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A Social Compact for Europe: Priorities for actions

Marine Boisson-Cohen* and Bruno Palier**

Breaking with a historical process of convergence, the financial crisis has widened the socioeconomic and employment gaps in Europe, in particular between North and South. This new divergence has revived the debate on the place of social issues in the European integration: should there be common social responses to the crisis? If so, which of these answers should be given preference?

After the progress made in the 1980s and 1990s, "Social Europe" have been "frozen" in the 2000s. The idea of a 'social compact' for the European Union and the Eurozone is going back for three main reasons. The first is macroeconomic, in view of persistent imbalances in the Eurozone, while the second refers to the increasing mobility of workers within Europe, which has been a lever for the adjustment of the labour market. However, this greater mobility has been accompanied by tensions, whether in relation to posted workers, social dumping, or fears of youth drain and brain drain. The third reason for the revival of the idea of a "social compact" is political, with pressure on European welfare states as a result of the reduction in public expenditure and the commitment to structural reforms. Given this context, the kind of threat we face - now and in the medium term - is an abandonment of the economic and social catch-up processes (in which each Member State would seek to reduce its debt and increase its competitiveness through 'social deflation').

Three priorities, associated with courses of action, are to be put upfront if Europeans are to relaunch the convergence process: strengthen the social dimension of the EMU, adapt the European framework to the new age of mobility, and restore the sustainability of the European social model.

Priorities for action: An overview

PROPOSALS	LEVEL	OBJECTIVES	PROBLEMS
Priority no.1 – Strengthen the social dimension of the EMU			
• Eurozone (EZ) institutions • Social Eurogroup	Euro aera	Governance	• Relations with EU • Institutional reform
• Tripartite summit • Macroeconomic dialogue • Coordination of collective bargaining on wages	Euro aera	Regulation	• Autonomy of social partners • Coordination
• European unemployment insurance scheme • Euro area fiscal capacity	Euro aera	Stabilisation	• Relations with EU • Transfers
Priority no.2 – Adapt the common framework to the new age of mobility			
• Extension of portability of rights and exports of benefits	EU (EA)	Adjustment	• Sovereignty • Heterogeneity of social regimes
• European labour inspectorate • Firms and workers European identifiers	EU (EA)	Regulation	
• Minimum wage schemes • Minimum income schemes	EU (EA)	Regulation	
Priority no.3 – Restore the sustainability of the European social model			
• European long-term investment fund	EU (EA)	Adjustment Convergence	• New institution
• Social investment pact	EU (EA)	Adjustment Convergence	• Transfers
• Common tax policy	EU (EA)	Regulation	• Sovereignty

Source: France Stratégie.

* Unit Events, partnerships and international affairs. ** CNRS, Senior researcher at the Centre d'études européennes (CEE), Sciences Po Paris; co-director of the Laboratory for Interdisciplinary Evaluation of Public Policy (LIEPP); scientific advisor to France Stratégie.

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INTRODUCTION

The discussion on a social agenda for the Eurozone and the European Union (EU) has become more intense since the 2010-2011 debt crisis, with the re-evaluation of the difficulties encountered after 2008 and their structural component. Social issues in the context of European integration have yet to be redefined.

The idea of "Social Europe", which was inherited from Jacques Delors' presidency of the European Commission (1985-1995), is built around three main ambitions: a European social dialogue that confers upon social partners a regulatory power at the European level; a Europe that "stands on two legs", with simultaneous progress being made on social harmonisation and on economic freedoms; and a European social model but without prejudice to the principle of subsidiarity. The aim was to foster upward convergence (improvements in employment, living standards, wellbeing, social security) while at the same time ensuring that European competences remained relatively limited.

Social Europe has been in crisis since the 2000s, due to its failure to adapt to successive EU enlargements and the introduction of a single currency. Social harmonisation has stalled and social dialogue has been impaired, while the open method of coordination and common strategies did not have the expected spillover effects. The credibility of social Europe has been affected: a dynamics of divergence, even dualisation, have become apparent in socio-economic and employment trajectories in Member States, in particular within the Eurozone. The social performance targets set in 2010 in the Europe 2020 strategy have already been compromised.[1] Social Europe seems to have led to a major imbalance, with the perception of a loss of national sovereignty by citizens that has not been offset by EU regulatory capacity. The principles of subsidiarity in social protection and autonomy of social partners in collective bargaining no longer appear to protect national social models: they are not articulated with the strengthening of economic governance (including country-specific recommendations relating to fiscal discipline and budgetary situation, structural reforms and wage policy as part of the European semester and excessive deficit procedure).

Three issues, which had been overlooked for some fifteen years, justify to update the contents of social Europe. The social consequences of the introduction of a single currency have not been taken into account. A new age of mobility has been accompanied by significant tensions in relation to the freedom of movement. The preservation of the European social model requires going beyond "common strategies".[2]

STRENGTHEN THE SOCIAL DIMENSION OF THE EMU

The intensity and duration of the crisis in the Eurozone were in part associated with shortcomings in the initial conception of the Economic and Monetary Union.[3] An 'incomplete euro' allowed a number of macroeconomic imbalances to develop. The current phase of adjustment — deleveraging process, recovery of the financial system, correction of disparities in competitiveness — will take more time and its results be more uncertain the longer lacks of coordination will persist.

Autonomous institutions and a social Eurogroup for the Eurozone

To be viable, a single currency requires greater integration and strengthened governance. With the introduction of the European semester and new macroeconomic and fiscal surveillance, the creation of the European Stability Mechanism and of a banking union, the process is under way[4]. Yet this process is not completed, and the debate on the future of the Eurozone institutions should continue.[5] At this stage, strengthened economic governance is accentuating an asymmetrical, or "negative" integration of the social dimension[6] (with social expenditure seen as a cost rather than as a productive factor). Fostering a rebalancing of monetary, economic and social objectives in the governance of the Eurozone requires changes to the institutional functioning. The role of Labour,

1. "For several decades, the EU has been marked by closer economic integration (...). This integration has driven a convergence of incomes and living standards across Member States, resulting in the Union being described as a "machine of convergence" unique in the world (...). While the EU has come closer to achieving objectives it has set itself in terms of education, climate, and energy (...), this has not been the case in terms of employment, research, and development, or poverty reduction. The transposition of these objectives on a national level has also highlighted several concerning changes, such as an increase in differences between the best-performing Member States and the worst-performing Member States and a widening of differences between regions of the EU or of a Member State"; See European Commission (2014), "Taking stock of the Europe 2020 strategy for smart, sustainable, and inclusive growth", COM (2014) 130, final.
2. The ambition of the Lisbon Strategy adopted in 2000 was to make the EU "the most competitive and dynamic knowledge economy in the world by 2010, capable of sustainable economic growth with more and better jobs and greater social cohesion". This ambition is repeated, albeit in more modest terms, in the Europe 2020 strategy.
3. Artus P., Bénassy-Quéré A., Boone L., Cailloux J., Delpla J., Farhi E., Gourinchas P.-O., Tirole J. and Wolff G. (2013), "Complementing the euro", *Les Notes du Conseil d'analyse économique*, n°3.
4. The European semester is a cycle of coordination of economic and budget policies within the EU that aims to prevent excessive macroeconomic imbalances.
5. Nicolaï J.-P. and Valla N. (dir.) (2014), "Retrouver une ambition européenne pour la France". Thematic report, *Quelle France dans dix ans?*, www.strategie.gouv.fr/publications/thematique-retrouver-une-ambition-europeenne-france.
6. Scharpf F. (2000), *Gouverner l'Europe*, Paris, Presses de Sciences Po.

Employment and Social affairs Ministers should be reinforced and the EPSCO's prerogatives rebalanced vis-à-vis the ECOFIN,[7] in particular in the adoption of recommendations relative to labour, employment and social policy. Franco-German proposals work towards this objective, including that of a social Eurogroup that meets before euro summits.[8]

Overhaul macroeconomic dialogue and the coordination of collective bargaining

An issue is also to enable social partners to be more involved in the new priorities of the European social dialogue, notably developments in wages in the Eurozone. The various forms of interdependence resulting from the euro require a balance in terms of wages to be reached between the Member States (see box below).

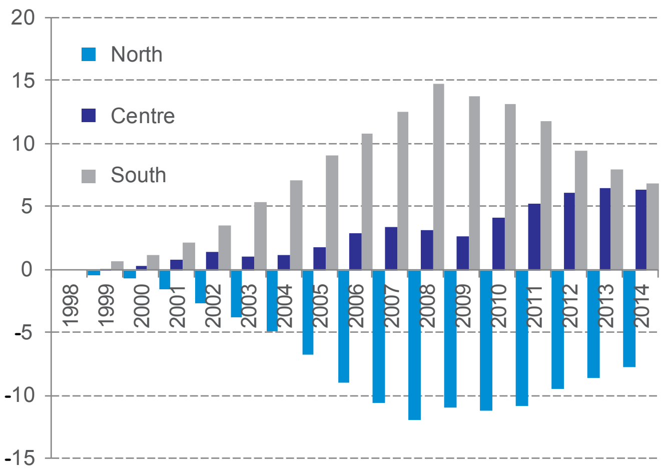
Remunerations has been explicitly excluded from the competence of the European Union since the Maastricht Treaty. This clause has been renewed in successive treaties (Article 153.5 of the Treaty on the Functioning of the European Union). How to achieve the function of "social planer" for the Eurozone –neither excessive moderation nor excess wage adjustment depending on the country– when the mechanisms for setting wages are national or infranational?

One lever could be the social summit, more specifically the macroeconomic dialogue. Established by the European Council in Cologne in June 1999, this dialogue is based on an exchange of views between the Council, the Commission, the European Central Bank, and social partners. Its aim is to improve the interaction between wage evolutions and monetary and budget policies. Stakeholders, however, agree to consider this dialogue is too formal and its impact is limited.

WAGES

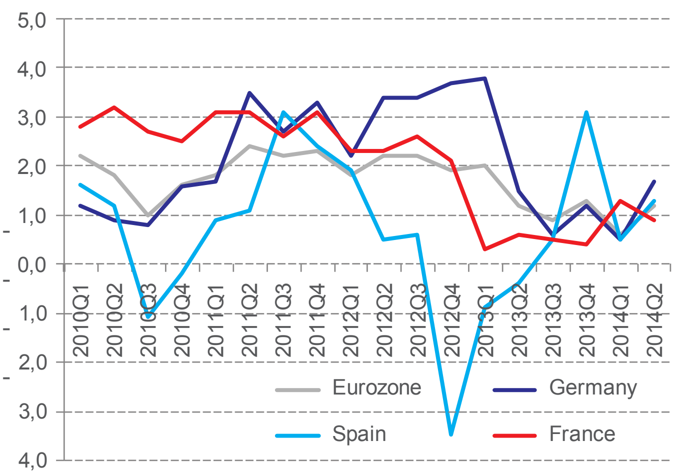
In an economic and monetary union, the issue of wages is not just of national interest: crises sanctioned imbalances that have arisen out of divergences in competitiveness, to which divergent evolutions in unit labour costs have contributed; countries being unable to devalue their currency, they correct imbalances via internal devaluation (in particular lower wages); national evolutions in wages have direct implications for the achievement of the common objective of price stability (inflation target of 2%). This balance has not been met, despite disparities in wage costs beginning to fall (Graph 1). For the countries concerned, an internal wage devaluation strategy is difficult to maintain in the long-term (as in the case of Spain); it requires a divergent evolution in wage costs in countries that have more latitude (in particular Germany). Otherwise, there is a risk of contraction in demand and deflationary trend within the Eurozone (Graph 2).

Graph 1: Evolutions in unit labour costs in the Eurozone, 1999-2014 (mean deviation)



Source: AMECO Database, France Stratégie's calculations.

Graph 2: Increases in hourly labour costs, 2010-2014 (year-onyear basis)



Source: Eurostat.

7. Employment, Social Policy, Health, and Consumer Council; Economic and Financial Affairs Council.
8. "Non-paper" for a Social Europe, co-signed by the French and German ministers of Labour and Employment, 28 February 2013.

Another lever is the coordination by trade unions of collective bargaining across the Eurozone. The adoption of common approaches on criteria regarding the wage evolution has already been observed at a sectorial level (for example, in the metallurgy industry); this orientation could be supported by the European Trade Union Confederation (ETUC). However, obstacles have been identified, including the heterogeneity of national trade unions strategies and of collective bargaining systems between Member States.[9] There is also an erosion of these systems (a drop in membership rates and coverage rates by collective agreements), a preexistent trend being reinforced during the crisis. There are differences between situations across countries, in particular concerning cross-sectorial wage coordination (services/industry; exposure/non-exposure to international competition): coordination is rather effective in some countries (Germany, the Netherlands) but limited in the south (including in France), where the wages of workers in sectors that are not exposed to international competition have risen much more than those in sectors exposed to such competition.

Faced with these difficulties, courses of action must be chosen —and others rejected— to promote balanced wage evolutions. Promoting a single model for collective bargaining does not appear to be appropriate, despite country-specific recommendations and accords recommending decentralised wage negotiations and the restriction of the extension of collective agreements. It has not been demonstrated, either theoretically or through empirical evidence, that this model is optimal (more reactive and in sync with productivity developments by sectors). It is only suitable in certain contexts (high level of unionization rate, limited number of organisations); it could be counterproductive if it undermines the collective bargaining capacity between social partners (which was critical, for example, for the German compromise on wage moderation and productive investment in the 1990s and 2000s).

Macroeconomic dialogue and trade union coordination of wage evolution could be facilitated by technical and political improvements. There is an untapped potential for cooperation with the social partners based on new macroeconomic and fiscal surveillance (supplemented with social and employment trends since the end of 2013). The wage developments are also imperfectly estimated due to incomplete information; the multiple components of wage income and the impact of different form of subsidies to wage costs have yet to be examined. The statistical services of the European Commission could be mobilised to provide and improve this information. Fundamentally, achieving a Social Compact would involve broadening the scope of dialogue, to include, alongside wage developments, corporate and labour taxes, productive investment, productivity, growth and employment prospects.

A European unemployment insurance scheme: A complex project for uncertain benefits?

Adding an extra dimension to coordination in the wage formation process is probably a condition for the sustainability of the Economic and Monetary Union (EMU), but is not sufficient *per se*. The Eurozone does not include a 'budget pillar', as in the federal states, but a monetary pillar.[10] The fiscal responsibility of Member States led to a sub-optimal situation during the 2008 and 2010 crises. The Eurozone should be equipped with an efficient instrument for macroeconomic stabilisation.

The arguments in favour of an Unemployment insurance scheme for the Euro area are the anticipated stabilising effect of such expenditure (which is among the most countercyclical) and the affirmation of European solidarity.[11] A form of European unemployment insurance as an alternative to a common budget for the Eurozone (or an intermediate phase towards this), however, is not an obvious solution. Articulating a European scheme with national systems raises difficulties in terms of harmonisation (membership minimum requirements, degressivity, replacement rate) and governance (joint administration by trade union and employer's representatives in some Member States). Temporary or permanent transfers that would result in the implementation of such a measure also raise an issue of political acceptability (which is rather similar to the difficulty of establishing a fiscal capacity for the Eurozone).

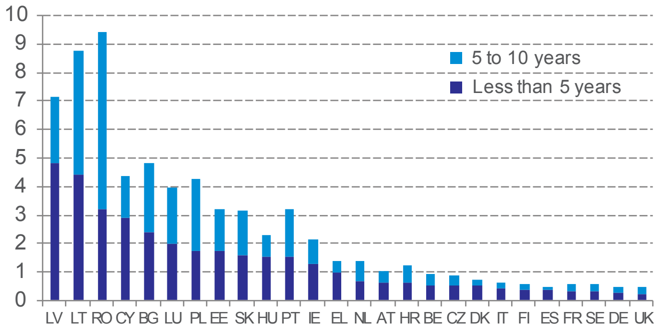
ADAPT THE EUROPEAN FRAMEWORK TO THE NEW AGE OF MOBILITY

Intra-EU mobility has evolved in recent years, both from a quantitative and qualitative perspective. For a long time, the share of nationals established in another Member State in the total EU workforce was stable at around 2%. This percentage has risen sharply to 3% in 2013 (10.3 million out of an active population of 331 million in the

9. Dufresne A. and Pernot J.-M. (2013), "Les syndicats européens à l'épreuve de la nouvelle gouvernance économique", *Chronique internationale de l'IRES*, n°143-144.
10. The Eurozone was created based on a very modest European budget that operates alongside national budgets: in 2010, expenditure from this budget was equivalent to 1% of EU GDP, whereas US federal expenditure was equal to 27% of GDP.
11. Lellouch T. and Sode A. (2014), "Une assurance chômage pour la zone euro", *Trésor-Éco* No. 132, June; www.tresor.economie.gouv.fr/File/403123

EU-28). Admittedly, intra-EU mobility remains low compared to the United States.[12] However, since the Enlargements of 2004 and 2007, the development of mobility (citizens from Eastern countries) has been driven by disparities in living standards (Graph 3). With the crisis, an emerging trend has been for countries –in particular Germany– to welcome European workers who, more often than before, are from Southern European countries hit hard by unemployment. There has also been a rise in short-term mobility and the use of posted workers: in 2012 there were 1.5 million posted workers in the European Economic Area, compared with 1.3 million in 2009.[13]

Graph 3: Intra-European mobility rates by country in 2013 (share of the working-age population living in another EU Member State)



Source: Eurostat EU-LFS, DG EMPL calculations, the European Commission.

Freedom of movement is an essential attribute of European citizenship. Moreover, intra-European mobility is a lever for the adjustment of national labour markets and contributes to an integrated labour market across the EU-28. In some respects, it still faces obstacles and must be facilitated. However, the development of mobility is also accompanied by the need to better regulate it.

Extending the portability of rights

In Europe, the main obstacles to mobility remain linguistic barriers; the importance of the 'hidden labour market' (securing employment though networks of social, personal, and professional relationships); regulatory barriers (including access to regulated professions), the non-recognition of qualifications; the lack of transparency and coordination between various tax and social systems; and the non-portability of rights.

Despite undeniable progress and recent initiatives, including the improvement in European Employment Services (EURES), there is still room for progress in mobile workers' entitlements. For example, rights to training could be made portable in order to facilitate professional transition and the export of unemployment benefits could be extended from 3/6 months, to 1 year. Another initiative could be to endow mobile workers with new social rights (*via* a European training account, for example). This is the rationale behind the 'Europatriate' status proposed by Peter Hartz for the most disadvantaged groups, including young people who are not in employment, education, or training (NEETS).[14] Another approach would be to facilitate the search for employment in another EU country and the transfer from one social security system to another *via* a 'Europeanisation' of social, unemployment, and old-age insurances.[15] Technically and politically complex, these plans do not appear to be a priority in the short-term.

Regulate a more integrated European labour market

Better regulation of social and wage competition between Member States is the counterpart of a European labour market that has become more integrated as a result of mobility (posted workers, workers from another Member State, cross-border workers).

A first area of action consists of reinforcing control capabilities to prevent and fight current developments in illegal employment in Europe, in particular abuses in the posting of workers, mainly in three sectors (transport, construction, and food and agriculture), and concealed employment (including bogus self-employment). Progress has been made in 2014, with the adoption of a new Directive in relation to the posting of workers and the accord on a European platform against undeclared work and illegal employment. A next step could be the introduction of firms and workers European identifiers; also the creation of a European labour inspectorate providing support to national inspections when they have to deal with complex arrangements involving several Member States.

A second area of action could be a European principle of minimum wages schemes, set nationally for all sectors. In particular, this would prevent employers from taking

12. In 2011, the number of recent immigrants, defined as persons living in another Member State the previous year, was equal to 0.21% of the population of the EU-28 (0.05% of the Eurozone), compared with 2.72% of the population of the United States; cf. Jauer J., Liebig T., Martin J. P. and Puhani P. A. (2014), "Migration as an adjustment mechanism in the crisis? A comparison of Europe and the United States", Discussion Paper, IZA, No.7921.
13. European Commission (2012), *Posting of Workers in the European Union and EFTA Countries: Report on A1 portable documents issued in 2010 and 2011.*
14. Hartz P. (2014), "Des lois Hartz aux europatriés : pour une réforme du marché du travail en Europe", *Les cahiers*, En Temps Réel.
15. The difficulties encountered by old-age pensioners and the threshold effects that result from minimum periods for the accumulation of entitlements constitute restrictions on mobility. One proposal is a European 3-pillar pension system: one basic, common European pillar, a national pillar that can be transferred between countries in the EU (with complex implementation), and a private pillar. cf. Puhani P. (2014), "A plan of action for the European labour market", Workshop, France Stratégie

advantage of the absence of a national minimum wage in countries that host posted workers. This is the step Germany took from 1 January 2015.[16] Over a longer term, a European principle of a minimum wage set at a level that provides a safety net in each Member State should be considered in order to mitigate the risk of poverty-driven immigration within the Union.

Mobility and adjustment

Like wages, mobility is an adjustment lever for European economies. However, it can also be regarded as an exodus of talent, in particular when those exercising their freedom of movement are young (brain drain and youth drain); it risks fostering the polarisation between a Central and Northen Europe and a peripheral Europe, and favouring the agglomeration of economic activity. If mobility becomes permanent (as often happens), it can affect the demographic and growth potential in countries of origin. Addressing the reduction in the unemployment rate divergences by solely relying on the mobility of persons is neither realistic nor desirable. The alternative lever is to provide capital where the unemployed workers are, since investment –subject to an adequate allocation of resources– would again lead to productivity gains and job creation. In the case of mass migration, the question would arise of a mechanism to compensate the country of origin for the social cost of migration (in capital, a reduction in debt, etc.). More directly, this diagnosis is a call for European initiatives in terms of investment policies and mechanisms.

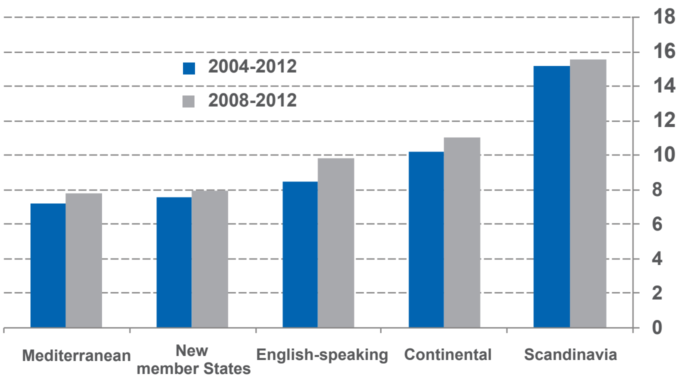
RESTORE THE SUSTAINABILITY OF THE EUROPEAN SOCIAL MODEL

The sustainability of the European social model now raises a challenge: common objectives have not been met in the past (Lisbon Strategy) and will not be met in the future (Europe 2020) if current growth, inflation, and productivity trends continue. Since the financial crisis, which has affected the various economies of Europe in different ways, social models have become polarised, in particular within the Eurozone. The best performers in social terms continue to be so (the Nordic countries), with some even reinforcing their position (Germany, Austria), while countries that have struggled in the past are forced to limit their spending and social policies in response to excessive levels of debt and public deficits (Southern Europe). This divergence between Member States has its roots in national growth strategies implemented in the 1990s and 2000s, strategies that were sustainable and compatible to varying degrees with high social standards.

Investment rather than social transfers

To tackle this divergence, one plan for action would be to carry out temporary transfers at the Eurozone level (for example, unemployment insurance). However, without structural reform and a rebalancing of growth models, an ongoing need for transfers will probably arise. While using a common currency calls for solidarity, transfers are less effective and politically acceptable –vis-à-vis taxpayers in the Eurozone but also among partners who are excluded from such transfers within the Union– than European initiatives taken to boost growth and investment. Since 2007, the Eurozone has fallen well behind the United States in particular in terms of investment.[17] On a European level, the divergence in national performance is often the product of differences in productive and social investment. The countries now experiencing the greatest difficulties are those where investment has been the lowest in research, development, and human capital in the 1990s and 2000s. Expenditures in social investment –health, early childhood, reconciliation of work and family life, education and training, other active labour market policies– are essential in order to stimulate the potential growth and to ensure the sustainability of the public finances. These expenditures in EU Northern states are double their amount in EU Southern states, around 15-16% of GDP in the former, compared with 7-8% in the latter (Graph 4). These differences have very significant cumulative consequences in the mediumand long-term.

Graph 4: Social investment according to European social models (as a % of GDP, 2004-2012)



Source: Eurostat 2014,
calculations by David Marguerit and Céline Mareuge, France Stratégie.

16. At present, 7 of the 28 Member States of the Union do not have a national minimum wage: Germany, Italy, Denmark, Finland, Sweden, Austria, and Cyprus.
17. Dell F., Douillard P., Janin L. and Lorach N. (2014), "Has there been an investment gap in France and Europe since 2007?, *La Note d'analyse* No. 16, France Stratégie.

A long-term investment fund and a social investment pact

On 26 November 2014, under the presidency of Jean-Claude Juncker, the European Commission presented a plan to mobilise €315 billion for investment over the next three years. While a response in terms of investments is required, the challenge of the instruments available and the priorities for this investment must be addressed.[18]

Since the financial crisis, the financial sector in Europe has lost its ability to channel savings to long-term financing. The need for funds is to be met by a European long-term investment fund in order to turn the economies of Southern Europe around, to assist the Eastern countries in their economic catch-up, to support environmental and climate transition, and to finance growth and innovation. This instrument has yet to be created: the European Investment Bank (EIB) is restricted by its Articles of Association and its form of intervention (loans); the European Bank for Reconstruction and Development (EBRD) focuses on Eastern European countries and the Mediterranean basin. The function of the new instrument will be twofold: to aggregate transnational financing capacity (Member States, national investment banks, private institutions) and to identify projects that will benefit Europe as a whole.

The aim will also be to provide content for a "social investment pact" designed to support policies for early childhood, education and training, as well as for increasing employment in conjunction with growth driven by services, knowledge, and innovation, and to restore a convergence strategy for social protection.

Formulated in the early 2000s,[19] the aim to modernize European social models was in part taken up by the European Commission in its 'package' on social investment in February 2013;[20] among the priorities expressed then: more efficient social expenditure, capacities oriented towards lifelong development, participation of as many people as possible in the labour market, the upstream intervention to combat exclusion and prevent formation of inequalities, rather than to compensate for them afterwards.

However, the plan is not legally binding and has no specific financial lever. The transition towards social systems with a better focus on social investment will also result in higher social spending in the short- and medium term (with better coverage of "new" social risks), before improving their sustainability in the long-term (lower palliative spending and an increase in sociofiscal performance, thanks in particular to an increase in employment rates). One course of action would be to give this "pact" the backing of the long-term investment fund (a reform of structural funds has been placed outside the long-term financial framework for 2014-2020).[21]

Access to the 'pact' would be subject to positive conditionality: finance would be provided for social investments if related to joint reform objectives (in the area of early childhood, for example) and consistent with the objectives of employment and competitiveness (the financing of active aging policies subject to pension reform, for example). Within the Eurozone, thematic conditionality (incentive) seems to be more respectful of national sovereignty than projects for prior coordination of reforms and contractual arrangements put forward previously by the Commission and the former president of the Council.[22]

A common tax policy

One prerequisite is that the capacity for public investment be preserved or restored in Europe. Preventing the erosion of the taxation bases is another. Initially, the Eurozone could be the most favourable framework for implementing a common tax policy. This policy can range from closer coordination and harmonisation designed to govern but not eliminate tax competition (see the OECD recommendations on the calculation of tax bases and efforts to prevent tax evasion and harmful tax optimisation), to a single tax regime that finances a single budget. The effort to make the tax regimes of Member States consistent must first involve corporate taxation. Another course of action would be to tax financial transactions. There is less consensus for this action planned rather within a framework of closer cooperation, with a risk of fragmentation in the internal market, into Member States part of a joint taxation system and those that are not.

18. Cf. Dell F. and Lorach N. (2014), "The levers of a European investment strategy", Executive summary no.17, France Stratégie; Douillard P. and Janin L. (2014), "Three target sectors for a European investment strategy", *La Note d'analyse* No.18, France Stratégie.
19. Esping-Andersen G. (2002), Why We Need a *New Welfare State?*, Oxford University Press.
20. European Commission (2013), "Investing in social Europe in favour of growth and cohesion, in particular through the European Social Fund 2014-2020", COM (2013) 83, final; "Recommendation for investment in children with a view to preventing the perpetuation of poverty from generation to generation", COM (2013) 778, final.
21. To enable the most underdeveloped countries to catch up with the most developed countries, structural funds have financed physical infrastructure that has been favourable to economic growth. It would be advisable to also direct them towards investment in intangible assets that are necessary for the competitiveness of European countries in the knowledge economy.
22. European Commission (2013), ""Towards veritable, in-depth economic and monetary union – The creation of an instrument for convergence and competitiveness", COM (2013) 165 final; "Towards veritable, in-depth economic and monetary union – The prior coordination of plans for major reforms to economic policies", COM (2013) 166, final.

CONCLUSION

Since the financial crises a trend towards socioeconomic and employment divergence has replaced the long-term process of convergence of income and standards of living between European Member States, which had continued despite successive enlargements of the Union. To give up the process of catch-up raises concern: an abandonment of this process would mean that each Member State address imbalances (including the problems of debt reduction and a reduction in competitiveness) through "social deflation", with the risk of precipitating a race to the bottom that the founders of the European Communities had hoped to avoid. A social compact for the European Union and the Eurozone is needed in order to revive an outlook of common prosperity.

Three priorities associated with courses of action are identified (see table p.1):

- **Strengthen the social dimension of the EMU: In terms of governance, the Eurozone suffers from a deficit of institutional content. The European Central Bank is still too isolated to bear the collective interest of the Economic and Monetary Union.The strengthening of the Eurozone must extend to the political, fiscal and social dimensions it is still lacking of;**
- **Adapt the European framework to the new age of intra-European mobility: European policies and law are lagging behind a transformation in terms of mobility. A more integrated European labour market must be reflected in new rights for European citizens, greater social harmonisation, and new collective regulations;**
- **Restore the sustainability of the European social model: common strategies in terms of cohesion, sustainability, and growth (Lisbon adopted in 2000, Europe 2020 adopted in 2010) have not had the anticipated spillover effects. Success in maintaining high social standards in the future will rest on the ability to rapidly rebalance growth and to modernise welfare states in Europe. This would call for measures designed to make up for accumulated delays in investments, both productive and social.**

Much of the outcome will depend on the Eurozone: greater common responsibility must be tied with greater common solidarity, and significant reforms have yet to be carried out. Transfers of competencies to the EMU and the creation of specific Eurozone mechanisms and instruments may raise problems with the European Union. They can be overcome. Proposals relating to an integrated labour market and to the European social model is addressed to the European Union as a whole; their (initial) application solely to the Eurozone, however, has not been ruled out, due to reasons of political feasibility and acceptability.

Keywords: Social Europe, Eurozone, adjustment, mobility, social investment

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France Stratégie is a strategic unit attached to the Prime minister's office. As a consultative body, its role is to reflect on and propose a strategic vision for France by providing expertise on the major choices facing the country. It is engaged in four activities: evaluating public policy; anticipating coming changes in economic, societal or technical fields; debating with all parties involved in order to enrich the analysis; and providing recommendations to the government. France Stratégie is a transversal organization that oversees a network of eight specialized bodies.

COMMISSARIAT GÉNÉRAL À LA STRATÉGIE ET À LA PROSPECTIVE - 18, RUE DE MARTIGNAC - 75700 PARIS SP 07 - TÉL. 01 42 75 60 00