FRANCE STRATÉGIE
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Breathing New Life into European Union Solidarity

Advanced economies have been confronted by a decline in their growth rates since the 1970s. Such trends have exerted downward pressures on real wages, social protections, and taxation. These developments have also affected the financing of certain public policies whose aim it is to guarantee equal opportunity, including education and training. Moreover, the decline in living standards for specific populations and regions, together with complications in public financing, has often fuelled extremist movements across Europe ultimately weakening political systems and national unity.

To achieve a fairer, more dynamic, and more sustainable growth, the contract between European nations needs to be reexamined and reinforced. To leave to individual nation states alone to manage the social consequences of the ongoing changes, whether the real or imagined products of European policies, might constitute a threat to the European project as a whole.

It is neither realistic nor desirable that the chief responsibility for social policies be reattributed to the European Union. But supranational action is justified where it is more effective.[1] Additional European-level activity would prove advantageous in four major fields: avoiding lowest common denominator outcomes in the realms of labour laws, taxes and wages; better targeted support for individuals, industries and regions subject to the stresses of structural change; encouraging geographic mobility; and, finally, facilitating other joint actions when effectiveness requires.

This policy brief is more than a discussion of general principles. Indeed, it outlines a series of concrete proposals in these four fields listed above. Several of these proposals could be initiated in accordance with the EU's enhanced cooperation procedure to ensure that social progress would remain unhindered by any blocking minorities. These proposals could be readily accommodated by the budgetary framework now under discussion for European policies, and it could be shaped to avoid putting increased demands on the European taxpayer.

Three motives for European action in the social field and four directions to focus on: which interactions?

4 DIRECTIONS	PROPOSITIONS	3 MOTIVES: Avoiding non-cooperative sub-optimal situations	Taking advantage of the size of the single market to tackle global challenges	Supporting and compensating the victims of economic integration
Avoiding lowest common denominator outcomes	Regulate harmful tax competition	★★★	★★★	★
	Making the European Pillar of Social Rights effective	★★★	★★★	
Better support for individuals, industries and regions subject to the stresses of structural change	Support for public expenditures related to reform	★★	★★★	★
	Ex-ante accompanying measures to people exposed to structural changes	★★	★★	★★★
	Ex-post accompanying measures to people suffering from structural changes	★★	★★	★★★
Facilitating geographic mobility	A programme for the mobility of 15-17 year olds		★★★	
	Generalize the mobility of students and apprentices		★★★	
	Contingent loans for training	★★★	★★★	★★★
	A European individual activity account	★★	★★★	★★★
Joint actions when effectiveness requires	A European approach to support the Roma	★★★		
	Communitise expenses for the refugees	★★★	★★	

Reading: The number of stars correponds to the intensity of the relation

Source: France Stratégie

1. Boisson-Cohen M. and Paller B. (2014), "Un contrat social pour l'Europe : priorités et pistes d'action", La Note d'analyse, No. 19, France Stratégie, December.

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INTRODUCTION

The EU Treaties entrust the European Union with the responsibility of adopting policies favorable to economic growth. Policies concerning the redistribution of wealth and opportunity among citizens, however, are largely reserved for the Member States. Yet at least three important reasons exist for reviewing this divison of competencies between the national and Union levels.

First, European action must prioritize those situations in which the lack of cooperation between Member States weakens their ability to promote conditions conducive to fair and sustainable growth. This is particularly true with labour law and tax policy where the risk of a race to the bottom can jeopardize growth and imperil the model of social market democracy. It is not a question of prohibiting diversity in tax and social matters but rather of ensuring that it is compatible with a high level of social protection.

Second, European action is required when the problems are beyond the capacity of a single country to resolve, most notably when facing challenges such as the ecological transition, labour market polarization, productivity slowdown, the digital transition, and the disparity in geographical concentration of activities.

Third, it is no longer possible for the European project to leave the responsibility for managing the collateral consequences of increasing economic integration to the Member States alone. The single market, the enlargement of the European Union, and free trade agreements with third countries, as well as the promotion of technological progress and the single currency facilitate growth. Yet these policies invariably create winners and losers. Still, these policies should not be abandoned altogether, nor should there be a retreat to purely national economic solutions. These policies raise overall wealth, but they need to be balanced by better support for those who suffer from them.

Box 1 – Building a Social Europe

Even though the European Social Fund was created in 1958 to promote employment and worker mobility, and to accompany industrial change through retraining and vocational training, it was not until the Amsterdam Treaty (1997) that a "high level of employment" became one of the European Union's objectives. The first European summit on social issues held the same year in Luxembourg saw the launch of the European Employment Strategy. This strategy led in 2012 to the adoption of a series of new measures, - the "Employment Package," which included the "Youth Guarantee". Its aim is to guarantee for any person under the age of twenty-five a job or training in the months following the end of their studies or the loss of a job.

With the adoption of the Single European Act of 1986, a more comprehensive step was taken. The creation of the single market in 1992 was closely linked, for the first time, to a community goal of economic and social cohesion. The convergence of regions whose development is lagging is now financed through major cohesion funds, which have quickly become the second largest component of the European budget. Still, national governments retain full responsibility for policies of redistribution and equal opportunities for citizens.

The Charter of Fundamental Rights of the European Union adopted in 2000 at the Nice European Council acquired binding legal force with the Treaty of Lisbon implemented in December 2009. The economic and social rights this Treaty affirms are those defined in the Community Charter of the Fundamental Social Rights of workers, adopted in 1989.

In existance since 2006, the European Globalisation Adjustment Fund (EGF) is limited to responding to those changes caused by international trade.[2] Its annual ceiling of 150 million euros seems low given the issues at stake. What is more, the conditions that apply to its use are slightly irrelevant.[3]

From 2014 to 2020, the funds used for social and territorial cohesion amount to 34% of the European Union's budget, with an annual average budget of 53 billion euros, or about 0.4% of European GDP. In 2016, 50.8 billion euros were used, 43% for the European Regional Development Fund (ERDF), 21% for the European Agricultural Fund for Rural Development (EAFRD), 18% for the European Social Fund (ESF), 13% for the Cohesion Fund and 1% for the European Maritime and Fisheries Fund (EMFF).

For its part, the Fund for European Aid to the Most Deprived (FEAD) supports actions taken by EU countries to provide food and basic material assistance to the most needy. From 2014 to 2020, this fund had a budget of more than €3.8 billion to finance 85% of the supported projects.

2. The EGF aims to demonstrate European solidarity "towards workers made redundant as a result of major structural changes in world trade patterns as a result of globalisation and the global financial and economic crises".
3. Claeys G. and Sapir A. (2018), "The European Globalisation Adjustment Fund: Easing the pain from trade? "Bruegel Policy Contribution, No. 5, March

Throughout its history, the European Union introduced policies aimed at greater social cohesion (see Box 1). With the departure of one of the major net contributors to the Union's budget because of Brexit, the negotiations of the post-2020 multiannual framework necessitate a reevaluation of the general approach.

This policy brief formulates a number of proposals for European-level interventions. Where the intervention is already being discussed in Brussels, this policy brief explores in greater detail how the policy can be improved. In those instances where the policy has not yet become a subject of debate in Brussels, the policy brief sketches the main outlines of the proposal.

The proposals are justified by at least one of the three reasons for Union intervention stated above (see table on page one). The proposals are divided into four fields: removing incentives to pursue lowest common denominator outcomes in labour law, tax and wage matters; better support for individuals, industries, and regions subject to the streses of structural change; facilitating geographic mobility; and other priorities for joint action where effectiveness requires it.

AVOIDING LOWEST COMMON DENOMINATOR OUTCOMES

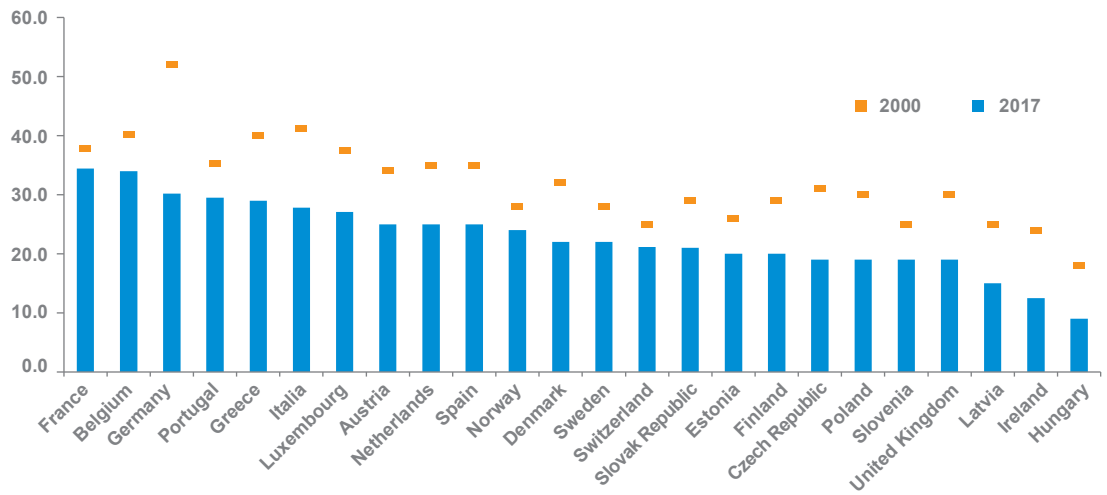
Economic integration is central to the European project. Hence, competition among national economic systems is a by-product of this project. On one hand, competition favors economic growth, inovation, and jobs; on the other, it can potentially weaken the viability of social policies, because capital and skilled labour, the mobile factors of production, can find ways to circumvent tax laws, and labour regulations.

Europe is not immune to the risk of a race to the bottom. So far, this risk has manifested itself by the generalized reduction in corporate tax rates (see Graph 1), driven chiefly by the competition between countries for an artificial allocation of multinational activities and profits. A pressure magnified by the existence of tax havens. The latter probably captured nearly 40% of the global profits of multinationals in 2015.[4] The same phenomenon applies to the taxation of the highest incomes, which are also the most mobile. There has been a decline in maximum tax rates in almost all advanced countries over the past three decades (Graph 2).

These two developments limit the financing capacity for public policies and imply a shift in the burden of taxation to immobile production factors - essentially the work and consumption of the middle and lower classes.

At the same time, the share of wages in value added has declined by on average of nine percentage points since the mid-1970s in a group of twelve European countries.[5] This long-term trend has been temporarily reversed because of the financial crisis and the sovereign debt crisis. In addition, with tax optimisation activity, it is also likely

Graph 1 – Evolution of corporate tax rates in Europe

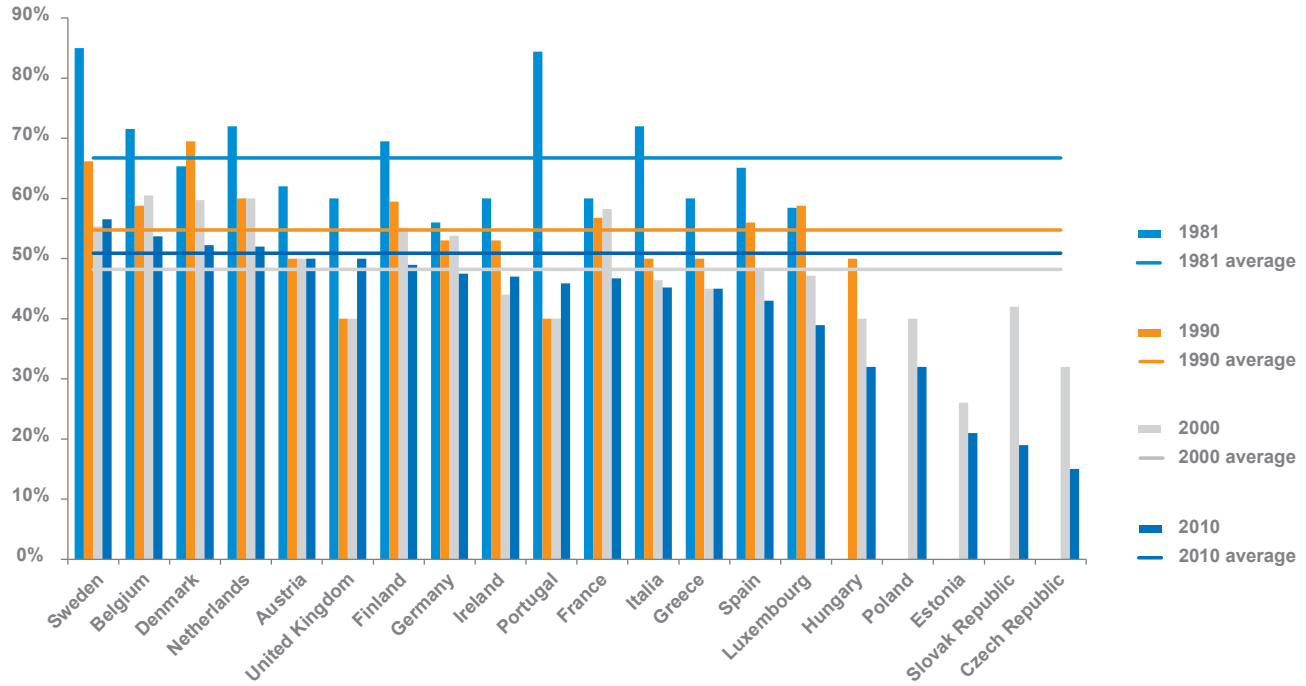


Note: the apparent corporate tax rate can differ substantially from the revenues as a share of GDP but the general downward trend remains. See in particular Gouardo C. *et al*. (2016), « 2017-2027, quels enjeux pour une fiscalité simplifiée ? », France Stratégie.

Source: France Stratégie based on OECD Tax Database – combining national and sub-national levels.

4. Torslov T. R., Wier L. S. and Zucman G. (2018), "The missing profits of nations", NBER Working Paper, n° 24701.
5. Pasimeni P. (2018), "The relation between productivity and compensation in Europe", European Economy Discussion Paper, n° 79. Between 1975 and 2015, the share of wages decreased from 66% to 57% of GDP in the twelve European countries considered and from 63% to 58% in the United States. In Japan, where data has only been available since 1980, it has fallen from 73% to 57.5%. The 2008-2009 crisis led to a temporary rebound because of a sharp decline in corporate profits, before a downward trend resumed. See also Piton S. and Vatan A. (2018), "Le partage de la valeur ajoutée : un problème capital", L'économie mondiale 2019, CEPII.

Graph 2 – Evolution of maximum income tax rates in Europe



Note: average are computed for countries whose data is available over the entire period

Source: France Stratégie based on OECD Tax Database

that the estimation of the share of capital is undervalued by about two percentage points of GDP in the major European countries.[6]

it is impossible to build sustainable growth by restricting wages permanently and thereby aggregate demand. An economic and monetary union with 340 million inhabitants and several of the world's largest economies is not a small, open economy. It cannot rely solely on export stimulus particularly when the euro zone's current account surplus is already above 3% of GDP. The need for a more balanced sharing of the fruits of growth within the Union is, therefore, posed: it may even be a necessary condition for the continued existence of the euro-zone.[7]

Regulate harmful tax competition

The sustainability of even the best calibrated and targeted social policies requires sufficient funding. Thus it is essential that European countries act decisively to limit harmful tax competition. This requires progress on three fronts: better reconciling Member States' autonomy in tax matters with the principle of fair competition, and the need for a balanced contribution between revenue drawn from labour and capital to finance public goods; ensuring that the highest incomes do not escape taxation; and, combating tax evasion to third countries.

Progress in combating aggressive tax evasion has been made in multilateral insitutions most notably by the OECD, with the creation of the "Global Forum on Transparency and Exchange of Information for Tax Purposes"[8] in addition to other intiatives. The OECD estimates tax revenue losses at between 4% and 10% of global corporate income tax,[9] but in countries with high corporate income tax rates, this could amount to a third of corporate tax[10] and around 20% for the European Union as a whole.[11] In France, about €14 billion in corporate income tax revenues are lost because of income transferred to another European country each year by multinationals through their foreign subsidiaries.[12] Faced with this situation, 127 countries representing 90% of the world economy have recently committed themselves to defining new global tax rules as early as 2020 under the aegis of the OECD. The focus is adapting rules to the challenges created by the adoption of digital technology, one of the major sources of tax losses.

6. Torslov T. *et al*. (2018), *op. cit*.
7. See in particular IMF (2017), Fiscal Monitor: Tackling Inequality, Washington, October; OECD (2015), In It Together: Why Less Inequality Benefits All, Paris.
8. The BEPS project (Base erosion and profit shifting) involves more than 100 countries and jurisdictions. It aims to combat the erosion of the tax base and the transfer of profits through a set of standards.
9. OECD (2015), Measuring and Monitoring BEPS, Action 11 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project, OECD.
10. Egger P., Eggert W. and Winner H. (2010), "Saving taxes through foreign plant ownership", Journal of International Economics, vol. 81-1, p99-108. According to the authors, subsidiaries of multinationals in European countries with the highest corporate tax rates pay 32% less than comparable domestic companies.
11. Torslov T. et al. (2018), *op. cit*.
12. Vicard V. (2019), "The exhorbitant privilege of high tax countries", CEPII Working Paper, n° 2019-06, March.

Box 2 – European initiatives against aggressive tax optimisation

The European Commission has proposed an ambitious package of company tax reforms. The Common Consolidated Corporate Tax Base (CCCTB) provides for a single tax report for multinationals for all their activities in the EU. The taxable results would then be distributed among countries taking into account where goods and services have been consumed and no longer just the place of production. The project provides criteria for determining the digital presence of a company, which would allow it to be taxed even if it does not have a permanent establishment in the country. Another proposed Directive aims to address the specific challenges of the taxation of large digital companies.

The Commission has recommended specific clauses that Member States should insist on including in their tax agreements with third countries. Currently, by manipulating flaws in these conventions, companies can legally avoid paying much corporate tax. This was evidenced in the Commission's investigation into McDonald's practices. The latter took advantage of an agreement signed between Luxembourg and the United States and the amount of the tax loss was estimated at €1 billion by the plaintiffs. On 19 June 2018, Luxembourg laid out a proposal for amending its tax legislation to comply with OECD rules.

A draft directive also imposes an obligation for multinationals with more than €500 million of worldwide turnover to disclose the amount of their corporate tax with a breakdown country by country. By threatening company reputation and brand, this transparency measure should provide some discipline for aggressive tax optimisation practices. This obligation will, however, only apply to foreign multinationals with a branch in Europe. Those without a branch in Europe will only be bound by OECD rules that require this information to be transmitted to their country of origin without an obligation to make it public. The European measure should go further than the OECD measure and require any multinational company with any turnover in Europe to be bound by full transparency.

To date, more than 100 countries have committed, themselves, to complying with the OECD standard on the automatic exchange of information between the country, where the turnover is generated and the country of residence of the taxpayer, whether a natural or legal person. This is a substantial step forward in the fight against tax avoidance. The new European rules that will be in force from 1st of July 2020 provide for the automatic exchange of information between European countries on tax planning schemes implemented by tax advisors, accountants, banks and lawyers to ensure an effective and coordinated fight against abusive tax arrangements. The recent adoption of the fifth version of the anti-money laundering directive paves the way for a genuine European register of wealth holdings, with the still missing segment of corporate and trust ownership - a key element in the fight against tax fraud.

The Commission has also recently multiplied its initiatives, some of them already adopted by the European Parliament and Member States (see Box 2). It is important that all these intitiatives be adopted and implemented during the next term of office, and particularly the phased transition to qualified majority voting on tax issues. They should be complemented by other initiatives, in particular the replacement of Member States' bilateral tax treaties with third countries by multilateral conventions negotiated by the EU as a whole. As for VAT, a floor rate for corporate tax should be set for the EU as a whole. The obligation of transparency of corporate tax paid by multinationals should apply to all those selling products and services in Europe and not only to those with a permanent establishment here.

Making the European Pillar of Social Rights effective

The signature by all Member States of the European Pillar of Social Rights at the Gothenburg Summit on 17 November 2017 marks a change in approach. Moving away from a reliance on a floor for minimum rights, this text instead encompasses twenty ambitious principles of a European social model upon which all countries commit themselves to embrace (see Box 3).

These ambitious principles - considering the diversity of social and economic situations in Europe - now require vigorous action to ensure their implementation everywhere. As recommended by the Commission in a Communication on March 13 2018, this requires social priorities on the same level as economic objectives, indeed at the heart of the annual cycle of European governance for policy coordination, the European Semester.

To give substance to this purpose each Member State should define a social reform strategy agreed upon by its peers, the European Commission and the European Parliament, aimed at promoting upward convergence for each of the key indicators of the EU Social Scoreboard. A bonus could be considered in the context of the European Structural Funds, particularly the European Social Fund, for Member States that would define and implement a "national strategy for social progress".

Box 3 – The Pillar of European Social Rights

The aim of the Pillar is to grant citizens new and more effective rights. It consists of twenty principles divided into three main components. Only the titles of the principles are listed here, but the text gives a more precise definition.[13]

Chapter I
Equal opportunities and access to the labour market

1. *Education, training and lifelong learning*
2. *Gender equality*
3. *Equal opportunities*
4. *Active support to employment*

Chapter II
Fair working conditions

5. *Secure and adaptable employment*
6. *Wages*
7. *Information about employment conditions and protection in case of dismissals*
8. *Social dialogue and involvement of workers*
9. *Work-life balance*
10. *Healthy, safe and well-adapted work environment and data protection*

Chapter III
Social protection and inclusion

11. *Childcare and support to children*
12. *Social protection*
13. *Unemployment benefits*
14. *Minimum income*
15. *Old-age income and pensions*
16. *Health care*
17. *Inclusion of people with disabilities*
18. *Long-term care*
19. *Housing and assistance for the homeless*
20. *Access to essential services*

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The adoption on 29 May 2018 of the Posted Workers Directive enshrines the recognition of the fundamental principle of "equal pay for equal work in the same workplace", including for the application of collective agreements. This agreement removes a fundamental inequality between employees, and at the same time ends one of the pressures for lowest common denominator outcomes. With the creation of the European Labour Authority, Europe now disposes of a vital instrument to combat abuse and fraud in this area.[14] Moreover, it would be desirable to equalize the level of social security contributions between posted workers and other employees, with a specific provision for refunding monies to the posted worker's country of origin as a contribution towards better financing of social protection.

BETTER SUPPORT THE CHANGES

Advanced economies are facing far-reaching changes that threaten to disrupt their current growth models—notably the generalised slowdown in productivity. While the acceleration of productivity gains from major technological progress is always a possiblity, it must be admitted that the prevailing trend since the 1970s represents a general slowdown.[15] Clearly, when productivity increases, there is more available income for new needs. Yet precisely because of the economic slowdown, compounded by a constantly evolving and increasingly polarized job market, more flanking measures are required still. Similarly, the determined fight against global warming also necessitates a sweeping changes in production and consumption patterns. Substantial modifications are taking place concurently in wage models and business models, as well as organisational forms because of technological innovations – with the digitisation of the economy, robotisation, developments in biotechnology, and artificial intelligence.

Increasing inequality, the cost of economic and social change, and the resulting downgrading of certain territories and social classes are creating a serious loss of confi-

13. See on the European Commission website, "European Pillar of Social Rights. Building a more inclusive and fairer European Union"
14. See https://ec.europa.eu/social/main.jsp?catId=1414&langId=en.
15. Bergeaud A., Cette G. and Lecat R. (2017), "Long-Term Growth and Productivity Trends: Secular Stagnation or Temporary Slowdown?", Post-Print hal-02075916, HAL.

dence in the system that in turn is linked to the rise of populism.[16] Income inequalities are not on the rise everywhere. But all countries are facing increasing inequalities in one dimension or another, particularly with employment and its quality.[17] Europe remains one of the most prosperous and egalitarian regions in the world. Yet in several Member States, territorial differences are fuelling centrifugal forces in a way that national unity itself is threatened.

The European project can no longer ignore the collateral consequences of increasing economic integration. Economic integration has developed a great deal without the corresponding social welfare safety nets evolving at the same pace. These are guarantors of solidarity and cohesion in nation states, because they limit territorial differences, social inequalities and distortions of competition. But the failure to construct viable welfare mechanisms to deal with structural changes happening on a continent-wide scale is particularly dramatic for euro area countries, for these have abandoned the main instrument for adjusting macroeconomic imbalances: the exchange rate.

As Schumpeter theorized, creative destruction linked to innovation has proved to be an engine for growth and improved living standards. But the characteristics of the jobs created and destroyed differ in terms of location and skills. Instead of retarding change - at the risk of losing benefits – we should rather support those who suffer from its consequences, those who do not have the capacity to rebound with their own resources.[18] The overall aim is to minimise the social cost of change while maximising the associated benefits. Pursuit of the digital revolution in particular - with the development of autonomous vehicles, artificial intelligence and automation - implies major changes that could affect millions of employees.[19] Not the result of European policies alone, many of these changes could be better dealt with in a coordinated way.

It is necessary to act on three fronts. First, to use the leverage of the single market - the second largest market in the world - to better regulate new activities but also to offer better conditions for the development of "European champions" capable of competing with their American and Chinese competitors.[20] Second, the European Union must take better account of the rise of new forms of employment by providing self-employed workers with the same protection and benefits as employees. Third, European action can help to remove a major obstacle to growth: in the absence of accompanying and retraining measures — individuals and companies who fear a deterioration in their situation will logically seek to halt technological progress, which pushes back the inevitable moment of adaptation and often makes it more painful.

On the first point, above, a report published in 2017 jointly by Bruegel, Ifo and the French Council for Economic Analysis made concrete proposals.[21] On the second issue, we would propose the adoption of Personal Activity Accounts and this proposition be developed further below. On the third subject, two new and more effectively targeted measures could be envisaged by refocusing existing European funds.

Assistance for retraining and mobility

The European Union should use the European Social Fund, the European Globalisation Adjustment Fund, and part of the regional funds to create a more effective instrument to support change.[22] A first preventive component could be activated by anticipation when a national or European public policy decision entails an impact on employment in some companies or sectors. The second component, curative, would be triggered automatically according to the unemployment dynamics of each employment area.The existing rules do not prevent the adoption of such an approach. However, the system needs to become more agile and responsive, requiring a major simplification of the established processes.

The preventive arm

Many public policy reforms with promising benefits are not implemented because they impose immediate concentrated losses on politically significant groups of citizens or companies.[23] For example, the relative failure of Germany's

16. Darvas Z. and Wolff G. (2016), "An anatomy of inclusive growth in Europe", Bruegel Blueprint No. 26. Darvas Z. (2016), "Brexit vote boosts case for inclusive growth", Bruegel Blog Post. Darvas Z. and K. Efstathiou (2016), "Income inequality boosted Trump vote", Bruegel Blog Post. Autor D., Dorn D., Hanson G. and Majlesi K. (2017), "A note on the effect of rising trade exposure on the 2016 presidential election", MIT Working Paper. Voss D. (2018), "The political economy of European populism: Labour market dualisation and protest voting in Germany and Spain", LEQS Paper No. 132.
17. Goos M., Manning A. and Salomons A. (2009), "Job polarization in Europe", American Economic Review, 99-2.
18. Andrews D. and Saia A. (2017), "Coping with creative destruction, reducing the cost of firm exit", OECD Economics Department Working Paper, No. 1353.
19. Le Ru N. (2016), "L'effet de l'automatisation sur l'emploi: ce que on sait et ce qu'on ignore", La Note d'analyse, n° 46, France Stratégie. See also France Stratégie (2018), "Artificial Intelligence and Labour", report to the Minister of Labour and the Secretary of State for Digital Technology, March.
20. For example, the General Data Protection Regulation (GDPR), in force since 25 May 2018, provides a unified European framework that facilitates the development of businesses at European level. Given the unavoidable nature of the European market for many multinationals, this standard may become a global standard, as is the case in the automotive sector and in many other sectors.
21. Aussilloux V., Bénassy-Quéré A., Fuest C. and Wolff G. (2017), "Making the most of the European single market", French Council of Economic Advisers Note, n° 38. Joint note with Bruegel and Ifo Munich.
22. The ESF and ERDF are part of the funds that finance structural actions: employment promotion, investment in skills, lifelong learning, social inclusion and the fight against poverty, institutional capacity building and effective public administration.
23. Cette G. (2018), "Pourquoi est-il si difficile de réformer?", Telos, April 26.

energy transition, with the abandonment of CO_2 emission reduction targets for 2020, can be explained by the fact that approximately 33,000 people work in the coal sector in Germany. Similar and understandable social considerations have so far prevented a voluntary increase in the price of CO_2 per tonne in Europe, and, also the decision to close some nuclear power plants in France. to support the retraining of the affected workers in order to facilitate a closure of the sites concerned.

It is relatively easy to identify the people most directly affected by a reform on an ex-ante basis and to provide them with mobility and retraining programmes. These actions are already financed on an ex-post basis by the European Social Fund and other structural funds, but they should be put in motion before the reform, without waiting for the foreseeable consequences to materialise.

Once sites and people at risk have been identified, a training and mobility assistance program should be implemented ex-ante. Each person would be offered assistance of up to €15,000, for example, to finance multiple costs for retraining involving a living allowance and moving costs, with the option of starting a business and becoming self-employed. Conditions of eligibility, and requisite expenses would be defined at Union level: half in the form of a grant, half as a loan, with co-financing from European and national funds. The loan would be repaid gradually by the beneficiary throughout his working career during periods of adequate solvency – an income exceeding the defined minimum wage.

The corrective arm

Ex-ante accompanying measures may not be sufficient. They can only be mobilized when the negative impacts of a public policy decision can be anticipated. But often the extent of the impact may not be anticipated or may occur independently of any public policy. Not supporting affected individuals and areas in their reconversion means reducing future potential growth by reducing human capital, strengthening resistance to change and undermining fairness in our societies.

A general principle could be established in the European Union: when the unemployment rate in a defined local labour market increases by more than 1% over one year, a training, mobility and job search support programme - similar to that described in the preventive section above - should be set up with European co-financing.[24] To target the relevant local employment markets , it is the dynamics of the unemployment rate that prevails over the structural level of unemployment, the latter referring rather to labour market and training dysfunctions (which require other intervention instruments). For example, over the period 2004-2015, there were six years during which unemployment increased by more than 1% in at least one of the 304 local employment areas in metropolitan France (see Table 1).

The proposed instrument would be used whether the increase in unemployment affects a small number of employment areas or most of a country, or even the European Union as a whole. The instrument builds on a proposal made at the beginning of 2018 by 14 French and German economists,[25] a proposal reviewed and approved by fourteen economic specialists and prominent political figures.[26] While these papers offered suggestions for stablizing the whole euro zone, this current proposal applies to more localized job markets as well as to the broader region. The overall objective is, however, the same – to stabilise the economic cycle through a mechanism to complement national unemployment insurance and training systems. The conditions for implementation, financing and capping would be those laid out in the proposal of the 14 Franco-German economists, envisaging a fund equivalent to 0.1% of the European Union's GDP (about a quarter of the current amount of the Structural Funds).

Table 1 – Employment areas in France affected by an annual increase of more than 1 percentage point of their unemployment rate, 2004-2015

	2004	2006	2009	2013	2014	2015
Number of employment	6	1	286	6	1	1
Number of additionnal unemployed people	8 460	890	564 880	5 630	260	140

Reading: in 2004, the unemployment rate rose by at least one percentage point in six employment areas in France for a total of 8,460 new job seekers in these zones.
Source: Insee localised unemployment rates; France Stratégie calculus.

24. Alternatively, it could be triggered by a 1% decrease in the employment rate or payroll. The employment areas would be defined on a principle equivalent to that adopted by INSEE for "employment areas".
25. A. Bénassy-Quéré *et al* (2018), "Reconciling risk sharing with market discipline: A constructive approach to euro area reform", CEPR Policy Insight, n° 91, January. The instrument would be implemented within the framework of a Jobs Union, as proposed by A. Bénassy-Quéré (2017), "Jobs union" in A. Agnès Bénassy-Quéré and F. Giavazzi, Europe's Political Spring: Fixing the Eurozone and Beyond, VoxEU e-book, May.
26. Andor L. *et al* (2018), "Blueprint for a democratic renewal of the Eurozone", Politico, 28 February.

Together with national budgets, European funds would be exploited to increase training credits for the unemployed, and cover a living allowance, whenever the unemployment rate exceeds one percent a year in their specific local labour markets. Support would be maintained as long as the unemployment rate continues to rise, even at a rate below 1%.[27] At the same time, regional funds would co-finance projects to develop new economic activities in the local labour markets — by financing investments or attracting foreign investors, promoting business creation or a transition of employees to other activities.

Support for public expenditures related to reform

Many structural reforms designed to improve social equality face immediate implementation costs, while the desired savings only materialize over time. Among the factors temporarily increasing public expenditure are investment needs in training or retraining of the people concerned and in providing new infrastructures, both tangible and intangible (e.g. softwares). This time lag - implicit in the term "social investment," which is often used for employment and education policies - is a major obstacle given the principle of balanced annual budgets and the budgetary constraints of the Stability and Growth Pact.

Moreover, a government may be reluctant to spend money burdening public finances when the resulting savings will only come several years later... under a different government.

Assistance could thus be granted to a country engaged in reform, in the form of a partially repayable advance. The next post-2020 EU multiannual financial framework could provide for a "Social Investment Fund" of €15 billion (0.1% of EU GDP), taken from the €25 billion that the Commission proposes to allocate to a new "Reform Support Programme".[28]

A request for financial support should be based on a precise and documented assessment of immediate costs and future benefits. Admittedly, this type of calculation of "social investment" does does not have a well-established methodology.[29] Therefore, aid would only be granted on the basis of a motivated request, with an analysis of the probable profitability of the investment in terms of public expenditures, carried out by an independent national authority. The European Commission and the network of these national authorities should establish an appropriate method and parameters, thereby reinforcing the techniques developed in impact studies accompanying draft legislation. European research funds could help to finance academic teams mobilised on these methodological issues.

France, for one, spends €1.5 billion a year on housing allowances for 880,000 student beneficiaries, more than one in three students. To increase the proportion of students housed in low-rent residences from 10% to around 20% — closer to the average for most advanced countries — an additional allocation of $2.4 billion to the agency responsible for student accomodations would finance the construction of 200,000 student housing units.[30] The rent reduction for these students would decrease housing allowances as a well as public spending. In this scheme, the initial investment would be repaid in five to seven years. Recently, France has launched the "60,000 student housing" plan, an initiative conceivably enhanced by additional European financial support.

As this illustration demonstrates, the savings generated by the reform must make it possible to repay the initial investment, and with that all or part of the European aid without affecting the country's budgetary balance. Only the Member State would run the risk that the reform did not yield the expected savings. This would remove moral hazard for the implementation as well as the *ex-ante* quantification of gains. With such an approach, the European Union could adopt a real "Juncker Plan for Social Investment" by including it in the budget envelope currently under discussion.

These three instruments — the preventive measure, the corrective measure, and the support for reform — would make the European Structural and Cohesion Funds more responsive to the economic cycle of each Member State and its need for reform, actions that would ensure greater stability for the EU as a whole. These changes would not affect the overall budget allocated to these funds. The ambition of these new instruments would be adapted to the available budget, though their precise calibration would naturally have to ensure a fair distribution between Member States.

ENCOURAGE MOBILITY

As the success of the Erasmus+ programme shows, policies where Europe engages directly with its citizens can be extremely effective. This is why a renewed European social contract should forsee Union instruments when these are most conducive to promoting equal rights and equal opportunities. Four proposals are made here to illustrate which Union initiatives might be adopted to promote mobility. The first three proposals focus on the ways to increase

27. Within the limits of available funds. If necessary, more targeting could be carried out, depending on the extent of the increases observed.
28. The Reform Support Programme, which is intended as a grant mechanism, would be complementary to the Social Investment Fund, which would function as a repayable advance. See European Commission (2018), "A Modern Budget for a Union that Protects, Empowers and Defends - The Multiannual Financial Framework for 2021-2027". https://ec.europa.eu/commission/sites/beta-political/files/communication-modern-budget-may2018_en.pdf
29. Fougère D. and A. Heim (2017), "L'évaluation socioéconomique de l'investissement social", Working Document, n° 2019-06, France Stratégie, November.
30. All the data is from Paris H. (2017), "Logement étudiant et politique publique", Focus of the Economic Analysis Council, No. 020-2017.

most rapidly skills for the greatest number of people, for this is the best way to overcome fundamental inequalities.[31]

Generalize the mobility of students and apprentices

Student mobility is a key objective for the European Union. Yet current policies are far from including most young people. To reach the entire age group in higher education, the Union must go beyond the incentive policy based purely on a financial subsidy.[32] A universal principle should be gradually introduced: to be valid, any higher education degree would require a six months residency in another European Union country, without excluding the possibility of a training in a non-European country.[33] Thus, in the long term, all academic institutions should organise themselves so that their students attend partner institutions. This policy should be extended to include a broader range of educational institutions, and not exclusively those considered as elite schools as is currently the case.[34] To facilitate mobility without additional cost, cross-border housing swaps, could be implemented.[35] The European financing would only be used for the least well-off students and, in the initial phase, to encourage swaps between institutions and teaching staff. The mobility of apprentices raises specific questions, the subject of proposals in Jean Arthuis' recent report.[36]

A programme for the mobility of 15-17 year olds

The European Union should develop a specific program for secondary students between the ages of fifteen and seventeen. In addition to the development of multilingualism, students could derive immense benefit from exposure to other cultures, fostering qualities of toleration, curiosity, and relativism, and not least international networks.

Over the period covering the second and first year of general and vocational education, each student would be encouraged to spend three months in an establishment in another EU country. Each school in the EU would be twinned with several schools in other countries, starting with neighbouring countries. This twinning is essential for teachers to construct relationships of trust, which would help facilitate exchanges, lessening fears of parents and children alike. Digital tools of the MOOC type could be mobilised and funded by the EU; each student could then become better acquainted with the language of the destination country. Young people could be accommodated on the basis of a cross-exchange between families, which would limit the costs of such a programme to transport and structural costs only. Existing exchange programs show the adaptability of young people from all backgrounds in such situations and the richness of the experience they gain.[37] After a five-year experimentation in pilot schools, more and more students could participate in this programme reaching half an age group within ten years, and virtually all such students within twenty years.

The Spinelli Fund: contingent loans for training

Increasing investment in human capital - and its effectiveness - is an imperative for promoting equal opportunities, all the more critical in Europe where one in five adults has low literacy skills according to the OECD's PIAAC survey. Europe should set up a system of contingent loans to finance training programmes, where the guarantee of employability,and return on educational investment is strong and shows rapid returns. This instrument - described in a recent policy brief from France Stratégie[38] - would facilitate mobility at a European level, because qualifications and their validation would be recognised from the beginning by all countries. It could also be deployed more intensively in countries affected by a severe economic slowdown, and thus helping macroeconomic stabilization, while at the same time making it possible to show European solidarity at a low cost to public finances.

A European individual activity account

Social insurance systems are often determined according to the nature of employment status. In addition, since some employment advantages increase with seniority, people who follow short contracts can never fully benefit from these advantages. These two factors have contributed in many European countries to an increasingly dual labour market. The Individual Activity Account introduced in France by the law of 8 August 2016 seeks to protect all people in the labour market by granting them rights regardless of their status or employment contract. Each worker has an account where rights accumulate, regardless of his or her professional status. In this way, the portability of rights is introduced in the event of a change of employer, a transition to self-employment or a career break. The account also makes it much easier to gather all

31. Atkinson A. (2008), The Changing Distribution of Earnings in OECD Countries, Oxford University Press.
32. A study abroad experience benefits in particular students from disadvantaged backgrounds, then increases professional mobility and increases employability. See a list of works on the website of the Nafsa (Association of International Educators).
33. Three months for diplomas with a duration of training of between 1 and 2 years, no obligation for training of one year or less.
34. Brooks R. and Waters J. (2011), Students Mobilities, Migration and the Internationalisation of Higher Education, Palgrave Macmillan.
35. Even when the student is still living with his parents.
36. Arthuis J. (2018), Erasmus Pro Report: Removing the barriers to apprentice mobility in Europe, report submitted to the Minister of Labour, January
37. Birkin G., Hugues T. and Brennan J. (2014), Research and Analysis of the Benefits of International Education Opportunities, British Council.
38. Aussilloux V., Le Hir B. and Leclerc H. (2017), "The Spinelli Funds : A European Compact for Skills", La Note d'analyse, n° 63, France Stratégie, November. https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-na-63-spinelli_fund_20171115_web.pdf

relevant information for each holder on his acquired rights, on their possible use, no less than on the services and assistance available to build a professional project.

In the long term, a Europe-wide activity account could become a crucial instrument for coordinated action at national and European level in the field of social rights and portability to promote mobility. It would serve to fight inequalities since additional rights could be granted to young people who leave the education system early, to encourage them to return to the training system, if necessary. A person who has become unemployed would be given rights to training. EU support to individuals would become fairer because it would be more transparent, and more directly collected by beneficiaries in the form of contributions paid into a personal account. By embodying a "Social Europe" as close as possible to the citizen, this personal account of European activity would initially coexist with existing national systems. It would be developed gradually on a European scale, first for citizens who change their country of residence, then for frontier workers, and finally for beneficiaries of a European social programme. In the long term, countries could adopt such a system for their own social protection systems, integrating it with the European level and those of other Member States. This would modernise social systems to adapt them to changing forms of employment and less linear career profiles, consistent with the European Commission's recent proposal to improve access to social protection for all workers.[39] This would encourage mobility by facilitating the portability of pension, health or unemployment rights from one country to another, while at the same time increasing citizens' information on accumulated rights.[40]

GIVE PRIORITY TO JOINT ACTION WHEN REQUIRED FOR EFFECTIVENESS.

Where decentralised action produces an inadequate response, it is reasonable to consider action at the Community level by applying the principle of subsidiarity. In the EU, the two most egregious cases for the neglect of human and social rights are those involving the Roma and refugees. While their status differs concerning European citizenship, each group shares common characteritics of poverty and vagrancy, all too often the consequence of public institutions shifting responsibilities of such pressing concerns these groups pose.[41]

A European approach to support the Roma

The largest ethnic minority in Europe with 1.2% of the population, Roma are frequently marginalized, the victims of discrimination, even persecution.[42] Almost half of their children have never attended school, and the adult illiteracy rate often exceeds 50%. Moreover, their life expectancy is eight to fifteen years lower than that of the majority populations in the countries where they live; the infant mortality rate is between two to six times higher, depending on the country. For those seeking a better future in another EU country, the supply of suitable housing is inadequate, pushing them into makeshift camps on the fringes of towns. The European Union has legitimately sought above all to combat the discrimination this group faces in the different countries of origin, though insufficent to prevent emigration.

More recently, European action has focused on policies to welcome and integrate them in countries of destination. However, confronted by a population with specific integration problems, the fear that a generous and proactive policy will cause an additional influx can prevent local authorities failing to respond adequately to needs. As long as the cost of this policy remains the responsibility of each country or territory, even with European co-financing, the unacceptable human rights situation will continue for hundreds of thousands. To implement principles 19 and 20 of the European Pillar of Social Rights on housing and access to essential services, all current expenditures by States and at the European level for Roma populations should be replaced by a common budget contributed to in proportion to the GDP of each Member State. This should be redistributed to the responsable local authorities on a lump sum basis for each relevant person in their charge.

Each territory hosting Roma should benefit from EU funding, on condition that it provides decent living conditions as well as necessary support to improve their employability and their financial autonomy. By decoupling the burden of financing, the living allowance and supporting the reception of populations such a system would enable territories with these populations to do so without a burden to their public finances, as so often. Such communitarised funding would produce a European public good: addressing the problem of exclusion and relegation that this population is currently experiencing throughout the Union.

39. European Commission (2018), "Commission adopts proposals for a European Labour Authority and for access to social protection", press release, 13 March.
40. See recommendations 8 and 9 of Aussilloux V., Bénassy-Quéré A., Fuest C. and Wolff G. (2017), op. cit.
41. See Damon J. (2016), "Migrants, ping-pong et vagabondage global", Telos, April.
42. European Union Agency for Fundamental Rights (2018), A persisting concern: anti-Gypsyism as a barrier to Roma inclusion, April. https://fra.europa.eu/en/publication/2018/roma-inclusion

Communitise expenses for the refugees

In addition to the Roma population, asylum seekers constitute the second group fueling the expansion of makeshift camps. Instead of a failed quota policy or a futile encouragement of state generosity, it would be preferable if all current Member States and Community spending on these populations were also replaced by a common budget in proportion to each Member State's GDP. This budget would be entirely redistributed to the territories that agree to host migrants in a lump sum on individual basis and would finance all the costs incurred in their reception and integration. In this way, the European Union could escape from the existing situation where any territory tempted by a more humane policy fears that it may attract other nomadic or migrant populations already on European territory and in greater numbers than with which it could cope.[43] The proposed system could also encourage those territories with additional capacity to engage in a policy of welcoming those populations. They would benefit from European funding conditional on a genuine policy of integration and improvement of the employability of the refugees. By opening themselves to migrants, some villages in the Mezzogiorno have managed to reverse their demographic curve and revitalize the local economy.[44] This policy must be accompanied by a strengthening of the European Union's action in third countries to figh human rights abuses that are really pushing people on the road. It also requires a common asylum policy and the control of the Union's external borders to avoid both human losses when fleeing the country of origin and attempts to exploit the right of asylum for economic immigration.

CONCLUSION

In the latest Eurobarometer opinion surveys, 81% of European Union citizens consider social inequalities to be a problem requiring immediate attention. A large majority, 64%, also consider that this situation will not improve soon. While the challenges facing European nations extend beyond the realm of social issues, the widespread perception of lingering inequalities breds mistrust in national political systems and in the European project, itself. And this despite an unprecedentedly strong adherence to European Union membership. Indeed, the European project will enjoy a high measure of success providing that it manages to secure resources for social systems by curtailing tax evasions while effecting more fully the European Pillar of Social Rights. Moreover, the European project must assist peoples suffering from economic changes. And it must launch a Social Investment Plan, together with expanding the mobility of workers and young people. And not least it must imperatively address long-standing problems of the most maginalized populations. These goals are formidable in their conception and implementation. But without such an ambitious agenda, without the determined realization of these stated goals, European peoples across the continent may renonce broader perspectives to retreat within national boundaries. Such a scenario would endanger the model of more open society, and spell the end of European integration.

Keywords: Social Europe, taxation, inequalities, economic change, international mobility

43. See in particular Damon J. (2017), Exclusion : vers zéro SDF ?, La Documentation française.
44. Perrone P. A. (2017), Global Villages. Citizenship, asylum and hospitality in Southern Italy, Wageningen University and Research.

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