EUROPEAN(S) LABOR(S) MARKET(S)

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Since its foundation the European Union has experienced an increase in the dispersion of its welfare systems. The goal of a Social Union, completing the economic and monetary union, is increasingly out of reach. The absence of a jointly regulated labor market is a destabilizing factor that triggers social competition and wage deflation. To avoid the risks associated with such a situation it is necessary to agree on policies aimed at returning to full employment and to choose between "neo-liberal" or "social" work sharing. The absence of short-term prospects for a complete social harmonization requires the acceptance of jointly managed of social boundaries that allow both the mobility and the effective protection of workers.

Employment policies and social protection have been excluded from the domain of Community policies in the name of subsidiarity. Member States are the sole responsible for the definition and implementation of social policies. In theory, only the Open Method of Coordination (OMC) is used to influence national policy and if possible make them more or less consistent and convergent.

But in practice the freedom of States on social protection is restricted by constraints stemming from other Community policies. Thus:

— The coordination of fiscal and economic policies imposes strong constraints on the financing of social protection, particularly during times of crisis. Governments face limits in the use they can make of social protection to stabilize economic activity. They are therefore encouraged (when they are not ordered to do so by the Commission) to engage in social dumping.

— The free movement of persons, freedom of establishment, and competition laws, set constraints on subjecting workers to national law. Temporary work and the posting of workers from one country to another permit, to some extent, to circumvent labor law and choose where to pay social contributions.

— Competition policy and treaty interpretation by the European Court of Justice, set the limit of public intervention in matters of social insurance; for a health insurance or a pension plan to be sheltered from competition, they must meet a number of strict conditions: social object, compulsory membership, etc.

— Citizens' rights and the principle of non-discrimination impose obligations derived from treaties and not just from national laws (in terms of retirement age, for example, or family benefits that cannot be modulated by gender). In this area, as in the previous case, established law cases play a central role.

The issue of rationalization of Community constraints on labor law and social protection, beyond good practices recommendations, arises in a context of generalized crisis and strong heterogeneity of economic and labor markets performances. After a short analysis of the situation (§ 1), we present the two main options to overcome the crisis and return to full employment (§ 2). Finally we will examine possible broad lines of a long-term program of social convergence in Europe (§ 3).

1. Unemployment crisis, and European divides

Europe as a whole is in crisis, and its labor market is very unbalanced: the unemployment rate of the EU27 is 10.8% (January 2014) and in the euro area it raises to 12%. Overall, Europe is far from full employment. The causes of this crisis are well known: triggered by the recession of 2008/2009 due to the financial crisis, rising unemployment has not been halted by the economic policies whose primary purpose was, since 2011, to reduce public debt. Macroeconomic analyses of rising unemployment in Europe point mainly to the crisis and the lack of effective response of economic policy; as a consequence, the priority for Europe should be to revise its macroeconomic doctrine (Blot, Creel and Timbeau, 2014 OFCE, IMK, ECLM, 2014). Issues specific to labor market functioning are of second order at best ; while it is certain that improving market smoothness, and bridging the gap between labor supply and demand would certainly contribute to improving the situation, specific employment and labor market policies will not by themselves bring back to full employment, most notably in the countries affected by mass unemployment.

Unemployment in Europe is both massive and widely dispersed. In December 2013, the unemployment rate was 27.5% in Greece and 5% in Austria. The difference between maximum and minimum is of nearly 23 points. By comparison, the United States unemployment rate in November 2013 was 7% with a maximum of 9% in Rhode Island and a minimum of 2.6% in North Dakota, a difference of 6.4 points. The variation coefficient[1] in unemployment in Europe and the United States were very different with a level of 51% in Europe (57% in the Eurozone) and 24% in the United States.

If we look at income dispersion between countries, it worsened over time, with the enlargement to eastern economies increasing remarkably de diversity of the European institutional space (Table 1).

The history of the European Union is characterized by a first phase of convergence ranging from 1958 to 1995 followed by a period of divergence initiated by the enlargement of the Union to the East (Table 1). Today, the income convergence in Europe is stalling and this is reason of concern for the future, because the very large differences created by enlargement continue to weigh on the building of solidarity among states with very heterogeneous levels of wealth and income.

Very large income and wage inequalities among countries are a defining European feature. They explain the difficulty of implementing common policies as they encourage the development of

1. The variation coefficient measures the dispersion of a variable as the ratio between the standard error and the average

social competition, the less wealthy having the tendency to use their wage advantage to gain competitiveness with respect to partner countries.

Table 1. Coefficients of variation of GDP per capita in Europe: from the founding members to the Europe of 27

In %

	1958	1973	1986	1995	2004	2007	2011
UE 6	16	10	6,5	7	9	11	14
UE 9		13	13	8	14	16	14
UE 12			21	19	20	22	22
UE 15				17	18	19	20
UE 25					35	32	31
UE 27						36	35

EU6 : Germany + Belgium + France + Italy (+ Luxembourg) + Netherlands
EU9 = EU6 + Denmark + Ireland + UK
EU12 = EU9 + Greece + Spain + Portugal
EU15 = EU12 + Austria + Finland + Sweden
EU25 = EU15 + Cyprus + Estonia + Hungary + Latvia + Lithuania + Malta + Poland + Czech Republic + Slovakia + Slovenia
EU27 = EU25 + Bulgaria + Romania.
Source: Penn World Tables; Note: calculations do not take into account the Luxembourg.

Last, Europe is very heterogeneous in what concerns demography. On the one hand, Ireland, France, Britain, the Scandinavian countries, Belgium and the Netherlands have maintained fertility rates between 1.7 and 2 which allow a long-term stabilization of population. On the other, Germany, southern, and eastern European countries have very low fertility rates, below 1.5, that will lead to decreasing total population and workforce. These countries face very negative evolution of potential growth and of the ratio between active and inactive population. Migration between countries would likely homogenize the demographic outlook. But Europe remains a linguistic mosaic and this structurally limits mobility between EU states. This heterogeneity of demographic perspectives has a significant impact on long-term macroeconomic constraints facing each zone. Countries with low fertility rates must prepare for the future by saving to finance an increasing pension burden. Their debt is less sustainable in the long term and they must implement rigorous public spending policies. Countries with higher fertility rates must also prepare for the future, but their constraints are different: their main problem is to finance education for the future labor force, while they are less constrained by long-term debt. Demographic differences also have short-and long-term labor market effects. Countries with low fertility rates have less potential for growth, while at the same time not needing it as much as high fertility countries ; the latter in addition also suffer more from negative macroeconomic shocks.

Europe's heterogeneity is a challenge for the harmonization of social policies. So far the Commission and all the political authorities in Europe have always argued that recommendations could be of general applicability. The very principle of the Open Method of Coordination (OMC), which is the main tool for social legislation, is built around the definition of "best practices" aimed at achieving universally applicable policies. It might be useful to revisit this assumption and examine all the consequences of strong heterogeneities of income, labor market and demographic, with the objective of designing policies that best fit the situation of each country. Labor market policies are a simple example showing that it is not possible to conduct the same policy in all countries: work incentives obviously do not play the same role in countries which are at full employment and in those that experience mass unemployment. Strict management of unemployment insurance may be justified in the former, while in the latter it may lead to impoverishing the unemployed.

2. The Main Options for Employment and Labor Market Policies

The wide dispersion of unemployment, and diverging demographic trends, have led some, especially in Germany, to suggest that migration between states could be a solution. Of course, mobility is useful for ensuring a better match between supply and demand for labor, in particular if growth gaps are significant. It should be encouraged, especially because exchanges between European citizens are useful in strengthening the solidarity across countries. However, free movement should not be turned into an obligation of mobility, which would risk causing the opposite effect of feeding nationalistic and anti-European sentiment. Labor mobility should furthermore be complemented by the effort of moving capital and production to regions where labor availability is larger. It would be important to put in place a coherent territorial policy at the European level, going well beyond the mere financing of infrastructures. A precondition for this would be the definition of a European industrial policy, that in turn would require challenging the dogma of governments abstaining from intervention in the definition of industrial choices.[2] The debate on this issue is nonexistent.

Beyond macroeconomic policies, only labor market specific policies may ultimately be used to try to reduce unemployment. Especially when, for countries facing very high unemployment, it becomes evident that the absence of growth policies in Europe requires searching for national solutions. Employment policy deals with work sharing and with labor income. Blaming malfunctioning labor markets for the current level of unemployment in Europe is not very serious. Spain provides a good example of unemployment rooted in the problems of other markets, notably finance and housing. The Spanish unemployment rate was 7.9% in May 2007, it rose to 17.9% in May 2009 and it has reached over 26% in January 2014. This trend is rather a sign of extreme flexibility than of rigid labor markets.[3] Explanations based on structural gaps between demand and supply of skills, or the sudden appearance of the unemployed's reluctance to react to incentives, obviously makes very little sense. Under these conditions, improving the functioning of labor markets, while making little harm, can only have a very marginal impact on unemployment.

Specific policies that may have an important impact all involve a very significant drop in wages and labor costs. In an open economy, this may be sought in order to gain competitiveness vis-à-vis foreign competitors on external and domestic markets. It is obvious that this option, wage deflation to gain market shares is absolutely inappropriate to the situation in Europe: besides its non-cooperative features, at odds with the supposed solidarity of European countries, wage deflation cannot succeed if it is applied simultaneously in all countries (OFCE, IMK, ECLM, 2014). The

2. There are exceptions to the dogma. Localization of Airbus plants, for example, has been the subject of intense political bargaining. But the European Commission never intervened to put forward the European's general interest.
3. For an analysis of the reaction of labor markets to the crisis, see: Cochard Marion, Gérard Cornilleau et Eric Heyer (2010).

only possible gain of competitiveness, with respect to the rest of the world, would be largely insufficient to compensate for the resulting decrease of domestic demand. It may even be offset by an overall appreciation of the euro if the lack of demand in the EU leads to a current account surplus vis-à-vis the rest of the world.

There are two solutions to enable labor and income sharing. The "neo-liberal" solution is to decrease the cost of labor, whether or not initiated by labor market flexibility. The "social" solution is the collective reduction of working time, some harmonization of social conditions, and wage coordination that avoid any temptation to rely on social dumping for the return to full employment.

The choice between the two solutions needs to be a political one. There is no "economic" supremacy of one or the other. Both options should be subject to debate, but the choice is often obscured by the discourse falsely assuming that "there is no other solution" than the neo-liberal one.

Work sharing can rely on lower overhead salaries (contributions borne by the business) that can be decided by the government in centralized countries or by bargaining in the most decentralized countries. This solution allows to manage the distributional effects of reduced benefits or social expenditure that must accompany the reduction in social contributions. This method is in between the neo-liberal and social method. But it can only be applied up to a certain extent, as is the case in France, because it quickly leads to possible reductions in benefits or to increases in other taxes acceptable.

Making labor markets more flexible is the preferred, and certainly the most effective way to lower wages in the long term. This is the method that has been used in Germany and is also applied, in a less systematic manner in France (less effectively, thanks to the existence of a minimum wage).The primary means for increasing flexibility is the reduction of protection for the unemployed to reduce their wage claims and demands of job stability. Increased flexibility thus requires slashing the generosity of unemployment insurance and the drastic reduction of legal restrictions on the employment contract. On this basis many unemployed are then forced to accept short-term employment, with unstable and low wages. Employment may increase due to the reduction of relative labor and capital costs, but also because consumers are encouraged to shift towards sectors of the economy, especially services, whose earlier development was limited by the cost of labor. The end result may well be an increase of employment and lower wages, so that work and labor income sharing are attained. But this policy also leads to an increase of inequality and working poverty (see Francesco Saraceno in this issue). It has a social cost, with redistribution from the unskilled to the skilled, which in addition benefit from cheaper services provided by the unskilled workers forced to accept jobs at the limit of dignity. It is the task of the political debate to settle the question of whether the neo-liberal management of unemployment should be accepted or not.

The other option for job sharing is collective reduction of working time. It can be permanent as was the case in France during the transition to 35 hours working week. In this case there needs to be an assessment of the long term growth prospects of sectors that need to be supported, or on the contrary dismissed. In the case of work sharing by the market, we have seen that some service sectors were favored by increased flexibility. One can legitimately challenge the interest of creating such low-quality jobs, and prefer a collective and orderly reduction of working time. As an alternative, the collective reduction of working time can also be counter-cyclical and temporary. This is the solution put forward in Germany, which has also been applied, to a lower extent, in France and in other countries. Partial unemployment is the preferred means of this form of "social" sharing. Its limit is obviously the fact that it only applies to existing workers.

If we admit that there are multiple solutions to work-sharing, and that collective organization may be equally effective as sharing by the market, then it possible to discuss on the two methods and their combinations.

We must choose whether to focus on the market or on collective organization. Focus "market-sharing" means reducing the coverage of unemployment insurance, limit workers' rights, and avoid minimum wages. If "social" sharing is favored, it must instead have an explicit national wage policy with widely applied minimum wage and generous unemployment insurance. There also need to be an extensive system of partial unemployment to manage work sharing during the cycle; this latter feature could be organized across the EU to maximize the stabilizing effect of the system in case of asymmetric shocks. In the long term it is the social and political debate that should choose the sectors to develop and elaborate guidelines on working time references.

Market and social work sharing are not totally exclusive. In practice, labor market institutions combine both methods. In France the weakened application of labor laws has allowed the massive development of part-time and short or very short duration jobs. But the effect of this liberalization has been limited by the existence of a minimum wage and relatively generous unemployment insurance. In Germany, work sharing was overwhelmingly initiated by the reduction of unemployment insurance in the context of no general minimum wage. But in this crisis it is "social" work sharing arrangements that have prevented a sharp rise in unemployment. The prospect of establishing a general minimum wage in Germany should bring it closer to the social sharing model. It would be useful to have a collective discussion about the desirable combination of liberal and social sharing allowing to put in place incentives to work when at full employment, to set the minimum acceptable wage in each European country, and to clarify the boundaries between decent work and undignified minijobs.

The problem is that without explicit discussion about these choices, countries that favor the neo-liberal work sharing will always have an advantage over their EU partners. In a world of pure competition, the lowest bidder in the social sphere will always win. With massive unemployment, unhindered markets will lead to sharp wage decreases that will either directly, or directly through cost decreases in non-tradable service sectors, allow to increase competitiveness with respect to countries that choose to keep labor protection. The broad lines of social choice work-sharing and income should be set collectively if we want to lift Europe out of a vicious circle of social competition that ultimately can only lead to dissolving the Union.

3. Social Europe in practice

Beyond the grand themes of economic and labor market policies adapted to the heterogeneous European countries' situations, we must face many practical questions in order to make compatible the free movement of persons, competition in markets for goods and services and free choice by each country about its social protection and labor market institutions.

Two approaches are possible depending on whether one wishes to maintain the full freedom of Member States in the definition and management of social protection or one opts for reducing such a freedom with the scope of progressing towards common institutions including social protection. The prospect of social harmonization, similar to what was done for the goods market, must be studied. But it goes without saying that this is a very long-term perspective and only limited progress is to be expected in the coming decade.[4]

The first option involves the precise definition of "social boundaries" to ensure States that their laws cannot be circumvented by opportunistic choices about the location of businesses and jobs. The domain of public social protection must be clearly defined, so that the European Court of Justice does not have to deliberate about the boundaries between public and private insurance, creating a legal uncertainty that hampers the freedom choice of States. The principle of free movement of persons could be strengthened by clarifying the mechanisms of detaching workers and strengthening the rights of citizens of the Union who successively work in different countries. For detached workers, in addition to issues of controlling the application of the rules, which are being resolved, the problem is the link with the country of origin's social protection system. This rule allows direct competition with social workers in the country where the worker is detached, if the latter is a country that imposes higher social contributions.[5] There are two options to avoid this competition: the first is to require the detached workers to pay social contributions in the destination country, with benefits computed proportionally to the time spent paying contributions to each

4. Europe realized the customs union and the complete unification of the goods market. The Eurozone has unified its currency… and yet the EU has not been able to establish a common tax base for corporate taxes. It also failed to unify indirect taxation. As a consequence, tax competition crowds out economic activity. It is clear that a social unification of Europe is much more complex and, if we want to undertake it, is a much longer term endeavor.

5. When a country finance social spending by general taxation, the social contribution rate is lower. It follows that even with identical coverage detaching a worker in a country with higher social contributions will be cheaper than directly hiring a worker in situ.

system Public or private systems of social insurances would have legally no right to impose a qualification period (particularly with regard to retirement). This solution would also clarify the situation of those working in different countries without being detached; for these workers it should actually be considered independently of the treatment of detached workers. A second option would be for the detached workers to maintain affiliation to the country of origin's social security system that would then receive the contributions from the destination country's system the paid contributions. If these were larger than normal, additional rights could be triggered. If these are lower, then the firm should cover the difference for its detached worker. Whatever the chosen solution, improving the transferability of contributions and rights would also be favorable to the mobility of workers

In Europe many systems coexist that for financing rely on taxes and contributions in a different way, which implement public social protection system, or mixed public and private systems with different coverage, which chose different levels of protection for the poor or for families. This explains the difficulty of harmonizing, and the postponement, since the beginning of the EU, of a social union. Some partial solutions have nevertheless been proposed, for unemployment benefits, whose countercyclical features are paramount.[6]

A common unemployment insurance scheme would subtract it from the domain of fiscal rules and allow using it more effectively as an automatic stabilizer after both a symmetric and or asymmetric shock. It is nevertheless impossible to endow the Commission with the management of the scheme, or even with the condition for the aid. Unemployment insurance systems are based on very different combinations of general means-tested benefits and direct benefits of the unemployment insurance scheme. Therefore, seemingly more generous countries in terms of direct unemployment benefits can in the end be as generous towards the unemployed as countries that use a mix of different benefits (Coquet, 2013) . A Global regulation of unemployment

6. The proposal of a euro-wide unemployment insurance is old. It is found already in 1975 in the "Marjolin" Report (Commission of the European Communities (1975)). For a recent proposal, see for example: Henrik Enderlin, Luca Guttenberg Jann and Spiess (2013)

insurance is therefore illusory and very risky for the unemployed of countries that have opted for social regulation of the labor market. The only possibility is implementing a system of unconditional transfers in case of negative economic shocks. Being proportional to the magnitude of the shock, such a transfer system would help strengthening the automatic stabilization of the economy, which would benefit the whole Union. Such a mechanism would also strengthen solidarity among Member States of the Union. A precondition for it, on the other hand, would be that an agreement is reached on the broad guidelines for economic and social policies of the European Union. Europe has probably reached the point at which the method of small steps and gradual harmonization is no longer effective. Even small steps now involve an agreement on principles that is not limited to form. Referring to social Europe without specifying the content is no longer enough.

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