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# **Inclusive Growth: What Future for the European Social Model?**

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Modernisation of the EU Social Model

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# What Future for the EU Social Model?

- Empirically various models (three worlds etc.)
- Mainly transatlantic outsiders observe or dream of a unitary model, however either in form of
- a negative caricature (“old”, “sclerotic”) or a mirage of “The United States of Europe”
- Normative doubts (e.g., Dahrendorf) justified?

No: The vision of a EU Social Model is still valid if based on the concept of social inclusion

# On the concept of social inclusion

- Everyday concept: equal opportunities for everybody to participate in all life spheres
- Systems theory (e.g., Luhmann): inclusion implies always exclusion, in practice exclusionary spirals
- Inclusion means less integration but higher risks of exclusion; e.g., UN Disability Convention 2008
- Inclusion may lead to “exclusionary inclusion” instead of “inclusionary exclusion”, therefore:
- Inclusive growth requires not only making people fit for the market but also

**Making the (EU-labour) market fit for people**

# Fundamentals of Inclusive Growth

Normatively: Theory of Justice, e.g.

- John Rawls / Ronald Dworkin / Amartya Sen: [social inclusion](#) implies
  - > Inequality only justified if improving the lot of the poorest
  - > Right to endowment with comparable resources for a self-determined life

Empirically: Theory of sustainable growth, e.g.

- Wilkinson und Pickett / Acemoglu und Robinson:
  - > [inclusive institutions](#) promote both, equity and efficiency

Politically: European Council decides in March 2010

- EU-2020 Employment Strategy: „smart, sustainable and [inclusive growth](#)” for social and territorial cohesion, among others through:
  - > high level of employment (2020 benchmark 75%)
  - > less than 10% school leavers; at least 40% of 30-34 with tertiary education
  - > 20 million less people in poverty by 2020 ([three-dimensional target!](#))

## What has been achieved related to inclusive growth? - 1

Indicator	Country	2005/06	2012	Delta % / Pps
<b>GDP/Capita</b> (Euro, PPP)	EU17	25,787	27,548	6.8 %
	EU27	23,691	25,578	8.0
	<b>Germany</b>	27,314	31,195	→ <b>14.2</b>
	<b>Greece</b>	21,793	19,058	→ <b>-12.5</b>
<b>Employment Rate</b> (20-64)	EU17	67.9	68.0	0.1 Ppoints
	EU28	67.9	68.4	0.5
	<b>Germany</b>	69.4	76.7	→ <b>7.3</b>
	<b>Greece</b>	64.6	55.3	→ <b>-9.3</b>
<b>Unemployment Rate</b> (15-64)	EU17	9.2	11.4	2.2 Ppoints
	EU28	9.1	10.5	1.4
	<b>Germany</b>	11.3	5.5	- <b>5.8</b>
	<b>Greece</b>	≈ 9.9	≈ 24.2	<b>14.3</b>
<b>Youth Unemployment Rate</b> (15-24)	EU17	18.3	23.1	4.8 Ppoints
	EU28	18.9	21,4	4.1
	<b>Germany</b>	15.6	8,6	→ - <b>7.5</b>
	<b>Greece</b>	≈ 15.0	≈ 55,0	→ ≈ <b>40.0</b>

# GDP not a good indicator for inclusive growth

- With increasing GDP, (median) disposable household income may even decline and vice versa
- Very informative chapter 7 of the Commission's EESR 2014 makes this very clear:
  - > median disposable household income even increased in some EU-MS during recession (e.g., EL, DK, FI, SE) **indicating strong redistribution and stabilising function of social policy**
  - > **some EU-MS** (e.g., DK, FR, PT, FI) put consistently **more emphasis on inclusive growth** (median disposable household income growing faster than GDP) **than other EU-MS** (e.g., EL, PL, CR)
- However, since 2011 weakening of social redistribution and economic stabilisers

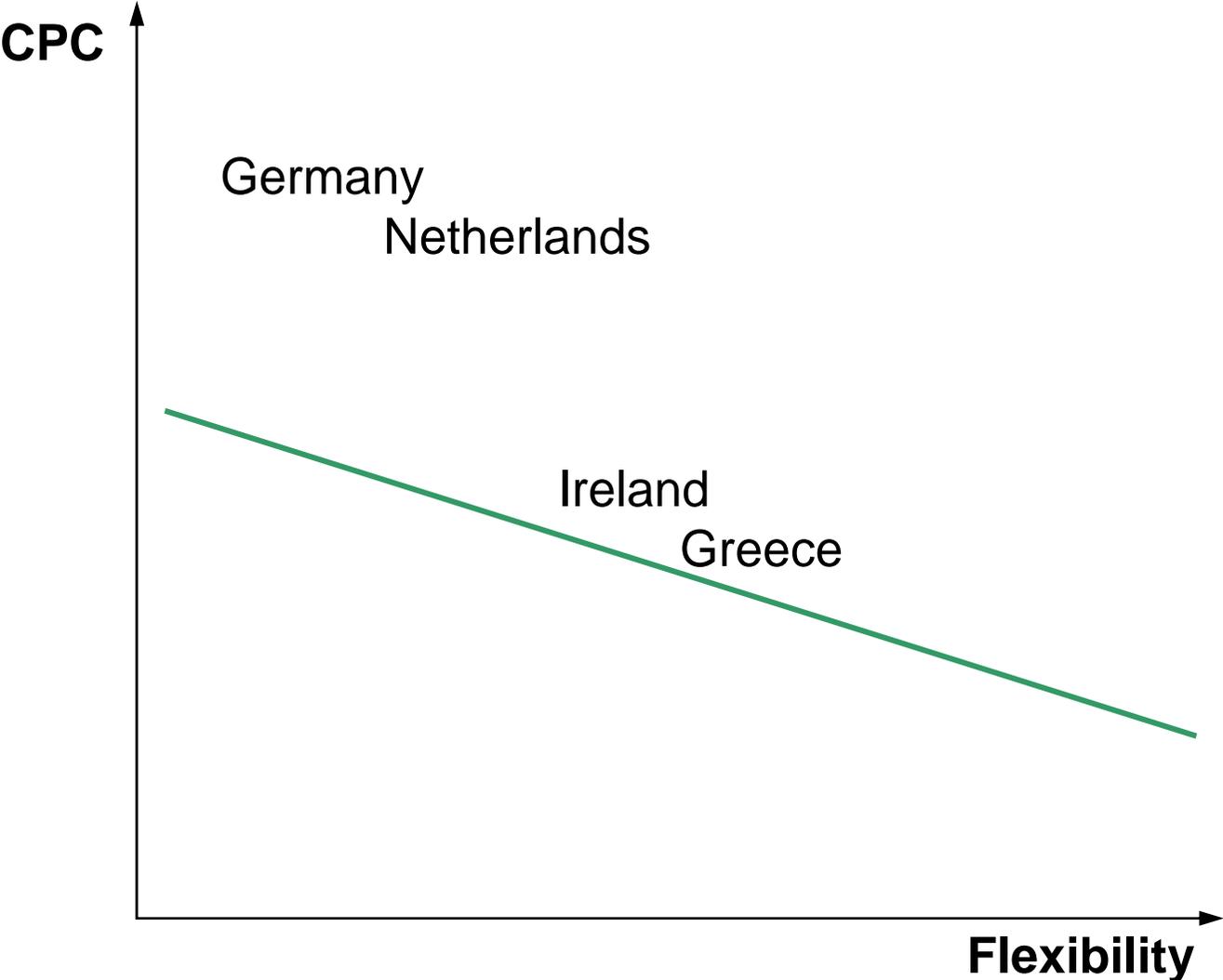
## What has been achieved related to inclusive growth? - 2

Indicator	Country	2005	2012	Delta (Ppoints)
<b>Poverty Risk</b> (Percentage Population <60% Median)	EU17	15.2	17.0	→ 1.8 Ppoints
	EU27	16.4	16.9	→ 0.5
	<b>Germany</b>	12.2	16.1	→ <b>3.9</b>
	<b>Greece</b>	19.6	23.1	<b>3.5</b>
<b>Material Deprivation</b> (Percentage Population)	EU17	5.6	7.5	→ 2.1 Ppoints
	EU27	10.7	9.9	→ - 0.8
	<b>Germany</b>	4.6	4.9	<b>0.3</b>
	<b>Greece</b>	12.8	→ 19.5	<b>6.7</b>
<b>Income Inequality</b> (Upper / Lower Quintil)	EU17	4.6	5.0	→ 0.4
	EU27	5.0	5.1	→ 0.1
	<b>Germany</b>	→ 3.8	→ 4.3	→ <b>0.5</b>
	<b>Greece</b>	5.8	6.6	<b>0.8</b>
<b>Wage Gap</b> (Difference F-Wage to M-Wage Fulltime Median)	EU17	n.a.	n.a.	n.a.
	EU27	n.a.	n.a.	n.a.
	<b>Germany</b>	≈ 22.0	→ ≈ 20.8	- <b>1.2 Ppoints</b>
	<b>Greece</b>	≈ 16.7	≈ 9.5	- <b>7.2</b>

# Intermediate conclusion

- “Inclusive growth” has not been a success story: Real disparities in the economic and social capacities of EU member states rather increased than decreased, in particular in the Eurozone
- However dictum: “a decade of coordinated social inclusion policies has failed to reduce poverty and social exclusion in any substantial way” (Frazer, Marlier, Nicaise 2010, 187) a bit too harsh ... some positive signs
- Yet: European hangover: increasing disparity in attitudes towards the EU, in particular among intellectuals (e.g., Scharpf, Streeck vs. Habermas, Negt)
- Eroding democratic legitimacy, both on the “input” as well as on the “output” side: Europe’s citizen are not just asking “*if*” Europe is still holding together in 2020, they also are asking “*why?*” and “*for what?*”
- So, the question arises: How can the EU Social Model be “modernised” and be set on the right path? Thinking in models might be more effective than to engage in definitions

# The Trade-off between Comparable Productive Capacity (CPC) and Flexibility before the EU-Monetary Union



# Comparative Productive Capacity (CPC)

## 1. Natural Resources

- Raw materials: oil, coal, minerals, fertile ground etc.
- Landscape: attractive for tourists, recreation etc.

## 2. Financial and Human Resources

- Productive capital (esp. manufacturing), private assets, credit worthiness, inbuilt stabilisers etc.
- Human capital, social capital etc.

## 3. Infrastructural Resources

- Traffic, transport, energy nets etc.
- ICT, esp. Broadband nets etc.

## 4. Institutional Resources

- Democracy: free elections, right to strike, co-determination etc.
- Law: inclusive labour- and social law, efficient administration etc.

# Flexibility

## 1. Prices (object-regulation)

- Capital: re- or devaluation; interest rates; taxes etc.
- Labour: nominal and real wages (pay-roll taxes, inflation) etc.

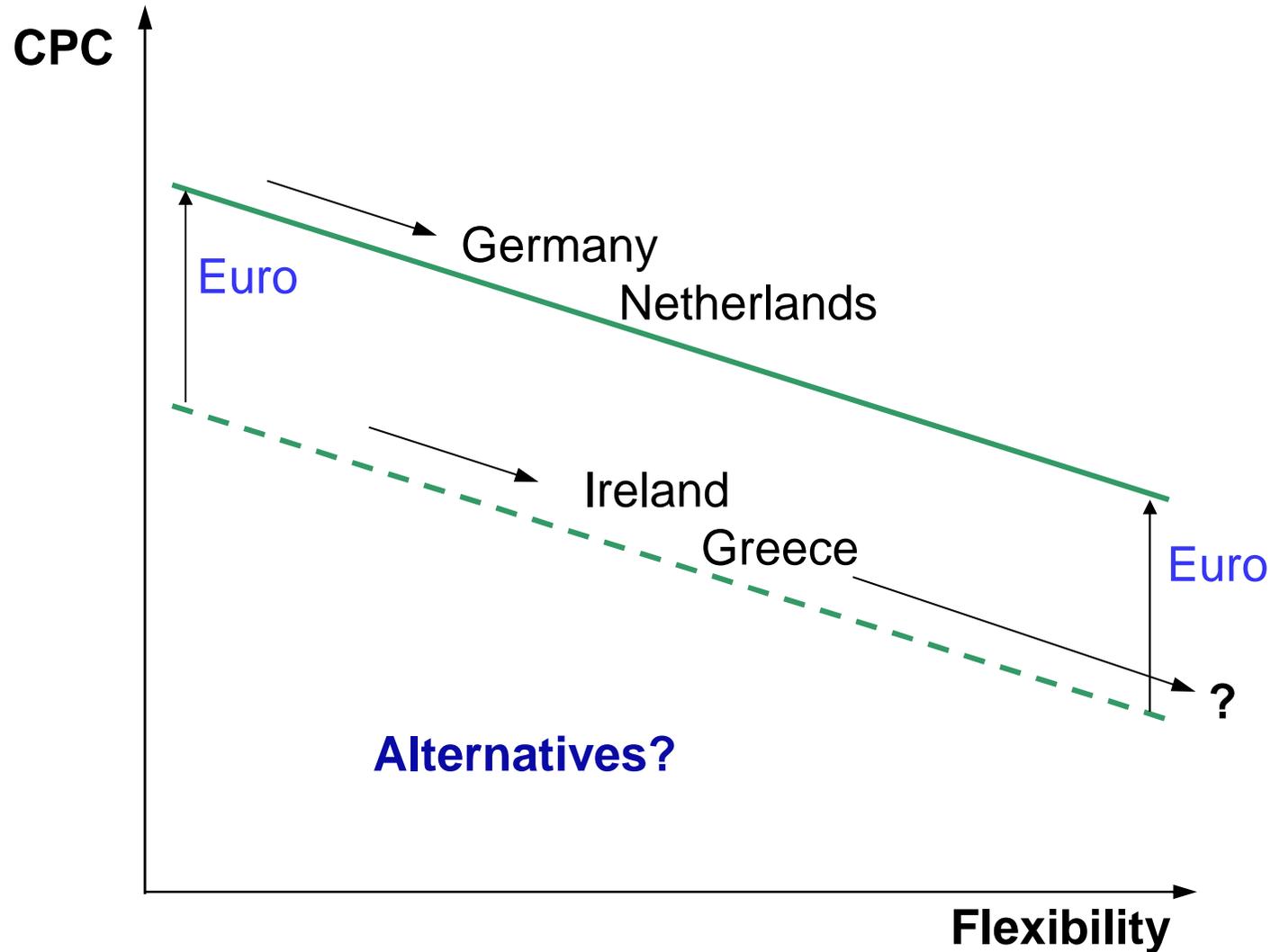
## 2. Contracts (time-regulation)

- Capital law: e.g., patent right, property right etc.
- Labour law: e.g., dismissal law, variability in working time etc.

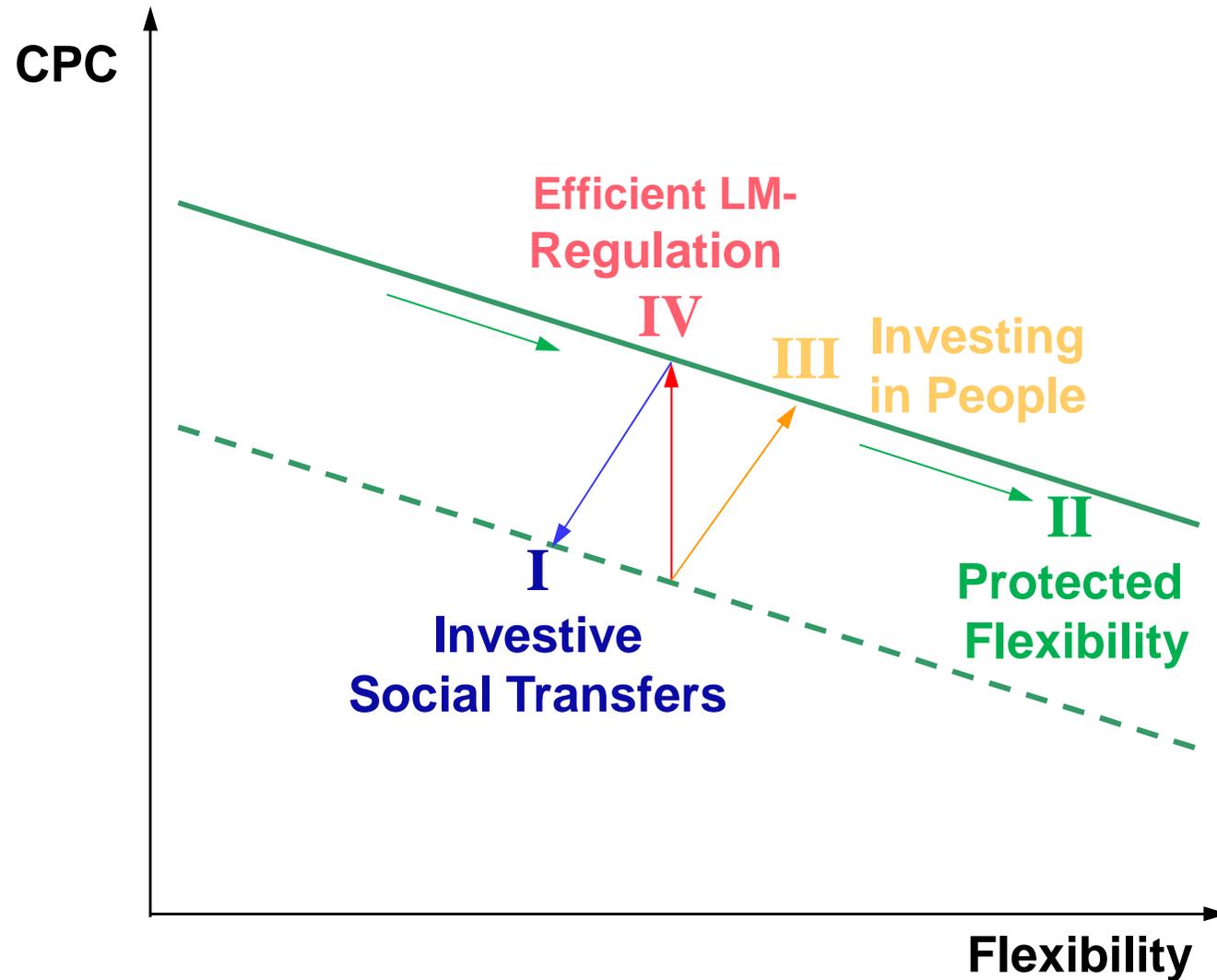
## 3. Mobility (spatial regulation)

- Capital: import and export, in- and outsourcing etc.
- Labour: immigration, emigration, short and long distance commuting etc.

# The Impact of the Eurozone on the trade-off between comparable productive capacities (CPC) and flexibility



# Strategies to cope with sharpened trade-off between comparable productive capacities (CPC) and flexibility



# I. Investive social transfers - 1

1. Redirect ESF towards institutional capacity building, in particular MS's UI-systems and Labour Market Services
  - Ensure a more visible and persuasive prove of ESF-added value
  - Ensure better framing: the EU-2020 strategy should make much clearer that
    - short-term UBs are not “passive” but “active” investments into productive job search and supporting structural change
    - UI is not only a powerful institutional device for fair risk sharing by compensating losers ex post and raising contributions of winners ex ante
    - but also a powerful institutional device for an automatic stabiliser
    - labour market information, training and intermediate financial services effectively reduce long-term unemployment
  - Re-target ESF resources towards labour market service capacities and
  - Re-load OMC, accompanied by aggressive marketing of this instrument as an effective instrument for deepening the EU without affecting MS sovereignty

# I. Investive social transfers - 2

## 2. Establish in medium- / long-term a rudimentary EU-UI

- US-model attractive for its federal structure ensuring central fiscal capacity, minimum standards, and national sovereignty in determining the rules
- Social insurance principles have advantages compared to means-testing:
  - > insurance related benefits can be calculated much easier and fairer
  - > are better protected against discretionary political decisions
  - > work incentives are stronger due the entitlement effect
  - > stronger stabilisation impact due to higher benefits and coverage
  - > jobless people covered by decent UI remain healthier and self-confident
- EU-UI requires change of EU treaties, but consider establishing in short-term and experimental fund for providing
  - > credits to MS whose U exceeds a certain threshold; or extended benefits
  - > conditional transfers for training or youth guarantee and for aggressive wage-cost subsidies in favour for LTU (N. Kaldor)

## II. Protected flexibility

To complement increasing demands for flexibility on the demand-side and increasing demands for life-course flexibility (transition opportunities) on the supply side

1. EU-2020: more emphasis on securing internal flexibility
  - Ensuring mutual human and social capital investments
  - Restricted spatial mobility of multi-employees households
2. Extension of UI towards employment insurance, elements:
  - Short-time work allowance as model for fair work-sharing → **balance sheet**
  - State ensured negotiated flexibility, e.g., collective agreements (CA) for working-time accounts, wage corridors, training and demographic funds
  - Income and employment security in transitions:
    - > continuous education and training (e.g. training vouchers)
    - > care leaves or sabbaticals
    - > social protection standards in flexible jobs (EU-directive; reload OMC) and
    - > ensuring return to comparable full-time job after part-time or care leave
    - > wage insurance (including targeted in-work-benefits, e.g., involuntary PT)

# Risk sharing balance in German „Short-time work allowance“

	Advantages	Problematic
Workers	<ul style="list-style-type: none"> <li>- Job security</li> <li>- Labour market security, in particular maintaining skills</li> <li>- Income security (80-90%)</li> <li>- Social network security</li> </ul>	<ul style="list-style-type: none"> <li>- Low incentive learning new skills</li> <li>- Low incentive for mobility</li> <li>- No legal entitlement to training and education</li> </ul>
Employers	<ul style="list-style-type: none"> <li>- Maintaining skilled/cooperative workers (opportunity costs up to 32,000 Euro)</li> <li>- High flexibility in form of:               <ul style="list-style-type: none"> <li>&gt; speedy adj.; strategic waiting; reversible</li> <li>&gt; task specific personal adjustment</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- High remaining fix-costs (24%-46% depending on subsidies)</li> <li>- Low activation incentive</li> <li>- No right to instructions</li> </ul>
Society (State)	<ul style="list-style-type: none"> <li>- Reduced unemployment &gt; 1,4 million less (2009)</li> <li>- Maintaining PP and + Psyche</li> <li>- High flexibility in form of high discretion for insurance principals + trust</li> </ul>	<ul style="list-style-type: none"> <li>- Disadvantaging ‚outsiders‘</li> <li>- Slowing down structural change</li> <li>- High costs requiring high social contributions; debt financing, e.g. 5 billion for a wreck-bonus</li> </ul>

# III. Investing in people

Would increase competitive productive capacities and simultaneously raise the capacity of protected flexibility

1. More emphasis on dual, less on academic education
  - Strong social inclusion impact (lower youth unemployment)
  - High opportunity costs of not investing in people
2. Preventing rising skill deficits and inequality
  - Reducing 30 % points gap in ER between low- and high skilled at EU-28 level
  - Balanced mix of elementary, middle and high skills required
  - PIAAC hints to drastic deficits in key competences, especially among LTU
3. Strengthen links between ED-LM-PM over the life course
  - Making transitions pay for horizontal / vertical mobility to induce mobility chains
  - Uplifting skills for adults, including elderly: knowledge intensive goods need knowledgeable people
  - Re-load OMC in favour of social inclusion indicators, e.g., upward mobility and work-place adjustment for disabled or elderly

## IV. Efficient (European) LM-regulation

Comparable productive capacities could be raised by better utilising existing capacities through reducing inefficient flexibility and standard regulations elated to transferable skills and wages formation

1. Restricting excessive use of fixed-term contracts
  - Proved to be inefficient (hampering innovation and productivity), unfair (shifting risks to disadvantaged), unsocial (preventing family and life-course planning)
  - Possibly through risk internalisation, new standard employment relationship
2. Cross-country acknowledgment of acquired qualifications
  - plus quality standards, thereby stimulating regional mobility and
  - preventing skill deficits and informal or illegal work in care economy
3. European-wide regulation of minimum-wage formation
  - not by levels but by standards, e.g., in relation to average/median wages
  - and by processes (joint monitoring of social partner possibly leading to revitalisation of Social Dialogue), thereby
  - stimulating investments in high quality work, preventing wage dumping

# Summary - 1

## Main challenges in general:

- Youth unemployment, long-term unemployment, precarious jobs
- Skill-deficits at lower and middle level, especially transferable skills
- Lack of transition capacities over the life-course, esp. WT and LLL

## Main challenges for EU-2020

- Increasing real divergences of inclusive growth, especially in EA
- Lack of comparable productive capacities in some MS, especially related to unemployment insurance and employment services
- Lack of (enforced) quality standards in terms of minimum wages, skills and 'flexible' jobs

## What policy instruments at EU-level?

- Investive transfers targeted to national UI-systems and E-services

# Summary - 2

- Establishment of a rudimentary system of EU-Employment Insurance System (in part according to US-model), with UI as automatic stabiliser and employment services to promote targeted employment
- Enhancing effectiveness and efficiency of ESF by targeting measures more towards internal flexibility, in particular WT-flexibility and LLL
- Aggressive (and possibly marginal) wage costs subsidies targeted to unemployed youth, low-skilled and elderly unemployed
- Revitalise MLP and OMC, in particular related to capacity building indicators

## Added value of proposed policies

- Enhancing macroeconomic stabilisation of (EU-) social policy
- Increasing accountability and visibility of European Social and Employment Policies
- Effective reduction of youth and long-term unemployment

# Selected Literature

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