A SOCIAL UNION FOR THE EU?

PRO: AN EU-LEVEL SOCIAL POLICY

GIUSEPPE BERTOLA*

By Hans-Werner Sinn's own Selection Principle, governments should address problems that markets cannot solve efficiently. And if that criterion is fulfilled then, just because those problems are not well addressed by competitive interactions, competition among governments is not a good thing.

The EU's ever closer integration of factor and product markets implies that uncoordinated national policies simply cannot achieve the redistribution they deem desirable in light of financial market imperfections and political cohesion objectives. Directly or indirectly, via migration and capital mobility or via market interactions, tax bases react elastically to taxation and benefits are effectively paid to members of jurisdictions other than those legislating them.

If markets imperfectly address the relevant issues, relying on competition among also imperfect policy-making systems is unlikely to yield better outcomes than a well-informed policymaking framework that addresses the relevant tradeoffs coherently. To preserve both redistribution and economic integration, elements of social policy must be centralised or co-ordinated. In an integrated European economy, decision-making power in the social field must not be exclusively national, for this would either make social policy ineffective or, more realistically, let calls for protection from foreign social dumping strengthen old and new barriers to trade and factor mobility.

Of course, the pitfalls of centralized policies must be avoided. Misguided application of homogenous rules and tax systems to heterogeneous economic entities can stifle economic development, as in Italy's Mezzogiorno and Germany's eastern länder. But harmonization does not imply uniformity, and a European layer of social policies cannot be avoided. Citizens' social concerns must be addressed at the same level where economic interactions take place, for choices made at lower levels too easily heed resentment against economic integration as a source of unfair competition and reduction of already inadequate protection.

Such a layer cannot be done without. It already exists, albeit in the limited and imperfect shape of EU agricultural, regional, and structural funds, and of a relatively small but intrusive body of regulation in the social field. Both are motivated by concern about the possible adverse effects of economic integration on distribution and on the governments' willingness and ability to address them. That concern is politically strong in Europe and it is not surprising to hear it expressed in the same treaties that extol the virtues of economic integration.

What is missing, and needed, is a translation of that desire into a clear system of rules and adequate financial resources addressing the relevant tradeoffs coherently. EU-level financial and regulatory interference with national social policy is far from negligible, but its opacity and complexity fail to generate goodwill: quite the opposite, each national government only sees incentives to retrieve funds that are not perceived to address common concerns at the European level. Redistribution should occur transparently across national borders, to the poor from the rich, who should understand that this use of resources can be motivated, rather than by solidarity, by the need to ensure that nobody feels left out of the efficiency gains accruing to the rich from trade and specialization opportunities.

* Università di Torino.

If you want to comment on this topic or react to the opinion expressed here, please visit the CESifo Internet Forum on our web site: www.cesifo.de