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Discussion Paper: A European Social Stability Pact

■ The relationship between the level of economic and social development in the EU needs to be strengthened. With a European Social Stability Pact, the EU and its Member States would create a common framework within which social standards would be linked to national economic performance.

■ A Social Stability Pact would consist of the following elements:

- Minimum wages would be implemented in every single Member State, agreed on either by law or through collective bargaining. They should be linked to the economic productivity of each country and measured by a certain percentage of the national average wage.
- The social spending of each Member State needs to be related to its per capita income.
- Education expenditure needs to be better coordinated.

■ A Social Stability Pact could be implemented by a revision of the Integrated Guidelines and the OMC for the post Lisbon Strategy process. This could be easily combined with other plans, e.g. for a social clause in all EU legislative projects, a strengthening of common attempts in social inclusion policies, and in additional and improved macroeconomic coordination and the subsidiary protection of workers rights and collective agreements.

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1 The Problem of Competing Welfare States

In the context of globalisation, competition for capital investments and production sites has grown. Furthermore, the enlargement of the EU in 2004 and 2007 as well as the restricted economic policy tools of the Member States have contributed to increased competition inside the EU. Some Member States have implemented *dumping strategies* in order to gain a competitive advantage. The policy areas concerned are wage, tax and social spending.

In some areas, common European standards for social policy have been achieved, for example in the fields of anti-discrimination, gender questions, workplace security, and Social Dialogue. However, these policies add up to a very low level of »*positive integration*«. With the *Lisbon Strategy*, Member States aimed to improve both the EU's economic performance and its social dimension. But as the 2005 half term review of the Strategy revealed, most of the objectives will not be met until 2010. This is exacerbated by the weakness of the *Open Method of Coordination (OMC)* that has not had a sustainable impact on national reform strategies. And finally, the original »*positive engagement*«, that aimed to align the social dimension with economic development, was overruled by pure market liberalisation strategies.

Besides these co-ordination problems at the European level, it is doubtful whether the existing differences between the *welfare regimes* in Europe could be tackled by a common policy attempt. After all, Member States respond to current challenges such as unemployment, demographic developments etc. with varying policies.

2 A Social Stability Pact as a Regulatory Tool

The correlation between the level of economic and social development in the EU needs to be strengthened. As a general rule, Member States with high income levels per capita provide more funding for welfare policies than countries with lower economic development. This correlation between economic performances and social spending is decreasing in the enlarged EU, while economic and social heterogeneity are increasing.

With a *European Social Stability Pact*, the EU and its Member States would create a common framework for maintaining general social standards by linking them to national economic performances. The *Social Stability Pact* would consist of the following three elements:

1. **Minimum Wages** are to be implemented in every Member State. They would be agreed on either by law or through collective bargaining. They should be linked to the economic productivity of each country, measured by a certain percentage of the national average wage. Following the idea of *decent work*, wages in all countries should at least secure a minimum standard of living. Hence decent minimum wages could not fall below sixty per cent of the respective national average wage (the poverty line defined by the EU represents sixty per cent of the median income). Despite this common lower limit, Member States would be allowed to implement higher minimum wages in their countries. National wage regulation rules would apply both to citizens and migrant workers.

2. The **Social Spending** of each Member State needs to be related to its per capita income. Following the European System of Accounts (ESA), the overall *social expenditure rate* is composed of monetary and non-monetary social benefits, including public and private, tax and contribution-based provisions. Pension and health care provisions account for the majority of social expenditure with seventy to eighty per cent of each State's overall social spending rate. Other transfers include unemployment support, social assistance schemes and family benefits. As four groups of economically different developed countries can be identified in the EU, four *corridors of social spending levels* should be established. As soon as a country reaches a higher income per capita, it moves to the next social expenditure corridor. Within these corridors, levels of social spending could vary. Member States still decide how and where to distribute social spending. What is regulated is the aggregate level of social expenditure. The general objective for all States is to reach the high level group of countries, in which high economic productivity is combined with a high social expenditure rate.

3. **Education expenditure** needs to be better coordinated. It could serve as a main instrument to strengthen economic competitiveness, to achieve equal opportunities and to enable social advancement of the individual needs. Taking into

account different economic developments, the intermediate-term objective for education expenditure in every EU Member State should reach seven per cent of the respective GDP. This ambitious target (as of now, the average education expenditure in the EU lies at five per cent; only DK and SE lie above seven per cent) would be in line with the basic arguments of the *Lisbon Strategy*. Education expenditure comprises the financing of kindergartens, schools, universities, vocational education and further professional training, thereby not distinguishing between public and private arrangements. Member States are free to provide higher funds for their education policies. The agreed *Lisbon Strategy* objective to increase expenditure for *research and development* up to three per cent of the GDP remains unaffected.

A *Social Stability Pact* would implement a common European framework for national minimum wages, social spending and education expenditure policies. Since all regulation measures are bound to the economic development of the respective Member States, less developed countries would not be overburdened. Otherwise, *dumping strategies* in the low wage sector and concerning the ancillary costs would be prohibited. The EU would stand for the common value of a progressive growing social dimension, keeping path with the economic integration process. In the long run, minimum wage, social spending and education expenditure levels should not only converge in relative, but also in absolute terms. The quantitative regulation elements of a *Social Stability Pact* should help to overcome economic and social heterogeneity inside the EU. The principle of subsidiarity remains untouched as a *Social Stability Pact* implies only a minimum of common European standards and is operable without redistributive elements. Member States' autonomy in wage, social security and education policies in form and content remains constant.

The *OMC* could be used as an instrument to follow common objectives in employment, social security and education policies. By agreeing on fixed targets, formulas and corridors as outlined above, Member States would set the frame for common social standards by taking into account different economic developments. In order to have a higher impact the *OMC* needs to be more binding. It should be more than a panel for information exchange on national social policies. Thus, a new guideline on social policy shall be added to the *Integrated Guidelines* of the *Lisbon Process*. Similar to the proceeding in the application of the economic *Stability and Growth Pact*, the impositions of sanctions should be possible against Member States which infringe the objectives of the *Social Security Pact*.

3 Counterbalancing Economic and Social Integration

The EU has the economic might to frame and form globalisation. There is no need to oppose international economic interdependence or to surrender to global pressure. Thus, the social dimension of the EU must obtain the same importance as the economic dimension. The EU has to revalue the idea of a "*double engagement*" in the economic and social integration of the continent. This ambition should become manifest in a *Social Stability Pact*, which obliges Member States to link their minimum wages, their social spending rates and their education expenditures to their economic performances. The objective of a European social policy cannot be the harmonisation of welfare state traditions that are far too different. Instead, it should care for the homogenisation of social policy *effects* all over the EU.

The *Social Stability Pact* could be implemented by a revision of the *Integrated Guidelines* and the *OMC* for the *post Lisbon Strategy process*. This could be easily combined with other plans, e.g. for a *social clause* in all EU legislative projects, a strengthening of common attempts in *social inclusion* policies, and in additional and improved *macroeconomic coordination* and the subsidiary protection of *workers rights and collective agreements*.

In its election manifesto for the European Elections 2009, the *Party of European Socialists (PES)* included the idea of a social stability pact. Now, the *European Social Stability Pact* needs to be mirrored in EU policy to give the social dimension an equal status to economic integration.

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