THE SEARCH FOR EUROPE
Contrasting Approaches

BBVA

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European policy strategy has shifted from maintaining a balance between expanding market forces and social development policy to an attitude espousing a neoliberal insistence for deregulation and the strengthening of markets. This change has had negative consequences for employment and labour policy. The relationship between consumption and job security has not been adequately addressed, and the implications of risk and uncertainty for the distribution of income have not been determined. Nor is there any response to the consequences of mass migration following the admission of new member states from Central and Eastern Europe.

EUROPEAN EMPLOYMENT AND LABOUR MARKET POLICY

The European project has always been primarily a market-making one, not very interested in social policy. However, for most of the history of the European Union and its predecessors, there have been compromises, often creative ones, between markets and social policy, or at least mutual respect for different spheres of competence (Scharpf 1999). Recently, however, the EU has become a more aggressively market-making force, attacking areas of social policy formerly understood to be beyond the scope of that strategy.

THE EU HAS BECOME A MORE AGGRESSIVELY MARKET-MAKING FORCE, ATTACKING AREAS OF SOCIAL POLICY FORMERLY NOT CONTEMPLATED

This move has been two-pronged, operating partly through the gradual expansion of the general powers of competition policy and the Court, and partly through explicit new policies. Central to both has been the extension of the single market into what used to be called public services, but which EU jargon now calls "services of general interest". The biggest single example of a new market-making policy likely to threaten broad areas of social policy has yet to take practical form: the proposed Transatlantic Trade and Investment Partnership (TTIP) between the EU and North America. If implemented as now envisaged, this partnership will involve rescinding large amounts of regulation that was previously deemed necessary to protect consumers, workers and the general public from the negative consequences of profit-making business activities.

TTIP is seen by its proponents and critics alike as a perfect example of neoliberal economic strategy, but it is doubtful whether it really merits the name "liberal". Its negotiations are being carried out in secret between Commission officials and business lobbyists from large global corporations; neither secrecy nor the dominance of corporate political lobbies, rather than markets, has any legitimate place in "liberal" politics or economics. However, our task here is not to deal with the general development of the EU but with the specific field of employment and associated social policy. It will not be possible to include possible labour policy implications of TTIP because, as a result of the secrecy surrounding the exercise, very little is known.

In the first few decades of European integration, the need to reconcile market-making and social policy was largely bypassed by a division of labour. There was a consensus that the primary role of European institutions was to increase the openness of markets. This was not because of an ideological view that there should be no social policy, but rather this was the province of national states—mainly because these needed to reconstruct their legitimacy with their citizens after years of dictatorship or betrayal during the 1930s and early 1940s. This did not mean, as many British politicians claim, that Europe was initially intended to be only a "common market", and that a wider socio-political agenda was a later and never fully agreed extension.

EUROPEAN POLICY HAS BECOME INCREASINGLY NEOLIBERAL ON LABOUR MARKET DEREGULATION WITHOUT A COMPENSATING DEVELOPMENT

At the general level, the 1956 Treaty of Rome spoke clearly of "ever greater union", implying that market making was only the start of a more ambitious project. Second, even the original common market included sensitivity over the impact of intensified competition for the stability of workers' lives, especially in the two sectors that were of particular importance in the post-war years: agriculture, and coal and steel. When the first crises of deindustrialization began to hit the advanced economies in the 1970s, this approach was extended to the structural funds programme for regions hit by industrial decline or other problems of development.

Poor regions have also received help to establish infrastructure projects, the gains from which would be too long-term or too collective for the market to have taken on the burden of providing them. This has been particularly important for new member states with development problems, initially in South-Western Europe and more recently in Central and Eastern Europe. Beyond these issues, however, and especially where policies directly affecting individuals were concerned, initial European social policy was largely limited to ensuring international transfer of various entitlements for the small numbers of workers who moved to other member states.

A period of more intense European social activity occurred during the Delors presidency, when the single market was being constructed (European Commission 1993). Political polemics suggest that market-making and social policy are opposed in a zero-sum game. The evidence, however, argues that they are complementary: advances in either one require advances in the other. The single market programme was a good example of this. Europe was seen to need both more efficient labour markets and some European-level social policy. If markets were to be intensified, so too must be compensation for the disruption they necessarily cause, action to cope with their negative externalities, and measures to provide the infrastructure that they need but often cannot provide for themselves. This resulted in some constructive redefinition between European and national levels. For example, the Treaty of Maastricht contained a "social chapter", according to which the European organisations of social partners could agree that a particular issue would be the subject of an EU directive. There was an initial flurry of these, but it then subsided.

Since that time, the emphasis of European policy has changed to an increasingly neoliberal insistence on labour market deregulation without a compensating development of new social policy. This move has been two-pronged, operating partly through the gradual expansion of the general powers of competition policy and the Court, and partly through explicit new policies (Höpner 2008, 2014).

Whereas the institutions and policies under attack have had mainly restrictive implications for the functioning of the labour market, these interventions have had some positive effects. Where they have themselves been assisting well-functioning markets, as in the Nordic countries, they threaten to be negative. In all cases, however, the refusal of neoliberal policy to recognise fundamental differences between the market for labour and that for other commodities has had a number of negative consequences. We shall here concentrate on two of these. First has been a combined failure to address the relationship between consumption and labour security in economies dependent on mass consumption and to appreciate how risk and uncertainty have different impacts at different points of the income distribution. Second is a failure to respond to the social and political impact of the mass migration unleashed by the admission of new member states in Central and Eastern Europe to the free market in labour.

Confident consumers but insecure workers

The fundamental position in economic theory that today influences European labour policy and many individual nation states maintains that, provided they are not impeded by legal regulation or collective agreements, labour markets will clear, leading to maximum employment and overall better welfare. If wages or non-wage labour costs fall, or if employers find it easy to dismiss unwanted workers (either collectively or individually), employment levels should be expected to rise, providing higher employment levels than countries in which employees in post have secure rights, social entitlements and wage levels, but large numbers remain without work. True, employment under a flexible regime is less secure, but the evidence suggests that when job opportunities are plentiful, workers feel economically secure even if their specific current job has little formal security (Muffels and Luijckx 2008a, 2008b).

There are, however, certain negative aspects to the pure neoclassical approach. First, labour markets can take a long time to clear, and since units of labour are human beings, they experience insecurity and anxiety if, while the market is "adjusting", they suffer falling incomes and joblessness, without the support of social policy (this having been dismantled in the quest for reduced non-wage labour costs if a neoliberal programme is being thoroughly pursued). When many workers' lives are dogged by insecurity and uncertainty about the future, consideration has to be given to the fact that workers are also consumers, and that if their working lives are very insecure, they might lack consumer confidence. At times of economic recession, flexible labour markets might provoke a decline in demand, which only worsens the recession.

This problem can be tackled in various ways. (For a detailed discussion of the diversity of strategies available, with evidence on how they are used in EU countries, the USA, Japan and Russia, see Crouch 2015.) First, if an economy is overwhelmingly dependent on export trade, domestic consumption might not be important, and the low wages that make it difficult for local workers to consume may be more than compensated by increased international competitiveness. This was temporarily part of the secret of the West German economic "miracle" in the early 1950s. The government pursued a tough fiscal strategy that restrained domestic demand, but the economy recovered from its wartime destruction through export sales to the USA, the UK, Scandinavia and other countries that sustained their own worker-consumers' demand through Keynesian policies.

A similar approach today has been an important element in the economic success of China and some other rapidly developing economies with vast supplies of surplus labour. It is, however, far more difficult to pursue this path in parts of the world where the consumption of the national working population has become important for economic activity, and/or where widespread democratic rights enable workers to express their discontent at being unable to afford to consume. This is particularly the case for post-industrial economies, where many services sector activities depend heavily on domestic demand. Whether

WHEN JOB OPPORTUNITIES ARE PLENTIFUL, WORKERS FEEL ECONOMICALLY SECURE EVEN IF THEY HAVE LITTLE JOB SECURITY

these activities comprise public services, dependent on public funding, or private ones, dependent on private purchases, they find it difficult to thrive under conditions of austerity policies involving restricted public spending and low or insecure wages. In such cases, sustained demand from mass consumers is important to a stable economy.

Another approach to the dilemma, and one that is used in virtually all advanced economies as well as in less developed ones, is for a minority of workers—defined perhaps by age, gender or ethnicity, or just by bad luck—to be excluded from the general security enjoyed by the majority. The majority have secure jobs and can consume confidently, sustaining a strong economy, while a minority bears all the burden of insecurity, consuming little. This provides a kind of solution, but it is one that leads to a generation of troubled and troublesome minorities of the socially excluded, and there must be doubts over its long-term sustainability. The puzzle of how to have confident consumers who are also insecure workers remains.

The issue is particularly acute where workers with relatively low skills are concerned. In industrial economies, such workers have the chance to achieve reasonable incomes because their low productivity is improved by the machinery they use. In general, though, with growing exceptions, low-skill services do not make so much use of technology, and constant improvements in efficiency reduce the need for low-skilled workers. Highly skilled services are mainly found in the public sector or in internationally traded activities. Without thriving local demand for locally produced services, it is difficult to provide employment for large numbers of low-skilled people.

IF A RISE IN THE SUPPLY OF SKILLED AND EDUCATED WORKERS EXCEEDS A RISE IN EMPLOYERS' DEMAND FOR THEM, THERE CAN BE LAGS IN THE MOVE TO A HIGH-SKILLED ECONOMY

It is often a central aim of public policy to improve the overall educational and skill level of the population so that there should be a diminishing need to find such employment. However, there will continue to be a tail of low-skilled workers, for whom the only alternative to unemployment is likely to be work in local services. Indeed, if a rise in the supply of skilled and educated workers exceeds a rise in employers' demand for them, there can be lengthy lags in the move to a high-skilled economy. This can cause, for some time, a dispiriting increase in the number of young people having to take low-paid, insecure jobs below their educational capacity, with a further depressing impact on the employment prospects of those with low skill.

Faced with these arguments, neoliberals are likely to point to the example of the United States of America. Here is a country that has some of the lowest levels of social protection and unemployment support in the advanced world, as well as particularly weak employment protection laws. It is also a post-industrial economy that depends heavily on domestic demand for locally produced services. But it manages to sustain one of the advanced world's highest employment rates and bounces back quickly to those rates after periods of recession. Surely, the US case shows that social policy is not needed to support a high-performance, high-employment, high-consuming economy; left by themselves, labour markets will clear. The US, therefore, served as a major example to imitate when the OECD and other international organizations, including eventually the EU, launched their critique of European social and labour policy regimes in the 1990s (OECD 1994; European Commission 2005).

A central aim of public policy is to improve the educational and skill level of the population.

But the financial crisis of 2007-08 showed that something different from the capacity of free markets to clear lay behind US employment success. A large proportion of the US population had been able to sustain the consumption on which the economy depended only by taking on unsustainable levels of debt: credit card and other forms of consumer debt. In particular, mortgages of over 100% on houses were taken out, not to acquire further residential property, but to sustain consumption. US workers' wages had been static or slightly falling for several years, and this had certainly helped to sustain full employment, in contrast with many Western European countries, where wages had risen at the expense of the employment of the low-skilled.

But it was consumer debt and high mortgages that had made possible the paradoxical combination of low, uncertain wages and high, continuing mass consumption. As became very well known after 2008, this debt had been sustainable only because it was carried by financial markets which seemed to have discovered how to trade profitably in ever larger quantities of risk without negative consequences, but this eventually came to an extreme stop. A particularly important role had been played by "sub-prime" mortgages, fundamental to the maintenance of consumption among workers with static wages and insecure jobs, which financial traders had been buying from each other with no idea of the size of the risks involved. Untradeable uncertainty replaced tradable risk to an alarming degree, in a crisis from which the world has yet to recover.

In fact, the OECD and some other authorities had begun to worry about growing consumer debt, not only in the US but also in the UK, Ireland, Spain and some other countries, in 2006, two years before the crash (OECD 2006a). Today, the solution of squaring the circle of flexible labour and confident consumption through the mechanism of consumer debt seems less attractive, and one hears less of the superiority of the US (and UK) model. Indeed, the OECD (2011) and International Monetary Fund (IMF 2012) have gone further and explored another example of this model that seems unsustainable. The level of income inequality has been growing rapidly across the advanced economies, initially and most dramatically in the US. Growing inequality is intrinsic to the approach of allowing wages to fall, supported only minimally by social policy, until the labour market clears. In the case of the US, where this process has proceeded furthest, the OECD suspects that consumption among the lower half of the income distribution is now at risk (Förster et al. 2014), as the wealthiest 0.1% have taken 46.9% of national economic growth since the 1980s. No other country has quite the US rate of increase in inequality, though the UK (with 24.3%) comes second.

These consequences of a threat to consumption embodied in growing inequality were long concealed by the temporary success of the markets in consumer debt and sub-prime mortgages, but they have now been laid bare. The danger now is that governments, seeking to restore mass consumer confidence but feeling politically unable to challenge the power of the wealthy by taxing them more, or being unwilling to do so because of their parties' financial dependence on wealthy donors, will gradually encourage a return to the type of financial market that brought the 2007-08 crisis.

Risk and uncertainty

Viewed in a broader theoretical perspective, we can see the general issue behind these trends as the problem of uncertainty that must be faced by populations in all kinds of society. In sophisticated, advanced economies, the problem is resolved in the following way. The wealthiest, who are in a position to take risks and to pay for professional advice on how to take those risks intelligently, convert uncertainty into risk by assigning probabilities to it, therefore making it possible to trade in it. (This approach to seeing risk as tradable uncertainty was first developed by Knight (1921).) For them, uncertainty is transformed from being a threat to life's security into a means of making money and acquiring security.

IN SOPHISTICATED, ADVANCED ECONOMIES, UNCERTAINTY IS TRANSFORMED FROM BEING A THREAT TO LIFE'S SECURITY INTO A MEANS OF MAKING MONEY AND ACQUIRING SECURITY

But there is a large residual of uncertainty that is not profitably tradable. This is passed on to the majority of the population. Many of these people, perhaps a majority, are able to hedge against the negative impact of uncertainty by having savings, especially investments in housing, and by using their skills and luck to secure forms of employment that are in strong demand. They do not become anything like as rich as the "financial" minority, but they are reasonably secure.

This leaves a further residuum of uncertainty, which is borne by those unable to do either of these things. They become the social excluded. Public social policy sometimes comes to their aid, through systems of support in periods of extreme insecurity, like unemployment, sickness or disability and, eventually, old age. But sometimes, even public policy works in socially exclusive ways, as in the case of some insurance-based social protection and employment protection laws that help those with secure jobs, but possibly at the expense of those without.

At a time of rapid economic change like the present long-term wave of globalization, uncertainty naturally rises. This means that there is more and more money to be made by those able to convert that uncertainty into tradable risk, and less and less money for those who receive the burden of those elements of uncertainty that cannot be traded. Hence, living standards among the low-paid fall, while those among the wealthy rise, and inequality grows. The financial system that initially seemed to bring a larger proportion of the population into successful risk trading has ended by doing the opposite, contributing to the growth in inequality that was causing many people have recourse to high levels of debt in the first place.

If the system of labour protection associated with the classic measures of the industrial past no longer seem to work efficiently, and if the Anglo-American combination of labour market flexibility with consumer debt has brought disaster, to what other models can we turn? During the early years of the present century, the EU took great interest in new policies being developed in Denmark and the Netherlands, whereby workers sacrificed certain older forms of legal job protection in exchange for improved help with finding work when unemployed, improved training and education, publicly funded childcare to make it easier for mothers to work and other measures for improving the employability of the working population.

"FLEXICURITY" WAS A GOOD EXAMPLE OF HOW EUROPEAN POLICY CAN COMBINE MARKET-MAKING WITH SOCIAL POLICY

Security of the old kind, security in a specific job, could no longer be guaranteed in a rapidly changing economy, but workers wanted to be able to feel confident that public policy was there to help them find, if necessary, a succession of jobs. Employment security could replace job security. It should be noted here, though it will be discussed further below, that there is an important difference between job security and employment security. The former refers to a worker's confidence that he or she can retain a specific post, while employment security includes the former and the alternative solution of being able quickly to find an alternative if a specific post is lost.

This was expected to produce a combination of flexibility and a sense of security, and was dubbed "flexicurity" (Bredgaard et al. 2007, 2008; European Commission 2007; Jørgensen and Madsen 2007). It was a good example of how European policy can combine market-making with social policy in a constructive compromise. The outcome might resemble that of the Anglo-American approach, but with support from public policy as well as from the market.

Denmark and the Netherlands had been striking cases of success in achieving high employment levels and economic efficiency after some years of crisis—and Denmark, in particular, avoids the high levels of income inequality associated with the USA. The most outstanding feature of the Dutch success was the achievement of a high level of employment among women, mainly through the facilitation of part-time work, including granting part-time workers many of the entitlements and rights of full-timers.

The Danish example provided different lessons. The country had reduced its previously very high levels of legal job protection, but was the highest spender on active labour market policy (ALMP), including both job-related education and the provision of child care. This became the paradigm case for flexicurity. Muffels et al. (2013a, 2013b, 2014) found that high average unemployment replacement pay (URR) over a five-year period had a small positive effect on employment, even after taking account of the business cycle and demographic controls. They speculate that this might be associated with the positive effect of unemployment insurance on improving job match and on stabilizing consumption, supporting claims made on behalf of flexicurity theory for secure and enabling benefits. However, the authors also point to the positive association between URR and involuntary job mobility (dismissals), suggesting that in countries with strong income protection, employers tend to shift the costs of economic adjustment to the government, knowing that employees are well covered.

Muffels et al. (2013a, 2013b) also found that both ALMP spending and the level of encompassment of collective bargaining had a positive effect on employment. This has also been found in research on the crisis by the OECD (2013a) and is consistent with the findings of our present study. However, in Muffels et al. (2014), the positive effect of ALMP seemed to be restricted to Western Europe; it turned strongly negative when applied to CEE countries—though ALMP is in general far weaker in CEE than in the West. The effect of ALMP on employment seemed strongly dependent on the content and design of ALMP in the various countries.

Training and working-time arrangements appeared particularly successful to curtail unemployment in the recent crisis, but particularly in countries with a strong tradition in these policies. In other countries, such as France, Italy and the Netherlands, during the crisis, reform proposals were launched aimed at increasing flexibility through reducing the protection of insiders while enhancing security by improving the protection of outsiders. Overall, the authors concluded from these findings that welfare state regimes, or social models, seemed to matter in terms of the way in which institutions influence employment performance, but that each regime sought its own way in which to reform its policies in response to a crisis.

The Netherlands has been a notable case of success in achieving a high employment rate.

From both Denmark and the Netherlands, the EU took the idea of a strong role for public social policy, running alongside a reduction in classic job protection (European Commission 2007). It then began to urge the idea of flexicurity on all member states. However, given the nature of the open method of coordination, countries were left very free to interpret the idea of flexicurity.

The Commission also over-simplified the Danish system. Denmark not only has advanced active labour market and childcare policies, but also has exceptionally generous levels of unemployment support for workers who lose their jobs and strong trade unions representing a high proportion of the workforce (Bredgaard et al. 2008; Madsen 2009). Both of these features, neglected by the Commission and many other observers, contributed to flexicurity. Generous unemployment pay meant that the consequences of losing one's job were less severe than in many other countries. The existence of strong unions meant that workers did not need to fear that a low level of job protection rights would leave them exposed to managerial bullying and arbitrariness, as the union would intervene in such cases. It is true that levels of both unemployment support and union membership have declined in Denmark in recent years, but they both remain among the highest in the world.

What happened in this one-sided selection of elements of the Danish system was a concentration by the Commission's experts on what had come to be known as the "new social risks" and a neglect of "old social risks". This distinction can be traced back to a certain interpretation of risk by the late Ulrich Beck (1986) on what he saw as a change in the nature of risk in advanced societies. Where risk in pre-industrial and industrial societies (or what Beck preferred to call "the first modern") had been a source of worry and concern for ordinary working people, in post-industrial societies ("the second modern"), risk was a matter of opportunities.

This idea was developed by Anthony Giddens (1994, 1998), David Taylor-Gooby (2004) and some other mainly British authors to argue for a shift in social policy. In industrial societies, they argued, there were old social risks associated with dangers to security that people confronted passively: risks of unemployment, sickness, accident and disability and prolonged old age. Confronting these risks with transfer payments was the role of classic 20th century social policy.

Today's working population confronted opportunities that they could tackle actively, given appropriate help from social policy. This led to the case for a "social investment welfare state". The working population of the second modern needed education and training, help with finding appropriate new jobs and new training as technological advances made it necessary to change employment, and help with child care to make possible a two-gender workforce. These constituted the new social risks, policies that were mainly a matter of providing services rather than transfer payments.

The old risks were seen as declining in importance in the confident, reliably expanding economies of high-technology, post-industrial societies. Given, therefore, a reduced need for money to be spent on dealing with the old risks, funds could be diverted to the new ones without a net increase in costs. Also, given the predominance of women among the employees of public services in nearly all countries, the shift from transfer payments to service provision would in itself assist the growth of the two-gender workforce (Esping-Andersen 1999).

There was much good sense in these arguments, and economies that confronted the new social risks enjoyed greater success in terms of production, innovation and employment levels than those that did not. In particular, the Nordic economies, with their high levels of spending on public services, performed better than those in South-Western Europe, with welfare states concentrated on transfer payments. This was partly due to the superior ability of the former to employ women, who became the main employed providers of these new expanded services.

Some of this thinking clearly influenced the Commission's interpretation of the Danish model, which stressed the new social risk aspects of ALMP and childcare and played down generous unemployment pay and strong unions — both associated with old social policy. But it was an error to ignore the fact that Danish policy operated on old and new social risks alike. After 2008, the error has become particularly clear. The old social risks have not gone away. Unregulated, unsustainable financial markets gave the impression that the laws of supply and demand had lost their force and that we had embarked on an age of limitless expansion, but that was all illusion.

Beck's analysis of a change in the nature of risk would have been better expressed in terms of the economist's distinction between uncertainty and risk discussed above, rather than as one between first and second moderns. What Beck had seen as negative risks associated with pre- and industrial societies were not risks but the phenomenon of uncertainty, in which people have been unable to assign probabilities, convert uncertainty into risk and then trade in it. His idea of new risks was the true concept of risk, but he was wrong to have seen modern populations in general as having a capacity to convert uncertainty into risk. As noted above, only those with wealth and access to professional advice could afford to do this in a highly successful way. If the bulk of the population in many countries seemed to have joined this risk market during the early 21st century, it was mainly because their consumer and mortgage debt was taken up by speculative traders. When the unstable financial system that had made this possible collapsed, many of these people were left with the untradeable uncertainty, from which, in truth, they had never really escaped.

In a further twist, governments across the world moved quickly to bail out the banks within which the market traders had worked, as they feared the consequences of a collapse of the global financial system. Accustomed to profiting from turning uncertainty into tradable risk, banks (and the incomes of highly paid traders) were protected from bearing the losses that should logically have followed when their risk calculations failed. In the long run, this will probably favour a return to irresponsible trading, as bankers have learned that states will bail them out from irresponsible risk trading. In addition, they can be expected to use their considerable lobbying power to seek a reduction of the protections against such behaviour that governments and the EU have been erecting since 2008.

More immediately, these actions by governments shifted the burden of debt onto themselves, thereby turning a crisis of private debt into one of public debt. This has had the further consequence of leading governments to ease their debt problem by cutting public expenditure. The main impact of this has been on the poor, who depend more than most on social spending. Thus, once again, if risk cannot be traded, it is converted back into untradeable uncertainty, which is dumped on those at the bottom of the income distribution. If the growth of the new risk markets produced increasing inequality, their collapse has intensified rather than reversed the trend.

IF RISK CANNOT BE TRADED, IT IS CONVERTED BACK INTO UNTRADEABLE UNCERTAINTY, WHICH IS DUMPED ON THOSE AT THE BOTTOM OF THE INCOME DISTRIBUTION

In a further reinforcement of these processes, the fact that a private debt crisis became a public one strengthened (falsely but effectively) the arguments of those both in the EU and in national governments in Europe and elsewhere, who reasoned that social spending had in any case become too high, and that both it and other forms of social policy that seemed to impede free markets needed to be restrained. But the crisis really demonstrates exactly the opposite: people without great wealth need protection against both old and new social risks—a combined protection that they receive, though decreasingly, in the Danish, other Nordic and some other North-Western European systems. There is little trade-off between old and new risks; they are cumulative. Only populations willing to support with taxes a high level of social expenditure to confront both kinds of risk are able to combine labour flexibility with confident mass consumers, a relatively low level of inequality and economic success.

The most recent developments in ideas from social policy experts for a social investment welfare state fully recognize the need for an approach to consolidated social risks (Hemerijck 2012; Vandenbroucke et al. 2011). However, they have so far had no influence on policymakers. Not only did the Commission and others fail to perceive the attributes of true flexicurity in the Danish case, but in subsequent years, although they have continued to talk in vague general terms about flexicurity, in practice they have returned to the uncompromising model of the neoliberal labour market—a model from which the OECD (2006b) began to distance itself some years ago (see also Esping-Andersen and Regini 2000; Avdagic 2015).

In its recommendations to the debtor nations in South-Western Europe and Ireland, the Commission has advocated only the dismantling of old forms of social protection and the weakening of collective bargaining (and hence of trade unions). There has been no attempt to encourage replacement of these institutions with those of the new social risks school, let alone the combination of old and new policy that seems to be required for an optimally functioning labour market. This is seen at its clearest in the Commission's joint Memorandum of 2012 with the European Central Bank and the International Monetary Fund to Greece (Government of Greece 2012), as this spells out in particular detail the policy preferences of an uncompromising neoliberal regime. The revised memorandum of 2015 is less singularly neoliberal in its insistence on a more egalitarian fiscal regime, but the stance on social policy has not changed.

Trade unions and, to some extent, employers in the Nordic countries resent the de facto rejection of their highly successful labour market regimes, resulting from the a priori assumption of EU policy that only a neoliberal market order can function efficiently. This is leading to demands for a "renationalization" of employment and labour policy in that part of the world and among other observers critical of current EU developments (Streeck 2013). This is understandable in the context of what has been happening, but short-sighted. It is very difficult to protect the national labour-market institutions of individual countries in a globalizing economy. There is constant pressure in that environment to move to lowest-cost models that deliver the highest short-term profit. The EU does not drive this process, which is no way limited to its members. Critics can argue that the EU should be a level of creative response to it rather than, as it is increasingly becoming, simply one of its facilitators, but the call for a renationalization of social policy is Quixotic.

It is often not possible to judge in advance which aspects of economic systems are likely to deliver economic success, but in the short term, there is pressure to impose uniformity. Intense competition drives out diversity. We have seen this played out in the financial system. First, the Anglo-American system deregulated itself and was stripped down to the goal of short-term profit maximization. It was then advocated as a superior system to the rest of the world, and systems of corporate governance and corporate accounting were rewritten to conform to it. By the time it became clear that short-term profitability could accompany long-term non-sustainability, it was too late to save the world from a financial collapse.

At the same time, unions and their associated parties in South-Western Europe are tempted to seek a return to their former social policy regimes, even though these have usually been associated systems of legal job protection that increasingly benefit just a minority of the work force, excluding many of the lowest paid, and (with the exception of France) result in high levels of inequality in the distribution of social benefits. Understandable though their rejection of neoliberal strategy may be, their own approach brings no solution and arguably makes everything worse.

Whether the national system being defended is a totally viable one compatible with universalism, egalitarianism and a high-performing economy, or one that is economically less viable and associated with unequal access to the social state, no solution can be found by pitting national social achievements against EU neoliberalism. Also, and particularly but not solely within the Eurozone, when labour markets function poorly in an individual country, the consequences impact others. Although labour market issues were not the main cause of the Southern European debt crisis, they are implicated and cannot be ignored. The idea that EU policy does not need to touch national labour market and social policy is difficult to sustain. By the same token, however, if Europe offers only strict neoliberalism, denying the success of the Nordic and some other economies and offering nothing but increased insecurity to workers in South-Western ones, it will become increasingly difficult to resist the pressure for renationalization.

The impact of immigration

Particularly important among the problems of allowing labour markets to “clear” through unimpeded competition are those relating to mass migration. For labour markets to clear where there is migration from countries with considerably lower living standards, the wages of “native” workers in the countries receiving immigrants might have to fall a long way. The neoliberal answer is that in the long term, wages will rise in the labour-exporting countries as their economies improve and extensive emigration produces labour shortages. Meanwhile, wages will fall in the countries of immigration, reducing the incentive for workers in the countries of emigration to move. In the end, migration is reduced to small flows in both directions, and the problem disappears.

Certainly, in the long run, such a reduction in cross-national inequalities would be a desirable outcome, and eventually it will probably happen. But the long term could be very long indeed, and the process of gradually declining wages in the countries of immigration is already creating insecurity and anxiety, leading to social disturbance, xenophobia and pressure for the restriction of immigration. Immigrant communities, which can usually be distinguished as culturally and linguistically "different", are becoming vulnerable to persecution and violence. These problems are beyond the reach of economic theory; fear and anxiety leading to xenophobia and ethnic conflict are externalities to which the theory has only one answer: wait patiently for long enough and the market will clear.

National welfare states have been built on the basis of shared citizenship: we recognise each other as members of a national community and accept obligations to support each other within that community (provided we can see that others are also trying to make a contribution). Extending that idea to a small number of immigrants worked with some, but relatively minor, difficulty in several European countries (especially in the Netherlands and the UK). But as the number of immigrants grows, that generosity of spirit can become strained, and that is what is happening now.

It is necessary to distinguish between three types of immigration affecting European countries. First is immigration from former colonies or parts of the world with which a country has had a historical association. This was of major importance for people from the former empires of Western European nations in the first three post-war decades, a process that continues. But it is particularly prominent today for Spain and for some countries in Central and Eastern Europe with borders with non-EU but fellow-Slav states. These issues are specific to the countries concerned and probably have to be resolved by them, in partnership with the countries of emigration.

Second is migration from the new member states into the countries of Western Europe. This is where EU neoliberalism has been so blind. Since, for neoliberal economists, welfare states achieve nothing and human beings do not need to be considered as anything other than units of labour power, there was no need to consider the implications of relations between native populations called upon to extend benefits of their welfare states, which have been important badges of their citizenship, and immigrants making even modest demands on those states. However, if we accept the concept of social citizenship as something meaningful that affects people's behaviour, we should be able to see that if migration is taking place under the umbrella of EU membership, then a degree of social citizenship at that level is also necessary.

NATIONAL WELFARE STATES HAVE BEEN BUILT ON THE BASIS OF SHARED CITIZENSHIP: WE ACCEPT OBLIGATIONS TO SUPPORT EACH OTHER

If the citizens of countries receiving large numbers of immigrants are to be reassured that the integrity of the contributory base of their welfare states is intact, those national systems should not have to bear the burden of immigrants' use of social services and transfer payments until those immigrants have started to make a contribution through work and taxation. Further, if the people of all Europe are to see themselves as European citizens, there needs to be a level of welfare state that operates at the EU level.

If Europe is no more than a group of markets, including a labour market, there is no reason why the citizens of individual countries should accept any obligations towards immigrants in their midst. This calls for a level of basic social entitlements to which Europeans should have access whenever they are living in an EU member state other than their own and are in need of social support. These entitlements should be funded by contributions from all member states, based on a formula that links national wealth and a country's number of emigrants. Access to citizenship services by an immigrant should at first be funded by calls on that fund by the receiving state, being gradually replaced by purely national funding as the immigrant makes a contribution within his or her new country.

Finally come immigrants who are really asylum seekers, fleeing war, famine, persecution or other disasters in countries outside Europe. These comprise a growing share of cross-national movements of people, especially for Germany, Austria and the Nordic countries, but also for Greece and Italy, often the first ports of call for people escaping some of the world's most troubled places in North Africa and the Middle East. Even more than with EU migrants, these movements are causing stress in the receiving countries, again undermining the solidarity of the welfare state. But it is usually impossible, or extremely callous, to solve the problem by simply sending the people back to the places from which they are escaping. However, if the countries of Western Europe, North America and elsewhere are to be expected to play this kind of role in receiving the world's distressed, there again needs to be an international fund, in this case operated at the level of the United Nations, of the kind proposed here for EU member states, though at a less generous level, since membership of the UN does not involve the same obligations as that of the EU.

It would be wrong to pretend that this kind of approach could solve all the problems presented by immigration, especially illegal immigration that is not part of labour market policy. There are problems here of the relations between some forms of Islam and other parts of the world, including fears and the reality of terrorism, which are beyond our present scope. However, these issues are affecting labour markets because they are exacerbating existing tensions between host and immigrant populations. Labour market policy, therefore, has to recognise the questions involved and, for its own sake, play whatever part it can in ameliorating those tensions. This mainly includes alleviating anxieties about labour market insecurity.

Conclusions

Overall, these developments point to a need to strengthen the European level of labour-market policy-making, but with a broader, more imaginative and politically more diverse set of policy instruments than current EU policy biases allow. This requires moving beyond a neoliberal perspective and taking account of a wider range of values. The problem is that European—as well as many national—policymakers seem unwilling to embrace these wider perspectives. Instead, therefore, we are being trapped into a cycle of damaging approaches whereby intensifying labour insecurity is one of the causes of growing income inequality, which in turn creates consumption problems for large numbers of citizens, driving them to take more and more household debt, and separately reinforcing xenophobia. If EU labour and social policy continues on its present track, further Europeanization will be an unmitigated disaster. But responding to that prospect with a renationalization of this policy area will simply fail under the pressures of globalization.

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