THE EROSION OF REDISTRIBUTIVE MECHANISMS

Despite differences across Europe, European welfare states rely on large redistributive mechanisms, offering a relatively high level of social cohesion to citizens. As a corollary, the level of taxation in Europe is, on average, high compared to other regions (the tax-to-GDP ratio in the EU was 40.2% in 2017 compared to 34% for all OECD countries and 25.9% in the US). However, evidence suggests that the efficiency of redistribution has started to erode and that the existing systems have failed to eradicate the recurrent and perennial issues of extreme poverty, precariousness and inequality. More than 112 million people, amounting to 22.4% of the EU population, were at risk of poverty or social exclusion in 2017 (women and young people especially). Homelessness is increasing in all EU member states except Finland and income inequality has risen in sixteen EU countries between 2009 and 2017.

ONGOING DIVERGENCES IN EUROPE

In addition to the persistence of social issues in Europe, the EU has recently witnessed diverging trends in member states' economic and social performances. Taking the unemployment

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rate as example, one can see that despite better results for the total population aged 20-64 across the EU, certain countries, in particular Greece, Cyprus, Denmark and Portugal, witnessed an increase between 2002 and 2017. The poverty gap also continues to widen between member states, with over 30% of people in Bulgaria, Romania and Greece that are at risk of poverty and social exclusion compared to less than 20% of the populations in Finland, Slovakia or the Czech Republic.

Policy fragmentation on critical issues such as labour regulation, minimum social standards and taxation might put individual member states in a competitive advantage in the short term, but it undermines the desired objective of social cohesion and prosperity for all in the long term.

National actions to combat tax fraud and evasion only have a limited impact.

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AMBITIOUS OBJECTIVES VS INABILITY TO ACT

Promoting inclusion has been one of the three overarching objectives the EU has formulated in its latest growth strategy, Europe 2020. Addressing social issues at the EU level is in line with citizens' expectations. In fact, the most recent Eurobarometer on social issues (2017) found that almost two thirds (64%)³ of European respondents are in favour of harmonising social welfare systems within the EU. In 2017, the EU and its member states adopted the European Pillar of Social Rights, a set of principles aiming to foster economic and social convergence among member states. At the international level, the EU has committed to implement the Sustainable Development Goals (SDG), which set ambitious social objectives, such as the right to decent work and reducing inequalities, by 2030.

While these commitments should be welcomed, they are at odds with the EU's ability to act. In fact, most of the instruments, (financial) means and competences to deliver on these promises remain firmly in the hands of member states. The scope for EU measures on social policy is limited by two general principles: the need to comply with the proportionality and subsidiarity principles and the fact that social policy is a shared competence, for which the EU can only establish minimum requirements that support and complement the activities of the member states.

Furthermore, EU actions, such as legislation on social protection, require unanimity, which reflects that member states still consider social policies to be a strong bastion of national sovereignty. Finally, national governments as well as national social partners have different views on whether or not it is necessary to build a stronger Social Europe and devote more powers to the EU in this area. Such a process could, in certain countries, be perceived as a prerequisite for achieving upward convergence between member states. This is, for instance, the position defended by the French government, which is advocating the establishment of a minimum wage defined by EU standards in every member state. Countries with

high social standards such as the Nordic countries, on the other hand, believe that EU actions in this area would interfere too much with national mechanisms and might damage their national social models. And still others, such as Germany, which are

economically stronger than the rest of the EU, fear that it would lead to social transfers across EU countries. In this context, any hope that EU policies can deliver on ambitious social objectives is merely wishful thinking.

The way forward – More of the same?

In 2019, new EU leaders will take office in the European Commission, the European Council, the European Parliament as well as the European Central Bank (ECB). However, there is a real risk that nothing much will change in the next politico-institutional cycle with respect to social policy. The political mood of the moment is likely to favour further consolidation instead of a radical breakthrough in EU social policies. This is due to a number of factors, including a lack of political appetite for joint actions in national capitals (as already explained earlier), the economic recovery and the emergence of other stressors, such as the non-resolved migration challenge and the urgent need for reaching an agreement on the next EU's Multiannual Financial Framework (MFF) covering the period 2021-2027. This has made social issues feel less urgent despite the persistence of protests. In addition, projections about the future composition of the European Parliament after the 2019 elections indicate that the most progressive forces (i.e. the left as a whole), who are the strongest supporters of an enhanced Social Europe, are expected to only get about 35% of seats. Without a clear majority for progressive forces in the European Parliament, advancing on social issues will prove to be very difficult.

Considering social questions as a subsidiary topic is, however, short-sighted. Not only will it reinforce people's opinion of the EU as unresponsive and unable to reflect

citizens' actual concerns, but it will also, once again, kick the can down the road when it comes to dealing with the unanswered question of how to repair or reinvent the social fabric of the 21st century. A more constructive alternative lies in the hands of EU citizens.

A CLEAR MANDATE FOR A STRONG SOCIAL EUROPE

Europeans are often bogged down in never-ending discussions about the contours and parameters of their common destiny, losing sight of the added value of common actions and neglecting the global context in which Europe operates. This is a self-defeating strategy. Policy fragmentation on critical issues such as labour regulation, minimum social standards and taxation might put individual member states in a competitive advantage in the short term, but it undermines the desired objective of social cohesion and prosperity for all in the long term.

To reverse this, Europe needs a clear and undeniable push from the bottom. Change is not likely to come from national governments as highlighted earlier, but rather from citizens themselves, who do not oppose a stronger Social Europe, as many might argue. On the contrary, studies have shown that they are ready to support it when policy design and implications are clearly explained.⁵

To pave the way towards such a long-term objective, the next European Commission needs to undertake two actions. First, it should provide political leadership by encouraging member states to reach agreements between countries who are willing to cooperate on the matter. Cooperation among a limited number of countries is better than no deal at all as it can create peer pressure. Second, it needs to kick-start a serious dialogue with multinational corporates while launching a consultation process on how to increase their support and contribution to the European welfare systems. Getting corporates on board is a pre-condition for getting the member states on board and a necessary step to maximise the chances of success. Leadership on social impact is increasingly regarded as a competitive advantage by the private sector. This new context creates an opportunity to redefine the social responsibility of businesses, one that the European Commission should not miss.

Fighting against tax competition is one of the very concrete areas where EU actions and a truly Social Europe would bring added value to European citizens' lives. It would improve the sustainability of European welfare states by striking a better balance between the contributors and beneficiaries, and reinjecting money into public services.

But beyond financial considerations, it would also provide a credible answer to the *gilets jaunes* and all other Europeans who have lost trust in the 'system' to deliver social progress and in Europe's ability to protect them.

Furthermore, endowing EU institutions with a strong social mandate would have the double benefit of creating increased homogeneity in social standards within the EU and turn Europe into a force of progressivism internationally. By doing so, the EU could finally become a credible voice to move social questions up the global agenda and influence discussions on critical issues, such as taxation.

With the EP elections approaching very soon, citizens will get the opportunity to turn their protests into a constructive and effective vote. Obviously, it is also their responsibility to ensure that their vote at the European level will be backed by a coherent choice in national elections, thus avoiding the European Parliament being blocked by national governments in the Council. This is the only way for Europeans and their leaders to build a Social Europe that works for all and ensure that fiscal and social justice will be at the centre of the next paradigm change.

¹ In addition to social justice, the *Indignados*' demands as well as those of other similar movements, which emerged in the aftermath of the financial and economic crisis and persist until today, relate to the current state of democracy. Although these two protest banners are often intertwined, this paper focuses mostly (for the sake of space and clarity) on the social dimension. For more information on previous European protests, see Stratulat, Corina and Dhéret, Claire (2012), "A tale of modern-day capitalism and democracy: in view of the European protests", Brussels: European Policy Centre.

² The geographical scope of this social malaise is debatable. Whereas some argue that it goes beyond European borders and characterises the entire Western world, others believe that other regions around the globe share the same symptoms, such as for instance in North Africa.

³ Special Eurobarometer 467 (2017), Future of Europe – Social issues.

⁴ See [Votewatch Europe's projections](#).

⁵ See for instance Vandenbroucke, Frank, Burgoon, Brian, Kuhn, Theresa, Nicoli, Francesco, Sacchi, Stefano, van der Duin, David, Hegewald, Sven (2018), "Risk Sharing When Unemployment Hits : How Policy Design Influences Citizen Support For European Unemployment Risk Sharing (EURS)", Amsterdam: AISSR.