

## Subsidiarity and Social Europe

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<https://www.e-ir.info/2021/03/12/subsidiarity-and-social-europe/>

ROSA MULÉ, MAR 12 2021

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Social policy is concerned with instruments, processes and activities designed to intervene in the operations of markets to provide social protection and social welfare. A central issue in social policy has been how to protect vulnerable groups consisting of individuals excluded from work due to age, sickness or family responsibilities. In the current stage of economic development there are various reasons why social policy should take on a supranational character. The most pressing reason follows from economic competition between countries. Unless there are supranational regulations in place, countries may try to shed the costs of social protection to increase their international competitiveness.

European integration can be viewed as a process of market-making with Economic and Monetary Union leaving the market-correcting functions of social policy at the national level. Therefore, the functioning of social protection at European and national level is characterised by an asymmetric structure (Scharpf 2010). Under the principle of subsidiarity, social policy remains within the competence of the member states, whereas economic policy has shifted significantly towards the European level. The principle recognises that action in the social policy domain is the responsibility of member states, but within a framework of common objectives. In other words, member states are not free to pick and choose whatever suits the preferences of their policy makers or voters. As a consequence, the development of a supranational social policy has been slow and cumbersome.

### Varieties of Social Policy

Radically different welfare state programmes and institutions of political economy are a key hindrance to the development of a genuine European social policy. In social policy, national governments have come to set different dividing lines between what states are supposed to do and what should be left in the hands of private actors, the family, or the market. Only Scandinavian welfare states provide universal and high-quality social services, while in Southern Europe private provision dominates. In all countries and regions, citizens have come to base their life plans on the continuation of existing models. Any attempt to replace these with different European solutions would mobilize fierce domestic opposition. As Hall and Soskice put it, 'institutions of a nation's political economy are inextricably bound up with its history' (2001, 13). Hence, there is no single system of political economy throughout the member states of the European Union.

Due to path dependence – the notion that past choices affect the set of available policy options for policy makers – national social policies are deeply ingrained in existing institutions. Instead of a single social policy system there is considerable diversity among member states. The observable variety of capitalism means that in some countries economic policy making is more coordinated, while in others it is less institutionalised, and more market driven (Hall and Soskice 2001). Hence, governments acting within a specific political economy develop distinct strategies to cope with coordination problems in their interaction with public and private actors.

The United Kingdom, for example, fits the model of liberal market economies where firms coordinate their activities through competitive market arrangements. In this environment, firms organise their relationship with employees by

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relying on highly competitive markets driven by the demand and supply for goods and services. On the other hand, a coordinated market economy in the case of Germany gives preference to public modes of coordination. Firms align activities with actors, such as trade unions and banks, by relying on collaborative structures. In this classification Southern Europe adheres to a third model. The PIGS (Portugal, Italy, Greece, and Spain) champion mixed modes of governmental interaction, as there is a range of public as well as private owned businesses. Overall, and given further variation in the industrial relations and collective bargaining systems of the member states, a uniform impact on social policy would be extremely unlikely.

In addition, individual EU member states have enacted social policy programmes that provide general institutional advantages as well as immediate benefits to their domestic employers. The aim is to develop synergies with macroeconomic policy. Through the provision of unemployment benefits connected with economic downturns, personal sickness or disability, government policy enables workers to reject jobs unrelated to their individual skill set. In this way, official intervention supports the investment employers have made in upgrading the qualifications of their workforce.

Against this background, it is not surprising that varieties of capitalism correspond with variation in welfare state provision. The latter entails qualitatively different arrangements in the relationship between market, state and family. In some countries, governments intervene more deeply and effectively in market operations to protect vulnerable people, whereas in others, market activities appear as the better providers of social services.

Accordingly, the liberal welfare state of the United Kingdom embodies individualism and the primacy of market decision-making, also typical for the liberal market economy. By contrast, the conservative welfare state resembles most the corporatist model in Germany, where social policy emerges from an alliance of business groups, trade unions and public officials. Again, private sector strategies in the German welfare state seem to work best with the particular features of a coordinated market system. Similarly, a third type of welfare state, the social-democratic model of the Nordic countries, offers a country specific fusion of generous state provision with new opportunities for work (Esping-Andersen 1990). In sum, path-dependent trajectories constitute serious obstacles to a progressive European social agenda. Most notably, efforts to move away from the status quo have almost exclusively been confined to labour market policies, while the formulation of a European social safety net has frequently lagged behind.

### **Economic Motives**

The observed bias is partly due to the historical background of European integration. In the 1950s and 60s, profits, production and the competitive position of national economies topped the political agenda. Only from the 1970s onwards did social policy gradually become a relevant issue due to social dumping practices. The latter occur when a member state significantly cuts the social security contributions of employers to reduce the price of its exports. While this increases a country's competitiveness, it does so at the expense of its competitors on European markets. Already in 1972, the Paris conference called for measures to reduce social and regional inequalities, and the Social Action Programme two years later recognised an independent role for the Community in this policy area. Yet, by the 1980s, the complexities of intergovernmental bargaining and the unanimity requirement in the Council of Ministers continued to create serious difficulties for further social integration.

Subsequently, failures of market integration to achieve social inclusion convinced the EU Council to promote social policy further. The 1989 Charter of Fundamental Social Rights acknowledged positive interactions between social and economic policy, in that social protection is a contributing factor to better economic performance. A significant step towards the evolution of an EU social agenda was taken at the Lisbon European Council in March 2000. The member states adopted a long-term strategic goal proclaiming to aim for the most competitive and dynamic knowledge-based economy in combination with greater social cohesion. At the time, the number of people living in poverty and social exclusion throughout the Union was considered unacceptable. Already in 1998, over 60 million EU citizens were at risk of falling into poverty. The Lisbon Summit thus represented a remarkable turning point for the European social agenda. It advanced a new open method of coordination (OMC), whereby the Council of Ministers agrees first on policy objectives, a set of guidelines and quantitative as well as qualitative indicators before member

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states proceed with their application. To this end, governments also formulate national action plans subject to a European process of peer review.

In line with the subsidiarity principle, this process recognises that action in the field of social policy is the responsibility of national governments, but within a framework of common objectives. Article 137 (4) of the Nice Treaty stated that the provisions of the Community shall not affect the right of member states to define the fundamental principles of their social security systems. The OMC is a 'soft' instrument that has no binding power. It is nation state 'friendly' because the locus of political control over social security policy remains firmly in the hands of governments. Hence, more integration does not necessarily imply more supra-nationalism (Fabbrini and Puetter 2016). The OMC is specifically designed to help member states develop their own policies, reflecting on individual constellations. As Ferrera et al. (2002, 227) put it, as a process that can 'create trust and cooperative orientations among participants'. Nevertheless, social objectives were considered a secondary concern. So much so that in 2004 a high-level group, chaired by former Dutch Prime Minister Wim Kok, argued that fulfilment of the social objectives would result from progress in economic growth and employment policies. Primacy was still given to job creation.

The Kok report assumed that higher employment rates would automatically lead to the achievement of social objectives and poverty reduction. Yet, in the following years a correlation of this kind did not show up in the data. One potential explanation is that labour market reforms increase the incentive to take up employment by making the alternative less attractive. Indeed, there have been reductions in the level of social protection and a tightening of the conditions under which benefits are paid. This means that the rise in employment rates is achieved through an increase in the number of low paid workers, thus raising doubts about a central assumption of the Lisbon agenda – that employment growth will ensure social inclusion.

### **The Global Financial Crisis**

The economic downturn caused by the global financial crisis posed new threats and challenges to the European social agenda and its inclusion policy. An unprecedented influx of migrants and a rise in long-term unemployment nourished populist movements. This led some analysts to conclude that the Eurozone crisis had pushed social Europe towards a dead end (Lechevalier and Wielgohs 2015). Indeed, many scholars agree that the global financial crisis has brought institutions of social protection to a critical juncture. This theoretical concept captures a moment of uncertainty when political agency can play a more decisive role in triggering institutional change (Capoccia 2015, 148). Once a window for radical reorganisation opens, institutional gridlock is easier to overcome. Accordingly, historical-institutionalism traces a model of organisational development marked by long periods of stability occasionally interrupted by exogenous forces. Such forces may prompt dramatic changes and produce structural fluidity as they overcome the usual stickiness of institutions. Applied to social policy this means that major reforms are likely to occur in the aftermath of a global financial crisis. For Glassner and Keune (2012, 368), the crisis had undeniably aggravated the asymmetry between EU market reforms for the sake of labour cost competitiveness, on the one hand, and for the efforts to strengthen the 'social dimension', on the other.

No doubt, the global financial crisis of 2007/08 had an enormous impact on national social policies. While the particular critical juncture did create hardship, it also gave way to new opportunities. At the end of the decade, Commission President Manuel Barroso launched a new Europe 2020 agenda to move his organisation away from austerity policies to a stronger concern with people's welfare. Since then, the EU has adopted explicit targets covering main dimensions of economic and social development and convinced many scholars of a reinvigorated European social policy.

Another phase of policy making began under the leadership of Commission President Jean-Claude Juncker. In 2015, he firmly placed 'social Europe' among Brussels' top priorities. His administration suggested a re-launch of Europe built on issues of social protection, inclusion and access to basic services, as well as lifelong learning and gender equality. The Commission presented the European Pillar of Social Rights (EPSR) in 2017 with the ambition to build a fairer EU through a strengthened social dimension. The EPSR sets out twenty key principles and rights to support fair and well-functioning labour markets and welfare systems. These principles are structured around three main categories.

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The first category addresses issues of equal opportunities and access to the labour market, including education, training and life-long learning, gender equality as well as equal opportunities regardless of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The second category deals with fair working conditions, stressing the fact that workers have the right to fair wages that provide for a decent standard of living. They also have the right to fair and equal treatment in terms of working conditions, regardless of the type and duration of the employment relationship. Finally, the third category focuses on social protection and inclusion by underlining the importance of a minimum income. Everyone who is lacking adequate resources has a right to minimum income benefits, ensuring a life in dignity at all its stages with effective access to enabling goods and services. *In the words of Jean-Claude Juncker (European Commission 2017):*

I have been seeking to put social priorities at the heart of Europe's work, where they belong. With the European Pillar of Social Rights and the first set of initiatives that accompany it, we are delivering on our promises and we are opening a new chapter. We want to write this chapter together: member states, EU institutions, the social partners and civil society all have to take on their responsibility. I would like to see the Pillar endorsed at the highest political level before the end of this year.

The EPSR reaffirms citizens' rights already present in the EU and complements them to come to terms with new realities, such as long-term unemployment, work-life balance, multi-ethnic societies, global economic and financial integration. It lays out rights and protective measures European workers are entitled to through existing EU law, such as non-discrimination and equal pay. Initially, the proclamation applies to the euro area, but remains open to all member states. In line with subsidiarity considerations, the centre of gravity for action rests with the member states, but EU legislation will set minimum standards and, in selected areas, attempt to harmonise citizens' rights across Europe.

### Recalibration

With the social dimension back at centre stage in EU policy making, questions of Europeanisation have come to the fore. Europeanisation identifies the changes within a member state whose motivating logic is directly linked to EU decision-making. This approach suggests that EU membership with its own political and economic dynamics triggers processes of policy elaboration, norm diffusion and institutionalisation that influence domestic policies as well as national political and administrative structures. However, the predominance of the subsidiarity principle in social policy and a general absence of hard laws in the form of welfare state related European directives lead some scholars to conclude that EU influence in national social policy is weak. Moreover, many of the European guidelines do not appear in domestic reform trajectories.

This description can be challenged, as the conventional top-down approach is not appropriate for understanding social policy reforms. Since national and European levels are increasingly interwoven, the integration process influences social policy reforms in indirect and informal ways. Hence, the question is not if the EU matters, but when and how. Answering this question implies an exploration of mechanisms, of inputs, and of incentives, through which the EU system affects domestic policy makers (Graziano et al. 2011).

One way in which the EU shapes domestic social policy reforms is by advocating a new narrative. For example, the EU introduced a new discourse on 'recalibrating' welfare programmes towards more active and service-oriented policies (Laruffa 2015). Accordingly, social policy should be recast as a 'social investment' that strengthens the competitive standing of capital and labour on global markets. Investments in training and skills are crucial to adapt to a changing work environment. At the same time, there is an intense debate about how a social investment programme can be put into practice. Not everyone agrees with Hemerijck (2012) that welfare states have successfully stepped onto an investment path. Instead, a real paradigm change away from neoliberal understandings would require a strong push from 'below', from actors such as European social movements, trade unions and grass-roots organisations. Sceptics maintain that the EU's recent social investment policy does not present a break from the past, as it is still subordinated to economic considerations. In this view, it 'will fail to provide a sufficient answer to the current economic crisis and its deeper social and political aspects' (Laruffa 2015, 216).

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The recalibration discourse has triggered a variety of domestic reforms to alter the traditional configuration of social policy. Comparative analysis indicates that this activity reflects particular strategies inside the member states to mobilise resources from Brussels for policy formulation and implementation. The EU initiatives constitute a set of constraints and opportunities for national policy makers that can be formal or informal as well as binding or non-binding. They allow domestic actors to use the EU system to strengthen their own legitimacy, to develop their power-base and to expand their overall room for manoeuvre.

### **Short-Time Work Schemes in Italy**

Trade unions, employers and governments sought jointly to mitigate the social consequences of the global financial crisis. Hence, executive actors assigned to collective agreements the function of an 'implementation mechanism' for crisis-specific social policy measures (Glassner and Keune 2012). Short-time work schemes (STW), for example, aim at preventing workers from losing their jobs and, thus, preserve human capital by reducing the number of working hours during periods of low demand. They are a device to reduce the negative effects of an economic recession on employment levels. As these wage subsidies are financed from public funds, they are a type of unemployment benefit. The respective schemes vary widely in terms of eligibility conditions, duration of support, coverage rate, compensation amount, and sources of financing. Specific company agreements for STWs are widespread in countries with multi-employer bargaining. The latter refers to constellations in which several small- to medium-sized employers in one industry join an association to negotiate with one or more labour organisations representing their employees. They work together to develop positions on themes associated with employer and employee relations such as wages, employment benefits, working hours, as well as the general terms and conditions of employment. In the case of Italy, this link between subsidiarity and STW implementation is particularly well established.

The 2009 State-Region Accord shifted the administrative responsibility for STW schemes from central to regional governments. Until then, the central government was solely responsible for the unemployment benefit system. After the Accord, the sources of funding for STW were split between national and regional governments in a ratio of 70 to 30 per cent. In 2011, the regional funding was raised further to 40 per cent. In addition, the Accord established that most of the regional STW resources would come from the European Structural Funds (ESF).

The territorial division in financial responsibility is best explained by ESF management rules. For the European Commission, this means that benefits financed through the ESF and tied to workers' participation also need to be systematically monitored and evaluated. Consistent with ESF rules, Article 2 of the Accord posits that regional governments implement active labour market policies, while central agencies pay for social security contributions and, in large part, for income maintenance.

The weighting in funding arrangements between regional and central governments has important implications for the subsidiarity principle. According to the Brussels rule book, ESF are meant to promote and implement an active labour market policy. Hence, their use amounts to a first move in the direction of an 'activation turn', which rests on improvements to the education system aiming for better training and a consolidation of the available skills. Although activation is not an entirely new notion in the Italian system, the suggested conditionality for beneficiaries has never been mandatory.

Therefore, between 1990 and 2005, the Italian spending profile in active labour market policies was one of the lowest in Europe (Bonoli 2012). Typically, unemployment benefit schemes were only conceived as passive measures. Now resources from the ESF are made available following a tripartite regional agreement among trade unions, employers and local government. This is in marked contrast to ordinary social shock absorbers schemes, which the Italian central government previously funded without any formal agreement among regional social partners. Such schemes were introduced after World War II in response to economic crises. They were considered special measures to extend the coverage of income protection schemes to many segments of the business sector and its workforce in order to maintain employment and to protect human capital. Thus, the implementation of the Commission's conditionality requirement represented an important novelty. It meant the redirection of labour policy measures from the mere provision of substitute income to welfare-to-work assistance with the ultimate aim to bring the unemployed

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back into work and out of state support (Mulé 2016). As part of the policy change in the wake of the global financial crisis, the EU effectively managed to circumvent the principle of subsidiarity through ESF conditionality rules.

## Conclusion

Social protection at national and European level, as mentioned in the introduction to this chapter, functions within an asymmetric structure. This asymmetry is coupled with the principle of subsidiarity, demanding action at the lowest level of government to safeguard national sovereignty. Yet, as EU financial support is linked to conditionality, subsidiarity becomes a rather empty principle. In the words of Barbier (2015, 40), 'what happens is that practically no limit can be put to the gradual spill-over of economic law into the social domain'. For this reason, the 2017 EPSR has been widely welcomed. It puts the social dimension back to centre stage, emphasising the responsibilities of member states and taking subsidiarity seriously. Only the future implementation of the EPSR will show whether the principle is equally applicable in all member states, irrespective of their need for financial support. So far, not all policies related to the European social agenda have been smooth sailing. The principle of subsidiarity interferes with asymmetric policy structures and top-down conditionality. Therefore, it is vital that the European Commission finds new imaginative solutions for a more balanced interaction between national and supranational activities in the social domain.

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