

At the time of writing, six months before the 2019 European Parliament elections, with the stand-off between Italy and the European Commission moving inexorably to the next stage, German politics in flux following Angela Merkel's resignation as party leader, and Britain slowly waking up to the real possibility of a no-deal Brexit (not to mention the implications for Europe of the Trump Presidency), one might be forgiven for thinking that a less propitious moment to discuss social policy would be hard to imagine. That would be understandable – but wrong. After all, **the open letter on “how to save the European peace project” (1), signed by six leading German thinkers, including Jürgen Habermas, the philosopher and sociologist, and Friedrich Merz, currently the favourite to succeed Merkel as leader of the Christian Democratic Union party, featured only two concrete proposals, the second of which was “a common labor-market policy, possibly including EU-wide unemployment insurance”** (the first was “An army for Europe”).

To stretch the analogy, surely the immediate aftermath of the battle of El Alamein (November 1942) cannot have been a good time to discuss social policy either. And yet, that was exactly what British troops in North Africa did, at many improvised conferences a few kilometres from the front, with the shortened version of the Beveridge Report, fresh off the Ministry of Information press, meticulously introduced by officers and eagerly read by soldiers (2). **The potential of seemingly far-fetched ideas (3) suddenly to become topical should never be underestimated. This is one of the reasons why the [debate on the European Social Union](#), introduced by [Frank Vandenbroucke](#) and [Maurizio Ferrera](#), deserves to take centre stage.**

In joining this debate, **I will focus on three topics: the constraints placed by diversity, and how to overcome them; the limits of unemployment (re)insurance, and the need to address new forms of ‘worklessness’; and the contribution of a European Social Union to the goal of coping with the transformations of work**, a process that has been ongoing for some time but is likely to be accelerated in the near future by automation and platforms.

Diversity and its implications

My starting point is that in debating ESU we need to acknowledge that the EU has become more diverse in recent years. The reasons are there for all to see. The recent

enlargements (in 2004, 2007, and 2013) rendered the EU ever more heterogeneous. Migration and the refugee crisis made European populations more mixed, ethnically and religiously. And the Eurozone crisis widened the emotional distance separating Europeans and led to national stereotypes coming back with a vengeance. **The divergence is real.** In Southern Europe, living standards fell significantly during the crisis, and in spite of the recovery (more energetic in Spain and Portugal, more sluggish in Italy and Greece) they are still below their pre-crisis peak relative to the rest of Western Europe (4).

It is not just a question of some countries doing better than others. The contrast between the quiet despair and humiliation palpable in Naples or Athens, and the confident prosperity of Munich or Rotterdam is too stark to miss, and augurs ill for the future of the Union. Does diversity matter for our debate? I think it does.

Somewhat prosaically, because the next European Parliament (and Commission) could be even less kindly inclined towards a European Social Union than is currently the case.

More generally, because diversity places a constraint on the extent of redistribution European electorates are likely to support (especially when extended to “Others”, be they refugees from Afghanistan, migrants from Romania, or jobless South Europeans). The point was made forcefully a few years back by Alesina and Glaeser (5), who argued that one of the main reasons the US lacks a European-style welfare state is ethnic heterogeneity. When the rich and the poor have different skin colour, they inhabit different worlds. As shown by responses to the World Values Survey (in the late 1990s), Americans were twice as likely as Europeans to believe that “the poor are lazy”, and half as likely that “the poor are trapped in poverty”.

It is undoubtedly true that such attitudes are not cast in stone, and quite possible that public opinion is less intransigent than political elites vis-à-vis redistribution. After all, the fear of “Others” is inversely related to proximity and the direct experience of life with them, as shown by the fact that multicultural cities were far more likely than ethnically homogeneous rural areas to have voted in favour of protecting Obamacare and raising the minimum wage, ‘Remain’ rather than ‘Leave’, and Die Grünen rather than Alternative für Deutschland. Recent opinion surveys on support for redistribution within the EU confirm this pattern (6). While attitudes differ significantly between member states, with respondents in Southern Europe being more favourable to European solidarity than those in Poland, Germany, or Sweden, citizens appear to be consistently more supportive of redistribution between member states than are politicians (7).

On the whole, as Gerhards and his colleagues at Free University, Berlin have concluded, “Europeans altogether display a notably higher level of solidarity with citizens of other EU countries and EU states than many politicians and social scientists have so far presumed” (8).

Nevertheless, support for (transnational) solidarity in Europe varies by issue. As Genschel and Hemerijck have reported (9), it is lowest “for risk types that are central to the EU’s Single Market and EMU – debt and unemployment”. To the extent that this final point is correct, it follows that the roadmap to ESU may have to prioritise functional over normative arguments, ‘hand ups’ over ‘handouts’, and risk sharing (10) over redistribution.

Beyond EU-wide unemployment insurance

On the face of it, the proposal for a common unemployment insurance scheme for the EU, or perhaps the Eurozone, fits the purpose. **Even though some politicians in Germany and elsewhere have been quick to attack it as yet another attempt to introduce redistribution by stealth towards the usual suspects (i.e. poorer member states), in fact, it would be difficult to predict who such a scheme might benefit in the future.** Conceivably, a recession in China would cause job losses in exporting firms, most of which are located in ‘core’ economies within the EU. It seems fair to assume that a common unemployment insurance scheme to deal with asymmetric shocks in a monetary union is probably what most reasonable persons would choose if put in an original position behind a ‘veil of ignorance’.

In recent years, a considerable amount of preparatory work has been carried out on the topic (11). In the version put forward for discussion by the European Commission, as one of the options for a stabilisation function in the euro area (the other being a ‘European Investment Protection Scheme’), a European Unemployment Reinsurance Scheme would act as a “reinsurance fund for national unemployment schemes. [...] The scheme would provide more breathing space for national public finances and help to emerge from the crisis faster and stronger” (12). The proposal was supported and further elaborated in a recent report by seven French and seven German economists, who explained that the scheme “would offer one-off transfers in case of large downturns affecting one or several member states. It would be designed as a reinsurance fund for large shocks affecting the labour market in euro area

countries and could be conceived as a line in the EU budget, or as a subsidiary of the ESM. 'Reinsurance' means that covering the 'first loss' associated with a particular shock remains the responsibility of the country itself. The fund would, therefore, be activated only if the shock exceeds a specified level, and cover only a portion of the losses above that level. In insurance terms, this is akin to 'catastrophic loss' insurance with a large deductible." (13)

Recasting the original idea of a common unemployment insurance scheme as a mere 'reinsurance fund' has come under attack as unnecessarily cautious by left-of-centre economists along the spectrum of opinion in Germany (14). The two versions are clearly different. The former would be a straightforward EU social benefit, though jointly funded with national governments and locally administered as today. The latter would be a less ambitious, though still useful, reinforcement of automatic stabilisers in the euro area. Nonetheless, both would be important milestones on the road to a European Social Union.

Even in the more modest version, the success of a reinsurance fund would depend on the design of national unemployment insurance in each country. For instance, the main reason the number of recipients of unemployment insurance benefit in Greece fell by half in 2010-2014, when the number of unemployed workers nearly doubled, was that the great majority of jobless workers were either long-term unemployed or new entrants to the labour market, both ineligible for the benefit¹⁵.

More generally, in order to be able to spend the extra money available on income support to the unemployed, the countries qualifying for assistance from the reinsurance fund would have to relax eligibility conditions, or extend the duration of benefit, or raise the benefit level (or some combination of the above). In other words, **to be effective the reinsurance fund would have to be accompanied by a harmonization of eligibility rules for unemployment insurance schemes across the EU (or the Eurozone)**. Moreover, it might have to be reinforced by US-style automatic extension mechanisms as soon as the unemployment rate exceeds a certain level.

On another note, unemployment insurance itself may be gradually becoming less relevant. In a future recession, a fall in the demand for labour may manifest itself as a reduction in the average number of hours worked, rather than as a rise in unemployment. (In the jargon of economists: adjustment may be more likely to take place along the intensive than the extensive margin.) This could be an explicit policy goal, as in the case of short-time work

schemes such as Kurzarbeit in Germany, under the terms of which the government subsidizes a temporary reduction in working time intended to maintain an existing employer/employee relationship (16). Alternatively, it may be the result of changes in the labour market, such as an increase in the share of those working for platforms, or in other forms of non-standard employment.

ESU and the future of work

The transformation of work (from ‘fordist’ to ‘post-fordist’) is hardly new, yet technical change has accelerated its pace. On the one hand, automation destroys many jobs (mostly involving routine tasks, at a middle skill level), while at the same time creating others (mostly involving non-routine tasks, at both high and low skill levels). On the other hand, platforms have rendered work more fluid, and labour markets more ‘informal’ (and often precarious), e.g. by further blurring the distinction between dependent employment and self-employment (17).

A first challenge arising from the transformation of work concerns education and training. The dislocations caused by disruptive change affecting sectors, industries, occupations, regions, and countries imply that millions of workers will have to acquire new skills in a short time. The emphasis on ‘problem-solving capabilities, intuition, creativity, and persuasion’ (18) implies that education systems, at least in some countries, will have to be radically overhauled and that adult learning systems will have to be upgraded.

A second challenge concerns the treatment of workers in the platform economy. In many ways, the issues raised are similar to those concerning existing precarious forms of employment such as those facing many self-employed workers in secondary labour markets throughout Europe. For instance, Uber drivers or Foodora couriers are typical of the ‘dependent self-employed’ (i.e. those typically working for one employer, but without having employee status). In contrast, workers offering their services online or offline through platforms such as TaskRabbit are typical of genuine, though often informal, self-employment. In many European countries, all self-employed workers, whether independent or dependent, are treated the same. But relative to employees, the self-employed are often excluded from access to a range of benefits either de jure (e.g. protection against unfair dismissal, minimum wage, severance pay, sickness leave, maternity leave, unemployment insurance) or de facto (e.g. reduced eligibility for contributory pensions). While no easy

solutions to the protection gaps experienced by platform workers present themselves, it may be that the most promising course of action is to expand coverage where possible in piecemeal fashion.

A third challenge regards the future of the welfare state. If the goal is to ensure worker mobility between jobs while at the same time guaranteeing a high level of social protection to all citizens, irrespective of their employment status, there seems to be no alternative to abandoning occupational fragmentation in favour of making European welfare states more universal. **The outlines of a possible strategy readily follow from that: make health care, child care and other social services universal; introduce or strengthen basic income schemes for children (child allowances) and for the elderly (first-tier citizens' pensions); render contributory schemes (second-tier pensions) more actuarially fair; rethink means-tested income support (housing benefits, minimum incomes) in view of volatile earnings; step up efforts to obtain accurate information of earnings in the platform economy (and from other informal activities).** The corollary of a shift from contributory to non-contributory social benefits would be a corresponding shift in funding, from social contributions to general taxation, and from taxing labour to taxing real estate, emissions, and value added.

What does all this have to do with ESU? Actually quite a lot. It seems unlikely that any EU member state can cope with the consequences of the transformation of work on its own. The effort to limit the scope for tax and regulatory arbitrage in Europe on the part of multinationals, including high-tech giants, can only succeed at EU level¹⁹.

The same goes for attempts to extend formal social security to gig workers, possibly including making platforms liable for collecting and paying social contributions on their behalf, as speculated in a recent paper by Tito Boeri and his co-authors (20). **More broadly, the case has never been stronger for mutual learning, policy experimentation, and exchange of best practices.** Anton Hemerijck's notion of ESU as a 'holding environment', "a zone of resilience based on shared values and a common purpose, matched by competent institutions, in times of painful adaptation" (21), is particularly apt in this context. A more splendid opportunity for a policy initiative under the European Pillar of Social Rights, with a potential to transform for the better the lives of millions of (mostly young) Europeans, would be hard to imagine.

2019 and all that

Is this all an ‘academic discussion’, an idle pursuit of professional thinkers disconnected from the real world? At times it must seem so, even to ourselves (minus the ‘idle’). As an antidote to (self-)doubt, it is gratifying to note the advanced positions on ‘Social Europe’ adopted by certain political formations in the run-up to the European Parliament elections of May 2019.



In particular, **the European Green Party has demanded “eight concrete actions for the strong implementation of the Pillar of Social Rights” that can be implemented within the current framework (i.e. without Treaty amendments)**. These include a roadmap for higher levels of public social investment in all Member States (within the Stability and Growth Pact), a directive on an adequate minimum income, and uniform European rules on minimum wages (at least 60% of the median wage). In addition to these

short-term proposals, the party is also committed to “examining the idea of the mid-term introduction of a European unemployment insurance that can guarantee a basic coverage for EU citizens and which should be supplemented by national unemployment benefits”. (22)

In the meantime, the debate must go on. As one of the proponents of ESU had pointed out twenty years ago: “No reform passes without the support of social coalitions interested in it and without political forces capable of imposing it. Nevertheless, the raw material of every reform is always an ideal blueprint for change; and with time, a serious commitment on the front of ideas can help remove even the most resistant of barriers.” (23)

Notes:

(1) “We are deeply concerned about the future of Europe and Germany” (Handelsblatt, 25 October 2018).

(2) See among others Timmins (1995) and Whiteside (2014).

(3) In fact, soon after Olaf Scholz, German finance minister and a Social Democrat, cautiously endorsed the idea of a euro area reinsurance fund of national unemployment insurance systems, his cabinet colleague Peter Altmaier, economy minister and a Christian Democrat, rejected it as a thinly disguised ‘transfer union’ (anathema in Germany). See “Interview mit Finanzminister Scholz: Deutschland hat eine besondere Verantwortung” (Der Spiegel, 8 June 2018) and “Fat chance of a euro-zone unemployment insurance fund” (Handelsblatt, 18 October 2018). As for William Beveridge, Winston Churchill privately viewed him as ‘a windbag and a dreamer’ (cited in Addison 2011).

(4) Gross domestic product at current market prices per head of population, in purchasing power parities, relative to EU15=100 (AMECO indicator HVGDPDPR).

(5) See Alesina and Glaeser (2004).

(6) See Gerhards et al (2018), Genschel and Hemerijck (2018), Ferrera and Pellegata (forthcoming).

(7) In the REScEU project poll, only 42% of German MPs were in favour of “financial help to states facing a rise in unemployment”, while among the general public in Germany the

approval rate was as high as 65%. The gap was widest in Sweden, where the corresponding figures were 22% among MPs versus 69% among citizens at large. See Ferrera and Pellegata (forthcoming).

(8) See Gerhards et al (2018). Support for intra-EU redistribution was also high in the REScEU poll reported in Ferrera and Pellegata (forthcoming). In the YouGov poll, reported in Genschel and Hemerijck (2018), support for financial aid to member states hit by an unemployment shock was about 45% overall, with considerable variation across countries.

(9) See Genschel and Hemerijck (2018). Gerhards et al (2018) also found that support for helping people in need in other EU countries was higher for the sick and the old than it was for the unemployed – although even in the latter case the approval rate ranged from between 60% and 70% in Poland and Germany to over 90% in Spain and Greece.

(10) Note Waltraud Schelkle’s argument that “diversity of membership is a mixed blessing in political-economic terms. On the one hand, members with different risk profiles reduce the overall risk of an insurance pool and can support each other in a variety of ways. On the other hand, members that are very different may not trust each other and are therefore likely to agree only on minimal insurance.” In her view, “the maxim of monetary integration must be to maintain political unity in economic diversity rather than pushing for ever closer union.” See Schelkle (2018).

(11) On the various contributions, see among others Dullien (2014), Beblavý and Maselli (2014), Andor (2016), Beblavý et al (2015), Ábrahám et al (2016), Brandolini et al (2016), Vandenbroucke et al (2016). See also the special issue of Intereconomics on “Designing a European Unemployment Insurance scheme” (in 2014).

(12) See European Commission (2017).

(13) See Bénassy-Quéré et al (2018).

(14) See Bofinger (2018), Watt (2018), Dullien (2018).

(15) The other reason for the decline in coverage was that, under austerity, eligibility conditions were tightened (and the benefit rate reduced). See Matsaganis (2018a).

(16) For a review, see Arpaia et al (2010).

17 For a review of the recent literature, and a more detailed discussion of the issues, see Matsaganis (2018b).

(18) See Autor (2015).

(19) A glimpse of what is at stake is offered by the recent case of Amazon inviting US cities to bid against each other to host the company's new headquarters. In the ensuing scramble, "238 entities - cities, states, two dozen different towns in Massachusetts, and a cluster of three businesswomen in Anchorage, Alaska - sent proposals to host Amazon's second headquarters." On 13 November 2018, Amazon finally announced that they have selected New York City and Arlington, Virginia, as the locations for their new headquarters. It emerged that New York City and the State of New York had offered Amazon "at least 1.5 billion dollars in tax breaks and other grants to settle in a place that has not, historically, struggled to attract newcomers. [...] When combined with existing incentives, Amazon might receive three billion dollars in breaks in New York alone." See "The New York hustle of Amazon's second headquarters" (The New Yorker, 17 November 2018).

(20) See Boeri et al (2018).

(21) See Hemerijck (2013), cited in Ferrera (2018).

(22) See EGP Council "Adopted Resolution on The Pillar of Social Rights in the EU" (Antwerp, 18-20 May 2018). Also, intriguingly, Volt Europa (the pro-EU "pan-European, progressive movement aiming to revolutionize the way politics is done across Europe"), as befits a political formation of mostly young and very young Europeans, has put forward interesting proposals on building an enabling education system for the future, integrating gig workers into social welfare systems, and assuring minimum child benefits all over Europe. See Volt Europa "Mapping of policies".

(23) See Ferrera (1998, p. 108). My translation.

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Snakes and ladders on the road to ESU
By Manos Matsaganis