The Europeanisation of Social and Labour Market Policy

Can Europe be a Social Market Economy?

By Aidan Regan

Class 4

The Double Asymmetry of European Integration, Fritz Scharpf

The European Economic Community, up until the 1980s, was based on intergovernmental negotiations to remove trade barriers in the construction of the single market. Public services functions, and the welfare state, were left to member-states. This division between the national and transnational worked well for a period but was not sustainable for a variety of factors, particularly the difficulty of separating the market from social rights. Fritz Scharpf asks the question: was the liberal transformation of the EU the result of an ideological preference or a functional outcome of the structural-institutional factors associated with integration of diverse regimes of welfare capitalism?

Scharpf argues that the focus on interests and ideas in the study of Europeanisation has missed the role of the complex institutional structure/matrix of multi-level governance on actor strategies. In particular, he wants to argue that judicial decisions associated with the ECJ have fundamentally constrained political strategies aimed at positive integration. His argument is that the structured European policy process creates asymmetries favouring some actors and policy goals, whilst obstructing others. His objective is to make the social democrats recognise the structural obstacles they would have to overcome if they tried to create a European social market economy.

He explores two institutional asymmetries: policy making by non-political actors and negative integration or ‘integration through politics and integration through law’. In the original context of unanimous decision making by member states, national governments could ensure economic liberalisation would not undermine the preconditions of social cohesion, and national welfare states. But perhaps governments did want to maintain their national regimes? Maybe the EU provided political cover for policy decision they could not pursue at national level?

As a consequence of European expansion, to include Ireland, Denmark and the UK, the harmonisation of national rules through European legislation became increasingly difficult. In the face of political stagnation and institutional diversity, Eurocrats increasingly turned to the possibility of judicial solutions to bypass political blockades in the European council. Unlike nation states, where judicial interpretations of the law can be overturned by parliament, in Europe, ECJ decisions can only be reversed by treaty amendment that needs to be ratified by all member states.

In principle, no area of national law, institutions or practices remain immune to the potential reach of European economic liberties, and the rules of undistorted market competition, defended by the ECJ. Integration through law was able to move forward without political interference. The main thrust of negative integration is protecting firms and individuals, and the single market, from the state. European integration removed the autonomy of the state without transferring it to a new political authority.

The single European act in 1986, in particular, reduced the consensus requirements of political action by introducing qualified majority voting (QMV) to the council. This was designed to encourage convergence
amongst a diverse coalition of political and economic interests. The outcome was a dramatic increase in liberalising proposals. He selects particular cases to make this argument.

What has been the vertical and horizontal impact of integration through law? Most of the European economic and legal literature has not engaged with the comparative political economy literature on distinct economic regimes within Europe. Scharpf presents a vertical axis of national autonomy and Europeanisation, and a horizontal axis of liberalisation and regulation. In the bottom left are national SMEs, and in the bottom right are LMEs. In the top right, Scharpf presents his ELME as the trajectory of reform.

The courts are undermining the institutional foundations on which the comparative advantages of CMEs depend. Liberalisation, contrary to what Hayek thought, is not emerging from competition but law. Structural constraints have cut off access to the top left hand quadrant in Scharpf model.

Conclusion: The double asymmetries that Scharpf identifies are as follows; the ECJ is distorting the vertical balance between the powers of the union and the requirements of democratic self-determination. Second, it is having an asymmetrical impact on the horizontal balance between social and liberal market economies. Rather than proposing a UK style opt out clause, he proposes the we need procedures to facilitate the mutual accommodation of European and national concerns.

Does Scharpf present Europe as an iron cage?

Social Policy: Left to the Judges and the Market? Stephen Liebfried

The dynamics of the single market have made it difficult to exclude social issues from the EU’s agenda. The neat separation between the supranational market and national social issues is unsustainable. The outcome is a multi-tiered Europeanised public policy. Negative integration occurs when the ECJ imposes market conforming freedoms that restrict member states social policies. The obstacles to a more activist role for Brussels in social policy development are twofold

1. Institutional constraints

EU policy processes have made it easier to block rather than enact reforms. Reform requires, at a minimum, qualified majority voting. The electoral significance of social programs has meant that governments guard them jealously. Where there has been development it is in the area of health and safety, gender equality, and standard protection measures.

2. The shifting balance of power among relevant social interests

Unions and social democratic parties have become weaker across the EU over the past twenty years. Business power has grown considerably. The revised social chapter in the Treaty of Amsterdam, in principle, facilitates efforts to expand social policy. The capacity of a country to obstruct legislation has diminished.

Today, the slimming down of national welfare states is a regular and prominent topic for discussion at the EU commission, the ECB, and the council. Liberal issues such as anti-discrimination have been the main social agenda. This is likely to become the regulatory route of EU social policy, anti-discriminatory regulatory politics, and legal convergence, akin to US consumer welfare. EU legislative activity is now at least as extensive as US Federal social policy was on the eve of the new deal, and anti-discrimination policies since the 70s.
European integration and direct market compatibility requirements: court decisions and competition requirements associated with market integration have been gradually eroding national welfare states. Few political scientists have paid attention to this quiet politics. Social policy decisions are the second biggest case load of the ECJ. The EU social dimension has been central to market building, particularly the principle of free movement.

The free market for services has general implications for the sovereignty of welfare states. First, it encourages a social security market. Second, states cannot stop competition for national provision by private actors. Third, it opens a market for private insurance. All of this redraws the public private boundaries of the welfare state. Focusing in on these two areas; freedom of movement for workers, and service provision, we can see a wide range of market compatibility requirements.

European integration and indirect pressures on the welfare state: social dumping in wages, EMU and budgetary discipline, harmonisation of tax systems, privatisation of public service state. The picture that emerges is of national governments with diminished control over policies that traditionally supported the welfare state; the currency, macroeconomic, public finances, tax policies, industrial relations and public services.

The multi-tiered social policy system has three distinctive characteristics; a propensity toward joint decision traps and immobility, and a prominent role for courts in policy development, and a centre role for market making. EU social policy has been an integral part of market building itself. The EU has not replaced the declining capacity of the nation state. Is this the worst of all worlds?

The Social Dimension of European Integration – Maarten Keune

Introduction


Euro-Pessimists V Euro-optimists on the social effects of integration

Negative integration eliminates national constraints on trade and competition (LME). Positive integration is the development of common policies to shape conditions under which markets operate, and to promote social protection (SME). Negative integration is primarily about removing obstacles to the four freedoms (capital, goods, services, people), and fostering competition and expansion of EMU. For euro pessimists, welfare states are undermined and social standards under pressure. What explains this asymmetry?

The first is institutional. Negative integration faces fewer obstacles than the necessary inter-governmental agreement required for positive integration. The second is heterogeneity of welfare states and industrial relations. The third is the power and interests of transnational capital, particularly the European round table of industrialists (ERT). The fourth global competition and downward pressure on wages and the welfare state (think of Draghi’s recent comments).

The Euro optimists look at these issues differently. First, they argue that nation states have ample scope for domestic welfare policies. Second, we have to examine these issues not through the lens of retrenchment but adaptation to new social risks. Third, in principle, after Lisbon, and the Charter of Fundamental Rights, social policy is equal to economic. Fourth, we need to look at the processes through new lens such as the open method of coordination.
A contested project

European integration is a politicised process in which various political and social actors pursue their interests and ideas. These generally fall into two categories: left (social democratic) v’s right (market liberals), and questions of national sovereignty; nationalism v’s supra-nationalism. The conflict is between political coalitions with diametrically opposed positions on these two dimensions. The current position of the UK and Germany conservatives both favour a neoliberal European single market but resist a European polity, to ensure with national regimes attractive for capital. The political colour of the council and commission means all of this varies over time.

The social dimension of European integration

The treaty of Rome in 1957 had a strong bias toward economic integration, and left social policy and labour regulations to member-states. The competences of the community in social policy gradually expanded over-time, particularly the broad interpretation by the ECJ on 'equal treatment'. Health and safety account for 50 percent of directives from 1978 and 2006. Delor in particular, skilfully negotiated Maastricht, with a social policy agreement (SPA), as an annex to enable a UK opt out. This, in principle, enabled the European social partners to become co-regulators of the European labour market.

Only three such social directives dealing with Parental leave (1996), Part time work (1997) and fixed term work (1999) have resulted from inter-sectoral social dialogue. Overall, by 20006, only 78 social directives have been adopted, in contrast to economic ones, of which non-discrimination and gender equality account for almost 80 percent. The core regulatory level for social and labour market issues remains at the national level. The big change is in forma of experimental governance.

Experimental governance of social Europe

Two forms have been introduced since the 1990s; the Open Method of Coordination (OMC) and autonomous agreement by social partners. Both of these are voluntarist. The OMC was first introduced as part of the European Employment Strategy (EES), in the late 1990’s; peer review, exchanges of information, cooperation and consultation, framing, structuring, agenda setting, improved steering and statistical capacity, flexibility, employability and other supply side measures.

The social impact of the single market

The single market has brought workers and countries into competition with each other for capital. This leads to regime competition for private investment. New entrants to EU have explicit developmental strategies aimed at FDI. Given subsidies are ruled out, the focus is on flexible labour markets, lower unit labour costs and tax friendly regimes, and general weakening of the finances of the welfare state.

The social impact and effects of EMU

The entire burden of adjustment must now fall on wages, labour market and fiscal policy. New strict budgetary rules, absence of exchange and interest rate adjustment, inflation targeting, and debt and deficit ceilings. There are obvious implications for labour and the public sector. EMU-related attempts to reform and reduce the welfare state. The social dimension of European integration is limited, especially where the function of limiting the market is concerned. One obvious sign of this is that European social policies have not played any role in softening the impact of the economic crisis. This would not be a problem if EMU did not affect national standards and policy. But it clearly does.
The Political Economy of Social Investment – Anton Hemerijck

Introduction

Three phases of welfare state development and trajectory: post-war Keynesianism, Neoliberalism and Social Investment. How convincing is this?

The economics of welfare state expansion and retrenchment

The main objectives were to provide social security, and to protect citizens from social risks associated with industrialisation. The welfare state compromise redrew the boundaries of politics and economics. The focus was on mixed economies and economies as macro-systems not micro behaviour. Keynesian macroeconomic policies allowed democratic governments to assume political responsibility for full employment and social security without affecting the primacy of the free market.

The supply side revolution, grounded in rational expectations, and the politics of neoliberalism fostered a deliberate shift in social policy, stable budgets replaced full employment. The OECD 1994 jobs study captured the mood of neoliberal reforms, and was highly influential on debates on the welfare state and public policy across advanced industrial societies. Reforms led to inequality.

Neoliberal retrenchment and the social investment turn

The core tenet of this is that social policy is a productive factor, the political outcome of new labour, and a policy preference for active rather than passive welfare states. The Lisbon strategy, the lifecycle, and new social risks management; all of which lost focus on the economy. The analysis focuses on case by case examples rather than an overarching economic theory. In the EMU there is no distinction between social investments from consumption spending. Hemerijck calls for a distinction in public finances that would enable governments to distinguish welfare spending in much the same way they distinguish between current and capital spending, just as private companies do.