It is a pleasure to contribute to the important debate launched by Frank Vandenbroucke and Maurizio Ferrera, which has already attracted a number of stimulating responses from expert commentators. It has always been important to reflect on the relationship between economic integration and social and political integration, and how to safeguard and develop social achievements across Europe in the specific institutional framework that is the European Union. The challenges thrown down more recently by populism, nationalism and Euroscepticism mean it is now also urgent.

As a lot has already been said in this debate, I will – after some introductory remarks – focus on pieces of the jigsaw puzzle that I consider particularly relevant or under-discussed so far (the corollary is that I will not enter debates such as that on the Pillar of Social Rights, well covered by other contributors). At the end, I propose using the concept of "just transition" in mitigating and countering climate change as a way to put flesh on the bones of a nascent European Social Union.

The economic and the social

I have always been critical of a tendency to separate "the economic" from "the social". For too many on the Right a market economy can be relied on to deliver not just the physical but also the social goods: social policy interventionism distorts incentives and stymies market-led efforts. On the Left, the market economy is frequently seen one-sidedly as a producer of inequalities, oppression and environmental damage. Economic policy can be left to the neoliberals, while the task of progressives is to erect bulwarks against encroachment the market economy, to prevent it segueing into a market society.

How can we raise Europe's capacity to act on social issues, where there is a value-added in doing so?

Neither view is correct. **Economic and social policies are inextricably entwined and, potentially, mutually reinforcing**. A market economy incentivises (if prices are right) efficiency and innovation. Market forces can – i.e. this is not unconditional – bring about regional convergence. These factors impact directly on social outcomes and living standards (or the option for greater leisure). This generates tax revenues that can be used to finance social programs. Equally, to generate good outcomes the economy needs – a non-exhaustive list – regulation and collectively legitimized intervention to reduce instability and prevent crises, correct market failures, prevent the regional and class-based accumulation of economic and political power, and – in certain key areas like health and education – to allocate resources according to other than market economic principles (decommodification). **In short, a good combination of social, economic and other policies improves human welfare by promoting cooperation and coordination where it is needed and channelling competition to where it can raise productivity and efficiency**.

Jacques Delors put it succinctly: « *La concurrence* qui stimule*, la coopération* qui renforce, la *solidarité* qui *unit* ». Article 3 of the Treaty on the goals of the EU is right to combine social and economic goals.

The situation in the European Union

As several contributors to this debate have pointed out, the EU is a peculiar entity in this regard. Political integration post-1957 has been gradual and came at a time when welfare states in the Member States (MS) were already highly developed and tightly entwined with their respective national social, demographic and economic characteristics. **With certain specific exceptions, integration was focused on market creation and what might be loosely described as managing (some of) the consequences of extending markets beyond national borders**. Over time, this "managing the consequences" has led to some significant progress in developing a nascent trans-national social policy in Europe (see Vandenbroucke and other contributors to this debate for details). Nevertheless, **it remains the case that the welfare state in the EU is primarily a national affair**. Citizens look first to their respective national government (or intermediary organisations like trade unions, NGOs and charities) to "deliver" social policies. **Meanwhile, with the Maastricht Treaty, the introduction of the Euro and some of the economic policy measures introduced in response to the crisis** (tighter fiscal rules, the Macroeconomic Imbalance Procedure, Banking Union), **economic policy has become substantially more integrated, above all for Euro MS**.

Social Europe a myth?

This situation has led to a widespread and, I believe, highly damaging

misunderstanding. The unsophisticated claim is that because of the paucity of explicitly European social policy, social Europe is a myth. But this is to confuse the EU as a multi-level entity with the EU-level in the narrow sense. **Citizens want effective policy and good outcomes: the governance level at which this is delivered is a secondary matter**. Most people recognize that social standards in (most but not all) EU countries are amongst the highest in the world. Provided the MS can deliver, the system ain't broke.

There is a more sophisticated view, however. This is the idea that economic integration in the form of market opening actively undermines social standards in the member states, essentially by pitching national welfare states and also taxation systems into a "race to the bottom" to attract mobile factors of production, capital, wealthy individuals and highly skilled workers. **As an influential tradition in the literature, established by Fritz Scharpf, conceptualises it, "negative integration" (market creation) is facilitated by the EU via rulings by the European Commission or European Court of Justice, whereas "positive integration" (market-correcting regulation) is difficult** because of institutional diversity and the need to reach unanimity or a high degree of consensus between MS. A recent and concise statement of this view, by Martin Höpner, can be found here.

Some individual policy areas where I believe a case for moves towards a European Social Union could most readily be made: ending unanimity on tax, coordinating and strengthening collective bargaining and national automatic stabilisers, establishing cross-border automatic stabilisers.

There are examples of this sort of regulatory and tax competition, and it is a matter of concern; I return to this point below. **Yet it is an erroneous view of the functioning of the European Union for a number of reasons**. **It mischaracterises market forces as inimical to social outcomes while suggesting that market correction consistently promotes social outcomes**. This is not the case. The legal restrictions (not bans) on the provision of state aid are a good example. These serve to prevent harmful forms of market correction that while they might be in the short-run interest of a national government, ultimately increase the ability of mobile capital to extort concessions and taxpayers' money from MS. **More fundamentally, the predictions of this theory are hard to square with the empirical facts**. I am currently engaged in a systematic study of the changes in social indicators in EU and comparable non-EU countries. **To cite one simple, but encompassing indicator, social spending as a percentage of GDP in the EU15** (on OECD data) **has risen steadily** (with some cyclical variation) since 1980, from around 18% to 27%. Initial levels in the USA and other non-EU countries for which data are available were substantially lower (12-13%). They have also risen over time, but less steeply, such that the (western) Europe's lead has actually increased, despite the higher initial level, and despite the allegedly pernicious EU-specific influence of "negative integration".

Moreover, this approach risks understating Europe's capacity, in a process of institutional development, to overcome limitations on "positive integration". A recent an important initiative in this regard is the attempt by the Juncker Commission to progressively drop the principle of unanimity in taxation matters. And the European Social Union initiative launched by Frank Vandenbroucke and other contributors to this debate can be seen in the same light. It can be translated into the following question: **How can we raise Europe's capacity to act on social issues, where there is a value-added in doing so?**

Where can the EU add social value?

Subsidiarity is an important guiding principle of the EU. It is not enough, indeed it is not helpful at all, to argue, as some on the Left are fond of doing, that, given that the EU intervenes heavily in, say, fiscal policy it should do so with respect to social policies, because "the social is just as important as the economic". **There is a clear economic rationale for the need to coordinate the setting of fiscal policy; in a word, there are significant spillovers between countries, particularly those sharing a common currency**. That the current rules do not adequately address the spillover is a different matter. Coordination of social policy measures going beyond mere informal policy learning clearly makes sense wherever there is evidence of policy spillovers. **Negative "externalities" should be avoided and positive ones encouraged or even enforced. This logic can scarcely be disputed**.

Beyond the spillover logic, a case can also be made for "Europeanisation" in the social policy field to reduce disparities between countries and also to deepen popular support for the European integration process. I believe these two lines of argument to be basically legitimate. (see also Vandenbroucke and Ferrera in this debate.) It seems reasonable to argue that a degree of geographical "cohesion" is a necessary condition for economic integration to function. But the case is less unambiguous. The former introduces a cross-country redistributional element. Reasonable people will disagree on the extent to which such redistribution is desirable. Similarly, the "allegiance" argument is based on a premise that will be shared to varying degrees (including not at all).

Areas with a strong spillover argument

I will turn now to **some individual policy areas where I believe a case for moves towards a European Social Union could most readily be made**, i.e. where spillovers are most readily apparent.

- **Ending unanimity on tax**

It may raise eyebrows to start here, as taxation is not obviously a "social policy". Yet national social policies (often) need public resources. And the structure of national tax systems affects distributional outcomes. **Reducing harmful tax competition would thus be an important step to undergird national welfare states while ensuring that the mobile (who tend also to be the wealthy) pay their share**. Moving away from unanimity on taxation would make it substantially easier to prevent races to the bottom on taxation and make "positive integration" in this area a real possibility. It is welcome that the European Commission has launched an initiative in this area.

- **Strengthening collective bargaining coordination**

There is considerable evidence that highly developed, coordinated national wage-setting systems deliver better social and economic outcomes than rudimentary, individualistic systems. (From a large literature, see Ch. 3 of the 2018 OECD Employment Outlook and the discussion here especially pp. 82ff.). Effective systems combine relatively compressed wage structures (and thus lower inequality) with good employment outcomes. This is a strong argument for developing such systems, not though, by itself, for a strong role – one going beyond promoting policy learning, benchmarking exercises etc. – for the European level. However, **particularly within the monetary union, wage developments (specifically:**

unit labour cost developments) have very substantial cross-border spillovers. In the absence of exchange rates, unit labour costs are a prime determinant of international competitiveness; see also Vandenbroucke in this debate. They are closely linked with price inflation – whereby product market competition and other factors impinge. As such they help determine real interest rates (for a given nominal interest rate set for the whole currency union by the ECB) and thus influence the pace of demand growth. The interactions and how they relate to the unfolding of the Euro crisis are explained more fully here, pp. 5ff.

The importance of coordinating wage developments offers a clear rationale for "investing" in developing effective collective-bargaining institutions at the national level, and also in exploring ways to improve wage coordination at the EMU level. Together with Willi Koll I have proposed institutional reforms for the Euro Area that would encourage such an institutional strengthening. Apart from improving economic outcomes in the narrow sense, by ensuring a more balanced development of demand in individual countries, more inclusive and coordinated national systems would be conducive to better social outcomes, as suggested by the literature cited above. As such this could make a significant contribution to promoting an ESU. This could involve a strategy for agreeing a minimum wage norm across Europe; for an early statement see here.

- **National automatic stabilisers**

A somewhat similarly structured argument can be made for a coordinated attempt to strengthen national automatic stabilisers. Automatic increases in public spending or cuts in taxes and social contributions in an economic downturn (vice versa in an upswing) stabilise the national economy. **Because demand effects spill over to trading partners (especially within the monetary union), other countries benefit from the stabilisation effect. This provides a rationale for encouraging, incentivizing or cajoling member states to increase the "bite" of their automatic stabilisers, for instance by raising them to an agreed minimum level**. This could be done with "soft" coordination mechanisms in the context of the European Semester, leaving the choice and weighting of policy measures to the discretion of member states.

Cross-border automatic stabilisers

This logic applies all the more to cross-border automatic stabilisers, the most discussed example of which is some form of European unemployment (re)insurance. **Such a scheme would also stabilise economic developments and help avoid situations where countries are forced to cut back public spending during an economic downturn**. As Laszlo Andor has discussed this issue extensively in his contribution to this debate, I will not develop this point further. Decisions at the end of 2018 suggest that some progress could be made in this area, but political resistance to quantitatively substantial measures remains strong.

Moving forward: "Just transition" as a framing for ESU?

Some of the policy areas discussed above could be at least partially addressed by soft coordination measures; others would require more far-reaching steps. **As far as redistributional policies are concerned**, the EU budget is an obvious place to start. **On the revenue side, a number of proposals have been put forward** (for instance an EU-wide corporation tax); a group around Thomas Piketty has made ambitious proposals along these lines. **On the expenditure side space for spending even without greater resources could be found by reducing and better targeting agriculture-related spending**; greater resources could then be devoted to "social" spending with a clearer European rationale, such as support for lagging regions or boosting the sensible but underfunded European Globalisation Adjustment Fund (EGAF). See also Laszlo Andor's more comprehensive discussion in his contribution.

I would like to end with a proposal for framing a European Social Union (or at least an important aspect of it), in a way that goes back to the crucial idea of spillovers between countries. The mother of all spillovers is, of course, climate change. Every tonne of greenhouse gases emitted anywhere in the EU (actually: in the world) affects all the member states. (It is true that the impact will not be evenly spread, but there is great uncertainty about how the negative effects will be spatially distributed. No country can count on escaping harm.) It is also well known that efforts to decarbonise our economies, particularly by raising the price of fossil fuels, which from an efficiency point of view has much to recommend it, have serious social implications. The poor tend to spend a higher proportion of their income on fossil fuels and have less scope to invest in technological solutions in order to reduce that proportion than wealthier citizens.

This applies within countries, as the *gilets jaunes* protests in France have recently made clear. It also applies between countries, as the fraught debates at the successive climate change mitigation conferences have shown. **There is thus an urgent need to develop "just transition" policies, within and between countries, because that is the right thing to do, but also because without them there will be justifiable resistance to needed decarbonisation policies**. They may therefore be blocked.

In the light of all this, it would appear that strong arguments can be made for a substantial European value-added in the area of "just transition" in the context of decarbonisation strategies. The latter are, arguably, crucial for our survival. **Consequently, I would like to suggest that it will be productive to explore how just transition – a concept that has already developed a considerable following in civil society and international policymaking circles – could be used to push forward the idea of European Social Union**. This could take a narrower, more instrumental approach: for instance the idea of an EU-wide carbon tax whose revenues are distributed on a per capita basis. This could but does not need be taken literally, i.e. per capita payments to each household. National governments could also receive transfers on a per capita basis. The latter would have an inter-country redistributional effect, the former would ensure that this also occurred within countries.

Arguably, though, the "just transition" paradigm could also be extended beyond the environmental field. One rationale given for welfare policies at the national level is to facilitate acceptance of structural change that can be wrenching for individuals and for whom it is therefore rational to seek to prevent the changes. This argument can, in principle also be made at the European level, as is already implicit in the EGAF; see also Matsaganis's contribution to this debate. Ultimately this brings us back to the ideas I only touched on earlier: that welfare policies and social insurance/redistribution are essential for maintaining – to use an old metaphor – the "social fabric". This is, I believe, part of a vision for the European Union, although it is probably one whose realisation cannot be expected in anything but the longer run. In the meantime, we should seek to build momentum starting with the areas where the spillover effect is most plausible, while seeking to lever the just transition paradigm to foster progressive change.

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