

19 March 2015

## **The Dutch roots of the Lisbon-strategy**

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### **1 Introduction**

The Lisbon and Europe 2020 strategies are rooted in a Dutch triple-p tradition (people, profit, planet) that has had the unanimous support of the Dutch social partners. This Dutch tradition fits well with the European social model of Nordic countries. In 1990 and 1992 the Dutch Social and Economic Council (SER) produced unanimous advisory reports on how to pursue social and economic policies in the context of a future currency union. In 2000, 2004 and 2009 the SER produced unanimous reports on the Lisbon- and Europe 2020 strategies as such. The linking pin is the importance of a triple-p approach, both for the Netherlands and the EU as a whole. Dutch social partners did not embrace the Lisbon strategy because they were naïve, but because they wanted to upscale the triple-p approach that was beneficial for the Netherlands to the European level. Member states that ignored the profit-side of Lisbon (the need to maintain competitiveness in a currency union) lost precious time and had to implement structural reforms in a less benign environment.

Lisbon Strategy, EU 2020, consultation economy, triple-p, Netherlands

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- The author would like to thank Marko Bos, director at the Social and Economic Council, for useful comments.

#### *Aims of this paper*

It is by now common usage to discredit the Lisbon and Europe 2020 strategies. One step further is to state that these strategies were faulty ('neoliberal') from the start and that trade unions were naïve to embrace these strategies at their conception<sup>1</sup>. In this article I want to qualify such perceptions by demonstrating the Dutch triple-p roots of the Lisbon-strategy. The triple-p approach plays a prominent part in unanimous advisory reports from the Dutch Social and Economic Council (SER).

The SER has a long history in advising the Dutch government on national social and economic policies. Since the late 1950's the SER has also advised on European integration. This makes it possible to show how the SER has come to recommend and support a triple-p approach both at home and for Europe as a whole.

In a triple-p approach a balance has to be found between competing goals: social cohesion, competitiveness and environmental protection. Critics of the Lisbon and Europe 2020 strategies usually find that the goal of competitiveness (profit) takes precedence at the cost of social cohesion (people). By now this criticism is so widespread, that it is worthwhile to clarify the meaning of the profit-side of the triangle. Without profit (competitiveness) it is very hard to maintain employment and social cohesion in a sustainable way. This is especially true in a currency union. In this paper I will show how thinking on the relationship between adjustment and solidarity in an Economic and Monetary Union has evolved.

In advising on social and economic policy, the SER has also developed strong views on the role of the consultation economy, both for the Netherlands and for the EU as a whole. In

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<sup>1</sup> Richard Hyman, *Trade Unions, Lisbon and Europe 2020: From dream to Nightmare*, International Journal of Comparative labour law and industrial relations, 28, no. 1 (2012); 5-28.

this paper I explore the division of responsibilities between government and social partners when it comes to implementing a triple-p approach in a currency union.

### Outline

Chapter 2 compares The Netherlands with other member states according to the structural Lisbon indicators. It is shown that The Netherlands has a favourable position in social and economic terms.

Chapter 3 deals with socio-economic policy making in a small and open economy. It is shown that the Dutch social partners have a long tradition in joint responsibility for keeping the Netherlands competitive on world markets. But in the Dutch tradition competitiveness has to go hand in hand with social protection. As such the Dutch social partners contribute to a Nordic version of the European social model.

Chapter 4 outlines that from 1992 the SER embarks on a triple-p approach when it comes to preparing The Netherlands for membership of a currency union. An important part of this approach is structural adjustment on the supply side of the economy. This chapter explains the role that the consultation economy can play in strengthening the collective capacity for social innovation.

Chapter 5 deals with the SER advisory reports on the Lisbon and Europe 2020 strategies as such. The SER recommends to give public prosperity (the triple-p approach) pride of place. To make this possible the EU and member states have to increase labour participation and labour productivity without ignoring the social component of the Lisbon agenda.

Chapter 6 discusses four remaining issues for the functioning of EMU against the background of the SER-advisory reports discussed before: the role of competitiveness in a triple-p approach, the implementation of aggregate demand management in a currency union, the right balance between collective solidarity and adjustment in individual member states, and the proper role of social partners in the governance of EMU.

## 2 Characteristics of the Dutch (consultation) economy

What are the characteristics of the Dutch economy? How are we doing compared to our peers? A brief introduction is offered by the shortlist of 14 structural Lisbon indicators.

Table 1 – The Netherlands compared to EU-27 and Eurozone-17 countries according to 14 structural indicators

	EU-27			Eurozone-17			Netherlands		
	2002	2007	2012	2002	2007	2012	2002	2007	2012
1. GDP per capita in PPS (EU=100)	100	100	100	111	109	108	134	132	127
2. Labour productivity (EU=100)	100	100	100	114.5	113.0	113.8	135.9	137.4	128.7
3. Labour participation 15-64 (%)	66.8	69.9	68.5	66.5	69.8	68.1	75.8	77.8	77.2
4. Labour participation 55-64 (%)	38.5	44.6	48.9	36.3	43.2	48.7	42.3	50.9	58.6
5. R&D expenditure (% gdp)	1.81 <sup>a</sup>	1.78 <sup>a</sup>	2.01 <sup>a</sup>	1.81 <sup>b</sup>	1.81 <sup>b</sup>	2.09 <sup>b</sup>	1.77	1.7	1.97
6. Educational attainment (20-24)	76.7	78.2	80.1	73.4	75.1	77.7	73.1	76.2	79.0
7. Comparative price levels (EU=100)	100.2 <sup>c</sup>	100.1	100.2	103.1 <sup>c</sup>	101.4	102.2	108.0 <sup>c</sup>	102.1	107.6
8. Gross fixed investment (% gdp) <sup>g</sup>	19.6 <sup>d</sup>	21.3	17.9	20.2 <sup>d</sup>	21.8	18.3	18.8 <sup>d</sup>	20.0	17.0
9. Risk of poverty (%)	16.4 <sup>e</sup>	16.5	16.9	15.3 <sup>e</sup>	16.3	17.0	11	10.2	10.1
10. Long-term unemployment (%)	4.1	3.1	4.6	3.8	3.3	5.2	0.8	1.4	1.8
11. Distribution regional participation	10.0	11.1	13.2	12.0	10.7	14.5	1.9	2.2	2.2
12. Greenhouse gas emissions; Kyoto baseline year = 100	92.06 <sup>a</sup>	92.36 <sup>a</sup>	82.14 <sup>a</sup>	98.94 <sup>f</sup>	97.79 <sup>f</sup>	86.62 <sup>f</sup>	103.31	99.49	93.26
13. Energy intensity	168.2 <sup>a</sup>	151.9 <sup>a</sup>	143.2 <sup>a</sup>	158.0 <sup>b</sup>	145.4 <sup>b</sup>	137.9 <sup>b</sup>	159.0	149.8	149.4
14. Volume of freight transport	100	105.4	94.5	n.a.	n.a.	n.a.	95.5	91.1	84.4

a EU-28; b Eurozone-18; c 2003; d 2004; e 2005; f Eurozone-15; g. The structural indicator of private sector investment as a percentage of gdp is not available. So gross fixed capital formation is presented instead.

Source: Eurostat, structural indicators.

As it turns out, the Netherlands scores less well on private R&D expenditures, educational attainment, comparative price levels and private sector investments. On the other hand the Netherlands compares favourably with EU-27 and euro zone averages in terms of prosperity, productivity, employment, and social and regional cohesion. This suggests that we have found a way to reconcile economic and social goals.

To what extent can these results be related to the Netherlands pursuing socio-economic policies in line with the Lisbon strategy? The answer can be based on three considerations.

The first consideration is that the Netherlands, being a small and open economy, had to formulate a socio-economic policy mix that would keep us competitive on world markets anyhow. As a country that is oriented towards the Nordic model we aim at a policy mix that achieves equity in an efficient way. This is the subject of paragraph 3.

Second, the prospect of the Economic and Monetary Union prompted the Netherlands to formulate a socio-economic policy mix that would allow us to prosper in a currency union. This policy mix can be termed as Lisbon *avant la lettre*. It is therefore hard to distinguish the Dutch Lisbon strategy after 2000 from the policies that were already being pursued. This is the subject of paragraph 4.

Third, the Dutch Social and Economic Council has on three occasions produced advisory reports on the Lisbon- and EU 2020 strategies as such. The comments we have on the EU-wide approach may say something on what we find of importance for ourselves. This is the subject of paragraph 5.

### **3. Socio-economic policy in a small and open economy (1951)**

The Netherlands has always been a relatively small and open economy. For a trading nation it goes without saying that prosperity depends on an ability to compete on world markets. And since commercial transactions have to be settled in hard currencies, we are used to make our living in a hard currency regime, be it the gold standard, the fixed currencies of Bretton Woods, a quasi monetary union with the Deutsche Mark, the European Monetary System or the current Economic and Monetary Union.

It is interesting to observe that this philosophy has had the full support of the Dutch social partners.

In 1950 the Dutch government established the Social and Economic Council (*Sociaal Economische Raad*; SER). In the same year government asked the SER's opinion on the question: what role can wage and price policies play in addressing the serious current account deficit? In 1951 the SER replied that it is first necessary to distinguish instruments and objectives<sup>2</sup>. This led to the formulation of what would become the five classic objectives for socio-economic policy:

- Optimal economic growth
- Full employment
- Balance of payments equilibrium
- A stable price level
- A reasonable distribution of incomes

The SER continued with the observation that wage and price policies must be supportive to the general objectives for socio-economic policies. In a period with current account deficits, which was the case in 1951, the wage policy had to show restraint in order to contribute to lowering export prices.

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<sup>2</sup> SER advisory report: *Advies inzake de in de naaste toekomst te voeren loon- en prijspolitiek* (on the wage and price policy to be pursued in the near future), publication nr. 1951/01.

The five objectives for socio-economic policy clearly aim at reconciling economic efficiency with social equity. Three of the five objectives look after competitiveness (economic growth, balance of payments, price level), while the remaining two aim at the social dimension (full employment, a reasonable distribution of incomes)<sup>3</sup>. This balance closely resembles the Nordic version of the European social model as defined by Sapir (2006)<sup>4</sup>.

Sapir distinguishes four versions of the European social model: the Nordic model, the Continental model, the Anglo-Saxon model and the Mediterranean model. The Nordic model comprises Denmark, Finland, Norway, Sweden and the Netherlands. Sapir evaluates these four models by using the criteria efficiency and equity. A model is deemed efficient when it achieves a high employment rate. A model contributes to equity when it achieves a relatively low poverty risk. According to Sapir, the Nordic model outperforms the other models since it manages to combine equity and efficiency.

Figure 1 - The four European models: a typology

		EFFICIENCY	
		Low	High
		Continental	Nordic
EQUITY	High		
		Mediterranean	Anglo-Saxon

Source: Sapir (2006), op.cit.

Since the combination of equity and efficiency is also at the heart of the later Lisbon Strategy, the Nordic version of the European social model can also be seen as Lisbon avant la lettre. The following paragraph describes how social partners in the Netherlands operated in the decade before the 2000 Lisbon Summit.

#### 4. Lisbon avant la lettre (1990)

##### 4.1 Towards a new consensus for social and economic policy

By 1990 the Netherlands had embarked on a Lisbon-strategy avant la lettre with the full support of the Dutch social partners. By 2000 large parts of what would become the Lisbon and Europe 2020 strategies had already been on the agenda of the Dutch consultation economy.

#### The 1982 Wassenaar agreement

The starting point for this Lisbon avant la lettre approach can in fact be placed in 1982, when the post-war consultation economy managed to reinvent itself. Due to the oil crises of the 1970's and the increasing polarisation between the political left and right the social dialogue had come to a standstill. Rising mass unemployment after 1979 brought the Dutch trade unions to realise that the defence of automatic inflation compensation was increasingly counterproductive. There was also the threat of government intervention in wage-fixing. Both insights led in 1982 to the famous Wassenaar agreement, in which Dutch social partners agreed that jobs were more important than wage rises. For the Dutch trade unions this agreement was a courageous yet

<sup>3</sup> In fact, the goal of full employment contributes to both equity and efficiency.

<sup>4</sup> André Sapir, *Globalisation and the reform of European social models*, JCMS 2006 Volume 44, Number 2, pp. 369-390.

risky step; it would take several years before rewards could be seen in terms of higher employment numbers<sup>5</sup>.

Table 2 – SER-advisory reports on Lisbon-relevant subjects in the period 1990-2000

Year	Title advisory report
1990	Economic and Monetary Union
1990	The social dimension of Europe 1992
1991	European Political Union
1991	Economics and the environment
1992	The Dutch road to EMU: convergence in concert
1993	Europe after Maastricht
1993	Part-time work
1995	Enlargement and further development of the European Union
1996	Towards an innovative economy Dutch medium-term social and economic policy 1996-2000
1997	Working at flexicurity
1998	Agenda 2000 Financing and enlarging the European Union
1998	Tax reform
1998	European Social Dialogue
1999	Market and Government
1999	Social Security in the Netherlands: the need for organisational reform
1999	The Climate Policy Implementation Plan : Comments and Recommendations
1999	Promoting labour participation among older people
1999	Special adjustment of the minimum wage
2000	Promoting Labour Participation among Ethnic Minorities
2000	Emissions Trading as an Instrument of Climate Policy
2000	European Union should sign European convention for the protection of human rights and European social charter
2000	Corporate Social Responsibility : part of the core business
2000	Towards a sound system of medical insurance
2000	Long-Range Equal Opportunities Policy Document

From this list I would like to share insights from two key advisory reports, namely the reports on EMU in general (1990) and on the Dutch road to EMU (1992). Chapter 5 will deal with the advisory reports on the Lisbon and Europe 2020 strategies as such.

#### 4.2 Preparing for the Economic and Monetary Union (1990)

In 1990 the SER produced a unanimous report on how to establish an Economic and Monetary Union<sup>6</sup>. The report deals with the costs and benefits of EMU, the consequences for monetary and budgetary policies as well as questions surrounding democratic legitimacy.

One chapter highlights the consequences for other policy areas, notably labour costs and the labour market, policy competition in relation to the provision of government services and the tax level, and the loss of the exchange rate as an adjustment instrument.

The SER notes that in an EMU a lack of competitiveness can no longer be accommodated by a devaluation of the exchange rate. Therefore, member states must look at alternative

<sup>5</sup> Jelle Visser & Anton Hemerijck, *A Dutch miracle; Job growth, welfare reform and corporatism in the Netherlands*, Amsterdam University Press, Amsterdam, 1997.

<sup>6</sup> SER advisory report Economic and Monetary Union, publication nr. 90/22, The Hague, 16 November 1990.

adjustment mechanisms. Budgetary policies must respect the rules of the currency union and labour mobility across national borders is not expected to play a significant role. Therefore adjustment will increasingly have to take place on the supply side of the economy, especially in the domains of wage policies, labour mobility, productivity, the economic infrastructure and the quality of government services<sup>7</sup>.

In this context the SER makes a number of observations on wage-formation and wage discipline. First, wage-formation remains in principle a matter of free bargaining between the social partners, even if governments try to influence wage cost growth via consultation and supportive measures.

Second, the loss of the exchange-rate tool makes it all the more necessary for the job market to operate flexibly and wage costs to remain in check. This means that adjustments should be made chiefly via a curb on (wage) costs and prices, so that they grow slower than those in competitor countries. If such curbs are not deep or fast enough, economic growth and employment will suffer.

Regarding the importance of wage discipline, the SER notices that there are two dimensions involved. The national dimension is the influence of relative wage cost growth on a member state's competitiveness. The community dimension is the evaluation of the effects of national wage-fixing on aggregate demand in the European union as a whole. Here the SER assumes a common policy strategy to prevent over- and under spending in the European Community, for which proper consultations with and between the social partners are desirable.

Interestingly, the SER did also foresee the need for some kind of common insurance against too high adjustment burdens at the national level. It was felt that in some cases, especially asymmetric external shocks, national responsibility should be balanced with solidarity at the Community level:

(...) it may be asked whether wage-fixing and the labour market can always acquit themselves of this task as the main adjustment mechanisms, and whether it is always desirable for them to do so, especially in the event of asymmetric external shocks. Both remaining job-market rigidities and considerations of cohesion and solidarity play a role in this respect. Seen in this light, greater Community responsibility may be desirable, which would require the use of new instruments. In this connection, there are often references to the practice in existing federations with (automatic) transfers and budget-equalization mechanisms. The ideas put forward on this point still need working out before a final conclusion is warranted. Yet SER feels that the EMU should be accompanied by greater solidarity within the Community, to be shaped on the basis of a newly found equilibrium between solidarity and national economic (adjustment) discipline.

### **4.3 The Dutch road to EMU (1992)**

In the 1992 advisory report on convergence and the consultation economy, the SER expands the general insights of its EMU-advice to a long-term social-economic policy strategy for the Netherlands. There are two main questions:

- How can the Netherlands acquire the best starting position for realizing its socio-economic objectives in the EMU and what policy adjustments does this require?
- How can a coordination of the objectives and actions of state and social partners, given their various tasks and responsibilities, contribute to the preparation and implementation of future policy?

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<sup>7</sup> *Summary of the Opinion of the Netherlands Social and Economic Council (SER) on the Economic and Monetary Union to the Netherlands Government, The Hague, 1990, p. 15.*

#### **4.3.1 EMU requires a triple-p approach**

As a starting point the SER observes that the EMU offers the Netherlands a good framework for a proper and balanced realization of the socio-economic objectives: "The objectives as expressed in the Maastricht Treaty (article 2) are a proper translation of the socio-economic objectives from the national to the Community level and are in agreement with the relatively broad view of the SER on the EMU."

Indeed, European integration and the need to realise joint objectives (government and social partners) at a more decentralised level bring the SER to reformulate the five objectives for socio-economic policy. Apart from price stability and the connected convergence criteria of the EMU the SER sees three objectives to be pursued by government and social partners in the Netherlands:

1. Promotion of balanced economic growth, within the framework of sustainable development
2. Promotion of labour participation at the highest possible rate
3. Promotion of a reasonable distribution of incomes

So by 1992 the SER advises the Dutch government to shift from a dual-p (people, profits) to a triple-p (people, profits, planet) approach. The promotion of a steadily increasing prosperity is considered as the binding factor of all purposes of economic and social policy. The striving for full employment is a requisite for social justice and economic efficiency. Work should, whenever possible and reasonable, be the basis of an individual's income, and is also the most important foundation for economic independence. Also, economic growth should be balanced from a time perspective and should conform to the striving for sustainable development.

The SER recognises that triple-p objectives can come into conflict with each other. For example, instruments to promote labour participation can compete with the direct aims of an incomes policy. This does not prove, however, that a triple-p approach cannot work. Instead, a triple-p approach asks for constant (re)balancing between competing goals. Finding the right balance is pre-eminently and legitimately a subject of political judgment.

#### **4.3.2 EMU requires improving the economic and social structure**

In view of the continuing European integration the SER advised national policymakers to anticipate 'to the largest possible extent' the more competitive and dynamic market environment. This led to the formulation of a quality strategy for improving the economic and social structure:

For social, economic and budgetary reasons increasing labour participation should now be the core of the quality strategy. This will improve the relatively unfavourable position, broaden the economic basis and - as a result of correspondingly lower public spending - create room in the budget for higher demographically determined expenditure and for spending aimed at strengthening the structure of the economy, as well as a reduction of the tax burden. Thus a virtuous circle of increasing labour participation, strengthening the economic structure and reducing the tax burden can be started.

In the advisory report the quality strategy is elaborated in chapters on macro-economic policy, micro-economic policy and employment. For the purpose of this paper the chapter on employment is most relevant. The SER recommends a broad approach for increasing the labour participation and improving the functioning of the labour market. This approach is to be shouldered by government and social partners at central and at decentralized level, as well as by individual companies, employees and those seeking work. Many of the policy themes that were identified in 1992 still sound familiar today:

- moderate wage costs movements
- wage differentiation between sectors

- reduction of the wedge between total wage costs and net wages (especially at the lower end of the labour market)
- reduction of the margin between the legal minimum wage and the lowest actual wage scales
- more stimulating social security linked to an activating labour market policy
- adaptability of demand to supply
- quality of work
- non-discrimination
- rearrange tasks to create lower paid jobs
- facilitate the combination of work and care
- aim at a high level of education and training
- prevent early drop-out
- improve the position of teachers
- aim at proportional participation of specific vulnerable groups
- increase the participation rate of older people
- (re)employ the long-term unemployed by means of training and work experience schemes.

#### **4.3.3 Revitalization of the consensus economy**

In (re)formulating the objectives for socio-economic policy the SER is explicit that these are joint objectives to be pursued by government and social partners. Indeed, the basic philosophy of the consultation economy is that there is a need for mutual co-ordination and co-operation. Some of the instruments of socio-economic policy – in particular wage-setting – are in the hands of social partners. These instruments have important interdependencies with (government) policies regarding taxation, employment and social security. Taking care of these interdependencies is therefore helpful for achieving the joint objectives for socio-economic policy.

An important argument for the revitalization of the consensus economy is the promotion of social stability. However, the SER warns that stability should not turn into immobility; 'social innovation' is necessary for a proper adjustment to changing circumstances, including the internationalization of economy and policy. The consensus economy will have real added value when it contributes to strengthening the collective capacity for social innovation. In this way the consensus economy can give The Netherlands a head start in policy competition.

### **5. Advisory reports on Lisbon and Europe 2020**

The Dutch social partners have on three occasions advised on the Lisbon and Europe 2020 strategies as such. Moreover, there have been two advisory reports on globalisation. In these reports it is stressed that individual member states are too small to influence the rules of the 'world economy game' by themselves. The EU, in contrast, is powerful enough to have a major impact on that game, and to channel the globalisation process in a way that leads to sustainable growth in public prosperity within and outside the EU.

Table 3 – SER-advisory reports on Lisbon, Europe 2020 and globalisation

<b>Year</b>	<b>Title advisory report</b>
2000	Social and economic policy co-ordination in the European Union
2004	Evaluating the Lisbon Strategy
2008	On sustainable globalisation: A world to be won
2009	Europe 2020: The New Lisbon Strategy
2012	The shifting balance of economic power

In this paragraph I will not present the three advisory reports on Lisbon and Europe 2020 in chronological order, since that would result in repetition and overlap. Rather I present the various themes under consideration: the functioning of EMU, the triple-p approach, the social component of the Lisbon agenda, and the involvement of social partners.

## **5.2 The proper functioning of EMU**

In 2000 the SER reaffirms his view that the purpose of the Economic and Monetary Union is to achieve a proper balance between the various objectives of the Community (Article 2 of the EC Treaty). The "E" in EMU is, however, not as closely defined as the "M". The SER believes that, besides the internal market, economic union means closer co-ordination between the various economic policies pursued by the Member States and proper channelling of policy competition. Economic union also guarantees adequate social and economic cohesion, and it also has a social dimension.

The SER rejects the notion that the Treaty makes the European Union responsible for achieving the broader Lisbon Agenda. In most policy domains, including social insurance, employment, health care and education, it is up to the Member States to do so, with the EU often playing a supporting role. For this reason national governments and parliaments must place the common Lisbon goals at the top of a national policy agenda focusing on growth.

## **5.3 Lisbon and Europe 2020 require a triple-p approach**

Halfway the Lisbon strategy there was a widespread feeling that the triple-p approach should be dropped so as to focus more on growth and jobs. In its 2004 advisory report the SER opposed this view. It felt that the original aim of achieving sustainable economic growth while acknowledging the social and ecological dimensions was more relevant than ever. After all, there will be little added value to economic growth if it is achieved at the expense of social cohesion and the quality of the environment. In 2009 the SER regrets that after 2005 the environmental and ecological dimensions have been shifted to the background. This will not make the broad concept of prosperity credible or help generate public support for the Lisbon Strategy.

### *A growth agenda for competitive, knowledge-based economies*

The core of the Lisbon strategy involves making the Member States of the European Union into dynamic and competitive, knowledge-based economies. In this way present and future generations will have greater opportunities for prosperity, with a better quality of life for as many people as possible while respecting social and cultural values and the natural environment. This development model requires a clearly defined growth agenda based on a higher labour participation rate and sustained growth in labour productivity.

The SER insists that a modern knowledge-based economy must also be a competitive economy. At EU level, this will require a well-functioning internal market; at national level, it will require reforms and social innovation, for example with respect to the labour market. Such changes require a better-educated, better-trained labour force and measures that offer employees and citizens social protection. Cohesion between the economic and social dimensions of policy are vital if the European development model is to be viable.

### *Prosperity in the broad sense of the word*

The SER recognises that it is quite a challenge to attain economic, social and ecological objectives simultaneously and in proper balance, and that choices will have to be made. The various objectives can, however, also be mutually reinforcing: a sound social policy

allows people to take risks, which in turn promotes economic growth. In the same way, working toward sustainability can foster innovation (and vice versa).

#### **5.4 The social component of the Lisbon agenda**

In the 2009 advisory report on Europe 2020 the SER deals explicitly with the social component of the Lisbon agenda. Here, the SER takes a number of principal stands.

First, the SER emphasises that the EU's economic and social objectives must be regarded as equal. That means, for example – as indicated by the Court of Justice in relevant rulings – that the free movement of goods, persons, services and capital arising from EU law must be weighed up against the EU's social policy objectives. An impartial assessment of this kind means that neither the collective rights of employees nor the four freedoms enshrined in EU law will take precedence.

Second, the SER reaffirms its adhesion to the social component of the original Lisbon Strategy as expressed in its objective: "more and better jobs and greater social cohesion". The social dimension will remain important as a separate component of the post-Lisbon Agenda. Unacceptable forms of policy competition must be combated, for example in connection with occupational health and safety.

A separate social dimension is also needed to win public acceptance of economic integration. Public worries about the possible consequences of business and job relocations are understandable. There should be no reason to doubt society's willingness to make a good job of these adjustment processes. Those affected must be able to count on a social safety net and help finding a new job, although people are and will continue to be responsible for supporting themselves if possible and for acquiring the necessary qualifications and skills to do so.

Third, the SER finds that the European social policy agenda corresponds with the general objectives of the Treaty as set out in Article 2: sustainable growth with a high level of social protection and employment. The agenda also reflects the Treaty's specific objective with respect to employment policy coordination: to promote training and education, the adaptability of employees, and labour markets that respond flexibly to economic change.

The top priority is to minimise the impact of the credit crisis on unemployment by guiding employees to new jobs as quickly and effectively as possible while continuing to reform the labour market.

However, the SER feels that the division of powers and responsibilities between the EU and the Member States should be more clearly defined in the European social policy agenda. The Community dimension of the EU's social policy involves regulating transfrontier labour mobility and employment conditions. With respect to transfrontier employment conditions, the SER would like to see more emphasis on enforcing and monitoring compliance with existing rules and regulations. This is needed to boost support for the further completion of the internal market. Specifically, the SER is concerned about the enforcement of the Posting of Workers Directive. A point to consider is a sharper distinction in national legislation between employee and self-employed person.

Promoting flexicurity is a key element of the social policy agenda and a responsibility of member states. For the SER flexicurity is not an end in itself, but a means of helping people find a job in every phase of their working lives and maintain their career prospects in a rapidly changing economy. For flexicurity to function properly, the two elements – flexibility and security – must be in proper balance. Once that is achieved, flexicurity can make a

vital contribution to creating a dynamic, competitive labour market geared to the high level of employment and social protection envisaged in Article 2 of the Treaty.

### **5.5 Involvement of social partners**

To ensure that the "E" in EMU is geared towards sustainable economic growth, employment and social cohesion, effective policy co-ordination is required. As the trade unions and employers' associations have their own specific areas of responsibility, there is every reason to involve them in policy co-ordination. It is important for the social partners to feel responsible for the success of those elements of the Lisbon strategy that fall within their remit in their own country.

At the same time, policy co-ordination should respect the autonomy and responsibility of the various parties involved. For example, it is important to focus on a balanced policy mix in which labour cost movements are well-founded. In this respect it is desirable to make a distinction between the labour cost movements for which governments are responsible and the wage cost movements resulting from negotiations between employers and employees. The issue of wage movements in the Member States should be discussed directly with the social partners with these points in mind. At European level, this can take place within the context of the macroeconomic dialogue.

The SER observes that domestic socio-economic policy is increasingly bound up with social and economic policy co-ordination at European level. It is therefore obvious that consultations between the government and the social partners should concentrate as well on relevant developments in Europe, giving the latter a better opportunity to consider the draft European guidelines and how existing guidelines can be implemented most effectively.

In considering the most effective division of responsibility, the SER makes a distinction between consultation and opinions. If the parties involved so desire, consultations can lead to an agreement, but that is not the main purpose of consultation. Indeed, even without such agreements, consultation serves a very useful end. The value of the macro-economic dialogue lies in its giving the parties involved the opportunity to pool information and ideas freely.

Opinions and consultation can be mutually reinforcing. The macro-economic dialogue could become more profound if the consultative function were to be supplemented by an advisory function. The European Economic and Social Committee (EESC) is the most obvious institution to take on this role.

### **6. Remaining issues for the functioning of EMU**

In 2009 the SER notes that 'the present crisis' has revealed flaws in coordination and integration. One clear example concerns gaps in the supervision of cross-border financial institutions. The EU budget does not yet adequately support the Lisbon Agenda. In addition, macro-economic policy coordination is far from ideal. The SER clearly finds it important to repair these flaws.

With the following euro crisis it became evident that the EMU-design exhibited several fault lines. The European Semester, the outright monetary transactions of the ECB, the ESM and the establishment of a European banking union have reinforced the original design. These policy steps have not been the subject of formal SER-advisory reports. From the yearly consultations between the SER and the Dutch government at the eve of the EU Spring Summit it is clear, however, that the Dutch social partners support the general direction

for reinforcing EMU<sup>8</sup>. Also, the Dutch social partners support the view that reinforcing EMU requires a more European approach<sup>9</sup>.

At the moment there is an interesting debate in what direction the governance of the currency union has to be strengthened<sup>10</sup>. It strikes me that many issues overlap with concerns that were already discussed in aforementioned SER-advisory reports: the role of competitiveness in a triple-p approach, the role of labour migration, macro-economic policy coordination in view of aggregate demand management, the right balance between solidarity and adjustment, and the role for social partners in the governance of EMU.

### **6.1 The role of competitiveness in a triple-p approach**

Critics of the Europe 2020 approach tend to equate the pursuit of competitiveness with a neo-liberal strategy that disregards the importance of social cohesion. From my exploration of SER-advisory reports since 1951 it appears that Dutch social partners have consistently aimed at a strategy where competitiveness and social cohesion have to be pursued simultaneously. This can be seen as a characteristic of the Nordic model of Social Europe. This approach was confirmed in the 1990 advisory report on EMU – with the addition of environmental sustainability.

SER-advisory reports acknowledge that it is not easy to continually balance three competing goals. But that does not mean that it is better to throw the towel in advance. Balancing competing goals requires political judgement and politicians are elected to perform this task. In most policy domains, including social insurance, employment, health care and education, member states are free to make their own choices. Moreover, the EU plays a supporting role by giving member states ample advice on how to achieve the Lisbon and Europe 2020 goals at home.

In the tradition of SER-advisory reports, the preservation of competitiveness is a prerequisite for sustainable social cohesion. This is especially true in a currency union, where individual member states lack the option of (temporarily) restoring competitiveness through devaluation of the currency. Also it was felt that labour mobility across national borders would not become an important adjustment mechanism in the currency union.

Maintaining competitiveness in a currency union requires continuous improvements on the supply side of the economy. This relates especially to the domains of wage policies, labour mobility, productivity, the economic infrastructure and the quality of government services. The job market must operate flexibly and wage costs must remain in check. If wage costs grow faster than those in competitor countries, economic growth and employment will suffer. Therefore, competitive wages play a logical part in a triple-p approach.

In this context Sapir and Wolff (2015) make the interesting suggestion of a competitiveness-monitoring framework to be set up in all euro-area countries under the umbrella of a Eurosystem Competitiveness Council (ECC)<sup>11</sup>:

‘The ECC’s primary task would be to coordinate the actions of national competitiveness councils to ensure that no euro-area country fixes a wage norm that implies significant competitiveness problems for itself and/or others. In case this fails, the Commission should have the power to require the relevant competitiveness councils to take

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<sup>8</sup> *Common themes of discussion in the consultations leading up to the spring EU summit*, The Hague, 31 March 2014, [www.ser.nl](http://www.ser.nl)

<sup>9</sup> See the ‘Europe-letter’ sent to the Dutch government by the SER council and the six social partner organisations on 5 October 2011 (only available in Dutch).

<sup>10</sup> André Sapir and Guntram B. Wolff (2015), *Euro-area governance: what to reform and how to do it?*, Bruegel policy brief 2015/2.

<sup>11</sup> Sapir and Wolff (2015), *op.cit.*, p. 5.

corrective action using the MIP and the European Semester instruments’.

Since the relevant policy instruments are shared by government and social partners, the preservation of competitiveness in a triple-p approach is a joint responsibility (see paragraph 6.4).

## **6.2 Labour mobility on the internal market**

As indicated before, labour mobility across national borders was not expected to play a significant role as an adjustment mechanism within the currency union. In the context of the euro zone this observation still holds true. Labour mobility within the EU depends more on economic differences between the old and new member states than on structural adjustments between euro zone countries.

In the old member states, including the Netherlands, labour mobility and migration typically involve employees originating from Central and Eastern Europe (CEE) countries adding to the national labour supply. Although these employees constitute only a small part of total labour supply, they can still end up competing with specific segments of that supply. This is primarily the case in sectors or regions in which the foreign share of the labour supply is large. In the old member states this has resulted in suspicion and societal opposition to free movement and migration.

This phenomenon came to the fore in the 2009 advisory report on Europe 2020, where the SER stresses the need to monitor and enforce compliance with existing rules and regulations, especially with regard to the Posting of Workers Directive.

The free movement of labour and services is an integral part of the internal market and cannot be separated from the Lisbon and Europe 2020 strategies. So when people view an open economy and labour mobility as threats, this could undermine public acceptance of the Europe 2020 strategy and, worse, of the European project as a whole.

For this reason the SER recently published an additional advisory report on labour migration as such<sup>12</sup>. The council advocates a pragmatic and effective approach to labour migration policy that ensures equal treatment of businesses and employees, and combats bogus schemes and fraudulent practices with posted workers.

## **6.3 Aggregate demand management in a currency union**

In its 1990 advisory report on EMU the SER foresaw the need for macro-economic coordination aimed at stabilising aggregate demand in the future currency union. This notion was not rigorously developed. Relevant elements included:

- The need to prevent over- and under spending in the EU.
- Macro-economic consultation between governments and social partners geared towards wage-fixing and aggregate demand. This overlaps with the content of paragraph 6.5.
- A macro-economic stabiliser at federal level to prevent too high adjustment costs in individual countries. This overlaps with the content of paragraph 6.4.

In the current debate it is often said that austerity measures are too much dictated by the stability and growth pact while disregarding the need for stabilising aggregate demand. This debate deserves a more careful exposition than can be given in the context of this paper. It

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<sup>12</sup> SER-advisory report *Labour Migration*, The Hague, December 19, 2014. An English language abstract is available on [www.ser.nl](http://www.ser.nl).

is important to observe that the European Commission has the power to differentiate budgetary adjustment between member states, also with a view to prevent under spending in the currency union as a whole. The investment plan of the new Juncker Committee can also be seen in this light.

It is interesting, however, to observe that at present there is no coordination infrastructure between the European Commission, member states and social partners aimed at stabilising aggregate demand<sup>13</sup>. In 1990 the SER assumed that the future currency union would develop such an infrastructure. An alternative solution, recently proposed by Sapir and Wolff (2015), is to strengthen the fiscal framework by developing an ability to steer a euro-area wide fiscal stance<sup>14</sup>.

#### **6.4 The right balance between solidarity and adjustment**

In its 1990 advisory report on EMU the SER assumes that member states are responsible for adopting a policy mix that allows them to prosper in a currency union. Ideally, the social dialogue within member states is an asset in the policy competition between member states (see paragraph 6.5). With the benefit of hindsight these assumptions have proved too optimistic. Notwithstanding the intellectual appeal of a policy mix that aims at competitiveness, social cohesion and environmental sustainability, notwithstanding the supportive Lisbon and Europe 2020 frameworks, there is no guarantee whatsoever that member states and/or social partners will pursue responsible policies. In this respect it is only proper that the European Semester has strengthened the governance of EMU.

Yet, also in its 1990 advisory report, the SER foresaw that in a currency union adjustment costs can become too high for individual member states. Financial markets can condone irresponsible policies for a long time. But once financial markets sense problems, they tend to overreact. When member states must pursue immediate reforms in terms of wages and the working of labour markets in a financially hard environment (tough budgetary rules, no access to finance), the social costs can become too high.

For this reason the SER advised to investigate the merits of some kind of federal stabiliser. Again, this notion was not rigorously developed. The SER was thinking in terms of sudden asymmetric economic shocks (not in terms of a long term decline in competitiveness). The SER signalled the problem of moral hazard. But the main message was that in a currency union a balance had to be struck between the adjustment costs in individual member states and some kind of financial support organised at the level of the currency union. As the position of Greece in the Euro zone demonstrates, this notion is still relevant today.

In this context Sapir and Wolff (2015) propose a limited insurance system between euro-area countries without creating a 'federal budget'. A central authority would have the power to activate fiscal resources of a fund, such as the ESM, for special purposes in exceptional circumstances<sup>15</sup>.

#### **6.5 The role of social partners in the governance and functioning of EMU**

##### *Social dialogue at the national level*

Ever since 1951 the SER has held the view that government and social partners share responsibility for a policy mix that aims at both competitiveness, employment and social

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<sup>13</sup> The macro-economic dialogue, in which also the European Central bank participates, could play a signalling role.

<sup>14</sup> Sapir and Wolff (2015), *op.cit.*, p. 6.

<sup>15</sup> Sapir and Wolff (2015), *op.cit.*, pp. 6-7.

cohesion. At the time the Netherlands was a small open economy that had to earn its living in hard currencies on world markets. The same logic, however, was adopted some 40 years later when the SER advised on how to prepare for a future EMU. The dual-p approach was extended to triple-p (including environmental sustainability) and the Dutch social partners agreed to share responsibility with government to make this approach a success.

The SER implicitly assumed that the social dialogue in other member states would be beneficial for the policy mix in these countries as well. The SER observed, for example, that rising wage costs compared to competitor countries would lead to slower economic growth and higher unemployment. This outcome would clearly violate the whole idea of a triple-p approach and was therefore given no further consideration.

With the benefit of hindsight, this was naïve. The observation that responsible policies jointly pursued by government and social partners will likely produce good results, does not guarantee that governments and social partners will oblige. The experience with the Lisbon and Europe 2020 strategies has shown that there are many reasons for not implementing country specific recommendations. The results in terms of Lisbon-indicators generally point in one direction: the countries that did not listen are usually worse off in terms of competitiveness, employment and/or social cohesion.

In my opinion the question of who (government and social partners) is responsible for what has not been properly settled. This observation does not apply to the Netherlands. In the Netherlands everyone agrees that *in principal* wage-formation remains a matter of free bargaining between the social partners. But the addition of the phrase 'in principal' signifies that government can intervene in the wage-formation if social partners consistently pursue irresponsible policies. Visser and Hemerijck call this 'the shadow of hierarchy'. The Dutch social partners know this. In fact, the famous agreement of Wassenaar (1982) was signed against the background of a possible government intervention<sup>16</sup>. And ever since 1982 the Dutch social partners have contributed to responsible wage-formation, making questions regarding their autonomy purely academical.

In many other member states, however, social partners hold the view that their autonomy regarding wage-formation is not bound in any way by the extent to which it contributes to the goals of competitiveness, employment and social cohesion in their home country. This also seems to be the view of the social partners at European level<sup>17</sup>:

The decision on how to organise wage bargaining is a national competence. Wage negotiations are organised at different levels in European countries in line with different industrial relations traditions. Article 153.5 of the TFEU concerning social policy establishes that the issue of pay is out of the scope of EU competences. This should be taken into account by EU institutions, the European social partners and national governments.

Consequently, social partners are not amused if they perceive that a country specific recommendation touches upon their autonomy. This has to be clarified. As has been indicated above, the loss of the exchange-rate tool makes it all the more necessary for the job market to operate flexibly and wage costs to remain in check. In my opinion, this can not be a government responsibility only. Also, as the EESC-opinion on the Annual Growth Survey 2015 shows, the EESC wants more involvement of social partners in the European

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<sup>16</sup> Jelle Visser & Anton Hemerijck (1997), op.cit., pp.100-101 and 182-183.

<sup>17</sup> Social partner involvement in European economic governance; declaration by the European social partners, Brussels, 24 October 2013.

Semester<sup>18</sup>. This is only credible if in return social partners at national level are willing to contribute to the national Europe 2020 goals.

#### *Social dialogue at the EU level*

In its 1990 advisory report on EMU the SER assumed that there would be a social dialogue at EU-level that would play a part in both competitiveness (wage setting) and aggregate demand. As far as I can see no such social dialogue at the EU-level has developed.

There is a macro-economic dialogue (with the ECB) that is held twice a year. Likewise twice a year there is a tripartite social summit with the council. Although these exchanges are useful, they have more to do with information sharing than with policy coordination.

In the present climate, where policy coordination between governments and social partners is weak in many member states, it is unlikely that real policy coordination at EU level can play a significant part. It would already help if the social dialogue at EU level can help identify bottlenecks for a fruitful social dialogue in individual member states. The EESC Steering Committee is already playing a useful role in this respect.

### **7 Conclusions**

The Lisbon and Europe 2020 strategies are based on a triple-p approach that had already been implemented in The Netherlands. This approach has had the full support of the Dutch social partners and can be seen as a manifestation of the Nordic model of Social Europe.

The Dutch triple-p approach was triggered by the prospect of participation in a future currency union. It was found that without profit (competitiveness) it would be very hard to maintain employment and social cohesion in a sustainable way. Also, the pursuit of prosperity in a broad sense was seen as a joint responsibility for government and social partners. Indeed, the social dialogue at home was seen as an asset in the policy competition with other member states.

With the benefit of hindsight it is possible to say that the currency union inhibits flaws in coordination and integration. The European Stability Mechanism, the European Semester and the Banking Union are intended to address these flaws, but it is likely that further steps have to be made.

In this respect I see a number of issues for further discussion: the role and design of aggregate demand management in a currency union, the balance between collective solidarity and adjustment in individual member states, and the co-ownership of social partners in the governance and functioning of EMU.

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<sup>18</sup> Opinion of the European Economic and Social Committee on the Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank - Annual Growth Survey 2015 COM(2014) 902 final, Brussels, 19 February 2015.