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# **A social union for Europe?**

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(KRONBERGER KREIS)



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**Gert Dahlmanns**

## **Europe under pressure**

### **The illusions of social and labour harmonisation**

What should tomorrow's Europe look like? What shape should it take? Now, as we approach the millennium, we are right in the middle of the debate on the external contours of the Union and of the plans which are to promote its internal development. At the same time, individual states are making great efforts to define their future role in this constellation. Furthermore the position of citizens with regard to the old and the new collectives is being questioned.

But at precisely this crucial point in time, when opposing views on this topic are clashing with one another, Europe's welfare states are coming under pressure from both sides: from the side of employment and from that of the social security systems. On the one hand, the ossified domestic labour markets in particular are not capable of the incisive response to the competition that has sprung up worldwide. On the other hand, partly as a result of this, the social security systems, which are based on contributors being employed, and were conceived in terms of full employment, are facing ever greater difficulties. These systems are being eroded away, and without radical structural changes they will be unable to deliver what they still promise.

### **The temptation to transfer responsibilities**

The outcome is widespread disorientation accompanied by the strange temptation to escape these problems by transferring them to another level of responsibility, the European level. Consequently, there are now calls, especially from the ranks of the old industrial Member States of the Union, for a so-called „active European employment policy“, together with demands for a „European social union“, to be set alongside economic and monetary union. The present study in English by the Kronberger Kreis, the research council of Frankfurter Institut, takes up the two ideas and the arguments which are put forward to support them.

The social union demanded by trade unions and politicians of all hues basically amounts to two elements: throughout the European Union as a whole, it is argued, that minimum standards of social security should be introduced and that Member States should be committed by treaty to pursuing a joint active social-security policy. As the German Federation of Trade Unions openly states „the European social security model, which is characterised by state responsibility for provision against social risks in life“, is to be established in this way throughout the entire Union.

However, the raising of minimum standards and the related increase in the costs which affect competitiveness, do not only run counter to the interests of those Member States which are making up ground economically. The ideas expressed in such demands as regards the allocation of roles between the individual states and the Union and between the individual and the collective also have a fundamental bearing on how the European Union will function in the future. If they were to be implemented, the Union would assume a different face. The Member States would largely relinquish the opportunity to respond in the future to new challenges in the fields of economic, social and labour-market policy according to their own ideas and priorities. Subsidiarity, which up to now has been the declared constructive principle of the European Union, would thus be undermined further, and virtually throughout Europe people would be robbed of the possibility of defending themselves against the encroachment of the welfare collective which manages their affairs and increasingly takes decisions for them.

In view of the significance of these ideas, the present study examines in detail the arguments put forward in favour of social union, measures the proposals which have been made against the declared goals and reveals the questionable character of both. Above all, it demolishes the illusion that individual Member States could rescue or even extend their lavish and expensive welfare states by means of Europe-wide harmonisation.

Just as clearly, the study pinpoints the risks and pitfalls of the attempt to make labourmarket policy and pay settlements a European matter. It exposes the dishonesty and the protectionist intentions behind some of the arguments used in this connection and

shows that ultimately only the competition between business locations is able to increase the wealth of all concerned.

### **The pitfalls of the social state**

The social state itself as it is understood and upheld today by countless interest groups and many governments is subjected to fairly thorough examination. It demonstrates what has become of the original notion of a constitutional state flanked by a social welfare component and how this has developed a momentum of its own to the detriment of those who are really dependent on support. Furthermore it demonstrates how politics and society have become increasingly caught up in this process – leading to both the paralysis which now exists and the inability to adjust to the changing world.

In all the countries of the European Union and at the Community level, the debate about the future goals, substance and methods of European unification is still in progress. In this connection, the present study has a threefold function:

- It exposes the false aspirations of the existing social state which has developed ad absurdum, also tackling the illusion that welfare policy or employment policy could preserve jobs or even create new ones the moment it was implemented at the European level.
- It describes the unfortunate direction in which the repeatedly advocated Europe-wide harmonisation of wages, working conditions, environmental standards, taxation and social security systems would lead.
- And it provides suggestions as to how in the Europe of the future the elementary needs of citizens for self-determination, meaningful work and social security can be combined with one another: neither through the tightening-up and Europe-wide standardisation of national rules which have already proved unsuitable for the task, nor by means of redistribution of wealth on an even larger scale, but instead through a decentralised adaptation to the dramatically changed conditions for competition.



Underlying all of this is the image of responsible individuals who want to decide autonomously how to lead their lives, who wish to provide for themselves and only turn to the collective – but are able to rely upon it – if, and to the extent that, their own powers are insufficient. This image of humanity corresponds to the best European philosophical traditions, to which all European peoples since the Greek polis have made their own contribution in a history that stretches back over several millennia. More than all the constitutional, administrative and procedural arrangements and all the technical details of the process of European unification, this image of humanity should be made the focus of reflections on the future face of Europe and its spirit.

## **Preface**

Many people are urging the European Union to tackle the unsolved employment and social-policy problems of its Member States. For the sake of “the social dimension of the Community”, it is claimed, the agreements reached at Maastricht have to be complemented by a chapter covering a common employment and social policy. Only jointly implemented measures are thought capable of bringing living standards into line with one another throughout the EU, of strengthening economic and social cohesion, and of ensuring that European economic and monetary union functions.

If the Community yields to these demands, it will aggravate rather than alleviate the existing problem of inadequate economic momentum in Europe. Establishing central responsibility for the employment and social-policy issues of the individual Member States would clash with the subsidiarity principle. It would be fatal if the Member States were allowed to shed their responsibility for the self-created problems of the labour market and the social-security schemes. They must solve these problems themselves, and are indeed able to do so, if the political will is present. In view of the great challenges with which we are faced in Europe today, it would be counterproductive to introduce a rigidly defined “social union”.

Norbert Berthold also contributed to this publication. We should like to take this opportunity to thank him.

December 1996

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## **I. Introduction**

1. The world and with it Europe is changing. Thanks to worldwide trade-policy agreements, the goods and factor markets have been further opened up. Both the transportation of goods and communications have become better, faster and cheaper. All of this has promoted the globalisation of markets and favoured the internationalisation of production locations. Even though the migration of workforces has not become any greater, the labour markets are confronted with keener international competition. The Member States of the European Union have lent extra momentum to this development in the form of the Single Market project of 1992 for Europe's markets in goods and services, but above all for its capital markets. European economic and monetary union will provide further impetus.

### **National welfare state under scrutiny**

It is an undisputed fact that open goods and factor markets are a major prerequisite for more wealth, more worthwhile jobs and more individual freedom. However, these advantages do not come free of charge. At the moment, the problems of adjustment are taking the form of a higher degree of structural change, which is imposing considerable burdens on employees and companies alike. Quite a substantial part of these burdens is falling on the social welfare state, where two trends can be noted. For one thing, the social welfare state is financially overstretched; all those who bear responsibility have to insist that steps towards rationalisation be implemented; the balance between social solidarity and the assumption of individual responsibility must be worked out afresh. At the same time, there has been a notable rise in the number of those who feel dependent upon the state – either now or at some time in the future – and who vigorously defend the rights to the entitlements that the state has promised them.

The two developments are hitting those European Union countries especially hard in which the welfare state is particularly extensive. The "European model" is facing its crucial test. Its programme is intended to combine competition and solidarity in such a way that, on the one hand, the allocational advantages of market solutions are utilised while, on the other, socially undesirable outcomes are corrected with the aid of the government. It seems, however, that certain limits have been reached.

**Pressure for  
“Europeanisation”**

2. The demand voiced by representatives of labour organisations, but also occasionally put forward by a number of politicians and contained to some extent in the Maastricht treaties, that Europe’s economic and monetary union be complemented by a “social dimension” must be seen against this background. This is not simply a matter of achieving a reasonable distribution of the fields in which social welfare policy is active in an ever more integrated European Community and of finding a minimum level of uniformity for given social commitments of companies. In the drive to establish a European social union, four other basic interests are also discernible:

- (1) The social welfare state is to be defended in the form in which it has developed over the past decades. This is what the richer countries in particular want.
- (2) Part of the burdens imposed by the social welfare state is to be transferred to the European level. This is what the poorer countries in particular want.
- (3) The richer countries are interested in using harmonisation of social welfare arrangements to make labour in other countries as expensive as it is in their own.
- (4) A lowering of wages and a reduction in welfare benefits are to be prevented, as is a deterioration in the other working conditions in Europe such as might be created by keener competition.

The agreement to create a European economic and monetary union has made people aware that “the market” is set to play a more prominent role. This creates anxieties which—as so often—give rise to defensive reactions which make possible the very thing which is feared. One of these defensive reactions is to insist upon the establishment of a European social union. While the confused notion that the one determines the other has been in existence for some time, recently the demand has been voiced, and not only by trade union representatives but also by the European Union’s so-called reflection group in connection with Maastricht II, that the EU treaty be amended to include a chapter on employment policy.

## **Scale of the welfare budget**

3. A great deal is at stake in the defence of Europe's social welfare state, but this also holds true for harmonisation. The Scandinavian countries are to the fore. Their welfare states are still the most highly developed. Their payments for social purposes continue to equal 40% or more of their GDP. But in Europe's economically strongest countries as well, the welfare state claims every third currency unit that is earned. As a result, the so-called social expenditure ratio stood at 31% in Germany and France in 1993. The large Mediterranean countries still have ratios of over 20% – in Italy practically 26% and in Spain 24%. Portugal and Greece feature at the end of the table with ratios of 18% and 16%, respectively.

The core of the social-political activities consists of the social-security systems, insurance against illness and insurance for old age as well as the state-organised insurance against the financial consequences of unemployment. In some European countries at least, the latest offshoot of this family is the state nursing-care insurance scheme, which is funded on a pay-as-you-go basis. Unemployment, which has been persistently high and rising since the mid-1970's, has led to a stronger application of both passive and active labour-market policies. The state's redistributive efforts do not merely concentrate on the problem of tackling poverty. Most of the amount that is redistributed is moved backwards and forwards in the middle-class income range between those who are not quite rich and those who are not quite poor. Those on middle incomes may feel that they benefit from the state's redistribution arrangements. In fact, though, they finance the lion's share of the payments made by the state.

Social policy also encompasses the huge number of regulations of either a legal or a collective bargaining nature which in the form of prohibitions, orders, conditions and required agreements regulate working conditions; yet at the same time they directly or indirectly raise labour costs and limit the flexibility of companies by restricting their scope for action.



## II. Social-policy ambitions in the European Community

### Contractual basis

4. The concrete provisions of the Maastricht treaty do not really leave any room for doubt: social policy is primarily the concern of the Member States. Ambiguously formulated general goals such as the creation of “a high level of social protection” or promotion of “economic and social cohesion and solidarity among Member States” make it difficult, however, to draw a sharp distinction between the responsibilities of the individual states and those of the Community. Quite obviously, the intention is to extend gradually the sphere of influence of the European Union in social policy at the expense of the Member States. This was not always the case.

5. Initially, the founder members of the EEC were entirely of the opinion that more strongly integrated goods and factor markets would improve both the standard of living and the working conditions for workers and harmonise them (Art. 117, EC Treaty). Social-policy considerations were quite peripheral to the Treaties of Rome. France did not manage to push through its more far-reaching ideas concerning the social-political requirements of an economic community. This restrictive stance was preserved up to the mid-1980's. As unemployment ratios climbed – rising from just under 3% to over 10% within a decade – efforts to achieve social harmonisation received greater attention. With the enlargement of the Community to include Spain, Portugal and Greece, labour-cost differentials widened. The northern countries began to worry about their competitiveness in the Common Market. The 1992 Single Market project, agreed in the mid-1980's, removed further obstacles to trade and impediments to the goods and factor markets. Trade unions in the northern countries feared that more liberalised trade Europe-wide and unhindered flows of capital would undermine the social protection of their members. Calls for the Community to establish provisions for its “social dimension” became louder.

### Centralising tendencies

6. The Maastricht treaty partially accommodated this initiative. In the new formulation of Article 3 (Activities of the Community), the European Union was provided in a general form with responsibilities and powers in the field of social policy and economic and

social cohesion. With the exception of the United Kingdom, which declined to follow the path of the Community that had been outlined as early as 1989 in the Community charter on social fundamental rights (“social charter”), the Member States concluded an agreement on the intended future social-policy activities of the Community and appended it to the protocol on social policy.

To some extent at least, European social policy can be said to have developed centralising tendencies. Minimum standards can now be resolved with a qualified majority in a number of areas (e.g. job safety, working conditions, informing and consulting employees, and equal opportunities for men and women). The Commission and the European Parliament are keen to increase the areas in which majority votes are possible, for instance by means of a broad interpretation of the notion of the “working environment” (Art. 118a, EC Treaty). Unanimity is still required in the areas of the social security of employees, protection against dismissal and co-determination. The Community has no powers at all in such central areas as pay, the right of association, strikes and lockouts.

One provision which could increase in significance is that the Community automatically takes on new powers if the Commission shows that certain social-policy responsibilities are not being adequately covered by the Member States and can be better looked after by the Community. As Article 3b of the EC Treaty determines the Community’s fields of activity by defining goals for which it bears responsibility, and not by isolating and allocating concrete responsibilities, there exist no truly insurmountable obstacles for centralistic tendencies. The subsidiarity principle represents an obstacle, but it is uncertain whether it is sufficiently high.

The rather vague formulations in the treaty, which consequently permit various interpretations, make disputes between the Commission and the Member States inevitable about whether a measure has to be resolved unanimously or only with a qualified majority. Even in the past, the European Commission was keen to restrict the need for unanimous decisions by the Council of Ministers.

If differences of opinion arise between institutions of the European Union and its Member States concerning the minimum number of votes required, the European Court of Justice will have to decide

the issue and, as it generally decides in favour of the Commission, this will reinforce the centralistic tendencies.

## **New plans**

7. At intergovernmental conferences, further institutional changes have been discussed. The existing cooperation procedure for decisions of the Council of Ministers, for which a qualified majority is required (Art. 189c, EC Treaty), is to be abolished and replaced by a procedure involving the European Parliament in decision-making (Art. 189b, EC Treaty). This enhances the influence of the European Parliament. Under this procedure, the Council of Ministers cannot unanimously dismiss the objections of the European Parliament. As the majority in the European Parliament also favours more far-reaching central powers for social-policy issues, this would tend to erode the authority of the individual states as well.

Other proposals envisage the Council of Ministers continuing to work exclusively with unanimous decisions insofar as primary law and other resolutions with "constitutional character" are being amended. However, for secondary legislation such as directives and regulations, the qualified-majority principle is to be extended to further cases or even enjoy sole validity. Social-policy decisions, which previously required a unanimous vote in the Council of Ministers could then be resolved with a qualified majority in the future.

The protocol relating to social policy has made it possible for labour and management to regulate in the form of Europe-wide collectively negotiated agreements the areas specified in Art. 2 of the protocol (above all, agreements relating to the regulation of working conditions). The European Union would guarantee the enforcement and application of such regulations if this were called for by the parties to the agreement and approved by the Council of Ministers as proposed by the Commission. If this actually happened (which is, however, unlikely), the Council and the Commission would assume responsibility for ensuring that collectively negotiated agreements were adhered to. This would be tantamount to a substantial extension of Brussels' opportunities for exerting influence.

Individual national governments have also made numerous suggestions for areas that could be regulated by Community directives. The German federal government, for example, has made proposals for developing a hard core of minimum standards that are binding throughout the Community. They relate inter alia to pay on public holidays and sick pay, "adequate protection against dismissal", and the integration of the handicapped into the workforce.

The aim of the European Commission is laid out in its 1994 white paper on social policy. A convergence of the goals and measures taken is to be achieved in the area of European social policy. The European Commission wants to establish "identical starting conditions by means of uniform minimum standards". The onus is on Member States to improve their social standards and develop them. At the same time, it is intended to "establish citizens' fundamental rights as an element of the European Union's constitution law". As "uniform minimum standards" will hardly be established at the lowest level of all Member States, the poorer countries in particular would have to reckon on a substantial rise in their labour costs if the Commission managed to push through its ideas.

8. In the meantime, the Council of Ministers and the Commission have become active in a variety of ways in terms of social policy. The "co-operation between Member States in the social field" (Art. 118, EC Treaty) and the coordination of the social policy of the Member States have made progress above all as regards provisions for the prevention of occupational accidents and diseases, hygiene and the equal treatment of men and women, as well as through provisions to protect existing employment and by means of regulations relating to the free movement of labour. A directive exists on European works councils, and detailed regulations have been set up to cover social insurance, ensuring that divergent national provisions (for instance, in health or pensions schemes) do not entail any disadvantages for employees who are active in several Member States in the course of their working lives. In addition, there are provisions guaranteeing protection for young people and women on maternity leave. The European Social Fund has considerable resources which are used to support vocational training and retraining, especially in the case of the unemployed (Art. 123 ff, EC Treaty). In this way, the social impact of adjustment to structu-

## **Community regulations**

ral changes can be cushioned and made easier. Key areas of social policy, therefore, have already been regulated by the Community.

### **III. What is necessary and what is sufficient: social policy along strict subsidiarity lines**

9. Social policy is rightly considered to represent a model case of social responsibilities which can be shared between the various groupings within society in keeping with the subsidiarity principle. The concept of subsidiarity is taken from Catholic social doctrine, which has focused in particular on the problem of how solidarity can become effective within the temporal order of society. In a more general form, the principle has gained validity in connection with the competition to assume powers between institutions inside the European Community. Given the special features of the matter in question, and also in view of the contractual commitment to this principle, it should be undisputed, therefore, that in the assumption of social-policy responsibilities by the Member States and the European Community the subsidiary character of the powers of the next higher level compared with all the lower levels should always be strictly observed. The details of why this is beneficial will become evident in due course. The advantages are not only to be found in the fact that in this way social problems can be dealt with best. It is just as important that the system of competitive markets, which is how a market economy has to be seen, is least disturbed by social-policy action.

10. Strict application of the subsidiarity principle means not moving very far away in social policy from the responsibilities for the European Community that were assigned by the Treaties of Rome. By means of suitable regulations, the Community has to ensure that the coexistence of independent and divergent national systems of social security does not prove detrimental to those people who realise their guaranteed right of freely selecting their place of residence or work within the European Community. This is indisputable. But not very much more besides.

11. Strict application of the subsidiarity principle also means that the European Community should not pursue social policy primarily as a policy for restricting competition and only as a secondary consideration engage in social policy in the narrower sense.

**Not a “level  
playing-field”**

Advocates of a far-reaching harmonisation of collective regulations by the state or other bodies frequently use a catchy metaphor. They claim that the economically active people in a single market have a right to a level playing field. There may be areas of regulation in which this metaphor is a help. Generally, however, it is only useful – and this is how it is mostly employed – to provide an inadequate line of argument with an illegitimate bonus of metaphorical meaning. God himself did not provide human beings with a level playing field. Not only did He create them differently, but He also gave them parents with different degrees of goodness and different levels of wealth, soils of divergent quality, divergent climates, and so on. They now have to cope with these things as best they can. And they do so. One person will accept his disadvantage and restrict himself accordingly, another will try to compensate for it by making greater efforts, a third is particularly thrifty and as a result ensures that in the future at least he will have things better.

And anyone deserves respect who does not want the state to decide how he should manage. This applies to anyone who is self-employed, but also to anyone who sells his labour to another person by means of an individual employment contract, and even to anyone who, together with others in the same situation, has his working hours, pay and other working conditions regulated by means of a collective agreement. Hardly anyone wants to have outsiders who otherwise have nothing with them and people like them dictate whether they work for a long or a short time, by day or by night, with a long or a short holiday break, with comprehensive or limited coverage against the risk of falling ill, and with higher pay and independently organised provision for old age or with lower pay and a collective old-age pension scheme. They certainly do not want to have it dictated to them in a manner which makes it impossible to put their labour to use. People would even prefer to decide largely for themselves in concrete cases what they owe to themselves as human beings. Women perhaps prefer to have it decided at the Community level whether at all events they wish to earn the same as men for the same work even though their chances of finding employment would then be restricted due to the possibility of them becoming pregnant. But they prefer to be represented by organisations in which they have become involved because of shared attitudes, rather than having a decision taken on the basis of

human rights, in which they are represented by a world government or a European government.

In short, there exist probably only very few areas, if any at all, where it seems appropriate for a European instance to tell the people of Europe under what conditions they may work. Here it is especially important that, given the differences in labour productivity, each partial standardisation automatically doubles the discrepancies in the other working conditions unless lower productivity is to lead to unemployment.

12. European monetary union will not have any consequences which alter this state of affairs in any way. Wage policy will be more in a position again to have an effect on employment. In a community in which the value of money is fixed for all participants and no more exchange-rate fluctuations occur, every regional fixing of nominal wages also means a fixing of real wages – a fixing of wages which must stand up to competition with others who have fixed their own wage levels. This has double significance. No regional devaluation of the currency is able to reduce a nominal wage that is too high in comparison with others, thus making it competitive. No regional upward revaluation of the currency will raise a nominal wage, which has been fixed cautiously in order to make more sales, output and employment profitable, will raise it relative to others, and thus remove its competitive impact at some point or other. It is frequently not recognised in the debate on European economic and monetary union that the second case, rather than the first, is the decisive one. The first case, namely – the fixing of overly high nominal wages – can be avoided through conscious decisions. The second case – the possible thwarting of a cautious wage policy through a revaluation of the currency – cannot be avoided without a monetary union. Naturally, it holds true here that anyone whose weapons are sharpened bears greater responsibility for using them properly.

**European  
monetary union  
and wage policy**

13. The vague notion that a monetary union creates a community bound together in solidarity and sharing a common fate is not very helpful in deciding what tasks await a European social policy in the future. Under monetary union, market economics remains an individualistic affair – a system of decentralised decision-making on the basis of decentralised responsibility. The Member States

**No new social  
problems, ...**



will receive a currency which is equally good for all of them alike. What they will lose is the option of creating a currency that is nationally bad. This is not a loss to be lamented. Inflation solves no social problems. If the European economic and monetary union is successful in creating good money, it will produce major advantages. And when we enquire about the approach to social policy which the Community needs, we can and indeed must simply assume that it will be successful in this sense. Yet then there is no basis for the fear that monetary union will bring with it new social problems which only the Community as a whole can tackle.

It is surely correct to say that whenever people undertake something together, they consider how part of the advantages which will be generated by everyone can be reserved in order to help those who through no fault of their own are experiencing difficulties. This will be the case in the European economic and monetary union as well. It is the fruit of solidarity that grows out of a feeling of belonging. In the final analysis, solidarity is rooted in everyone's own interest in securing a long perspective in a world of uncertainty. It should be noted, however, that help can be expected by those who are encountering difficulties through no fault of their own, and not by those who speculate on receiving such aid and behave accordingly.

**... but modification of demands**

14. There is good reason to expect that the European economic and monetary union will intensify the international competition to which labour markets are exposed and also the pressure to rationalise which social-welfare systems are feeling in virtually all European countries. This has already been mentioned. Anyone whose main function is constantly to press for higher wages and better working conditions or to spread new ideas for developing the welfare state will understandably regard this as an existential threat. A Europe-wide wage squeeze and the demolition of the welfare state are the catchwords here. There are calls for a Europe-wide regulation of social policy. However, anyone whose prime concern is how to deal with the depressing problem of Europe's alarmingly high level of long-term unemployment sees things differently. He cherishes the hope that wage restraint will persist and that very large savings can be made in social welfare budgets. He cannot even rule out the possibility that real wages in Europe will even have to sink, particularly where wages have to be paid that

are too high for unskilled jobs (and for work with obsolete qualifications). It is true that no-one achieves a competitive edge if he reduces his wage claims and others follow suit. Nor is the real promise entailed by competition the gaining of an advantage at the expense of others. Rather, it lies in achieving a market-clearing price for all. In terms of the labour market, this means a wage at which all those who are prepared to work at this price can find work. Only when viewed at a superficial level does competition imply a free-for-all. Basically, it is a matter of finding out which additional types of work become worthwhile if demands as regards the level of the compensation are gradually lowered somewhat. Viewed objectively, of course, there is enough work in the world for everyone. Yet as we can all see, there is not enough of that type of work which produces a return sufficient to pay the wages currently demanded in Europe. It is certainly true that a rational adjustment will ultimately lead to those people earning less who found employment even at the initially high wage rates paid despite the real market situation. But insofar as the high wages applied to all, the previously advantageous work situation of the privileged was bought at the expense of the opportunities to find gainful employment for those who remained jobless.

## IV. The labour-market policy aspects

### 1. The starting-point

15. For many years, most Member States of the European Union, including Germany, have been confronted with the problem of high unemployment. At present, roughly 8 million people of working age are registered as job-seekers; the unemployment ratio stands at 11% (see table). Practically one in four of the unemployed is younger than 25; practically every second job-seeker has been without a job for over a year. The hardest hit by unemployment are unskilled workers, yet recently the number of qualified people who are jobless has been rising. The European Commission believes that unemployment is principally due to structural causes, which means that an economic upswing would not substantially ease the enormous problems in the labour market. In fact, over the 1993-1995 period, no more than 700,000 jobs were created overall within the Community, whereas in the United States employment increased by more than 4 million over the same period.

<b>Unemployment in selected EU countries</b> – as a percentage of all gainfully employed – – standardised –					
<b>Country</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
Belgium	7,2	7,7	8,6	9,6	9,4
France	9,4	10,3	11,7	12,3	11,6
Germany*	4,2	4,6	7,9	8,4	8,2
Italy	9,9	10,5	10,2	11,1	12,2
Netherland	7,0	5,6	6,2	6,8	6,5
Spain	16,0	18,1	22,4	23,8	22,7
Sweden	3,3	5,8	9,5	9,8	9,2
United Kingdom	8,8	10,1	10,4	9,6	8,7
European Union for comparison:	8,5	9,4	10,9	11,4	11,0
United States	6,8	7,5	6,9	6,0	5,5

\* 1991, 1992 western Germany only  
Source: OECD Economic Outlook, Nr. 59, June 1996

16. In view of Europe's weak job creation, calls for measures to boost the labour market are growing louder and louder. There is a widely-held view that this can best be organised at the Community level, representing a component as it were in the creation of a social union. According to this view, the common labour-market policy has to be flanked by action against competition from low-wage countries, if need be against countries within the single market as well; otherwise, it is claimed, there would be what it referred to as social dumping and distortions of competition, which in Germany and other high-wage countries within the European Union would cause an intolerable increase in the threat to jobs. What is more, this view of things also envisages collective negotiated wage policy being coordinated at the EU level in order to prevent unit labour costs from diverging too greatly once the exchange-rate mechanism has disappeared under European monetary union. We consider such ideas to be dangerous and misguided.

17. Above all, it is misguided to want to treat the symptoms alone, rather than tackling the evil at its root. If unemployment becomes so entrenched, as it has in the European Union, we have to assume that there are serious functional disruptions in the labour markets. And in fact virtually everywhere negotiated wage agreements have failed to take sufficiently into account the reduced scope for redistribution. In particular, they have made the regional, sectoral and qualification wage structures relatively inflexible if we bear in mind the need to adjust which has overtaken Europe's economies due to the ever stronger globalisation of markets. Virtually everywhere, parliaments have extended the welfare state so far that the social-security systems have run up against major funding problems, which have repeatedly made it necessary to raise the contribution rates of the insured (despite certain cuts in benefits), thereby pushing up the wage-related costs for employers. Virtually everywhere, labour markets have been over-regulated by means of legislation, collectively negotiated agreements and, not least, by the adjudication of courts, for which there were and still are solid economic and social grounds. But this has caused labour to become more expensive and has delayed structural change.

**Functional  
disruptions in  
labour markets**

In many EU countries, these channels have been responsible for creating a pressure from labour costs that is palpable and persistent. In countries like the United Kingdom and Italy, for example,

devaluation of the national currency temporarily brought some relief. In other countries, especially Germany, the problem grew more acute because their currencies appreciated. For an employment policy to be successful, it cannot lose sight of the connection between labour costs and the demand for labour. The lead is taken by management and labour in the various countries. They cannot and must not be relieved of their responsibility by any attempts to master the labour-market problems at the Community level.

## **2. Arguments against Community responsibility for employment policy**

18. In its white paper on growth, competition and employment (in December 1993), the European Commission urged the Member States to achieve closer cooperation in employment policy. The aim was to create at least 15 million new jobs by the year 2000 and thus halve the unemployment rate of the Community, which at the time comprised twelve countries. The Commission regards the promotion of cooperation between Member States in employment policy as one of its important functions. For this reason, it develops initiatives to promote investments which will boost employment – on both a small and a large scale (programmes for smaller businesses, trans-European infrastructure networks). The European Parliament, individual governments, and the trade unions in various countries have adopted a similar stance on this issue. At the intergovernmental conference (Maastricht II), the question whether the Community should be given responsibility for this area is being discussed, following proposals along these lines by the reflection group, which was entrusted with the task of preparing for the conference; the reference group used the rather farfetched argument that a high employment level is a matter of common interest, in accordance with Article 2 of the EC Treaty.

### **No borrowing**

19. If the Community were given responsibility for employment policy, this could lead to the EU budget being allowed scope for expansion through borrowing. This is unacceptable:

- The Community has no tax-raising powers, which is quite in order as the European Union is not a state entity (in the sense of a federal state, for instance). In the final analysis, it is the Member States which decide upon the financing needed to

handle the tasks allotted to the Community. This prerogative would be eroded if the Community were allowed to borrow funds itself. Already existent supranational centralising tendencies would receive even greater encouragement without any increase in overall efficiency.

- It is very doubtful whether higher indebtedness at the Community level can produce any positive impact at all on employment as the origins of joblessness are largely structural rather than cyclical. At any rate, the experience of Member States with an expansionary fiscal policy contradicts such expectations. It has rarely exerted anything more than a temporary effect. Public-sector budgets have got out of control; most EU countries are under considerable pressure to restore order to the public finances (not only for the purpose of meeting the fiscal convergence criteria of the Maastricht treaty). There would be no sense in reducing public-sector borrowing at the level of the Member States while continuing to allow it to expand at the Community level.

20. Nor does the need to improve trans-European infrastructure – where the Maastricht treaty leaves the Community room to take action – provide an argument for credit-financed job-creation programmes. It is certainly important to remove bottlenecks that exist in the infrastructure that supports business activity. However, public investment in this area can be funded privately, and it should be as this would be a more rational approach. For this purpose, though not solely for this purpose, the Community should use the scope which it possesses to remove the many remaining instances of state regulation relating to traffic networks, the structure of energy transport and telecommunications. At the national level, such regulation impairs competition to an unacceptable degree and within the single European market it represents an obstacle to a functioning trans-European infrastructure. The opening-up of markets needs to be given preference over the use of public-sector loans under the heading of “infrastructure measures”, especially since this would remove the risk that public-sector funds are squandered on prestigious schemes of doubtful economic advantage for either the individual country or the Community, not to mention the possibility of abuse which always exists.

**No active  
labour-market  
policy**

21. In European debates, the Community is urged to adopt an active labour-market policy, above all in order to combat long-term unemployment. This is not a sound proposal. There are good reasons for improving the chances of the jobless to find work, in particular through retraining and further training measures. Yet there is no reason to assign responsibility for such a policy to the supreme level of the European Union. Quite the contrary, in fact; everywhere that an active labour-market policy is being pursued, it has been shown that positive results can best be achieved if specific problem groups are targeted and the measures relate as closely as possible to individual firms. This can best be achieved at the lowest level of the hierarchy of government, as it were: on the spot. Naturally, all this should take place within the narrow boundaries that apply on principle for active labour-market policy. The latter is too expensive to be pursued intensively even in the case of problem groups. Its chances of success are generally uncertain and it can prompt the parties to collectively negotiated pay agreements to pursue a misguided wage policy. Community responsibility for active labour-market policy would not extend these boundaries. Labour-market policy is not a European task. This would obviously violate the subsidiarity principle.

**3. The “social dumping” fairy tale**

22. The momentum of structural and technological change is subjecting all the Member States of the European Union to enormous pressure to adjust. The main burden of adjustment is being felt by the affluent countries at the centre of the EU, and above all their less qualified workers. The costs of less qualified work have registered a disproportionately strong climb in the countries of northern Europe when compared with those in the southern part of the continent. For this reason, trade unions in northern Europe in conjunction with individual employers' associations and many of those bearing political responsibility are turning the tables by arguing that competition in Europe's labour markets is being one-sidedly distorted by the poorer countries on the periphery of the European Union. They claim that labour-law and social-security standards are too low there, as are wages. This amounts to “social dumping”, they argue, which cannot be tolerated any longer. They call for agreements which will increasingly harmonise the divergent standards in the labour markets of the European Union. The

ultimate goal of the unions at the centre of the Community is to achieve uniform working conditions throughout the European Union.

23. The charge of “social dumping” relates to two points. For one thing, it is argued that the countries on the periphery use their lower labour costs in order to offer their products too reasonably in the countries at the centre of the EU. For another, it is claimed that their workers represent “unfair” competition, as they migrate for a limited period and work at rates which are too low. It is certainly true that the single market makes it possible for workers from the periphery to aggravate intra-European competition in goods markets and in individual labour markets. But it is misleading to stigmatise such phenomena as illegitimate and call them “social dumping”.

It is not dumping if exporters sell their products more reasonably abroad than they do at home. Dumping takes place when foreign exporters attempt to push out domestic competitors by offering their products at prices which do not even cover their variable costs. The strategic goal of such behaviour would be to accept temporary losses in order to attain permanently higher market shares, in order subsequently to make profits through charging excessive prices on the basis of the monopolistic position achieved. It would also count as dumping if foreign workers were prepared to work in the domestic market for wages that were lower than in their country of origin.

In actual fact, neither state of affairs exists. The exporters of the periphery do not charge prices for their products which are below their variable cost prices. Moreover, employees from these countries have no interest whatsoever in working for a wage in Germany or elsewhere that is below what they could earn at home.

24. The lower wages and the less ambitious labour-law and social-security standards in the countries on the periphery reflect the less advanced level of development that has currently been reached there. The far more modest labour productivity in countries on the periphery means that less is paid for the work that is done. For the most part, the yield from it is paid to employees in the form of wages, while a smaller part is absorbed by wage-related costs. As



long as overall labour costs keep abreast of productivity gains, it is largely immaterial to companies how this distribution is achieved. The employees may see things differently.

There are various dimensions to the competition in Europe between the different production locations. While the more affluent countries at the centre of the EU benefit from advantages such as the better qualified workforce, a well-developed infrastructure and a high level of both basic and applied research, the countries on the periphery stake a great deal on the advantage they possess in the form of considerably lower labour costs. They need these in order to be able to sell the goods which they produce with a lower degree of productivity. What is more, competition between business locations increases the wealth of all those involved. If such advantages were to be artificially evened out, for instance by harmonising working and social conditions, the profits deriving from the exchange of goods that are made possible by the international division of labour would be reduced. This would be at the expense of all concerned, the countries on the periphery and those at the centre of the European Union alike.

**Harmonisation:  
a benefit for  
neither the  
periphery ...**

25. No really convincing economic argument exists for harmonising working and social conditions in Europe's labour markets. However, there are a number of arguments against such a measure. For this reason, the charge of social dumping may well serve to rob the countries on the periphery of a legitimate competitive advantage. The intention is to protect the high-wage countries of the centre against the low-wage competition from the periphery. Even the apparently socially-minded demand that employees in the poorer member countries should be given better working and improved social conditions barely obscures the protectionist interest. The liberal principle must be that employees in the countries in question should be allowed to decide for themselves whether they want more agreeable working conditions, better protection against dismissal or more leisure.

A gradual approximation of working and social conditions imposed EU-wide cannot be reconciled with the justified interests of the countries on the periphery. In order to maintain their competitiveness and uphold their employment levels, they would be obliged to depress the already low wages even further so as to offset the cost

effect of harmonising other working conditions. This runs counter to what employees obviously prefer (earned income versus leisure and a more comfortable workplace). Consequently, it cannot be ruled out, and is even probable, that employees would reject pay cuts in order to compensate for the higher wage-related costs imposed by the EU. This would lead to rising unit labour costs and therefore an increase in unemployment. Instead of closing the gap with the more affluent Member States, as would be desirable, these countries would experience a setback. In other words, the step in the direction of a social union would prove to be anything but social for them.

26. Anyone who thinks that at least the more affluent countries of the centre would benefit is short-sighted. Certainly, they could look forward to an easing of the pressure of competition. However, mounting joblessness in the countries on the periphery, triggered by a pressure to harmonise exerted by European social policy in defiance of market principles, would give rise to demands for financial compensation which would be hard to refuse. If these were accepted, the more affluent countries would have to shoulder the burden of higher transfers to the poorer countries, which in the final analysis is borne by the workforce in the form of higher levies. In addition, the reduced pressure of competition would lessen the incentive to realise desirable reform measures (flexibilisation of the labour market through deregulation, restructuring of the social-security systems). This would be counterproductive because, as things stand, the social welfare state in these countries has already landed in a cul-de-sac. The ballooning costs of the social-security systems are pushing up wage-related costs and widening the gap between labour costs and net earnings.

**... nor the centre**

#### **4. Protection through “posted-worker” guidelines?**

27. In recent years, the guaranteed free movement of labour within the European Union has increasingly given rise to the new phenomenon that companies in the countries on the periphery are offering the services of their permanent staff in the countries at the centre of the EU on the far more favourable terms of their country of origin. Germany is the target of such activities. It is quite legal to employ workers from other Community countries provided that their posting is of a temporary nature. As the wages paid are well

below German levels, output may be raised but at the same time domestic workers may be pushed out. Construction in particular has been hard hit in this respect.

28. Germany has tried to steer developments by means of the posted-worker legislation which became effective on March 1, 1996. The legislation is intended to ensure that the employees temporarily used by foreign firms in Germany do not receive pay that is far lower than that of their German counterparts. For this purpose, the partners to the negotiated agreement in question can opt to declare a minimum wage which they have agreed upon as generally binding. This minimum wage then also has to be paid by employers whose company has its legal seat abroad but employs personnel in Germany. Following a general directive passed by the Council of Ministers, with the United Kingdom and Portugal voting against the measure, posted-worker legislation of this kind can be introduced in the countries of the Community.

Germany's posted-worker legislation is valid for a three-year period. The declaration of the general application of a collective agreement, which pursuant to Section 5 of the Collective Agreements Act has to be made by the federal labour minister, requires the majority backing of the committee set up for this purpose and comprising representatives of the top-level organisations of management and employees.

**Freedom of  
movement  
needed**

29. It is very hard to reconcile the protection extended to local industries in the form of posted-worker legislation or other protectionist measures with an economic policy that is "conducted in accordance with the principle of an open market economy with free competition" (Article 3a, EC Treaty). The single European market is characterised by the free movement of goods, services, people and capital. Competition, therefore, is not restricted to the free exchange of goods. Rather, the freedoms embodied by the single market also entail the freedom of each European company to offer services, as well as the freedom of movement of all employees. Like free trade, the overall effect of the freedom of movement is wealth-enhancing, unless individual interests are given preference. Workers on the periphery of the Community are prepared to work on a temporary basis in another EU country for the much lower wages that are paid in their country of origin. This makes it possible to

produce there at lower cost. Consumers feel the benefit as they then have to pay less for their goods and services. However, if no corresponding rise in man-hour output is registered as a result, domestic workers in the industries in question are the ones who are harmed by such competition. Mobile gangs of workers allow firms to reduce their far more expensive permanent workforces considerably. Yet predatory pricing is legitimate, especially where – as in the European Union – no argument exists for rating the interests of those who are pushed out by such competition any higher than the interests of those who displace them.

30. In view of the cut-throat competition that prevails in construction, where between 150,000 and 200,000 foreign construction workers are claimed to have been posted, it is understandable that politicians react to the adjustment problems of the affected companies and workers. Nevertheless, the posted-worker legislation with its minimum wages represents the original economic-policy sin. It seeks to raise the costs of posted workers by establishing minimum wages, thus improving the competitiveness of domestic workers relative to foreigners who are prepared to work for lower pay. A similar problem arises within Germany itself when construction workers from eastern Germany are posted to building sites in the western part of the country.

**Posted-worker  
legislation – the  
original sin**

At a pinch, the posted-worker legislation might be justifiable as a measure that was to apply for a strictly limited period of time, provided that the time gained thereby were used for suitable adjustment measures. However, all our experience up to now suggests that the problem cannot be solved in this way. Protective measures like the posted-worker legislation ease the pressure to adjust, with the result that repeated extensions of their expiry dates causes them to become firmly installed. What is more, such a law whets the appetite of other industries. Structural adjustment is not peculiar to construction. Consequently, posted-worker legislation is not to be encouraged.

##### **5. Europeanisation of pay policy – undesirable and unlikely**

31. From time to time, trade unions voice the opinion that a stronger cross-border joint approach to pay-rate policy is desirable in the

interest of employment. Views range from a more intensive exchange of information to the establishment of common wage and social-welfare policy goals (e.g. the introduction of a 35-hour week) and the conclusion of Europe-wide collective agreements (in accordance with the principle “equal pay for equal work”, which the European metalworkers’ association demanded in a basic declaration on collective bargaining policy in 1993). Occasionally, too, there are individual calls from employer associations for a European pay-rate policy. These are prompted by the notion that this might perhaps influence the labour costs of their competitors from low-wage countries, i.e. jack up their wage costs (along the lines of the pay-rate policy pursued in eastern Germany after unification, which was largely determined by western German associations).

**Centralisation  
counterpro-  
ductive ...**

32. Let us assume that collective pay negotiations were centralised at the European level. This could only prove to be counterproductive. The differences in the economic situation of the various EU countries would not (and indeed could not) be adequately taken into consideration. Instead of revealing differences in line with the individual markets, interregional wage structures would be neutralised and would fail to reflect market conditions. The problem of structural unemployment in Europe would grow more acute rather than abating.

It is no consolation here that in countries like Sweden and Austria the results of central collective bargaining at the national level were not so bad in terms of employment. At the interregional level, the two countries did not have the same significant differences as regards the state of development as we find elsewhere across Europe. In any case, for a long time the readiness existed to cushion wage structures that were not in line with market reality by means of regional policy – until the financial means for doing so ran out. In the meantime, these countries as well have switched to a course that is characterised by more respect for market rationality.

**... and not to be  
expected**

33. In fact, the idea that pay-rate policy could be conducted at the European level in the near future also lacks a basis in reality.

For one thing, a joint institutional framework for such pay negotiations is entirely lacking. The way in which collective bargaining is

organised differs very greatly from country to country. Free collective bargaining is regulated in different ways, which means that the role of the state in collective pay negotiations differs accordingly. In some countries, unions and employers' associations are organised on an industry-by-industry basis; in others, they are active at the national level or differ in their ideological orientation. The European Trade Union Confederation and the business umbrella organisation UNICE have no authority whatsoever to negotiate; nothing which they might wish to agree upon would have a binding effect for the agreements negotiated within the Member States. There is no sign that new organisational structures with any relevance for decision-making could emerge and thereby lend support to a European level of negotiating.

For another, and this is actually what counts, the very different economic conditions in the individual countries make it hard to imagine that the interests of employers and employees can be forged together into Europe-wide cartels. The less developed member countries in particular know that they hold a trump card in the form of lower labour costs; a trump card which they have to play rather than allow it to be taken off them if their own economy is to export and hold its own against the competition from imports. No-one should think that they are naive enough to forego what makes them attractive as an investment location in the competition for internationally mobile capital. In this way, these countries can reduce the economic gap with the more advanced Member States and achieve a higher employment level, while gradually raising their social-security standards as well. Why, then, should wage policy there follow the line which the parties to pay agreements in the high-productivity countries would like to see emerge? Even if wages are paid in euros in the future and a direct comparison of wage levels is possible without any currency translation, employees in these countries, who above all want jobs, will not be calling for "equal pay for equal work". Nobody is that naive.

34. Not even the high-wage countries have the right conditions for moving collective bargaining to the European level. The interests of employees and employers alike are becoming increasingly difficult to form into cartels, above all due to the pressure exerted by the globalisation of markets. The traditional collective agreement covering entire regions has to become more flexible and

differentiated, otherwise it has no future. Currently, the resistance to such change is still great. But it is already the case at numerous companies in Germany and elsewhere that negotiated settlements are being circumvented and wages below collectively agreed levels are being paid, in some cases *contra legem*. Further signs of erosion on the employers' side are the exodus of previous member firms from their industry associations and the flat refusal of newly established enterprises to join the association. As the tendency grows for wage and salary-earners to have more flexible working times and to be taken on as freelancers, employment contracts will (have to) be made much more individual than they have been up to now. Here the interests of the employers and the employed will merge again, but not in the form of uniform contractual arrangements, but rather in the form of consciously desired variety. Everybody is learning that they have to reflect the changing market conditions – for the sake of securing both good opportunities for earning and gainful employment. Even if they tried, the representatives of the associations could do little against any of this by means of agreements concluded at the Community level; they would find themselves in a hopeless position. Collective bargaining policy is unlikely to take on a European dimension, therefore. Pay-rate policy will remain a national matter for a long time to come and will have to be conducted more and more in the light of European, and even worldwide, competition. Primitive forms of midwifery for producing negotiated pay agreements, such as strikes and lockouts, will become ever less appropriate and soon perhaps they will be things of the past. This is to be welcomed, not least due to the greater scope for macroeconomic efficiency and the dynamic momentum that is associated with it.

## **V. Harmonisation of social-security schemes**

### **1. Scope of Europe's social-security systems**

35. The system of social security covers a great deal: public assistance, housing benefits, pension insurance, health insurance, unemployment benefit insurance and nursing-care insurance. In fact, such a list is even incomplete. Sick pay, financial support for those studying or undergoing training, public housing schemes, and support payments for dependent children are all counted as social welfare benefits, whereas a employment-injury insurance is actually looked upon as an insurance. But a narrower definition also makes sense. It would include merely public assistance and housing benefits, since only here is the actual need of the beneficiaries examined. The other systems represent insurances which are bound up with social components and redistributive elements.

36. The minimum standards and the organisation of the social-security system vary considerably throughout the European Union. Moreover, the spectrum of the overall amounts represented by the various contribution rates is broad. This is partly attributable to the great differences in the percentage share of tax-sourced funding. A common feature of all systems of social welfare benefits is that virtually everywhere they have turned into systems providing a full range of benefits. The desire of the politicians responsible for social welfare to increase the benefits and that of individual groups to receive special privileges has caused an uncontrollable expansion of the social welfare systems. It is only recently that the focus has increasingly been switched to the sharp rise in contributions. Annoyance over mounting contributions goes hand in hand with worries about the benefits which the contributions will secure in future. Hopes have been dashed that comprehensive state security schemes would guarantee an ever greater degree of social security. The pay-as-you-go systems are not only being exposed to the rising demands of the contributors and the constant meddling on the part of the state in its efforts to distribute income. Mounting and chronically high unemployment and above all demographic changes of the type that can be expected over the next few decades are making them very susceptible to upsets.



The main cause of their instability is to be found within the system itself. Although most social-security systems are regarded as insurances, they differ considerably from the principles of private insurances. The individual contributions and the individual risk, and thus the benefits provided by the systems, are in no way equivalent to one another. From the outset, these insurances were made to assume social-policy and distributional functions. Certain groups of people become beneficiaries without any regard for the equivalence principle and without any examination of their neediness. The result is that other groups of people bear a much greater burden than they would in a private insurance; as a result, the systems contain a threat to themselves and the seeds of their self-destruction.

37. It is often feared that the workers' right to free movement and the actually increasing mobility of labour within the European Union make it easier for those who bear an excessive burden in a given social welfare system to take evasive action. This leads to stronger recourse to especially favourable regulations, thereby jeopardising the stability of the social welfare systems. Therefore, it is argued, harmonisation is imperative, right down to a central solution at the European level. By making unemployment insurance and old-age pension insurance in particular uniform, it is hoped that the risks will be evened out across borders and that the systems will become more efficient and stable.

## **2. Migration to be neither prevented nor encouraged**

### **“Co-ordinating regulations”...**

38. A major element of the single European market is the right to freedom of movement. Choice of the place of work and the place of residence should not be influenced by shortcomings of the social-welfare systems. This means that the migration of labour should not be prevented by the fact that the entitlements to benefits accumulated under one social welfare system are not “portable”. However, it should not be encouraged by making it possible to draw benefits without making any contributions or by the exploitation of great discrepancies in benefits such as those in public assistance. Negative incentives are also generated when individual groups within a social welfare system are expected to shoulder excessively great burdens as a result of income redistribution measures. This does not mean that the social welfare systems have

to be completely harmonised. It is perfectly feasible for the various countries to have different levels of benefits and corresponding differences in contributions. Undesirable incentives to migrate and obstacles to such migration can be removed or at least reduced by means of “co-ordinating rules”.

39. The problems bound up with migration are by no means new. For this reason, agreements have long existed between the Member States of the European Union:

- The rules which were devised for *unemployment insurance* are fairly straightforward. Countries have agreed that workers from other Member States will enjoy equal status with domestic employees. Benefits have to be paid out to an employee from another member state if he has become entitled to them and has his place of residence in this country. A job-seeker has to remain for four weeks in the country of his previous employment and be available for placement purposes. Subsequently, he can return to his country of origin and draw unemployment benefits if he is registered as a job-seeker with the local placement authorities.
- In the overwhelming majority of cases, the necessary rules are fairly unproblematic for the *state health insurance* scheme as well. If, for instance, a German employee is posted abroad for no longer than two years, he can remain insured with his health insurance scheme back in Germany. If he falls sick abroad, he is entitled to the non-cash benefits provided for cases of illness that require immediate treatment and cannot be postponed until the patient is back home again. The type and scale of the entitlement to non-cash benefits are determined by the law of the country in which the employee finds himself. The costs are reimbursed by the German health insurance scheme. In the vast majority of cases, therefore, the co-ordinating rules in the state health insurance scheme prevent any restriction to the mobility of workers in the countries of the European Union.

40. Incentives for “social tourism” from the relatively poor to the rich countries of the European Union can be found in the area of public assistance, however. On principle, of course, the recipients of welfare payments do not have freedom of movement. Yet due to the broad interpretation of the concept of the employee by the

**...in unem-  
ployment and  
health insurance**

**Incentives for  
social tourism**

European Court of Justice, there is the possibility that they can formally receive the status of employee for a period of six months if they declare that they are seriously looking for work in another European country. In this case, they are also entitled to claim social benefits in the country in which they are living and consequently they have a right to receive the benefits provided in this country in the form of public assistance. In reality, the job-seeker may receive public assistance for longer than six months if, tolerated by the local job-placement authorities, he officially continues to look for work after the six months are over, but in fact makes no serious efforts to find a job. In addition, recipients of public assistance from relatively poor countries of the European Union are able to register as job-seekers for six months at a time in several relatively rich Member States without seriously looking for employment. This conflict of goals between the freedom of movement of labour and certain tendencies in the direction of “social tourism” inside the European Union could be largely resolved if qualifying periods were introduced before the full entitlement to public assistance was achieved.

### **Provision for old age and migration**

41. The problems of the systems of state old-age pension schemes are more complex. The complicated, hard-to-understand co-ordinating regulation of the European Union is intended to ensure that an employee who is subject to social insurance contributions does not lose his pension entitlement in one country if he takes up work abroad. The pension claims which an employee has accumulated during his time of gainful employment in individual member countries are added together and made compatible with one another. For a variety of reasons, this co-ordinating regulation is economically not very efficient. Artificial incentives to migrate are created because in certain countries short periods of insurance do not confer any entitlement, whereas in other countries fairly high claims can be built up even if contributions have been paid for only a short period. Community rules exist in order to reduce the excessively high level of provision that can result if people skilfully combine pension claims. Only to a limited extent are these rules effective. Short periods of being insured lead to a disproportionately small reduction in a person's claims. It is also possible to evade the rules, which are no more than makeshift measures that, within certain limits, are capable of improvement.

In the final analysis, the choice is between two imperfect solutions. The one possibility keeps the employee throughout his entire life within the state pension insurance scheme into which he was "born". The decision to live and work in another country in no way affects membership of this system of old-age insurance. While this country-of-origin principle does not lay obstacles in the path of migration, it is problematic since it prevents employees from "voting with their feet" as far as the different systems of old-age insurance are concerned. Another possibility under the valid regulations is that by deciding to leave a country the employee also becomes a member of the state old-age insurance system of the host country. The size of the overall pension benefits is determined by the modified claims on the individual national systems of provision for old age. For each pension insurance scheme, it is worked out what size the pension would have been if the employee had spent his whole life in the respective country. This amount is multiplied by the years in which he actually paid contributions in this country. This combination principle (combination of insurance contracts) would have the advantage that the institutions of the national old-age insurance systems would only have to exchange this information.

At first glance, it is not quite clear which of the two solutions is the better. The combination solution undoubtedly produces higher administrative costs because information has to be exchanged between national systems of old-age insurance, the pro-rata pension benefits have to be worked out at the national level, and several national institutions in this area are involved. Yet it must be borne in mind that the country-of-origin principle impairs the institutional competition between the national systems of old-age insurance and enlarges the discretionary scope for action on the part of those bearing political responsibility. Thus the problem arises that urgently needed reforms of the not very efficient national insurance schemes can be postponed. The combination solution is dependent on functioning national systems; it preserves the competition between systems, and this makes efficient reforms necessary.

### **3. Unemployment insurance should stay decentralised**

42. Occasionally, people advocate the introduction of a central, Europe-wide unemployment insurance scheme in order to deal with any asymmetric macroeconomic disruptions that may arise within the European Union. As it is not possible to adjust to new economic situations in a monetary union by means of different exchange rates, and as Europe's economies are still not able to adjust sufficiently (inflexible wages and wage structures, lack of mobility on the part of the factor labour), many critics of national solutions believe that it is easier to compensate for the risk of unemployment at the European level. In their view, the contributions of employees and employers alike may then be lower.

43. In fact, despite the close links between the national economies, some individual Member States can be harder hit by an economic downturn or a structural crisis than the others. The unemployment insurance schemes in the member countries will then be drawn upon to differing degrees. While a Europe-wide unemployment insurance would not alter the scale of joblessness in any way, it would require a smaller liquidity reserve than all the national unemployment insurance schemes taken together. However, the economic cycles of the Member States run largely parallel to one another. Any possible compensation between nations for a temporary loss of liquidity would relate solely to a marginal area.

#### **Structure of costs distorted**

For this reason, a new danger is much more important. The systematic discrepancies in unemployment between the Member States would cause a European system of unemployment insurance to allocate the costs of unemployment in a systematically false manner. If, for instance, the average jobless rate in one country is higher than in the others due to its economic structure, then the greater risk of unemployment should be reflected in the contributions. European compensation for such differences would distort the structure of costs. In functioning markets, it is ultimately not the employees who bear the higher unemployment risk in their industries, but rather those who buy the goods which they produce. The reason for this is that entrepreneurs have to pay their staff higher wages in order to compensate for a greater risk of unemployment. This allocation of the costs is already being partially prevented within the national states by uniform contributions to the unem-

ployment insurance scheme. A European unemployment insurance scheme would make it even more difficult to realise contributions and product prices which reflected the risks.

44. Nor is a European unemployment insurance system feasible as long as the individual nations specify the functions and benefits of the unemployment insurance scheme and determine the overall conditions for the labour market. Even if the benefits in the narrower sense, namely the duration and level of unemployment pay, were uniformly fixed, a great deal of leeway would remain as regards the intensity of placement activity, the application of criteria for judging what work is to be reasonably expected of job-seekers, and above all so-called active labour-market policy in the form of job-creation measures, retraining and further training measures, and help with vocational re-integration, etc. It is barely conceivable and presumably not even sensible that the Member States of the European Union agree upon a single set of instruments and identical administrative procedures.

In the final analysis, the already existing "moral hazard" problem would be made worse by unions and employers paying less consideration to the consequences of their pay settlements for the job situation. The connection between unemployment and the contribution rates to unemployment insurance schemes would be weakened further for the employees represented by the collective bargaining parties because employees from other countries would share the costs of a higher level of joblessness.

The problems of a single European unemployment insurance scheme would be aggravated by the influence exerted by national governments. They make stipulations for individual programmes and redistributive components. They provide grants and guarantees. They create the data for the overall setting of unemployment insurance by means of programmes, dismissal rules, minimum-wage regulations, early retirement, and so on. As a result, the unemployment risks differ between the various Member States, which should not be forced into a common unemployment insurance scheme with uniform contributions, as this would lead to an unjustified redistribution between countries. The transfers would have to come from those countries with the most positive labour-market conditions.

## **Insurance cover at national level**

45. If all this is taken into consideration, there is hardly anything in favour of a single unemployment insurance scheme in the countries of the European Union. Generally speaking, the national unemployment insurance schemes are capable of providing effective insurance cover. Should a country actually suffer a major macroeconomic upset at any time, which it is unable to deal with alone, ad hoc transfers are the simpler solution. The danger that this might lead to constant unilateral transfers is far less great than under a central Europe-wide unemployment insurance scheme.

What is more, the additional problems which would be created by an enlargement of the European Union if the acceding countries were to be forced into a common scheme and were confronted with financial equalisation claims are arguments in favour of decentralised solutions.

### **4. More stable insurance for old age**

## **Demographic problems**

46. Workers in the European Union are becoming more mobile. Thanks not least to the single European market, obstacles to migration have gradually been removed. This can give rise to fresh threats to the state systems of old-age insurance that function on a pay-as-you-go basis. At the moment, efforts are being concentrated on reforming the national old-age insurance systems. But occasionally the question is also raised whether this will be enough or whether the national schemes should be harmonised and the solidarity-based communities extended.

The pay-as-you-go system of old-age insurance draws upon the expectation that the next generation of contributors will be numerous and affluent enough to finance the pensions of the generation that is currently still in gainful employment. The efficiency of such systems is therefore very much dependent on the demographic trend. In view of the low birth rates and increasing life expectancy, the age pattern is becoming more unfavourable and pay-as-you-go systems of old-age insurance are offering only small, and possibly negative, returns. At all events, the yields produced by these systems will in all probability be lower than that which can be realised in the capital market. Pay-as-you-go systems can easily entail a self-reinforcing process. Should contribution rates be raised and the gainfully employed wish to preserve a high standard

of living, they will have to decide whether to have fewer children or none at all. As a result, the number of contributors is reduced and the reaction in terms of the system is an increase in contribution rates. High contribution rates and the comparatively low pensions that are expected have already triggered a trend – above all, among the younger gainfully employed – towards avoiding a burden that is considered to be unreasonably high (or making provisions of one’s own). In Europe, therefore, we still have the major demographic changes, and thus above all the shift in the overall age structure, ahead of us. The most difficult phase is expected at some point around the year 2030.

Those liable to pay contributions have a number of possible ways of (partially) shaking off the burden of the pension insurance scheme and “getting out” of the insurance scheme. For this purpose, it is necessary to become self-employed; sometimes, there is even talk of “pseudo-self-employment”. This involves an escape into the shadow economy, combined with a reduction in the hours worked in official employment. In a Europe of open borders, this can also involve the switch from an old-age insurance scheme with especially high contribution rates to one in another country with a more favourable ratio of contributions to expected pensions. Evasive reactions of this kind would destabilise the pay-as-you-go systems, which are in any case particularly hard hit by demographic problems and high commitments in terms of future benefits.

47. Demographically-induced migrations are still negligible as a factor in Europe. Yet this need not remain so. The age quotients in the countries of the European Union differ quite considerably. The greatest demographic problems are forecast for the Federal Republic of Germany. The demographic setting in the United Kingdom, France and Spain, and in Italy as well, are less unfavourable.

**Harmonisation  
of no use**

The problems of the old-age insurance schemes would not be lessened by harmonisation. At best, the national governments of some countries would be given a breathing space and they would be able to postpone once again the much-needed reforms. Yet even if the European Commission were to accept the job of harmonising, quick results could not be expected. The systems are very complicated and respond very sensitively to changes in the rules. In any



case, it is unlikely that anybody would be very willing to share the costs of the demographic changes in other Member States.

### **Avoiding the wrong incentives**

48. If the pay-as-you-go systems of old-age insurance in the countries of the European Union continue to exist independently of one another and if labour as a factor becomes more mobile, the national governments and parliaments will be forced to reform the pay-as-you-go systems. Should they fail to do so, their demographically-induced difficulties will increase. In the most unfavourable case, it is even conceivable that individual national systems could collapse. The reason for this is simple. The young gainfully employed section of the population will systematically seize all the opportunities for getting out, including migration to countries with more positive demographic conditions. For those gainfully employed still remaining in the pension insurance scheme, the burden of contributions would no longer be tolerable and pensions would have to be reduced substantially.

In order to prevent a serious crisis of the pay-as-you-go systems, immediate reform is necessary. Much too much time has been wasted already. What is needed is a stronger correlation between contributions and benefits. This should incorporate an adequate recognition of periods spent bringing up children, regardless of whether this takes the form of future pension claims, differentiated to reflect the number of children brought up, or whether it involves assistance provided during the period in which children are being brought up. Also necessary are appreciably longer working and contribution periods, which is tantamount to a shortening of the time in which pensions are paid. Probably there is no alternative to gradually transforming the pay-as-you-go system from a full insurance into a minimum insurance cover. This would reduce the incentives to “get out” and private supplementary insurance schemes would gain in significance. On no account can a further rise in the contributions burden be tolerated, as this would endanger even more jobs and the pay-as-you-go system would be robbed of its economic basis.

## **VI. Interpersonal redistribution not at European level**

49. The European states have not only made it their job to protect individuals against the vicissitudes of life. Through redistribution, they also attempt to achieve an “interpersonal justice”. For this purpose, they draw upon an extensive set of instruments – ranging from the system of progressive taxation, transfer payments, subsidies for property and tax breaks to the almost infinite social and redistributive components in the insurance schemes and other programmes. In addition, there are the numerous regulations and the coalitions for redistribution recognised by the state in the form of the collective bargaining parties and associations, which interfere with the income that can be achieved in the market for the benefit of certain groups – and at the expense of others.

50. As globalisation increases, in the sense of greater market integration and a high mobility not only of goods and services but also human beings and capital, the national systems of redistribution will come under ever stronger pressure. This holds especially true for the European Union with its freedom of movement for workers and its high degree of economic integration. It is therefore feared from time to time that national regulations and tax systems will be exposed to substantial competitive pressure which will leave hardly any room for national redistribution measures. As some of the factors of production (real and human capital) are capable of moving across national borders, they might escape through migration the burdens imposed upon them. But it is claimed that the migration of such factors would help to erode the financial basis that is needed for that redistribution which is considered to be necessary; consequently, an “interpersonal justice” could not be efficiently offered at the national level. For this reason, it is thought essential that the responsibility for interpersonal redistribution within the European Union should be centralised for the most part at least.

51. This is naturally an exaggeration. It is certainly difficult at present to tax capital as a factor, and these difficulties will tend to become more acute if the competition between different business and investment locations grows keener. On the other hand, this

**Competitive pressure on systems of redistribution**

**National leeway remains**

does not mean that capital as a factor is insignificant for the overall level of tax receipts. If a country offers an attractive (tax) environment, real capital flows in. The productivity and hence the value added of the immobile factors of production are raised. This creates extra tax revenues, which may also be used for redistribution purposes. This would even hold true if the need were recognised to largely exempt mobile capital from taxation in view of the international competition, and this would even be desirable from the growth standpoint (see Kronberger Kreis: Steuerreform für Arbeitsplätze und Umwelt, [Reforming taxation to increase employment and protect the environment] Publication 30, 1996).

The scope for redistribution available to national governments in the European Union is greater than frequently feared mainly because their workforces respond only very sluggishly to the fairly great regional differences in incomes and hardly at all to the regional variations in the size of the financial transfers or to differences in the tax burden. Just how immobile the factor labour is inside the European Union can be seen from the fact that the regional discrepancies in unemployment are much larger than in either the United States or Canada. The linguistic and cultural differences inside the European Union suggest that the readiness to migrate will not increase strongly and rapidly in the future either.

52. Much suggests that in the future as well the countries of the European Union will not be able to embark upon redistribution activities of their own. However, the direct financial contribution of the very mobile factor capital will be reduced. This will compel the European Union to make redistribution far more efficient than it has been up to now. For one thing, this means that, in the case of national measures, the negative impact of allocations will have to be taken more into consideration. For another, it also means that the jumble of distributive activities must be reduced and national redistribution policy has to be more accurately targeted.

53. In any case, the interests present in Europe are much too heterogeneous to permit the creation of more ambitious central redistribution at reasonable cost. Redistribution at the central level would very soon prove to be a bottomless pit. Experience has shown that redistribution measures can only be efficient to some extent if they pursue distributional goals, about which a broad

**Europe-wide  
redistribution  
unrealistic**

consensus exists between both the contributors and the recipients of benefits. This is necessary in order that the members of a polity also accept that they themselves may be net contributors. But a consensus of this kind would not be easy to achieve in Europe. If at all, the redistributive preferences can best be harmonised at either the regional or the national level.

Redistribution is also achieved through regional policy. Yet the differences in incomes Europe-wide cannot be considered as a possible yardstick for measuring the need for redistribution on the part of the state. Only if the other living conditions (environment, medical care, transport systems, accommodation costs, etc.) were more or less identical for all citizens could income be accepted in any way as an indicator of people's relative wealth (and even then, differences in private assets would have to be taken into account). The income gradient between regions can largely be compensated for by means of other factors. Given a high degree of mobility and the free choice of the place of work and residence, the general differences in income would lose their significance, because they would mainly reflect divergent living conditions. Differences in income can also be self-determined. To this extent, they are no concern of the state.

## **VII. Rational approach dictated by competition**

54. In all countries, citizens expect the state to protect them against life's risks by establishing social-security systems, to support them by providing transfer payments and tax breaks so as to maintain and improve the basis of their existence, and to shield them from undesirable developments in the market by means of special regulations. The scale of these functions and the manner in which they are realised differ from country to country – depending on how the significance of competition, private initiative and individual responsibility is viewed in the various countries. As the markets become more global in character, those countries in particular will come under pressure that have set themselves the goal of fulfilling these functions as comprehensively as possible. They will find that the national scope for manoeuvre in their policies is disappearing. Frequently, the competition between business and investment locations is associated with the idea of an ominous downward spiral. This view of things is wrong. Competition, if accepted and successfully mastered, holds the promise of prosperity and potential scope for social security – and not simply for one group at the expense of the others, but for all. In fact, in order to keep capital and jobs within the country, or to attract capital and by extension create jobs, all efforts under the present circumstances must be geared to achieving lower wage costs, more cost-effective social-security systems, lower corporate taxes, and environmental standards that can be afforded. It is also true that wherever prosperity and social security have been bought on tick, the two must first of all be reduced. It is positive that keener international competition is forcing us to do so. Anyone waiting for this to come about on the basis of general recognition will probably be too late. The intolerably high level of unemployment proves that Europe needs to be brought to reason through unabating competition. The way to a better future leads us through the painful process of consolidation.

55. It would be disastrous for the Member States of the European Union to form a cartel with the aim of harmonising wages, working conditions, environmental standards, taxation and social-security systems. From the standpoint of the old industrial nations, harmonisation would only make sense if the standards and protective

rules were approximated such that they came as close as possible to their own—high—level. Yet from the standpoint of the emerging industrial states, this would be a catastrophe. Protective clauses have to reflect economic performance. A raising of the minimum standards would overstrain the economies of the less developed member countries. It would increase their labour costs and ultimately lead to unemployment being exported from the developed to the less developed countries. The latter would have to adopt large-scale measures to promote economic growth, which, under the circumstances, they would be unable to afford by themselves. The more developed countries would have to pay for them. Huge amounts could well be at stake here. In addition, there would probably be loud calls for protection on Europe's external flank in order to dampen the dreadful impact on employment of such a misguided policy.

56. The globalisation of markets does not mean that national governments are no longer able to shape their own social and taxation policies. International competition certainly imposes limits on both the national tax burden and national spending on the social budget, and these cannot be exceeded without causing higher unemployment. Yet just how broad these limits are will be determined in the final analysis by rules and measures which fall under the influence of the national political sphere. Every social welfare state depends on the efficiency of its economy. If this efficiency is not jeopardised by exaggerated redistribution, there is enough scope left for shaping the social-security systems to reflect national preferences. However, the ever tougher international competition is laying bare any negative developments in taxation and social policy. We should welcome the fact that these can no longer be disguised as they have been in the past.

## **Social union for Europe?**

### **Summary**

The world and with it Europe is changing. Thanks to worldwide trade-policy agreements, the goods and factor markets have been further opened up. Both the transportation of goods and communications have become better, faster and cheaper. All of this has promoted the globalisation of markets and favoured the internationalisation of production locations. The Member States of the European Union have lent extra momentum to this development in the form of the Single Market project of 1992 for Europe's markets in goods and services, but above all for its capital markets.

Open goods and factor markets are a major prerequisite for more wealth, more worthwhile jobs and more individual freedom. However, these advantages do not come free of charge. At the moment, the problems of adjustment are taking the form of a higher degree of structural change, which is imposing considerable burdens on employees and companies alike. This is hitting those European Union countries especially hard in which the welfare state is particularly extensive. At the same time, the agreement to create a European economic and monetary union has made people aware that "the market" is set to play a more prominent role. This creates anxieties which – as so often – give rise to defensive reactions which make possible the very thing which is feared. One of these defensive reactions is to insist upon the establishment of a European social union.

### **Pressure for Europeanisation**

The concrete provisions of the Maastricht treaty do not really leave any room for doubt: social policy is primarily the concern of the Member States. Ambiguously formulated general goals such as the creation of "a high level of social protection" or promotion of "economic and social cohesion and solidarity among Member States" make it difficult, however, to make a sharp distinction between the responsibilities of the individual states and those of the Community. Quite obviously, the intention is to extend gradually the sphere of influence of the European Union in social policy at the expense of the Member States.

As unemployment ratios climbed – rising from just under 3% to over 10% within a decade – efforts to achieve social harmonisation received greater attention. With the enlargement of the Community to include Spain, Portugal and Greece, labour cost differentials widened. The northern countries began to worry about their competitiveness in the Common Market. Calls for the Community to establish provisions for its “social dimension” became ever louder.

The Maastricht treaty partially accommodated this initiative. In the new formulation of Article 3 (Activities of the Community), the European Union was provided in a general form with responsibilities and powers in the field of social policy and economic and social cohesion. With the exception of the United Kingdom, which declined to follow the path of the Community that had been outlined as early as 1989 in the Community charter on social fundamental rights (“social charter”), the Member States concluded an agreement on the intended future social-policy activities of the Community and appended it to the protocol on social policy.

### **Social policy along strict subsidiarity lines**

Social policy is rightly considered to represent a model case of social responsibilities which can be shared between the various groupings within society in keeping with the subsidiarity principle. In a more general form, the principle has gained validity in connection with the competition to assume powers between institutions inside the European Community. Given the special features of the matter in question and also in view of the contractual commitment to this principle, it should be undisputed, therefore, that in the assumption of social-policy responsibilities by the Member States and the European Community the subsidiary character of the powers of the next higher level compared with all the lower levels should always be strictly observed.

Strict application of the subsidiarity principle means not moving very far away in social policy from the responsibilities for the European Community that were assigned by the Treaties of Rome. By means of suitable regulations, the Community has to ensure that the coexistence of independent and divergent national systems of social security does not prove detrimental to those people who realise their guaranteed right of freely selecting their place of



residence or work within the European Community. This is indisputable. But not very much more besides. Strict application of the subsidiarity principle also means that the European Community should not pursue social policy primarily as a policy for restricting competition and only as a secondary consideration engage in social policy in the narrower sense.

There exist probably only very few areas, if any at all, where it seems appropriate for a European instance to tell the people of Europe under what conditions they may work. Here it is especially important that, given the differences in labour productivity, each partial standardisation automatically doubles the discrepancies in the other working conditions unless lower productivity is to lead to unemployment.

### **European monetary union and wage policy**

European monetary union will not have any consequences which alter this state of affairs in any way. Wage policy will be more in a position again to have an effect on employment. However, it will also have to be more careful to avoid making mistakes (but at the same time this will help prevent conflicts arising with monetary policy). In a community in which the value of money is fixed for all participants and no more exchange-rate fluctuations occur, every regional fixing of nominal wages also means a fixing of real wages, a fixing of wages which must stand up to competition with others who have fixed their own wage levels, but with which one can improve one's own position. No regional devaluation of the currency is able to reduce a nominal wage that is too high in comparison with others, thus making it competitive. But no upward revaluation will thwart a cautious wage policy.

There is good reason to expect that the European economic and monetary union will intensify the international competition to which labour markets are exposed and also the pressure to rationalise which social-welfare systems are feeling in virtually all European countries. Anyone whose main function is constantly to press for higher wages and better working conditions or to spread new ideas for developing the welfare state will understandably regard this as an existential threat. A Europe-wide wage squeeze and the demolition of the welfare state are the catchwords here. There are

calls for a Europe-wide regulation of social policy. However, anyone whose prime concern is how to deal with the depressing problem of Europe's alarmingly high level of long-term unemployment sees things differently. He cherishes the hope that wage restraint will persist and that very large savings can be made in social welfare budgets.

### **Harmonisation would be fatal**

It would be disastrous for the Member States of the European Union to form a cartel with the aim of harmonising wages, working conditions, environmental standards, taxation and social-security systems. From the standpoint of the old industrial nations, harmonisation would only make sense if the standards and protective rules were approximated such that they came as close as possible to their own – high – level. Yet from the standpoint of the emerging industrial states, this would be a catastrophe. Protective clauses have to reflect economic performance. A raising of the minimum standards would overstrain the economies of the less developed member countries. It would increase their labour costs and ultimately lead to unemployment being exported from the developed to the less developed countries. The latter would have to adopt large-scale measures to promote economic growth, which, under the circumstances, they would be unable to afford by themselves. The more developed countries would have to pay for them. Huge amounts could well be at stake here. In addition, there would probably be loud calls for protection on Europe's external flank in order to dampen the dreadful impact on employment of such a misguided policy.

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Our economic and social system increasingly resembles a system of gears the individual components of which block each other instead of meshing. In order to prevent the losses from friction and to maintain general prosperity and personal freedom of choice for all of us we need innovative, well balanced solutions.

Each of the many attempts to reorganize one sector of our complex system quickly impinges upon the other sectors. Not only our legislation suffers as a result. This also is the reason why the scope of political action which alone can master the totality of the tasks facing us, can only be derived from an overall concept considering and coordinating all parts of the whole.

The FRANKFURTER INSTITUT and its Research Council, the KRONBERGER KREIS, have set themselves the task of developing such a conclusive overall concept and of deriving from it the solution of our present problems.

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