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Bottom-up Social Europe From subsidiarity to Euro-Dividend

Plenary address at the Conference organized
at the initiative of the Finnish presidency of the European Union
The EU's evolving Social Policy and National Models. Seeking a New Balance

Helsinki, 9-10/11/2006

Abstract

In matters of social policy, the subsidiarity principle makes a lot of sense, but direct EU involvement is indispensable to prevent Europe ending up doing worse than the US in terms of social solidarity. Imposing minimum standards will be insufficient. EU-level funding of the most redistributive component of the social transfer system will be required.

There are three models for organizing such funding: a means-tested "Euro-Stipend" as proposed by P. Schmitter and M. Bauer; co-payment as often practised for social assistance by member states and their local authorities; and a EU-wide universal basic income or Euro-Dividend, be it initially restricted to a specific age group, such as children. Only the third model is consistent with the preservation of healthy and diverse national welfare states.

The conditions for the political feasibility of such an active EU involvement in social policy are not yet fulfilled, however. They include the thickening of an EU-wide civil society, EU-level electoral institutions that foster the construction and defence of an EU-wide general interest and the democratization of competence in English as the EU's lingua franca.

The ultimate aim

I am here as a philosopher and the role assigned to me is to lift your chins. Scholars, civil servants, politicians are busy investigating, explaining, improving, testing, recommending this or that specific aspect of our problems, policies or institutions. But from time to time, it is useful, indeed important, to look up above the clouds, or at least above the fog. This is what I shall invite you to do.

More specifically, I shall invite you to reflect on the following question: When we are thinking about the design of institutions, more specifically about the design of social policy institutions and the balance to be achieved in a multi-level governance structure, what should be the ultimate aim? The answer is simple: distributive justice.

But what is justice? Any conception of distributive justice relevant for our times must combine two elements, both strongly rooted in our European traditions, but neither of them exclusive to them: toleration and solidarity. More precisely, it must incorporate and articulate two considerations: equal respect for the diversity of conceptions of the good life that characterizes our pluralist societies and equal concern for the interests of all members, present and yet to come, of the society concerned. This concern, moreover, must be responsibility-sensitive — distributive justice is not a matter of outcomes but of opportunities or possibilities — and it must be efficiency-sensitive — a fair distribution need not be a strictly equal distribution, but rather one that sustainably maximizes the condition of the worst off. Justice, in brief, means real freedom for all, the greatest real freedom for those with least of it.¹

But who are the “all” among whom distributive justice requires that real freedom should be distributed fairly? All citizens of our nation-state? All citizens of the European Union? All members of mankind. This is controversial issue in contemporary political philosophy. My answer, here again, is clear and simple : “all” means “all”, “justice” means “global justice”. As regards the fair distribution of resources, any distinction made between human beings in terms of which nation they belong to is as ethically unsustainable as distinctions made in terms of gender, race or talent. This is not to say, however, that such a distinction, that the very existence of nations or of short-of-global supranational entities such as the EU, is not of great pragmatic importance, both in the short term and in the ideal situation to which we should tend.

Against all odds

It is on this background that we need to appreciate both the fantastic, unprecedented achievement constituted by this weird political entity now called the European Union, and the crucial importance of the specific issue which forms the focus of this conference: finding the right balance between European Union in shaping Europe’s social policies.

Just a few words on the former, before I focus on the latter. There is quite a lot of whining, of bickering, of bashing going on: “The European Union does too little. It does too much. It moves too slowly. It moves too fast.” But let us not kid ourselves. What has been is being achieved so far by the European Union, or as an effect of its functioning, is just amazing, mind-boggling, beyond all reasonable hope.

To keep things in some sort of philosophical perspective, just remember John Stuart Mill’s famous indictment of multinational democracy in the chapter on nationalism of his *Considerations on Representative Government*, the first modern treatise on democracy: A multinational political entity — in particular a multilingual political entity — can live together forever under a despotic regime, Mill wrote. But make it democratic, and it will fall apart, with political borders coinciding approximately

¹ The conception of justice expounded and defended in my book *Real Freedom for All* (Van Parijs 2005) corresponds to just one way of satisfying these desiderata. Other « liberal egalitarian » conceptions of justice include those proposed by John Rawls (1971), Amartya Sen (1992) and Ronald Dworkin (2000).

with linguistic borders. Since Mill published these lines were published in 1861, he was proved right again and again, from the collapse of the Austro-Hungarian Empire to that of the Soviet Union and Yugoslavia.

And yet we have the European Union, indeed even one that is growing much faster than some said it should, through the voluntary *Anschluss* of one country after another. Of course the process of European integration is imperfect, messy, chaotic, tortuous, frustrating. But against such odds, how can you expect the road to be straight? How can you expect the task to be easy? The task of combining respect for our national and linguistic diversity with efficient democratic decision-making is daunting. But it is essential. Not only to avoid dramatic regression for our own people. Also because the European Union offers the closest approximation in the history of the world to the sort of institutional framework we increasingly need at the global level.

Why subsidiarity makes sense

One of the most important challenges this task consists in tackling is the one to which this conference is devoted. When discussing the role of the EU in social policy no less than in any other domain, it makes good sense to appeal to the principle of subsidiarity, understood as a rule for ascribing the burden of proof: When there is a choice between two levels of democratic government for the allocation of a particular competence, always start with a presumption in favour of the lower, more decentralized level. Why?

For four general reasons. Firstly, opting for the lower level leaves more room for diversity, for experimentation and hence for mutual learning, especially when the prevailing diversity can be made more fruitful through an intelligent use of the Open Method of Coordination. Secondly, it makes it possible to have policies more responsive to local objective circumstances. Thirdly, it makes it possible to have policies more responsive to local preferences, as shaped by the local public debate. Fourthly, it makes it possible to make decision-makers more accountable to those who are supposed to benefit from the policies and to pay for them.

In addition, there is a fifth reason that applies specifically to social policy, in so far as it is genuinely redistributive: the lower the level, the more homogeneous the population involved, the greater the political viability of generous redistribution, as a result of greater trust, of greater mutual identification, of greater “fellow-feeling”. This specific reason but also the last two general reasons are particularly strong when opting for the lower level enables one to function at the level of a linguistically more homogeneous populations, which is of course the case if one locates social policy competences at the level of the member states rather than at the level of the EU.

So is the matter settled? Not at all. Because the subsidiarity principle states no more than a presumption, and one that happens to be vulnerable, in this particular case, to two considerations which, taken together, call for direct EU involvement in social policy of an unprecedented nature and magnitude.

The less EU involvement, the more EU impact

The first of these considerations can be expressed by means of a paradox neatly formulated by Kari Välimäki in the concluding chapter of the very instructive background report for this conference, and restated by both him and Jérôme Vignon on the first day of the conference.² Bluntly put, the paradox takes the following form: “What should the EU do in matters of social policy in order to have a maximal impact on the member states’ social policies, to in order achieve maximal uniformity? Just do nothing. Just let the four freedoms, i.e. the single market for labour, capital, goods and services,

² See Välimäki (2006: 275): “The following of the subsidiarity principle has also implied that the member states have not actively promoted the social dimension of the Union. This has created a paradox. The EU influences member states’ policies more through the internal market than expected. If the member states were interested in strengthening EU social policy, the EU’s impact on the member states’ systems would be less.”

make their powerful pressure fully felt through the mutual adjustment of self-interested mobile economic agents and competitiveness-concerned member state governments, helped by a few vigorous decisions by the European Court of Justice.”

The same underlying consideration can also be expressed as follows. True, owing to some of the reasons adduced above in support of the subsidiarity principle, the member states constitute a more suitable level than the EU as regards the *political* feasibility of generous, i.e. strongly redistributive, social policies (not big pensions for big earners). But with the four freedoms strongly entrenched and their potential gradually perceived throughout the EU, the *economic* feasibility of generous social policies at that level decreases day by day.³

This is no doubt something we could and should have anticipated from a brief glance at the US. The bulk of whatever redistribution there is in the US happens at the federal level, mainly today in the form of solidarity with the elderly (through Social Security and Medicare) and with the working poor (through the Earned Income Tax Credit). Do you really think that the fact that so little redistribution is happening in the US at the level of individual states has nothing to do with the “four freedoms” US residents have long enjoyed across states?

The dreadful truth for us may well be that whereas the economic unfeasibility of generous member-state level solidarity is in sight the political feasibility of generous EU level solidarity is not. And if this is the case, we are not our way to doing as badly in terms of social solidarity as the US, which we so gladly stigmatize. We are on our way to doing even worse.

The multidimensional need for trans-national transfers

Thus, the first subsidiarity-counteracting consideration is that the member states’ real sovereignty in matters of social policy is being eroded by the four freedoms, and that even for the sake of intra-national solidarity a more active role is urgently required on the part of the EU. The second subsidiarity-counteracting consideration is simply that we increasingly need trans-national transfers, for three quite different yet mutually reinforcing reasons.

Firstly, we need them as an insurance device against the asymmetric shocks and diverging trends to which the member states are subjected in a context in which the single market favours greater sectoral specialization while globalization creates permanent uncertainty. Especially in the Euro zone, where the instrument of currency adjustment is no longer available, an automatic stabilizer in the form of transfers from the areas that gain from globalization and the single market to those that lose constitutes an intelligent way of buffering risks and thereby enabling member states to take fuller advantage of more integrated markets.

Secondly, trans-national transfers operate as population stabilizers. In the linguistically and culturally more diverse context of the EU, labour migration to the more affluent member states is far more disruptive than it is across state borders in the United States. Therefore it happens less often and therefore fails to play the adjustment role it plays in the US. Therefore also it should not happen as often as it would in the absence of trans-national transfers. The greater externalities of migration in linguistically more diverse Europe make such transfers particularly important.

Thirdly and most fundamentally, EU-wide trans-national transfers are increasingly required directly by social justice. In a context of ever growing trans-national trade, mobility, communication and debate, it is becoming increasingly unrealistic to assume that issues of distributive justice can arise only between citizens of the same state. It is not just that we are becoming aware of how profoundly the direct and indirect implications of the EU’s very existence, its institutional framework and policies affect the material prospects of the citizens of all member states. Equally important is that Europe’s citizens are increasingly involved, individually or through an ever wider range of

³ The fact that no race to the bottom is detectable so far when looking at shares of social expenditure in GDP should not mislead us. There is no reason to expect the bulky and swelling mass of earnings-related old age pensions to be under strong pressure. But the genuinely redistributive part of the welfare states is, as shown for example in falling ratios of benefits to earnings (Obinger 2005).

associations, in a EU-wide conversation, an EU-wide forum of argumentation, contestation and justification, which is less and less reducible to bargaining for mutual benefit among the representatives of the member states to which they belong. It will still take a while before social justice will be self-evidently identified with global justice. But the realization that it needs to be conceived and pursued at EU level is around the corner.

Minimum standards?

In order to take proper account of these two considerations, I have no doubt that we shall have to go further than the imposition of common minimum standards of social policy to all member states. This is trivially the case for the second consideration — minimum standards entail no trans-national solidarity. But it is also the case for the first consideration — the need to step in for failing intra-national solidarity —, because of two difficulties intrinsic to the minimum standards strategy. One goes, in the US discussion, under the label “unfunded mandates”: a higher unit of government cannot legitimately impose a costly duty on lower units, especially the poorer among them, unless it is willing to cover at least part of the cost.

The other difficulty takes the form of a dilemma. Either the standards are quite detailed and therefore in sharp tension with the concern for member state autonomy encapsulated in the principle of subsidiarity. Or they remain quite vague, typically in the form of a minimal share of social expenditure in GDP, but they then raise intractable problems once it is realized how important it is that they should capture the “hidden welfare state” (the implicit transfers embedded in the tax system), disentangle sheer insurance (which involves no *ex ante* redistribution) from solidarity proper, and address the impact of social policy on the pre-tax-pre-transfer distribution of income.⁴

On this background, direct involvement of the European Union in the organization and funding of the most redistributive components of social policy is no longer just a distant dream but an urgent necessity. The necessity may remain a dream, however, if we cannot come up with any practical way of making it happen. Three models are worth thinking about.

Means-tested Euro-stipendium ?

First, there is the model neatly illustrated by Philippe Schmitter and Michael Bauer’s (2001) “Euro-Stipendium” proposal. What they propose, is “the payment each month of a stipulated amount of Euros to all citizens or legal permanent residents living within the EU whose total earnings amount to less than a third of the average income of everyone living within its borders”. Such a proposal amounts to a massive means-tested transfer to all European households below some poverty line. It sounds consonant with the subsidiarity principle, at least understood this time as “Let the lower level try first, and only intervene at the higher level if it fails”. And it clearly addresses head on the need for direct EU involvement stemming from the two considerations spelled out above.

However, leaving out some correctable defects, the Euro-Stipendium proposal suffers from two major flaws. Firstly, its implementation requires a standardized, uniformly implemented notion of income: For example, how is household composition taken into account? Who counts as a member of the household? How is the income of the self-employed assessed? What about income in kind? Should home ownership be counted as an implicit income? How vigorously must income from informal economic activity be tracked? The harmonization of the relevant income notion and its firm and uniform implementation are essential to the legitimacy and hence to the sustainability of the scheme. But they would raise in each member state such sensitive issues that any EU scheme that relies on such a notion is hardly promising.

Secondly, it is easy to understand that the design of such a means-tested trans-national scheme is intrinsically perverse. Just think of two countries with same GDP per capita, and suppose that one has

⁴ Standards of this sort have been proposed for example by Fritz Scharpf. See the discussion in Scharpf (2000) and Van Parijs (2000).

a more unequal distribution of disposable income and hence a greater proportion of poor people, say owing to lousy educational and social policies. It is intrinsic to any such scheme that this country will be rewarded for the lousiness of its anti-poverty policies, and the other country punished for its success. A scheme that makes net trans-national transfers a positive function of the poverty gap is bound to be both very unfair and, owing to perverse incentives, highly inefficient.⁵

EU Co-payment ?

One obvious and more familiar alternative is co-payment. It is quite commonly used in countries in which the administration of social assistance is a decentralized — typically municipal — competence, while part of the funding is centralized, precisely to avoid the “unfunded mandate” problem mentioned above.

This works fine when the centralized level is in control of most of the other instruments of social policy. But if the co-payment of social assistance is envisaged between the European Union and the member states, very strong, unnecessary and undesirable constraints on the member states’ autonomy in designing their own social policies are bound to emerge.

This is not only the case because the European Union will understandably want to have a say on the benefit levels and eligibility conditions of the programmes it co-funds. This is also the case because one will need to block the member states’ understandable temptation to dump onto the co-funded social assistance scheme people who would more usefully be covered by other branches of their transfer system (disability allowances, old age pensions, child support, student grants, employment subsidies, etc.). From the members state’s standpoint, these other schemes have the disadvantage of having to be funded exclusively out of their own resources, and some of the cost to the EU level by reducing eligibility to these schemes will be hard to resist. To keep this moral hazard under check, active EU regulation throughout the social policy realm will be required, at the expense of the considerations that support the subsidiarity principle.

Universal Euro-dividend?

Is there an alternative? Yes, there is: what could be called a *Euro-dividend*, a modest universal basic income paid to all legal residents of the European Union and entirely funded at EU level, which can be topped up at will at a national or sub-national level by other universal benefits, by a means-tested and conditional social assistance scheme and of course by a social insurance system.⁶

The level need not be uniform across the Union. It can reflect differences in purchasing power (not in GDP per capita, which would amount to cancelling the trans-national redistributive effect). The

⁵ For discussion, see Schmitter & Bauer (2001), Van Parijs & Vanderborcht (2001 and forthcoming), Matsaganis (2001), Bauer & Schmitter (2001) and Howard (2006).

⁶ The oldest known formulation of such a proposal can be found in a 1975 report to the European Parliament's Economic and Monetary Affairs Committee by the British MEP Sir Brandon Rhys Williams. One key component of the "European social contract" he there proposes would consist in bringing into line all the basic welfare systems of the community, as a way of removing one powerful barrier to the free movement of workers and their families. A first step could be made with a unified community-wide child benefit system (which individual countries would be free to top up). "A further step forward would include a full-scale tax-credit system incorporating a structure of positive personal allowances as a feature of the community tax system." Such a basic income system, in his view, has two advantages that are particularly relevant in the European context. First, it would "provide an opportunity to carry through a regional policy at personal level, since it would [...] carry purchasing power outwards from the centres of wealth to the districts and even into the houses where incomes are below the average". Second, "it would help to raise the incomes of farmers with low earnings without interfering with the prices of their products", and thus provide a partial alternative to the Common Agricultural Policy. He concludes: "The European Social Contract must combine the benefits of security and unity afforded to the citizens of communist societies with the personal freedom and self-respect which are the best characteristics of the property-owning democracies." (*Basic Income* 4, Spring 1989, www.basicincome.org). See also Genet & Van Parijs (1992) and Van Parijs (1996).

funding must be centralized, but it should definitely not consist, for the reasons hinted at above, in a EU-wide personal income tax. The VAT is a more appropriate instrument or, more innovatively, a “super-Tobin” tax on *all* electronic transactions. A significant part of the funding would need to come from the phasing out of agricultural policy transfers, possibly also of social and structural funds, for which the Euro-dividend would provide a partial substitute. A gradual introduction is conceivable, but the steps should not consist in income categories, regions, or sectors, but in age groups. One could envisage a universal basic pension, as already exists in several member states, or more sensibly given the demographic situation of the EU, in the form of an EU-wide child benefit, as suggested for example by Tony Atkinson.⁷

No need here to find a uniform definition of disposable or taxable income. No perverse incentives for the nations states’ anti-poverty programmes. And no unnecessary restriction of the member states’ room for innovation or adjustment to local conditions and preferences. Far from imposing top-down a mega welfare state, a firm common floor for the most redistributive dimension of social policy keeps fiscal competition and social dumping under check and thereby allows each member state to maintain and improve its own preferred version of the welfare state. As an antidote to the race to the bottom, this bottom-up conception of an active social Europe is fully compatible with subsidiarity properly understood.

Far more would need to be said about how much readjustment in the other components of the welfare state this third model of direct EU involvement would require; about how it would handle migration, legal and illegal, from outside the EU; about how a universal basic income approach can be viewed as a central component of the so-called “active welfare state” in its emancipatory (as opposed to repressive) version; about how it ties in with “flexicurity”, as usefully clarified at this conference by Günther Schmid; and about how it neatly fits into a conception of distributive justice as real freedom for all.

Political feasibility

Instead, I want to close by emphasizing four conditions for such an ambitious conception of EU-level social policy to become politically feasible. Firstly, we need a thicker European civil society. There are already far more people active in Brussels because of the presence of the EU’s institutions without working for them than there are Eurocrats in the strict sense. We need more of them. We need stronger EU-wide social partners, more and stronger EU-wide associations and lobbies of all sorts which weave together all layers of EU society, not just the economic, political and cultural elite, and enables people across Europe to understand each other, identify with each other, and mobilize together. An active social Europe will only come about if it can be “bottom up” in this sense too.

Secondly, we need electoral institutions at EU level that make it rewarding to construct and publicly defend the general interest of the European population as a whole. We might think, as some have proposed, of a direct election of the President of the European Commission or of the European Council. But there is no need to ape the United States. In our ethnically more divided union, I personally prefer a different option: the election of some small percentage of the Members of the European Parliament in a single EU-wide consistency.⁸

Bluntly stated, the third condition is the most controversial perhaps, but it is the one whose realization is best on its way, and it forms an essential presupposition for the first two conditions to work. What we need in the third place is a thorough democratization of competence in one single lingua franca, which will — need I say — be English, the only language used at this conference, like

⁷ A warm supporter of moves towards a basic income in national contexts, Anthony Atkinson (1996) argues that basic income “has particular salience in the European Union, where it can provide a secure foundation for a Europe-wide minimum income”, beginning with a basic income for children pitched at a level related to the general income level of each country.

⁸ More generally, having part of the Parliament’s seats allocated on a polity-wide constituency is arguably a necessary condition for the smooth running of a parliamentary democracy in a polity deeply divided along territorial lines. See www.paviagroup.be.

at so many others, by everyone not speaking his or her native language. One of the key conditions for a viable generous social policy beyond the level of a nation state is a lively democratic forum, and hence an ability to communicate conveniently and effectively across border for all sorts of people, not only the rich and powerful who can afford the wonderful but expensive help of interpreters and translators. If we want to circumvent Mill's indictment of multinational democracy referred to earlier, and enable the EU to do what it needs to do, we need to accelerate the acquisition and appropriation of English as a second or third language throughout the European continent.⁹

Fourthly and lastly, there is the hard, imaginative, ingenious work of people like you, people who can work out how to move from here to there without getting stuck in the mud; who can concoct a clever way of overcoming a stalemate, of triggering a virtuous circle; who can whisper at the right time the right suggestion in the right minister's or commissioner's ear; and who can then follow up and follow up again until the progress made becomes irreversible. For it is all fine and well to lift our chins, to develop a coherent vision, but it is only thanks to ruthless opportunism that we shall be able to move forward

Thank you for your attention. Thank you above all, on behalf of all of us in the European Union and far beyond, for what *you* will do.

pvp

10 November 2006

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⁹ I spell this out in Van Parijs (2004).

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More specifically, I shall invite you to reflect on the following question: When we are thinking about the design of institutions, more specifically about the design of social policy institutions and the balance to be achieved in a multi-level governance structure, what should be the ultimate aim? The answer is simple: distributive justice.

But what is justice? Any conception of distributive justice relevant for our times must combine two elements, both strongly rooted in our European traditions, but neither of them exclusive to them: toleration and solidarity. More precisely, it must incorporate and articulate two considerations: equal respect for the diversity of conceptions of the good life that characterizes our pluralist societies and equal concern for the interests of all members, present and yet to come, of the society concerned. This concern, moreover, must be responsibility-sensitive — distributive justice is not a matter of outcomes but of opportunities or possibilities — and it must be efficiency-sensitive — a fair distribution need not be a strictly equal distribution, but rather one that sustainably maximizes the condition of the worst off. Justice, in brief, means real freedom for all, the greatest real freedom for those with least of it.¹

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Just a few words on the former, before I focus on the latter. There is quite a lot of whining, of bickering, of bashing going on: “The European Union does too little. It does too much. It moves too slowly. It moves too fast.” But let us not kid ourselves. What has been achieved so far by the European Union, or as an effect of its functioning, is just amazing, mind-boggling, beyond all reasonable hope.

To keep things in some sort of philosophical perspective, just remember John Stuart Mill’s famous indictment of multinational democracy in the chapter on nationalism of his *Considerations on Representative Government*, the first modern treatise on democracy: A multinational political entity — in particular a multilingual political entity — can live together forever under a despotic regime, Mill wrote. But make it democratic, and it will fall apart, with political borders coinciding approximately with linguistic borders. Since Mill published these lines were published in 1861, he was proved right again and again, from the collapse of the Austro-Hungarian Empire to that of the Soviet Union and Yugoslavia.

And yet we have the European Union, indeed even one that is growing much faster than some said it should, through the voluntary *Anschluß* of one country after another. Of course the process of European integration is imperfect, messy, chaotic, tortuous, frustrating. But against such odds, how can you expect the road to be straight? How can you expect the task to be easy? The task of combining respect for our national and linguistic diversity with efficient democratic decision-making is daunting. But it is essential. Not only to avoid

¹ The conception of justice expounded and defended in my book *Real Freedom for All* (Van Parijs 2005) corresponds to just one way of satisfying these desiderata. Other « liberal egalitarian » conceptions of justice include those proposed by John Rawls (1971), Amartya Sen (1992) and Ronald Dworkin (2000).

dramatic regression for our own people. Also because the European Union offers the closest approximation in the history of the world to the sort of institutional framework we increasingly need at the global level.

Why subsidiarity makes sense

One of the most important challenges this task consists in tackling is the one to which this conference is devoted. When discussing the role of the EU in social policy no less than in any other domain, it makes good sense to appeal to the principle of subsidiarity, understood as a rule for ascribing the burden of proof: When there is a choice between two levels of democratic government for the allocation of a particular competence, always start with a presumption in favour of the lower, more decentralized level. Why?

For four general reasons. Firstly, opting for the lower level leaves more room for diversity, for experimentation and hence for mutual learning, especially when the prevailing diversity can be made more fruitful through an intelligent use of the Open Method of Coordination. Secondly, it makes it possible to have policies more responsive to local objective circumstances. Thirdly, it makes it possible to have policies more responsive to local preferences, as shaped by the local public debate. Fourthly, it makes it possible to make decision-makers more accountable to those who are supposed to benefit from the policies and to pay for them.

In addition, there is a fifth reason that applies specifically to social policy, in so far as it is genuinely redistributive: the lower the level, the more homogeneous the population involved, the greater the political viability of generous redistribution, as a result of greater trust, of greater mutual identification, of greater “fellow-feeling”. This specific reason but also the last two general reasons are particularly strong when opting for the lower level enables one to function at the level of a linguistically more homogeneous populations, which is of course the case if one locates social policy competences at the level of the member states rather than at the level of the EU.

So is the matter settled? Not at all. Because the subsidiarity principle states no more than a presumption, and one that happens to be vulnerable, in this particular case, to two considerations which, taken together, call for direct EU involvement in social policy of an unprecedented nature and magnitude.

The less EU involvement, the more EU impact

The first of these considerations can be expressed by means of a paradox neatly formulated by Kari Välimäki in the concluding chapter of the very instructive background report for this conference, and restated by both him and Jérôme Vignon on the first day of the conference.² Bluntly put, the paradox takes the following form: “What should the EU do in matters of social policy in order to have a maximal impact on the member states’ social policies, to in order achieve maximal uniformity? Just do nothing. Just let the four freedoms, i.e. the single market for labour, capital, goods and services, make their powerful pressure fully felt through the mutual adjustment of self-interested mobile economic agents and competitiveness-concerned member state governments, helped by a few vigorous decisions by the European Court of Justice.”

The same underlying consideration can also be expressed as follows. True, owing to some of the reasons adduced above in support of the subsidiarity principle, the member states constitute a more suitable level than the EU as regards the *political* feasibility of generous, i.e. strongly redistributive, social policies (not big pensions for big earners). But with the four freedoms strongly entrenched and their potential gradually perceived throughout the EU, the *economic* feasibility of generous social policies at that level decreases day by day.³

This is no doubt something we could and should have anticipated from a brief glance at the US. The bulk of whatever redistribution there is in the US happens at the federal level, mainly today in the form of solidarity with the elderly (through Social Security and Medicare) and with the working poor (through the Earned Income Tax Credit). Do you really think that the fact that so little redistribution is happening in the US at the level of individual states has nothing to do with the “four freedoms” US residents have long enjoyed across states?

² See Välimäki (2006: 275): “The following of the subsidiarity principle has also implied that the member states have not actively promoted the social dimension of the Union. This has created a paradox. The EU influences member states’ policies more through the internal market than expected. If the member states were interested in strengthening EU social policy, the EU’s impact on the member states’ systems would be less.”

³ The fact that no race to the bottom is detectable so far when looking at shares of social expenditure in GDP should not mislead us. There is no reason to expect the bulky and swelling mass of earnings-related old age pensions to be under strong pressure. But the genuinely redistributive part of the welfare states is, as shown for example in falling ratios of benefits to earnings (Obinger 2005).

The dreadful truth for us may well be that whereas the economic unfeasibility of generous member-state level solidarity is in sight the political feasibility of generous EU level solidarity is not. And if this is the case, we are not our way to doing as badly in terms of social solidarity as the US, which we so gladly stigmatize. We are on our way to doing even worse.

The multidimensional need for trans-national transfers

Thus, the first subsidiarity-counteracting consideration is that the member states' real sovereignty in matters of social policy is being eroded by the four freedoms, and that even for the sake of intra-national solidarity a more active role is urgently required on the part of the EU. The second subsidiarity-counteracting consideration is simply that we increasingly need trans-national transfers, for three quite different yet mutually reinforcing reasons.

Firstly, we need them as an insurance device against the asymmetric shocks and diverging trends to which the member states are subjected in a context in which the single market favours greater sectoral specialization while globalization creates permanent uncertainty. Especially in the Euro zone, where the instrument of currency adjustment is no longer available, an automatic stabilizer in the form of transfers from the areas that gain from globalization and the single market to those that lose constitutes an intelligent way of buffering risks and thereby enabling member states to take fuller advantage of more integrated markets.

Secondly, trans-national transfers operate as population stabilizers. In the linguistically and culturally more diverse context of the EU, labour migration to the more affluent member states is far more disruptive than it is across state borders in the United States. Therefore, it happens less often and hence fails to play the adjustment role it plays in the US. Therefore too, it should not happen as often as it would in the absence of trans-national transfers. The greater negative externalities of migration in linguistically more diverse Europe make such transfers particularly important.

Thirdly and most fundamentally, EU-wide trans-national transfers are increasingly felt to be required directly by social justice. In a context of ever growing trans-national trade, mobility, communication and debate, it is becoming increasingly surrealistic to assume that issues of distributive justice can arise only between citizens of the same state. It is not just that we are becoming aware of how profoundly the direct and indirect implications of the EU's very existence, institutional framework and policies affect the material prospects of the citizens of all member states. Equally important is that Europe's citizens are increasingly involved, individually or through an ever wider range of associations, in a EU-wide conversation, an EU-wide forum of argumentation, contestation and justification, which is less and less reducible to bargaining for mutual benefit among the representatives of the member states to which they belong. It will still take a while before social justice will be self-evidently identified with global justice. But the realization that it needs to be conceived and pursued at EU level is around the corner.

Minimum standards?

In order to take proper account of these two considerations, I have no doubt that we shall have to go further than the imposition of common minimum standards of social policy to all member states. This is trivially the case for the second consideration — minimum standards entail no trans-national solidarity. But it is also the case for the first consideration — the need to step in for failing intra-national solidarity —, because of two difficulties intrinsic to the minimum standards strategy. One goes, in the US discussion, under the label “unfunded mandates”: a higher unit of government cannot legitimately impose a costly duty on lower units, especially the poorer among them, unless it is willing to cover at least part of the cost.

The other difficulty takes the form of a dilemma. Either the standards are quite detailed and therefore in sharp tension with the concern for member state autonomy encapsulated in the principle of subsidiarity. Or they remain quite vague, typically in the form of a minimal share of social expenditure in GDP, but they then raise intractable problems once it is realized how important it is that they should capture the “hidden welfare state” (the implicit transfers embedded in the tax system), disentangle sheer insurance (which involves no ex ante redistribution) from solidarity proper, and address the impact of social policy on the pre-tax-pre-transfer distribution of income.⁴

On this background, direct involvement of the European Union in the organization and funding of the most redistributive components of social policy is no longer just a distant dream but an urgent necessity. The

⁴ Standards of this sort have been proposed for example by Fritz Scharpf. See the discussion in Scharpf (2000) and Van Parijs (2000).

necessity may remain a dream, however, if we cannot come up with any practical way of making it happen. Three models are worth thinking about.

Means-tested Euro-stipendium ?

First, there is the model neatly illustrated by Philippe Schmitter and Michael Bauer's (2001) "Euro-Stipendium" proposal. What they propose, is "the payment each month of a stipulated amount of Euros to all citizens or legal permanent residents living within the EU whose total earnings amount to less than a third of the average income of everyone living within its borders". Such a proposal amounts to a massive means-tested transfer to all European households below some poverty line. It sounds consonant with the subsidiarity principle, at least understood this time as "Let the lower level try first, and only intervene at the higher level if it fails". And it clearly addresses head on the need for direct EU involvement stemming from the two considerations spelled out above.

However, leaving out some correctable defects, the Euro-Stipendium proposal suffers from two major flaws. Firstly, its implementation requires a standardized, uniformly implemented notion of income: For example, how is household composition taken into account? Who counts as a member of the household? How is the income of the self-employed assessed? What about income in kind? Should home ownership be counted as an implicit income? How vigorously must income from informal economic activity be tracked? The harmonization of the relevant income notion and its firm and uniform implementation are essential to the legitimacy and hence to the sustainability of the scheme. But they would raise in each member state such sensitive issues that any EU scheme that relies on such a notion is a pipe dream.

Secondly, it is easy to understand that the design of such a means-tested trans-national scheme is intrinsically perverse. Just think of two countries with same GDP per capita, and suppose that one has a more unequal distribution of disposable income and hence a greater proportion of poor people, say owing to lousy educational and social policies. It is intrinsic to any such scheme that this country will be rewarded for the lousiness of its anti-poverty policies, and the other country punished for its good performance. A scheme that makes net trans-national transfers a positive function of the poverty gap is bound to provide both perverse rewards and perverse incentives and hence to be both very unfair and very inefficient.⁵

EU Co-payment ?

One obvious and more familiar alternative is co-payment. It is quite commonly used in countries in which the administration of social assistance is a decentralized — typically municipal — competence, while part of the funding is centralized, precisely to avoid the "unfunded mandate" problem mentioned above.

This works fine when the more centralized level is firmly in control of most of the other instruments of social policy. But if the co-payment of social assistance is envisaged between the European Union and the member states, very strong, unnecessary and undesirable constraints on the member states' autonomy in designing their own social policies are bound to emerge.

This is the case, first of all, because the European Union will understandably want to have a say on the benefit levels and eligibility conditions of the programmes it co-funds. This is also the case, with far broader implications, because the EU will need to block the member states' understandable temptation to dump onto the co-funded social assistance scheme people who would more usefully be covered by other branches of their transfer system (disability allowances, old age pensions, child support, student grants, employment subsidies, etc.). From the members state's standpoint, these other schemes have the disadvantage of having to be funded exclusively out of their own resources, and shifting some of the cost to the EU level by reducing eligibility to these schemes will be hard to resist. To keep such moral hazard under check, active EU regulation throughout the social policy realm will be required, at the expense of the considerations that support the subsidiarity principle.

Universal Euro-dividend?

Is there an alternative? Yes, there is: what could be called a *Euro-dividend*, a modest universal basic income paid to all legal residents of the European Union and entirely funded at EU level, which can be topped up

⁵ For discussion, see Schmitter & Bauer (2001), Van Parijs & Vanderborght (2001 and forthcoming), Matsaganis (2001), Bauer & Schmitter (2001) and Howard (2006).

at will at a national or sub-national level by other universal benefits, by a means-tested and conditional social assistance scheme and of course by a social insurance system.⁶

The level need not be uniform across the Union. It can reflect differences in purchasing power (not in GDP per capita, which would amount to cancelling the trans-national redistributive effect). The funding must be centralized, but it should definitely not consist, for the reasons hinted at above, in a EU-wide personal income tax. The VAT is a more appropriate instrument or, more innovatively, a “super-Tobin” tax on *all* electronic transactions. A significant part of the funding would need to come from the phasing out of agricultural policy transfers, possibly also of social and structural funds, for which the Euro-dividend would provide a partial substitute. A gradual introduction is conceivable, but the steps should not consist in income categories, regions, or sectors, but in age groups. One could envisage a universal basic pension, as already exists in several member states, or more sensibly given the demographic situation of the EU, in the form of an EU-wide child benefit, as suggested for example by Tony Atkinson.⁷

No need here to find a uniform definition of disposable or taxable income. No perverse incentives for the nations states’ anti-poverty programmes. And no unnecessary restriction of the member states’ room for innovation or adjustment to local conditions and preferences. Far from imposing top-down a mega welfare state, a firm common floor for the most redistributive dimension of social policy keeps fiscal competition and social dumping under check and thereby allows each member state to maintain and improve its own preferred version of the welfare state. As an antidote to the race to the bottom, this bottom-up conception of an active social Europe is fully compatible with subsidiarity properly understood.

Far more would need to be said about how much readjustment in the other components of the welfare state this third model of direct EU involvement would require; about how it would handle migration, legal and illegal, from outside the EU; about how a universal basic income approach can be viewed as a central component of the so-called “active welfare state” in its emancipatory (as opposed to repressive) version; about how it ties in with “flexicurity”; and about how it neatly fits into a conception of distributive justice as real freedom for all.

Political feasibility

Instead, I want to close by emphasizing four conditions for such an ambitious conception of EU-level social policy to become politically feasible. Firstly, we need a thicker European civil society. There are already far more people active in Brussels because of the presence of the EU’s institutions without working for them than there are Eurocrats in the strict sense. We need more of them. We need stronger EU-wide social partners, more and stronger EU-wide associations and lobbies of all sorts which weave together all layers of EU society, not just the economic, political and cultural elite, and enables people across Europe to understand each other, identify with each other, and mobilize together. An active social Europe will only come about if it can be “bottom up” in this sense too.

Secondly, we need electoral institutions at EU level that make it rewarding to construct and publicly defend the general interest of the European population as a whole. We might think, as some have proposed, of a direct election of the President of the European Commission or of the European Council. But there is no need to

⁶ The oldest known formulation of such a proposal can be found in a 1975 report to the European Parliament’s Economic and Monetary Affairs Committee by the British MEP Sir Brandon Rhys Williams. One key component of the “European social contract” he there proposes would consist in bringing into line all the basic welfare systems of the community, as a way of removing one powerful barrier to the free movement of workers and their families. A first step could be made with a unified community-wide child benefit system (which individual countries would be free to top up). “A further step forward would include a full-scale tax-credit system incorporating a structure of positive personal allowances as a feature of the community tax system.” Such a basic income system, in his view, has two advantages that are particularly relevant in the European context. First, it would “provide an opportunity to carry through a regional policy at personal level, since it would [...] carry purchasing power outwards from the centres of wealth to the districts and even into the houses where incomes are below the average”. Second, “it would help to raise the incomes of farmers with low earnings without interfering with the prices of their products”, and thus provide a partial alternative to the Common Agricultural Policy. He concludes: “The European Social Contract must combine the benefits of security and unity afforded to the citizens of communist societies with the personal freedom and self-respect which are the best characteristics of the property-owning democracies.” (*Basic Income* 4, Spring 1989, www.basicincome.org). See also Genet & Van Parijs (1992) and Van Parijs (1996).

⁷ A warm supporter of moves towards a basic income in national contexts, Anthony Atkinson (1996) argues that basic income “has particular salience in the European Union, where it can provide a secure foundation for a Europe-wide minimum income”, beginning with a basic income for children pitched at a level related to the general income level of each country.

ape the United States. In our ethnically more divided union, I personally prefer a different option: the election of some small percentage of the Members of the European Parliament in a single EU-wide constituency.⁸

Bluntly stated, the third condition is the most controversial perhaps, but it is the one whose realization is best on its way, and it forms an essential presupposition for the first two conditions to work. What we need in the third place is a thorough democratization of competence in one single lingua franca, which will — need I say — be English, the only language used at this conference, like at so many others, by everyone not speaking his or her native language. One of the key conditions for a viable generous social policy beyond the level of a nation state is a lively democratic forum, and hence an ability to communicate conveniently and effectively across border for all sorts of people, not only the rich and powerful who can afford the wonderful but expensive help of interpreters and translators. If we want to circumvent Mill's indictment of multinational democracy referred to earlier, and enable the EU to do what it needs to do, we need to accelerate the acquisition and appropriation of English as a second or third language throughout the European continent.⁹

Fourthly and lastly, there is the hard, imaginative, ingenious work of people like you, people who can work out how to move from here to there without getting stuck in the mud; who can concoct a clever way of overcoming a stalemate, of triggering a virtuous circle; who can whisper at the right time the right suggestion in the right minister's or commissioner's ear; and who can then follow up and follow up again until the progress made becomes irreversible. For it is all fine and well to lift our chins, to develop a coherent vision, but it is only thanks to ruthless opportunism that we shall be able to move forward

Thank you for your attention. Thank you above all, on behalf of all of us in the European Union and far beyond, for what *you* will do.

pvp

10 November 2006

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⁸ More generally, having part of the Parliament's seats allocated on a polity-wide constituency is arguably a necessary condition for the smooth running of a parliamentary democracy in a polity deeply divided along territorial lines. See Deschouwer & Van Parijs (2007) and www.paviagroup.be.

⁹ I spell this out in Van Parijs (2004).

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