Bruegel Annual Meetings

What future for Europe’s social models?
Les Brigittines, 8 September 2015 at 1.30pm

Participants:

Tito Boeri, President of the Italian National Social Security Institute (INPS)
Ylva Johansson, Swedish Minister for Employment

Chair:
Guntram Wolff, Director, Bruegel

Notes:

Ylva Johansson identified three threats to Europe’s social models today, and highlighted that it is in the hand of governments to turn them into opportunities. First, unemployment and social cohesion need to be addressed. The legacy of the crisis is far from over, and divergences within the Union are persisting. Especially youth unemployment is a problem, as it also has long terms effects on growth potential. Here, changes in the labour market are needed, especially with corporation between social partners. Furthermore labour mobility should be promoted, while preventing social dumping. Workers should be protected, not labour markets, and the work of the European Commission on the Labour mobility package is a step into the right direction.

The second threat is gender inequality. Measures to increase provision of child care and the option of ‘parental leave’ as opposed to ‘maternity leave’ should be supported. Also, labour market participation of women would help to solve the sustainability of pension schemes and enhance growth.

Third, the refugee crisis calls for solidarity and shared responsibility among EU member states. Germany and Sweden are estimated to take two thirds of all the asylum seekers this year, and will see their populations grow by 1% annually. If integrated swiftly, it can be seen as an opportunity to solve the demographic challenge of Europe.

Tito Boeri highlighted three lessons from the Great Recession. To start with, the increases in youth unemployment during the crisis were mostly due to contractual dualism in labour markets (i.e. permanent vs. fixed-term contracts), which concentrate the risk on young generations. As a second point, unemployment rates went up in both the south and the north, but increases in poverty are much more pronounced in the south. This is due to a lack of a comprehensive safety net in the south – people remained without state support, and financial assistance programmes imposed further cuts on safety nets. Lastly, increasing the retirement age during a recession is counterproductive, as this crowded out young people.

Boeri then presented three ways out. The introduction of “graded-security” contracts would decrease the risk of being unemployed during a recession for the young. Italy has introduced such contracts recently, and the figures suggest a successful uptake. Some sort of Welfare Union as a macroeconomic shock absorber during a crisis would prevent national social safety nets being cut during a severe recession. More flexibility in the pension system might be introduced through ‘notional defined contribution’ pension schemes.
In the Q&A session, the following points were addressed:

- Integration of migrants into the labour market can be achieved in less time. Sweden is setting up a ‘fast track’ lane (in cooperation with the social partners) to give migrants the chance to work in specific sectors which they have been trained for in their homeland.
- The pension schemes had a public finance constraint in crisis times, so an increase in the retirement age might be warranted from that perspective.
- On the ‘graded-security’ contracts, it still offers flexibility, but only in the entering-phase.
- The Welfare Union should only be judged in an intertemporal approach.

*Event notes by Pia Huettl, Affiliate Fellow.*