

# **Social Policy: one for all?**

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## 1. Introduction

The EU Convention is experiencing a slow start. It is quite unlikely that the Convention will actually take-off before the German elections. So far, the reference document is the “Project for the European Union” issued almost one month ago by the Commission, which argues in favour of a co-ordination of social policies. Co-ordination is a rather loose concept which can be located along a wide spectrum, ranging from the “open co-ordination” method of the Luxembourg process to something in a close neighbourhood of a “harmonisation” of social policies, that is, substantially a levelling out of cross-country differences in the scope and composition of social spending.

In this paper I try to (normatively) reduce the indeterminacy of the notion of “co-ordination”. In particular, I take a clear stance in favour of social policy co-ordination as a way to promote a more effective competition across systems. While it may sound as a contradiction in terms, it is not. Insofar as the proposed notion of co-ordination allows for more mobility of the European workforce, it implies that EU citizens can “vote with their feet” enhancing competition among systems. In other words, co-ordination and competition not only can coexist, but should coexist. Co-ordination provides rules for competition among systems, is a way to make sure that competition among systems enhances welfare of European citizens.

These issues are typically dealt with by economists as a problem of allocation of tasks among different levels of Government. Fiscal federalism theory, in particular, offers a powerful framework to assess what should be assigned to central, supra-national, bodies and what should instead be left as a prerogative of de-centralised policy-making, such as national governments.

When dealing with social policies, however, this framework appears too narrow. The relevant issues in this domain concern more the governance structure, the rules of co-ordination, than the degree of centralisation or de-centralisation by themselves. Due to the absence of significant spillovers and economies of scale in social security provision, the case for reallocating tasks to EU supra-national authorities is weak. The most relevant issues concern, instead, the scope of competition that should be promoted and allowed across the various “Social Europe(s)” nowadays characterising the institutional landscape of the Old Continent.

The plan of the paper is as follows. Section 1 characterises the different Social Europe(s) and discusses whether or not they are converging to a unique model. Once established that this is not the case, Sections 2 and 3 evaluate whether or not EU-level decision-making should pursue a harmonisation of these different Social Europe(s). Since the answer is no, Section 4 concludes arguing about the scope of competition among the different restrictions that should be imposed on competition among the different social security systems -- what I define as co-competition -- and the role that EU supra-national authorities may play in this context.

## 1. Are Social Europe(s) Converging in any event?

Before discussing whether harmonisation of social policies is desirable or not, it is important to evaluate the scope of the adjustment that would be required to level out differences in the size and composition of social spending in Europe. Equally important is to assess whether or not a convergence is occurring across the various systems which can nowadays be identified in Europe.

It is customary (e.g., see Ferrera (1998) and Bertola et al. (2001)) to divide Europe into four social policy models. The first group is represented by the *Nordics* (Denmark, Finland and Sweden, plus The Netherlands which is a hybrid between the Scandinavian and the Continental models and has recently moved Northwards<sup>1</sup>) featuring the highest levels of social protection expenditures, and universal welfare provision based on the citizenship principle. Extensive fiscal intervention in labour markets, based on a variety of “active” policy instruments, substantial tax wedges, and relatively extensive employment in the public sector also belong to this model while unions' presence in the workplace and involvement in the setting and administration of unemployment benefits generates compressed wage structures.

The second cluster includes the *Anglo-Saxon* countries (Ireland and the UK), which are closer to the Beveridgian tradition and feature relatively large social assistance of the last resort schemes. Cash transfers here are primarily oriented to people in working-age. Activation measures are important as well as schemes conditioning access to benefits to regular employment. On the labour market side, this model is characterised by a mixture of weak unions, comparatively wide and increasing wage dispersion and relatively high incidence of low-pay employment, half-a-way between Europe and the US.

*Continental European* countries (Austria, Belgium, France, Germany, and Luxembourg) are the third group, relying extensively on insurance-based, non-employment benefits and old-age pensions. Large invalidity benefit schemes are also present, which draw on contributions on employment income, along the Bismarckian tradition. While unions' membership rates have been falling quite dramatically in the last 20-25 years (Boeri, Brugiavini and Calmfors, 2001), a strong unions' influence has been to a large extent preserved in these countries by regulations artificially extending the coverage of collective bargaining much beyond unions' presence.

Finally, we have the *Mediterranean* countries (Greece, Italy, Spain and Portugal), concentrating their spending on old-age pensions and allowing for a high segmentation of entitlements and status<sup>2</sup>. Their social welfare systems typically draw on employment protection and early retirement provisions to exempt segments

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<sup>1</sup> I refer, in particular, to the decision, made in the year 2000 in The Netherlands, to adopt a universal pension scheme and extend the sickness insurance scheme to the self-employed.

<sup>2</sup> Note that these countries have implemented universal national health care systems in between the 1970s and the 1980s. However, I do not deal with health spending in this paper.

of the working age population from participation in the labour market. Also in this case, strong unions' influence has been preserved by practices (e.g., jurisprudence) artificially extending the coverage of collective bargaining. As a result, wage structures are, at least in the formal sector, covered by collective bargaining and strongly compressed in these countries.

Table 1 provides a simple characterisation of the four models, grouping the various social policy items into four main policy domains: pensions (encompassing old-age and survivors' provisions), non-employment benefits (unemployment benefits, sickness benefits, invalidity pensions and early retirement, whenever listed separately from old-age pensions), family allowances (child-care benefits and family benefits) and social assistance (including means-tested housing benefits). Social expenditure is normalised by GDP in the first column, while information on the percentage distribution of social spending is provided in the second column. Data are drawn from the EC ESSPROS database which offers, to date, the best framework to assess the size and composition of social spending in the EU area.

**Table 1**  
**4 Social Europe(s)**

	<b>continental</b>		<b>northern</b>		<b>anglo-saxon</b>		<b>southern</b>	
	%gdp	%tot exp	%gdp	%tot exp	%gdp	%tot exp	%gdp	%tot exp
social assistance	0.95	3.32	1.67	5.97	1.73	6.93	0.18	0.79
family	2.88	10.14	2.36	8.41	2.26	9.07	0.82	3.65
pensions	12.33	43.32	11.14	39.72	11.31	45.28	12.92	57.36
non-empl benefits	12.29	43.23	12.87	45.91	9.67	38.73	8.60	38.19
<b>TOTALS</b>	28.45	100	28.05	100	24.98	100	22.52	100

*Notes:* figures weighted by GDPs. The country groups are defined as follows: **Continental**, Austria, Belgium, France and Germany; **Northern**, Denmark, Finland, The Netherlands and Sweden; **Anglo-Saxon**, Ireland and United Kingdom; **Southern**, Greece, Italy, Portugal and Spain.

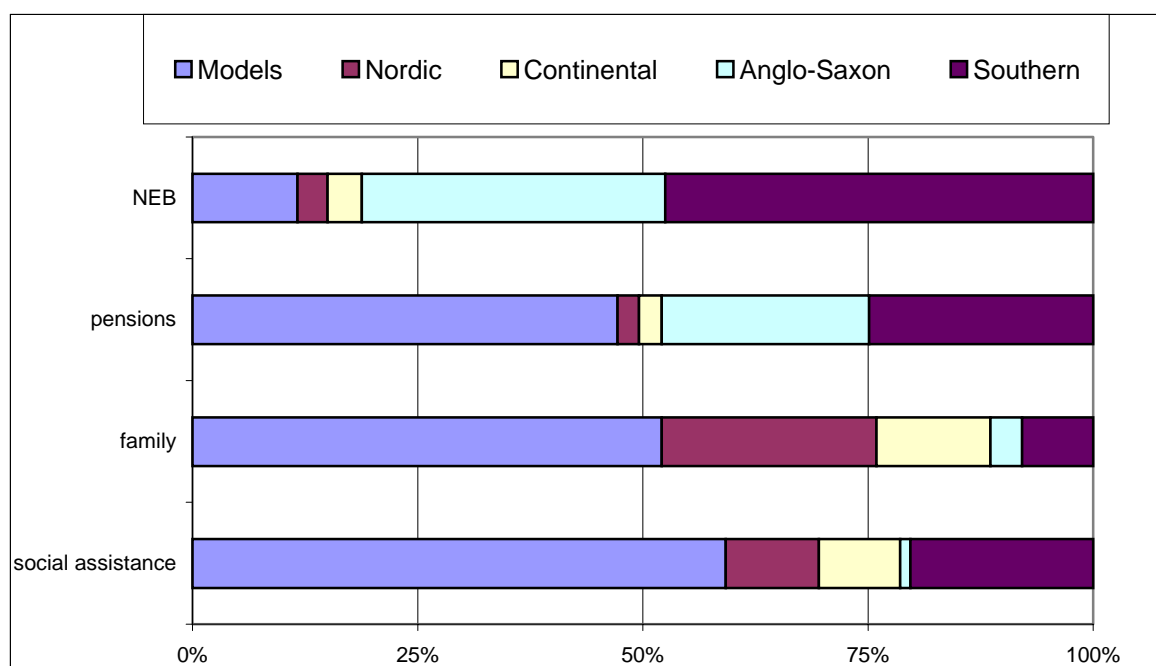
*Source:* EUROSTAT, Esspress Database (2001)

As is apparent from Table 1, differences in levels and composition are not of a second order of magnitude and broadly in line with the taxonomy offered above (although not all institutional features can be measured). Universal non-employment benefits are what distinguishes the Nordic model from the Continental model, which is focused more on pensions than on transfers to individuals in working age. The Anglo-Saxon world (mostly the UK as we are dealing with a GDP-weighted average) displays a smaller welfare state and one which devotes comparatively more resources to social assistance of the last resort. Finally, Southern Europe displays the smallest welfare state, almost sixty percent of which goes to public pensions, whilst social assistance is negligible.

These country groupings should not conceal important differences in the policy mix which are present within each model. Yet, in three policy areas out of four, differences across models capture from 45 to 60 per cent of the total variation in the composition of social spending. This can be gauged by decomposing the total weighted (by GDP) sum of squared deviations of social expenditure shares (to social expenditure, rather than GDP in order to eliminate variation due to income levels) into a within-models and a cross-models mean variation (Chart 1). The only area where within models variation dominates is non-employment benefits, which is the most heterogeneous set of measures of the four and the one most affected by the underlying labour market conditions.

**Chart 1**

**Decomposition of the differences in the social policy mix**



Are these four Social Europe(s) converging in terms of size and composition of social spending? In order to shed some light on this issue in a companion paper (Boeri, 2002), I regressed the growth in social expenditure as a per cent of GDP over two sub-periods: the period 1980-90 (where we can draw on the OECD Social Expenditure database) and the period 1990-99 (where ESSPROS data are available). In particular, I regressed the average yearly growth rate in social spending over GDP against its initial level for the cross-section of countries provided by the two datasets. Convergence in the unconditional sense is implied, according to this methodology, if the coefficient for spending in the base year is negative and statistically significant.

I could not reject this *beta unconditional convergence* for the OECD countries as a whole. However, the beta coefficient implies a very low convergence rate (less than 0,2 per cent per year) and is barely statistically significant. The same type of conclusion can be obtained with reference to the second sub-period and for the ESSPROS country panel (which includes the EU-15, plus Iceland, Norway and Switzerland). Furthermore, in both cases interaction variables capturing the effects of EU or EMU membership on convergence were not significant, which suggests that there has not been an additional effect of European integration or the Monetary Union on the convergence in the size of the welfare state.

As far as convergence in composition is concerned, beta convergence would seem to be occurring only in two policy areas, namely social assistance and non-

employment benefits<sup>3</sup>. At a closer look, it appears that in the first case convergence is towards the top levels of provision while for non-employment benefits convergence involves a retrenchment of this programme category (Bertola et al., 2001) which is also consistent with the reduction in unemployment.

In order to evaluate convergence in composition, it is preferable to adopt another definition of convergence, that is, *sigma-convergence*. The latter occurs when the standard deviation in the logarithm of social spending decreases over time. Significantly, I found that *sigma convergence* occurred mainly *within* the various social Europes, namely the four groups of countries typically used by taxonomies of the European welfare states rather than between them: the cross-country variation between social expenditure as a per cent of GDP decreased over the 1996-1980 period in all these groups of countries.

Finally, I looked at an inventory of reforms assembled at Fondazione Rodolfo De Benedetti. The latter is based on a variety of sources (including country economic reviews carried out by OECD, Income Data Source studies, EC-MISSOC reports, etc.), and takes stock of reforms carried out in Europe over the period 1987-1999 in three domains: non-employment benefits, employment protection and pensions. Reforms are classified on the basis of their broad orientation, that is, whether they tend to reduce or increase the generosity of non-employment benefits and make employment protection more or less stringent, and their radical or marginal nature<sup>4</sup>.

Contrary to popular wisdom and to the belief that labour market and social welfare institutions cannot be modified, many institutional changes have occurred over the observation period. I counted almost 200 reforms, that is, more than one per year *and* country. However the changes have often been marginal (172 out of 198 reforms, that is roughly 85 per cent of the regulatory changes did not pass our two-stage procedure identifying radical reforms). Moreover the reforms are almost evenly split between those reducing generosity and protection (107 out of 198, that is, about 55 per cent) and those increasing generosity and employment protection. It is also not infrequent to find reforms going one against the other just a few years apart. These inconsistencies and the marginal nature of most reforms have significantly increased the institutional complexity of the European landscape.

*To summarise the results in this Section, there are at least four different Social Europe(s) and a very mild convergence in the size of social programmes is occurring among them. To the extent that the cross-country variability in the composition of the welfare states is decreasing, this is occurring mainly within the various "Social Europes" rather than across them. Institutional changes are occurring at (unexpectedly) high frequencies, but reforms are rarely comprehensive. Overall, there are no indications that differences in the size and composition of social spending across EU member states are being levelled-out automatically.*

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<sup>3</sup> Also these results are available, upon request from the author.

<sup>4</sup> Details on the inventory of social policy reforms produced at the Fondazione Rodolfo De Benedetti are available at [www.frdb.org](http://www.frdb.org).

## 2. Should then these persistently diverse Social Europes be “Harmonised”?

There are no a-priori arguments for having EU supra-national authorities levelling out differences in the size and composition of social spending across EU member states. The various Social Europe(s) described above may simply reflect heterogeneous preferences of EU citizens and the two standard arguments for centralised provision of public goods (Oates, 1999) – the presence of significant spillover across jurisdictions and economies of scale – have limited application to the case of social policies<sup>5</sup>.

The case of spillovers is discussed in the next Section, whilst the relevance of the economies of scale argument can be assessed by comparing the performance of social welfare systems of small and large EU countries. Performance can be assessed by making references to the three main functions typically assigned to social policies, namely: (i) reduce poverty and, more broadly, income inequalities, (ii) protect against labour-market-related uninsurable risk (including the interactions between unemployment and longevity risk) and (iii) increase the rewards from labour market participation.

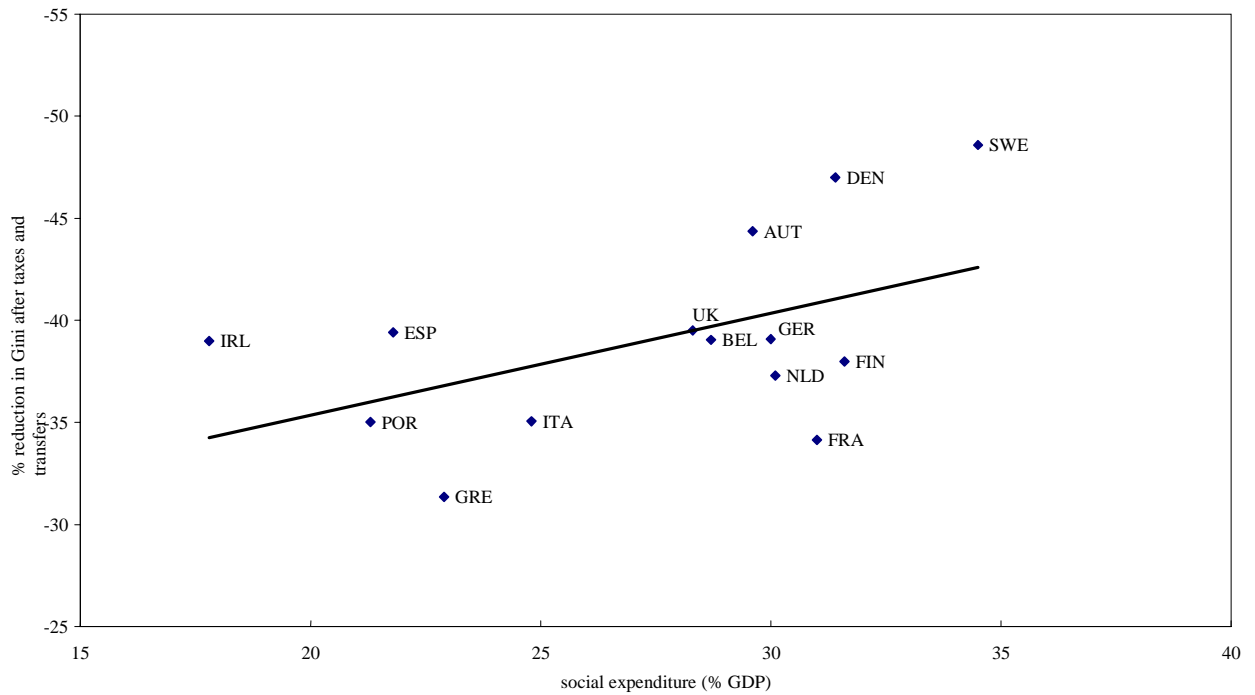
The first is perhaps the most important function attributed to social welfare cum tax systems. The effectiveness of the redistribution operated in the different EU countries is visually assessed in Chart 2. The latter plots differences between pre and post tax/transfers Gini coefficients (vertical axis) against the social policy expenditure to GDP ratio<sup>6</sup>. As one would expect, redistribution is larger in the countries devoting more resources to redistributive policies. More importantly, the most effective redistribution (the larger difference between pre and post tax/transfer inequality per any given level of social spending) is observed in the relatively small European countries, while the largest nations – with the exception of the UK – perform rather poorly in this respect, as they all lie below the regression line. This conclusion is supported also by analyses with micro data, notably (probit) regressions of the probability of receiving different types of cash transfers against family characteristics and income. Targeting on the basis of income and house ownership typically works better in the Nordics, Ireland and the UK.

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<sup>5</sup> See also Fatas (1998) for an assessment of the economies of scale attainable by adopting a common European social security model.

<sup>6</sup> Pre tax and transfer incomes are constructed making use of the European Community Household Panel, a longitudinal dataset providing income and labour market information on about 60,000 individuals across the entire EU. Pre tax and transfer income is calculated as total disposable income minus social transfers divided by a "net/gross ratio" factor provided by EUROSTAT in the ECHP

**Redistributive Efficiency of Social Expenditure**  
Entire Population



**Chart 2**

This type of conclusion is supported also by analyses with micro data, notably (probit) regressions of the probability of receiving different types of cash transfers against family characteristics and income. Targeting on the basis of income and house ownership typically works better in the Nordics, Ireland and the UK.

There are also important political and political-economic counter-indications to imposing convergence “from the top”. Firstly, such a harmonisation would run against democratic rules on highly sensitive issues, given that most EU supranational authorities lack, as yet, political accountability. This may result in stronger pressures for the break-up of the Union. Secondly, there is evidence of path dependency and status quo bias in social welfare reforms. They also work better when they are comprehensive (Coe and Snower, 1997), which means that they need to operate on country-specific institutional clusters<sup>7</sup>. As Social Europes are so different (and still so) one of another, reforms ought to be respectful of the initial conditions and by imposing the same pattern of adjustment to the different European social policy models, there is a high risk of jeopardising altogether reform efforts. Thirdly, interactions among different tiers of Government may drive decisions and the actual implementation of policies far away from the theoretical fiction of a benevolent planner.

Finally, the case for harmonisation on pure equity grounds is rather weak. In presence of large differences in productivity levels, harmonisation of policies does not imply harmonisation of outcomes. The experience of the Italian Mezzogiorno and the German unification episodes vividly testify this.

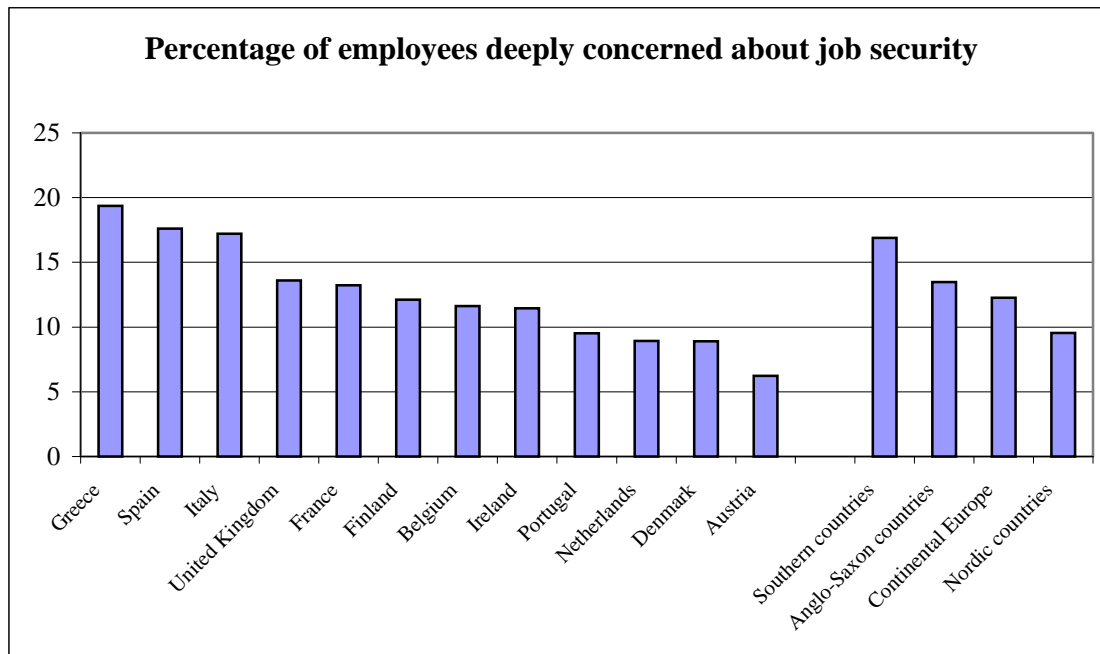
Moving to the second criterion, *protection against uninsurable labour market risk* is typically provided in two ways: (i) by imposing legal restrictions against firing – the so called employment protection legislation (EPL); (ii) by providing

<sup>7</sup> See Bertola and Boeri (2002) for a discussion of institutional interactions within the various Social Europe(s).

unemployment benefits in addition to those established by collective bargaining (UB). The differences between these two systems are clear: EPL protect those who already have a job, and do not impose any tax burden; UB can also be targeted to specific groups, but generally provide insurance to the population at large and are typically financed by a tax on those who work. Thus insiders, those with a stable and regular job, typically prefer EPL to UB. EU countries employ both tools, though to varying degrees. As discussed in Bertola and Boeri (2002), EU member states have chosen very different points in the trade off between the two main instruments to protect individuals against unemployment risk.

How efficient are these combinations of EPL and UB in protecting workers against labour market risk? One way to assess this is just to let workers decide it. A section of the ECHP questionnaire is particularly useful in this respect insofar as it asks employees with a permanent contract whether and to which extent they are satisfied with their present level of job security (rather than simply asking as other questionnaires about the perceived stability of their current post).

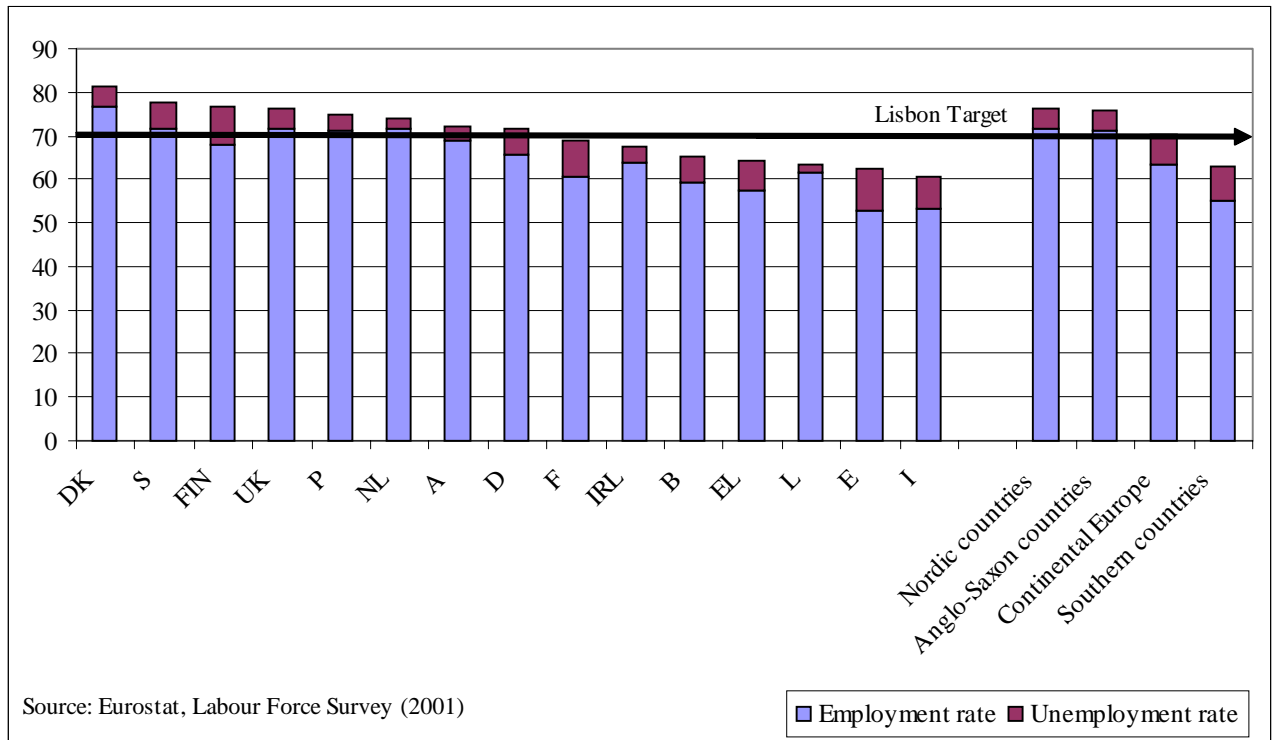
The histograms in Chart 3 measure the fraction of working individuals in the survey stating that they are dissatisfied with their present level of job security in the various countries. Small EU countries, such as Austria, Denmark, Netherlands, Portugal, Ireland, Belgium and Finland, come out once more as those providing stronger protection against labour market risk.



**Chart 3**

## Efficiency in providing protection against labour market risk

Finally, incentives to work, the third social policy objective listed at the outset, vary significantly from country to country as hinted by the large dispersion within the EU of employment-to-population ratios and unemployment rates. As shown by Chart 4, to attain the target set at the Lisbon Summit of at least a 70% employment rate by the year 2010 (65% by 2005), some countries would have to increase their employment to population ratios by about 2 percentage points per year. More importantly, in many countries this will require increasing labour force participation rather than simply absorbing unemployment. Once more, with the notable exception of the UK, we find small EU countries displaying the best performance.



**Chart 4**  
**“How far from Lisbon?”**

An explanation for this better performance in redistribution of the smallest EU countries is that local provision of social security can better exploit local information and deal with the large informational asymmetries jeopardising the effectiveness of redistributive policies. Needless to say, all this work in favour of a de-centralisation of social policy, rather than the other way round.

*Overall, there is a strong case for maintaining prerogatives over social policies to national Governments, and preserving the unanimity rule in EU-level decision-*

*making in this area. Majority voting on these issues may just end-up providing the worse of each welfare system with the countries with the best social policies in place being always in minority.*

### **3. Spillovers: Welfare Shopping**

A quite popular argument in favour of policy co-ordination at the EU-level in this field is that closer integration and more intense competition may induce “social dumping” and set in motion a “race to the bottom” in social welfare provision (Sinn, 2002). Evidence in support of the view that the European welfare state is threatened by such type of pressures is weak to say the least (Boeri, 2000) and the discussion in Section 1 after all suggests that cross-country differences in social welfare systems are far from being “arbitraged” away by competitive pressures. Yet, restriction to access to welfare by migrants is often advocated (Sinn, 2002) as a way to prevent or mitigate "welfare shopping".

Currently EU rules concerning access to welfare to EU citizens changing country of residence (within the EU) are inspired by the principle of *Equal Treatment* (stated by art 51 of the EC Treaty), which bans differential access to welfare by natives and EU foreigners. In presence of significant differences in the generosity of welfare systems across Europe, the implementation of this principle is problematic, if not altogether impossible. Suppose, for instance that a worker having contributed to unemployment benefits for, say, 10 years and having consequently gained access to benefits for two years in case of job loss in country A moves to country B where unemployment benefits (replacing the same fraction of her earnings than in the country of origin) are offered for a person with the same contribution length only for six months at most. If the principle of equal treatment is interpreted as stating that the entire contribution record, the *stock* entitlement of the individual should be evaluated according to the rules in the country of destination, one would treat citizens coming from A less favourably than citizens of B (who have always the option to move to country A gaining potential access to a longer maximum duration of benefits).

Alternatively one can interpret the equal treatment principle as stating that migrants should gain access to the welfare of the country of destination only on a flow, *pro rata*, basis. In other words, *past* contributions are rewarded as in country A (that should face any residual claim of the individual concerning that period of her life), while *new* contributions (and taxes) paid in country B yield the same rights as citizens of that country. This second, more restrictive, interpretation of the equal treatment principle reduces the incentives of migrants to exploit cross-country differences in the generosity of welfare systems. It also allows individuals to choose the welfare system, the combination of taxes and transfers, which they prefer. However, its enforcement is problematic. Difficulties arise for the defined benefit schemes, such as unemployment insurance and many occupational pension schemes. Even more serious problems arise for the non-insurance components of welfare

systems, such as the unemployment assistance benefits offered to persons under long-term unemployment (the European plague) and social assistance, which is typically open-ended (in which case only the stock interpretation of the equal treatment principle is applicable).

Due to these enforcement problems, the equal treatment principle is often applied only in its *stock* version. This means that a more favourable treatment is offered to individuals moving from countries with a less generous welfare system to a country with a more generous system, whose immobile workers have to bear the costs of a larger social security budget. Hence, the economic sources of the opposition to migrants.

The Equal Treatment principle does not apply to non-EU citizens and the European Social Charter itself provides a preferential treatment to EU vs. non-EU citizens also on these grounds. However, principles of “fair” treatment of non-EU nationals, considerations related to the integration of migrants, and political economy factors often prevent Governments from applying different rules in terms of access to welfare to non-EU citizens. Also in this respect, the US experience is enlightening: as discussed in the second part of this volume, many US states found it hard, if not altogether impossible, to restrict access to welfare by non-US residents.

This suggests that restrictions to welfare access, if any are legitimate, should be possibly defined for all migrants, independently of their country of origin.

One of these restrictions is represented by the so-called *Origin Principle* (OP), which states that migrants should stay with the welfare system of the country of origin, that is, keep the contribution levels and entitlements of their original workplace. There are two problems with the OP. The first is that it may obstruct labour mobility in response to negative regional shocks on the part of EU-residents as they may bring with them entitlements which may not be adequate for the country of destination, particularly in the light of significant differences in the cost of living across EU countries and regions. From a macro perspective, this blocks an important channel of labour market adjustment in presence of idiosyncratic shocks. From a microeconomic perspective, it prevents workers to insure against labour market risk by taking the advantage of the fact of being in a larger single market. The second problem is that the presence of workers paying lower contributions and receiving less transfers from the state (and partly the employers) increase competitive pressures on native workers. This is the problem faced by German authorities in the "posted-worker case"<sup>8</sup>: construction workers coming from relatively poor EU countries (e.g., Portugal) and the non-EU were willing to work at wages significantly lower than natives, and lower than the German unemployment benefits<sup>9</sup>.

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<sup>8</sup> See Hunger (2000) for a thorough discussion of this case.

<sup>9</sup> As mentioned by Bertola et al. (2001), the issue was addressed in that case by introducing binding minimum wages for all construction work in Germany, applicable also to foreign "posted workers".

The Economic Advisory Board to the German Minister of Finance has recently proposed to introduce another type of restriction to access to welfare by migrants, namely the so-called *Delayed Integration Principle* (DIP). This proposal assigns individuals to jurisdictions in terms of taxation, social insurance and social assistance in the country of destination only after some waiting (or transitional) period. It is a thought-provoking idea, but is hardly enforceable and share the same problems of the OP, that is, it further discourages work-related mobility of EU citizens and exert competitive pressures on wages of natives which may backfire, as in the German posted workers case.

*Overall evidence the scope of the fiscal externalities associated to international migration in Europe is limited. The remedies often advocated to cope with "welfare shopping" may just end up reducing further the mobility of the European workforce and may be a source of avoidable social tensions.*

#### **4. Co-ompetition: Co-ordination as Rules for Competition among Models**

The above suggests that neither economies of scale in welfare provision nor spillover effects are substantial and could justify a pan-European approach to social policy. Does this mean that there should be only “negative integration” or veto-bargaining (Cameron, 1999) in the field of social policy? A number of arguments can be made to regulate and at the same time enhance competition across European welfare systems, which are very much in the spirit of “positive integration”. We need rules for competition across systems as there is no guarantee a priori that competition among systems is welfare enhancing.

A few examples of these rules for competition or of co-ompetition are offered below.

More than generating strong fiscal pressures on welfare states, welfare shopping distorts the allocation of migrants. The EU Enlargement process provides a one-time and unique opportunity to reduce the wide differences in productivity levels across the Old Continent. This means growing faster after the Enlargement and having less undesirable redistributive effects of accession, provided that migrants do indeed go to the countries and regions with the tightest labour markets and highest labour productivity levels. Migrants tend to play this spatial arbitrage function (Borjas, 2002). Those from Eastern European countries to Germany jumped over the eastern Länders to find a residence in the western part of the country, which offers better chances to find a job and higher wages. Similarly, migrants from North Africa moved so far to the North-East regions of Italy, where there is virtually full employment, “jumping over” the depressed labour markets of the Mezzogiorno. It is just because of this spatial arbitrage that migration prevents overheating in local labour markets, contributing to contain inflationary pressures.

Migrants play an even more important role in allowing for non-inflationary and productivity enhancing employment growth in presence of wage compressing institutions as those characterising the European landscape (Boeri, 2002). Migration flows, in this context, play two useful functions. On the one hand, they increase employment and reduce wages in the high productivity markets by increasing labour supply. On the other hand, migration, by acting on centralised wages, reduces labour costs also in the poor regions allowing to partially absorb unemployment in these areas.

Yet, to the extent that differences in the generosity of welfare states do not replicate the differences in the strength of local labour markets, this important function of migration in promoting non-inflationary growth in Europe may be jeopardised. There is some evidence that “welfare shopping” may be occurring within the migrant population, if not among the European population at large. Immigrants to the EU from non-EU countries tend to receive proportionally more social transfers than the native population (Sapir, 2000). Moreover not all the differences in access to welfare can be explained by observable characteristics of migrants (i.e., the number of dependent children, their marital status and skill level). In some of the European countries with the most generous welfare states (Denmark, Belgium, The Netherlands, Austria and France) there are indeed indications that a rather mild form "residual dependency" is present whereby non-EU citizens receive social transfers more than what can be predicted on the basis of their characteristics (McCormick et al., 2002).

Against this background, the adoption of a common EU-wide safety net, adjusted to reflect cross-country and cross-regional differences in the cost-of-living, can be envisaged as a way to avoid distorting the distribution of Enlargement-related migration over Europe<sup>10</sup>. It is a one-time opportunity to receive migrants who, because of cultural and historical ties, can be readily assimilated within Europe. This opportunity should not be lost by inducing migrants to choose the country or region of destination based on criteria – such as access to relatively generous safety nets – which are unrelated to labour market fundamentals.

An additional reason for having a mild form of positive integration is that social policy are a domain of ongoing policy experimentation. Supra-national bodies can be in a better position than national Governments to assess pros and cons of the various models, are not subject to pressures of local lobbies in benchmarking schemes which better serve specific interests and have typically longer horizons than national governments (and horizons are crucial in areas like pension reforms). Open co-ordination<sup>11</sup> mechanisms, as those devised at the EU level in fields like labour

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<sup>10</sup> There are also arguments for imposing minimum standards to the accession candidates (see Boeri et al., 2002 for a discussion).

<sup>11</sup> Although not explicitly stated, open co-ordination is sometimes considered as a kind of preparatory stage for the “enhanced co-operation”, already mentioned in the Treaty of Amsterdam and now explicitly called for by the Nice Treaty: after a breaking-in period, a certain number of countries more interested and open to the idea of a federal Europe could move on from open co-ordination to enhanced co-operation - that is greater integration as concerns substance and decision-making

policies and social protection (mainly social inclusion) can play an important role in drawing lessons from these experiments and identifying best practices.

This type of co-ompetition could be strengthened by assigning more relevance to quantitative targets like those established in terms of employment rates at the 2000 EU Summit in Lisbon. The idea of New Maastricht for Labour is very much in this vein. It would also require a different timing and organisation of the review process. Under the so-called “Luxembourg process”, supra-national institutions set employment guidelines which offer the basis for the development of National Action Plans by the Governments of the Member States. The plans and the achievements are subsequently verified by the means of an institutionalised procedure, selecting the “best practices” (so-called “benchmarking”) and drawing up country specific recommendations. Stronger co-ordination along these lines should be explicitly directed to the Structural Spring Summits of the Council.

Another direction in which co-ordination could be extended is in assigning powers to the European supra-national authorities in imposing improvements in the administration of welfare policies in the various countries, e.g. in conditioning cash transfers to able-bodied individuals in working age to stringent work-tests.

Finally, co-ompetition needs to be supported by imposing more transparency in social policy expenditure accounts. Common standards may be adopted to estimate the debt of public pension systems, develop social policy expenditure projections and provide generational accounts which can best isolate the various (often improper) functions played by public pension in the EU countries. Some progress has already been made in this direction, for instance imposing to all countries the provision of long-term (lasting at least 50 years) projections of pension expenditure and making sure that these projections are based on explicit and internally consistent hypotheses, jointly agreed upon by a working group of the EU Economic Policy Committee (Boeri et al., 2001). But more ground has to be covered in this context.

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instruments. The evidence concerning the effects of benchmarking on employment policies in Member state is not particularly encouraging to date (Tronti, 2002).

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