

***Centralization, decentralization and the
division of responsibilities in social policy: a
European perspective***

Frank Vandebroucke
University of Amsterdam

Amsterdam
EISS Conference
29.9.2017

European perspectives informed by this EISS conference

- A case for centralisation? Unemployment insurance in a monetary union, and the problem of ‘institutional moral hazard’
- Freedom of movement and vulnerable citizens: which division of labour in the EU?

EMU as an insurance union: a vaccination metaphor

- Why are stabilization instruments centralized in monetary unions?
 - Risk sharing (pooling)
 - Externalities (vaccination)
- Vaccination: compulsory (minimum requirements) and subsidized (re-insurance)
- Minimum requirements for an effective stabilisation capacity:
 - sufficiently generous unemployment benefits, notably in the short-term;
 - sufficient coverage rates of unemployment benefit schemes;
 - no labour market segmentation that leaves part of the labour force poorly insured;
 - no proliferation of employment relations that are not integrated into social insurance;
 - effective activation of unemployed individuals;
 - budgetary buffers in good times, so that automatic stabilisers can do their work in bad times.
- These principles become a fortiori imperative, if the Eurozone would be equipped with re-insurance of national unemployment insurance systems: institutional moral hazard

Re-insurance of national unemployment schemes and institutional moral hazard

- The European/US paradox
- Obsession with moral hazard makes it impossible to reap the benefits of insurance
- Experiences in multi-tiered welfare states: incentives (design) and minimum requirements
- Design features to mitigate institutional moral hazard in a European unemployment re-insurance model
 - Relative deviations of short-term unemployment from historical record
 - Large shocks
 - Experience rating and claw-back mechanisms
- Minimum requirements: cf. Youth Guarantee, Pillar of Social Rights

The social dimension of EMU: an evolving paradigm

- In the 1990s, labour market reform was justified by the advent of EMU: supply-side flexibility and ‘enabling’ activation policies.
- Today, we need a broader approach : EMU requires a consensus on labour market institutions that support ‘stability’ and ‘symmetry’. Therefore, ‘protective’ policies and collective action are in order. Enabling and protective policies can be mutually reinforcing, in creating *resilient social systems*.
- Symmetry: member states need labour market institutions that can deliver on wage coordination; this excludes totally decentralised and uncoordinated bargaining. Institutions that monitor competitiveness should be embedded in social dialogue, and distributive concerns should be mainstreamed in the monitoring of competitiveness.

Freedom of movement in the EU and vulnerable citizens

Four questions:

- 1) How can we justify free movement?
- 2) How can we justify non-discriminatory access to social benefits for those who move?
- 3) How can we justify a difference between active and non-active citizens in the application of (1) and (2)?
- 4) Who is responsible for vulnerable non-active citizens?

Freedom of movement in the EU and vulnerable citizens

- Freedom of movement as a matter of *fairness*:
 - Equality of access to employment opportunities across the EU
 - ‘Posting’ and free movement of workers are both needed in a Single Market
 - Non-discrimination: no competition between different social systems in one territory
- No denying of tensions, but a ‘balancing act’ is possible
 - *Viking & Laval*, reform of the Posted Workers Directive (Feenstra)
 - Active / non-active: earned social citizenship
- A positive reading of ‘earned social citizenship’ is possible, if there is a duty for member states to adequately protect their vulnerable, non-active citizens

A practical agenda (I): Fair mobility

- Robust defense of the idea that EU needs both non-discriminatory free movement of workers and posting, as a matter of fairness
- Reform of the Posted Workers Directive
- Improvements for mobile citizens
- Adequate labour market regulation, importance of collective bargaining and access to social security for all workers, cf. next slide

A practical agenda (II): Upward convergence in social standards

- The *European Pillar of Social Rights*: important initiative, but to be made operational (legislative, financial & policy coordination instruments)
- Priority areas for the stabilisation capacity of welfare states and the successful integration of migrant workers:
 - Access to social protection for all workers
 - Quality of unemployment insurance & activation
 - Universality of minimum wage regimes
- Minimum income protection: a duty of national welfare states
- Upward convergence in features supporting the stabilisation capacity of national welfare states is *a fortiori* needed with a view to the eventual organization of a Eurozone re-insurance scheme ('vaccination metaphor').

A European Social Union

A Social Union would

- support national welfare states on a *systemic* level in some of their key functions (e.g. stabilization, fair corporate taxation,)
 - guide the substantive development of national welfare states – via general social standards and objectives, leaving ways and means of social policy to Member States – on the basis of an operational definition of ‘the European social model’.
- ⇒ European countries would cooperate in a union with an explicit social purpose, pursuing both national and pan-European social cohesion (reconnecting with the *founding fathers’* inspiration)

Resources

- **On the concept of ESU:** Vandenbroucke, Barnard & De Baere, *A European Social Union after the Crisis*, CUP, 2017
- Therein: see chapter by Feenstra on *Viking & Laval*, posted workers...
- **On the re-insurance of national unemployment benefit systems:** Vandenbroucke, Risk Reduction, Risk Sharing and Moral Hazard: A Vaccination Metaphor, *Intereconomics*, Vol. 52, May/June 2017, Number 3, pp. 154-159.
- **In defense of free movement & non-discrimination:** Vandenbroucke, EU citizenship should speak both to the mobile and the non-mobile European, EUDO/GLOBALCIT forum 'Should EU citizenship be duty-free?' <http://eudo-citizenship.eu/commentaries/citizenship-forum/citizenship-forum-cat/1852-should-eu-citizenship-be-duty-free?showall=&start=3>
- Vandenbroucke, Basic income in the European Union: a conundrum rather than a solution, *ACCESS EUROPE Research Paper 2017/02*, 01 August 2017 (<http://ssrn.com/abstract=3008621>)