

Gazier, Bernard; Schmid, Günther

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## Social democracy in Europe 4.0

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*Bernard Gazier/Günther Schmid*

## **Social Democracy in Europe 4.0**

In 1983, after a coalition of the center-right (led by former chancellor Helmut Kohl) and the liberals (led by former foreign minister Hans-Dietrich Genscher) pushed the German Social Democrats (led by Willy Brandt and Helmut Schmidt) out of government, German-British sociologist Lord Ralf Dahrendorf concluded in his book *Die Chancen der Krise*: »We are witnessing the end of the social democratic century in the OECD world.« He argued – as many others believed at that time – that the social democratic project courageously had solved the great »social question«: how to diminish the poverty and social inequality imposed by the industrial era. »In a way,« he even proclaimed, »we (almost) all became Social Democrats« by taking for granted its basic institutions, such as the rule of law and (more or less) universal social security against the risks of ill health, old age, and unemployment. Yet, he maintained, all the underlying assumptions or promises of social democracy – economic growth, the ready availability of labor, equality, rationality, state competence, and internationalism – no longer hold. Social democracy, he alleged, had no answers to the questions of the 21<sup>st</sup> century: Growth had come to an end and gainful work had become hard to find, more equality was not financially attainable, religious and other a-rational beliefs were once again on the rise, the state systematically failed, and nationalism was resurgent. Liberalism, he thought, would be the proper response, i.e. the principles of self-determination, individual responsibility, freedom of movement, and so on. In hindsight, we know that neoliberal pundits, particularly mainstream economists, transformed these vague assumptions and visions into the hard-core ideology of unfettered markets, in particular the deregulation of labor and capital markets.

These days, we are witnessing renewed hints and proclamations of the end of social democracy. Social democratic parties have fared poorly in national elections in almost all European member states, especially in Britain, Poland, Spain, Germany and Greece. Center-left parties are struggling even in Scandinavian countries, and a recent analysis in *The Economist* (April 2, 2016) showed that support for social dem-

ocratic parties across Western Europe has fallen to its lowest point in 70 years. Most dramatic is the French case, which led American journalist James Angelos to ask in *The New York Times* on January 24, 2017: »Will France sound the death knell for Social Democracy?« France's importance to the EU serves to underscore the gloomy forecast implicit in his question: »France is a founding member of the EU and is far more economically and politically entwined with the bloc than Britain, which was never a fully committed member. While Brexit was a blow to the EU, France's departure could signify its end.«

We believe that Lord Dahrendorf was fundamentally right and yet at the same time wrong: He was right in his vision of putting greater emphasis on individual, local, and regional self-determination in the next century – he even took over the classic social democratic ideal of reducing working time still more in favor of personal time-sovereignty – but wrong in his assumption that the »social question« already had been resolved definitively. On the contrary, the fragility of the old social democratic project lies in its not yet having found the proper answer to the »new social question« imposed by the dawning of the 21<sup>st</sup> century machine age, often labeled »industry 4.0«. As in the »old« social democratic project, the answer has to stand on its own two feet: i.e., on solid democratic institutions and reliable social justice. It is democratic institutions that have to be further developed, particularly on the level of the EU, and it is fair risk-sharing and reliable social security that create the basis of (inter-)national cooperation in the globalized and increasingly interdependent knowledge and service economy of the new century.

### **A threefold democratic deficit**

Let us start with the institutional problem. The EU is suffering from a threefold democratic deficit. First, the EU mainly has been constructed around the rules of markets and open competition, reflected in the four freedoms: free movement of goods, workers, services, and capital. The dominant form of control is not a political one but a legal one, mainly ensured by the European Court of Justice (ECJ). The ECJ, which, in a kind of coup d'état in the 1960s, postulated the supremacy of European law over national legislation, fostered the neoliberal agenda of doing away with market barriers, including national collective agreements (»negative integration«). With a few exceptions, especially related to gender equality, the Court and the European Commission paid little attention to the social consequences that would ensue from the enactment of these »liberal« freedoms: inequalities in wages, income, and – in particular – in capital assets. »Positive integration,« i.e., the development of common social standards, minimum social security, and fair income or asset distribution, was largely neglected, basically due to the European Parliament's lack of legislative capacities (according to Fritz W. Scharpf in the *European Law Journal*).

Second, the EU does not possess a true budget either in respect to size (1 % of EU GDP) or policy direction. Member states contribute proportionally, and the EU spends much of its limited budget subsidizing agriculture (37 % of the 2017 budget) and trying to mitigate regional imbalances (cohesion) or stimulate »smart« and »inclusive« growth. The liberalization of capital flows and financial markets, how-

ever, substantially has increased the mobility of capital, leading to regulatory arbitrage (exploiting tax and regulatory differences) and thereby to fiscal competition among the EU member states. This process has induced a race to the bottom and the adoption of national austerity programs instead of stimulating the accumulation of redistributive capacities that could be devoted to public infrastructure, social investments, and decent minimum income guarantees.

Third, the euro as a common currency lacks the attributes of sovereignty which would enable it to foster a common economic and social space. Despite the efforts of the European Central Bank (with dubious democratic legitimacy and having no mandate regarding unemployment), the euro has led to diverging trajectories between member states (the South compared to the North) instead of economic convergence. Whereas, for instance, the German real GDP per capita increased by 13.3 % from 2005 to 2014, it dropped by 18.6 % in Greece. Furthermore, the lack of political control (especially of the banking sector) fostered rent-seeking investments (e.g. in housing and equity bubbles) instead of collectively chosen priorities of EU-wide real investments. Even the most recent light at the end of the tunnel – a 1.6 % growth rate in the Eurozone in 2016 (stronger than in the US) – cannot cover up these cleavages.

»Social Europe« has remained weak and optional, leaving each EU member state free to develop its own system of social welfare provision, albeit under the steady threat of downward instead of upward social competition. Despite the promise of social convergence, the stylized gloomy facts are:

First, economic growth – meager as it was, anyhow – did not translate into a jobs boom. Europe is still far from hitting its own benchmark of a 75 % employment rate set for 2020: From 2005 to 2015, the EU28 employment rate only increased from 67.9 % to 70.1 %; in Greece it even declined from 64.4 % to 54.9 %. Moreover, this gap also has an unfortunate gender bias: Women remain underrepresented in the labor market as a whole, with an employment rate of 75.9 % for men compared to 64.3 % for women. Furthermore, many of the new jobs belong to the category of »non-standard« employment (temporary or part-time jobs, self-employment). Women are strongly overrepresented in such non-standard jobs, in which they enjoy little or no social protection or prospects for social security.

Second, for a while, in some EU member states youth unemployment rates surpassed the incredible level of 50 % and remain over 40 % in Greece, Italy and Spain. Even the so-called NEET rates (youth neither in employment nor in education) skyrocketed, for instance in Greece, to almost 25 %.

Third, the rate of people at risk of poverty and social exclusion, after reaching a high point of 24.7 % in 2012, still stands at the level of 2010 (23.7 %) in 2015. In other words, almost a quarter of people live in a household with a disposable income below 60 % of the median, or in a household that is materially deprived or with low work intensity. The promise of the EU2020 strategy to reduce poverty across the entire Union by at least 20 million people (20 % of about 100 million at risk of poverty or exclusion) so far has been counteracted by the sad fact that this number meanwhile has increased by about 5 million. Also, income distribution

has worsened: Whereas in 2005 the top 20 % (quintile) of people in the EU28 had an income five times higher than that of the bottom quintile, the ratio since has increased slightly to 5.2. The fact that this increase in inequality was particularly pronounced in the richer member states, especially in Germany, provides a certain twist to this measure of social justice. Overall – and this might also be seen as a silver lining on the European horizon – inequality among the EU member states has tended to decline, whereas, so far, inequalities within most of the member states have increased.

### **Social democracy still stands a chance**

In this bleak context, does social democracy (SD) still stand a chance? We believe it does and, what is more, we think that we are obliged in a general sense to resist Cassandra-like prophecies (as mentioned at the beginning) and, more specifically, to unite against the rising tide of populist and nationalist movements. The ideals of SD have always been clear and consistent: to resist social exclusion by fighting for citizens' participation, establish reliable institutions to promote fair risk-sharing and solidarity towards the disadvantaged, and adopt a pro-active stance vis-à-vis globalization with an emphasis on international cooperation instead of protectionist nationalism. We neither will nor should abandon the project of a European Social Model.

Hence, we also have to emphasize that these SD ideals may be manifested in different forms of political representation. They can be represented in a political party tradition (e.g. the SPD in Germany), in a socio-political regime (e.g. the Nordic countries), or in a wider philosophy of social justice (e.g. by John Rawls or Amartya Sen). Recalling this tradition, we suggest that SD should put further emphasis on a generalized conception of democracy, extending it beyond citizens and voters to workers, firms, and municipalities. The social dialogue should play a central role in the domains of work, pay, and social protection through four main channels: information on working conditions and career prospects; negotiations at all levels in the areas of wages, working hours, and working conditions; decentralized management of the institutions of social protection, especially when it comes to the inclusion of disadvantaged groups; and, last but not least, co-determination within (especially big) enterprises, enabling workers' representatives to exert some control over key decisions made by the owners, even in the form of co-ownership if that seems most appropriate.

As already indicated, 21<sup>st</sup> century challenges to SD stem in particular from new forms of work, the decline of traditional categories of workers (blue-collar employees in big factories), the rising importance of new categories of workers (mainly in services, many of them with precarious jobs), and also from novel demands: quality of life, gender equality, environmental concerns, protected mobility, the fight against discrimination, free choice of careers and family arrangements. In response to this new world of work, traditional social democracy needs to modernize itself. It especially needs to stake out clear, consistent positions with regard to the many innovative but still incoherent or overly timid initiatives that have been taken or tried in

EU member states designed to give individuals more power regarding their work and career. Such experimental policy initiatives include personal training accounts, social drawing rights, integration devices for people with disabilities, or employers' pools.

Furthermore, we are on the eve of a new industrial revolution, often termed »industry 4.0.« Steam power and electricity once stoked an earlier industrial era. Since the 1980s, the automation revolution has been in full swing; indeed, we are now experiencing a disruptive evolution towards connected intelligent machines. The momentous changes brought about by this new revolution go beyond the mere existence of robots. By now, the computerization of factories is accomplished through networks controlling physical objects, the establishment of a continuous communication among the different tools, and the integration of work in new ways. Remote control goes hand in hand with a dialogue between consumers and producers, between logistic and productive settings.

While the consequences of these transformations remain hotly debated, there is no doubt that they represent both a major challenge and a major opportunity for SD in the EU. It is a challenge because this evolution further threatens EU cohesion, with some countries lagging behind while others are eager and able to adapt to the new perspectives; it is an opportunity because there is ample room for initiatives beyond the national member states in favor of social and political innovation and new productive developments.

### **Strategies for European social democracy**

We are convinced that SD can only survive as a European SD by taking up the following strategies: (1) supporting plans or proposals to establish genuine European fiscal capacities for innovation, fair redistribution, and a new environmentally friendly production regime; (2) assisting with the plans of the EU Commission and EU Parliament to enshrine a solid European Pillar of Social Rights in the EU Treaties with an emphasis on minimum income and skill guarantees; (3) promoting a stronger democracy inside firms, and at local and regional levels; and (4) enhancing the cosmopolitan world view of Europe as an actor in the formulation of global social policy.

(1) In respect to the establishment of *genuine EU fiscal capacities*, one of the most promising proposals has been developed by Michel Aglietta and Nicolas Leron (*La Double Démocratie – Une Europe politique pour la croissance*, Éditions du Seuil, 2017). At the center of their scheme is the idea of delegating national competencies regarding energy and environmental policymaking to the EU and transforming the scattershot »Juncker plan« into a consistent long-term investment program aimed at bolstering the EU's fiscal capacity, so that it would constitute up to 3.5 % of EU-GDP. The size and purposes of this enhanced fiscal capacity would be subject to the approval of the European Parliament.

The key argument they advance starts from a pragmatic appraisal of the present situation of the EU. Unsatisfactory and gridlocked as it is, the EU is now barely able to function and therefore must be reformed. Integration through the single, unified

market and competition rules turned out to exacerbate inequalities between and within member states in a context of slow growth, the strong influence of transnational finance, and budgetary austerity. But the two most often discussed radical »solutions« are either unrealistic or destructive. On one hand, some argue in favor of a great leap forward: a federal union featuring a full-fledged European state. Such an outcome, while probably desirable and logical, is unfeasible given the current objectives of most of the member states and the power balance among the political forces governing the EU. On the other hand, there might be a great leap backward: after »Brexit,« other departures could lead to the disintegration of the Union. This would be a complete disaster in a world where only the major players still have any power to control their own destinies.

But inaction cannot be an option. Preserving and developing the European social and economic model should remain the aim of SD, and it could be achieved by implementing a »double democracy.« The first phase would be devoted to revitalizing the nation state, which would work best if there again were ample fiscal and budgetary maneuvering room. But that could only happen if the constraints stemming from EU austerity were loosened. The second phase of double democracy would be the genuinely European one, involving an enlarged European budget controlled by the European Parliament, but with the members directly elected by the citizens of EU member states. This intermediate way between the great leap forward and the great leap backward indeed would constitute a political leap, yet a pragmatic one.

It might prove to be feasible because it would emerge from the policy areas for which the European Union is already responsible (its »competencies«) while implementing them on a larger and more systematic scale. The exclusive competencies of the EU would remain a limited – yet revitalized – core. The competencies shared between the EU and its member states are much more extensive and include clearly identified and strategic European public goods. Among them, one may select environment, energy, trans-European networks, research & technology, and regional cohesion.

In each of these domains, which are separate and weakly coordinated, sometimes incompatible national policies have proven to be inadequate and even perverse over the long term, as illustrated by the energy choices of Germany and France. The main characteristic of public goods is that they produce positive externalities through interdependencies that are not expressed or set by prices and market mechanisms. For example, a coherent energy policy may ensure a secure and affordable supply of electricity and a progressive transition toward a carbon-free society. Such a policy may foster a long-term investment process, connected with other green priorities and, through collective infrastructure, with policies of innovation.

Recalling the three main classical functions of the national state budget (Richard Musgrave), this proposal would be restricted to developing the allocation function and leaving untouched the transfer and stabilization functions. However, beyond the direct positive outcomes, some indirect transfer and stabilization effects may be expected. And because these new EU investment expenditures would be financed



from additional fiscal resources, the (national) EU member states might recover more freedom in their own fiscal affairs.

Concretely, Aglietta and Leron have proposed two new European taxes: the first would be a 0.05 % levy on financial transactions, which might yield 150–200 billion euros each year, double the size of the current European Union budget, reaching 2 % of the EU-GDP. EU policymakers have been considering this move since 2011, but so far have failed to enact it. The second possible tax would be one placed on carbon. Although it would appear to be fully justified, it has encountered fierce resistance from some EU member states and remains blocked. If both proposed taxes were to become law, the EU budget might reach 500 billion euros, i.e. 3.5 % of the EU-GDP.

### **Investor of last resort**

This process would reinstate the EU as an investor of last resort, lessening the influence of international financial markets and, through public investment banks, preserving a long-term policy aimed at fostering sustainable growth. Because the collective decisions would be controlled by the EU Parliament, this process would achieve an enlarged conception of democracy. While it is indispensable for the simple survival of the Union, it converges with and renews the traditional priorities of SD.

Another key element of this newly-created fiscal capacity would be to support the institutionalizing elements of a European System of Employment Insurance. The idea behind this proposal is that many of the new labor market risks related to the digital revolution differ from the kind of unemployment for which unemployment insurance (UI) originally was designed. These new risks stem from increasing uncertainties on both the production side and the supply side. The previous social democratic century was characterized by mass production on the one hand and by the paternalistic one-earner family on the other. The hallmarks of the new social democratic century are individualized quality production or service delivery on the one hand, and the dual-earner family based on partnerships between men and women on the other. Extended unemployment insurance therefore should also cover risks related to critical transitions over the course of a person's life: transitions between full-time and part-time work, between one occupation and another, between voluntary »caregiving« work and gainful employment, and finally, between full work-capabilities and partial work-capabilities. Many of these transitions can or could be organized within stable employment relationships, thereby avoiding the exclusionary tendencies of non-standard employment. However, if this relationship should break down, either through external shocks, mismanagement, or simply through individual misfortune or changing preferences, a scheme of income security broader than full-time unemployment benefits has to be provided.

This paradigm shift requires, first of all, a shift from stocks to flows. In other words, what is needed is a *career orientation* in labor-market and employment policy that attempts to make the *most critical* transitions pay over the course of a lifetime by cushioning the related income risks. One promising example is public support for lifelong learning, especially (but not exclusively) for the low-skilled. The benefit to society would be enhanced mobility, especially in the form of mobility chains that



open up new ports of entry into work opportunities for outsiders. Other examples are related to so-called flexible jobs, including part-time work, self-employment, and temporary positions. Modern insurance theory not only hints at the possibly distorting effects of insurance through moral hazard, but also points out that insurance can promote risk-taking through *innovative hazard*. That can be a wellspring of economic dynamism and prosperity.

A further reason for the required paradigm shift from unemployment to a system of employment insurance is to overcome inequalities and risk aversion through *capacity building*, for instance, through institutionalized stepping stones (e.g. subsidized employment targeted to individual productivity gaps, or transferable unemployment benefit entitlements over time in case of taking up a more risky form of self-employment); through enhancing general knowledge, competences and skills over the course of a lifetime; or through reasonable adjustment of workplaces, which involve *making the market fit for workers*. From this perspective, not only any benefits that come from maintaining or enhancing employability, but also generous unemployment benefits have to be considered as »active« and not as »passive« security. In other words, they should be regarded as *investments* in the job-search capacity of individuals; in the matching capacity of the labor market; in the employability of the »labor force«; in the quality and productivity of work; and lastly, in the sovereignty of individuals over the course of their lives.

Following these principles also would imply abandoning the idea of centralized European unemployment insurance. In any case such a centralized system has been defended by its advocates as a mechanism of macroeconomic stabilization rather than as an institution of social investment and solidarity. A genuine European fiscal capacity, as mentioned above, could be used to support member states in establishing national employment insurance systems according to commonly agreed-upon minimum standards and social rights (see next paragraph) but leaving the determination of the specifics (e.g. levels of generosity and ways of effective implementation) to national discretion. This fiscal capacity also could be used, in analogy to the current US unemployment system, to help member states finance credits designed to supply extended benefits during prolonged recessions or to provide aid in large-scale restructuring periods due to globalization.

(2) In March, 2016, the European Commission invited a Europe-wide social dialogue regarding the European Pillar of Social Rights (EPSR). In the meantime, this process led to a resolution adopted by the European Parliament (January 19, 2017) urging the European Commission to come up with a proposal by the spring of 2017 »that is not limited to a declaration of principles or good intentions but reinforces social rights through concrete and specific tools.« This document already contains many well-formulated demands or even imperatives for a true social and democratic stance in a digital Europe and emphasizes the need for a paradigm shift towards social risk management of life-course transitions: »European welfare states need to be updated and strengthened to support upward transitions into and within the labor market and to maintain economic security throughout people's lives; whereas, with the labor market becoming more complex, it is natural that the welfare state

also needs to adapt its mechanisms and instruments in order to manage correctly the various social risks arising.«

Hinting at increasing income uncertainties, the European Commission document also underlines the importance of the ILO Recommendation No 202 to provide social protection floors, particularly equal access to a nationally defined set of goods and services, such as health and maternity care, as well as basic income security for children, for persons in active age who are unable to earn sufficient income, and for older persons.

Related to the spread of new forms of work and employment, a new definition of the »employment relationship« is needed to clearly define the responsibilities of individuals or employers or even consumers for taking care of future social security: e.g., the obligation of the self-employed to contribute in one way or another to social insurance funds, or the inclusion of a social contribution in contract work or in the platform economy. More and more workers in non-standard forms of employment have difficulties in exercising their rights on the job or in gaining access to social security benefits; women and migrants are disproportionately affected by this problem. Acknowledging these facts, the EU Parliament also has called on the Commission and member states to organize social security schemes differently. From now on, such schemes should enable everyone, regardless of the type of employment, the nature of the employment relationship, or status as self-employed, to accumulate entitlements providing income security in situations such as unemployment, involuntary part-time work, health problems, advanced age, or career breaks for child-raising, caring for others, or undergoing training.

Moreover, the European Parliament resolution on the EPSR accentuates the social right to equality of opportunity and access to the labor market. One element is to make the market more amenable to the inclusion of persons with disabilities, for instance, through the right to decent and barrier-free work in a fully inclusive, open, and accessible work environment via reasonable workplace adjustments. Another is to make the market fit for parents with obligations to their children or others through accessible infrastructure (e.g. on-site daycare centers, paid care leaves, and variability in daily and weekly working time).

Another element is the increasing importance of »industry 4.0«. Point 21 in this document emphasizes the fact that »low-qualified people not only have diminished employment opportunities, but are also more vulnerable to long-term unemployment and experience greater difficulties in gaining access to services and participating fully in society, a situation which is not only detrimental to the individual but is also highly costly to the economy and society as a whole.« The resolution »supports therefore a Skills Guarantee as a new right for everyone, at every stage of life, to acquire fundamental skills for the 21<sup>st</sup> century, including literacy, numeracy, digital and media literacy, critical thinking, social skills, and relevant skills needed for the green and circular economy (...).« In legal terms, such a guarantee should take the form of an enforceable right to continuous vocational training and education. Evidence, provided for instance by the OECD Survey of Adult Skills, shows that there is a strong correlation between ICT literacy scores and participation rates in adult

learning, suggesting that policies that encourage adult learning will also foster the spread of ICT literacy skills (John P. Martin).

### **Personal activity accounts vs. unconditional basic income**

The document even adopted a central proposal of Transitional Labour Market theory (see *The New Palgrave Economic Dictionary*) to endow individuals with *personal activity accounts* as assets designed to overcome the increasing income and career uncertainties over the course of a lifetime through individual efforts. »Starting from their first entry into the labour market, all people in all employment forms, employment relationships, and self-employment should have a personal activity account, easily accessible through personal contact and electronic means, duly taking into account the needs of persons with disabilities, where they could consult their accumulated social entitlements and other social rights, including to lifelong learning, and where they could learn about their portability across countries if applicable; such personal activity accounts should be made available in a cost-effective way and adequate data protection should be ensured.«

Personal activity accounts would be a valuable and realistic *alternative to the unconditional basic income* which is currently the topic *du jour*, advocated – curiously enough – by employers of high-tech industries and modern financial or distributive services in particular. In the interest of freedom, liberty, and flexibility, these neoliberal pundits propose a form of social security without any institutional complexity. Their hidden agenda in the remaining empty institutional black box, however, is the dream of freedom from bureaucracy and painstaking negotiations between competing interests, or even from collective or public responsibility for the novel risks associated with the digital revolution. To the contrary, we argue here that their promise (or threat) of a great productivity leap inherent in industry 4.0 is far from supported by any empirical evidence. The proper answers to the new world of work include active securities; fair risk-sharing between employees, employers, and the state; and »negotiated flexicurity« calling for a higher complexity of institutions corresponding to the increasing variability of employment relationships. The next point makes it clearer why an extended democracy is needed.

(3) The new SD would exploit opportunities for deepening democracy in and near the workplace. Let us begin with the increasing importance of diverse »territorial social dialogues«: processes as well as institutions. Two main arguments make it clear that the »local« dimension of social dialogue, often shunted aside by the traditional conceptions of industrial relations, has proven to be more and more important and even strategic in a 4.0 world. The first argument concerns the necessarily transversal character of most public policies. To confront the problems of unemployment, inequality, or urban congestion, we need coordinated policies in many different fields, such as transport and housing, training and re-training, plant location, and Internet equipment.

In most EU countries these policies typically are implemented by specialized agencies or institutions, which most often are organized hierarchically, each with its own separate field of action. The 4.0 evolutions make the challenges even more dif-

difficult, with precarious jobs, network functioning and strong mobility and flexibility requirements. It is only at the local level that such policies can be coordinated and implemented in a smooth and responsive manner. The second argument highlights an increased need for collective, bottom-up initiatives. The spatial polarization of activities and living areas is a highly visible phenomenon everywhere in Europe as in other parts of the world. It undermines traditional bonds of solidarity, transfer policies, and disrupts existing collective bodies. New productive orientations, solidarities, and ways of living together may only appear in groups and spaces whose members elaborate projects and create their own policies. Such dialogue should be different from the classical collective bargaining processes for wages and working time, and should mainly complement them by elaborating and implementing local projects.

### **Elements of »territorial social dialogue«**

However, the role and place of the »territorial social dialogue« may vary considerably among and even within countries. It mainly depends on two elements. One is the way the national industrial relations system in a given country is organized. In countries closest to the traditional SD orientation, the social dialogue is intense, well-structured, and diversified. It starts with frequent meetings between social partners and more or less centralized negotiations over wages, working hours and working conditions. Furthermore, it includes the participation of social partners in the management of social security institutions and various degrees of workers involvement in the management of big firms (i.e., »codetermination«). In other countries, especially those with less regulation and more highly decentralized traditions, social dialogue is reduced to infrequent informational meetings between social partners and negotiations that take place mainly at the firm or even the plant level. Many countries are in an intermediate position and carry on dialogues at several levels. Given this strong diversity of institutions and practices, the »territorial social dialogue« may exist in different versions: It may be a local application of the national or industry-specific social dialogue, complementing the former; or it simply may be absent altogether, or it may even function as a substitute for missing interactions or policies.

But a second element is present here: the existence and intensity of different versions of »territorial dialogue« such as local ties and partnerships between employers' unions and training institutions and agreements between a municipality and a union or a non-profit association. The »territorial dialogue« is the breeding ground on which more ambitious »territorial social dialogue« initiatives, involving employees and employers' representatives as well as other local institutions, may develop.

We argue that the unprecedented challenges of Europe 4.0 call for new ways of structuring social partners and actors at a local level. At least five functions may be performed by the territorial social dialogue noted above. The first is »organizing the un-organized.« On the workers' side that term would refer to employees with short-term contracts and temp agency workers. On the employers' side, it would apply to small firms. Such actors badly need collective agreements and arrangements regarding working conditions and training opportunities. A second function is to foster

development and redevelopment by anticipating productive changes, enacting policies to attract new firms, setting up training programs, and strengthening workers' mobility programs. Third, work schedules and spatial mobility, especially in cities, need to be rethought. Fourth, the territorial social dialogue can help decide how certain resources should be allocated, such as in-kind benefits. Finally, there is an overarching function, ensuring that local governance is legitimate and well-accepted by the citizens.

Among the most meaningful initiatives, we can point to the following long-established Swedish experiences in negotiated restructuring, especially the inclusion of workers with short-term contracts, and the start of a social dialogue on the possibilities of improving production. Another example is to be found in the Italian practice of »second level bargaining,« as in the shoemaking district of Riviera della Brenta, where small firms and unions set agreements on wages, working time, and training opportunities. In France, there have been experiments in offering greater security to temp workers in Franche-Comté by creating a longer-term contract that ultimately became the »open-ended temp contract« (»CDI intérimaire«) at the national level. Finally, in Germany, one should take note of the 2011 Brandenburg tripartite initiative aimed at discussing wages, working conditions, and training opportunities, involving employers who do not adhere to industry-wide labor agreements.

The role of the EU in promoting territorial social dialogue ought to be recalibrated. First of all it should not be confused with the frequent pressures exerted by the Commission towards decentralizing the bargaining system and encouraging firm-level bargaining in a deregulatory atmosphere. Numerous experiences with territorial social dialogue show that territorial arrangements should not be equated with uncoordinated and atomistic agreements. Second, the EU has a long tradition of territorial intervention through structural funds like the European Regional Development Fund (ERDF) and the European Social Fund (ESF), both strongly focusing on specific territories. Third, the EU promoted »territorial social pacts« during the first decade of this century, aimed at including both social and local actors in development projects. What seems to be lacking here is a more pro-active and wide-ranging program. The »structural funds« provide some help, especially the development of basic infrastructure, for severely depressed areas. They should be connected to the investment choices and expenditures discussed in part one of this essay, and should provide visible and negotiated help for innovative projects and the development of new skills and qualifications.

In all the fields where territorial social dialogue is relevant, it should be brought to bear on projects undertaken by local actors, who should be competent, organized, and motivated. A key example here is the implementation of social drawing rights, such as a training personal account which directly depends on the availability of real opportunities at a local level. Overall, the priority here again is social and economic integration. Left to themselves, market interactions, even combined with formal social and economic rights, are likely to produce inequalities and exclusion and reinforce the success of already advantaged groups while ignoring or even harming

the prospects of the less advantaged ones. It is at the local level that a really integrative policy, based upon projects and initiatives from the local citizens, might be elaborated and implemented. We have already observed that such »territorial social dialogue« could take different forms, involving different actors. But two elements are of central importance and are typical of a renewed democracy: the bottom-up dimension, and the intensive use of the ICT and of decentralized networks.

### **Democratic challenges and opportunities**

Let us now consider the democratic challenges and opportunities at the firm or at the plant level. One may first suppose that German or Nordic style »codetermination« should be extended. Although that indeed would be a major achievement, it would not be easy to achieve in a context of union erosion and of volatile transnational networking practices by big firms. The recent French attempt (2014) limited itself to the homeopathic introduction of a few union representatives to the management boards of major firms. Abundant empirical evidence, however, shows that a high-quality social dialogue inside firms correlates with good economic performance by those same firms, suggesting that the active participation of a motivated, protected, and adaptable workforce plays a key role. While difficult to put in place, codetermination may remain the best way forward.

However, democracy in the workplace and around it may be advanced in more direct ways, for example by organizing small and medium-sized enterprises in local networks that may conclude agreements on fringe benefits and additional social protection. Such practices can be a prominent component of an upgrading of job quality. In this area the Laeken indicators, set up by the EU in 2000, remain a useful reference point and deserve to be taken seriously. Many empirical studies have shown that, according to such indicators, high-quality jobs go hand-in-hand with good economic and social performances. We argue that the new SD should exploit these opportunities, notably with firms that are able and willing to develop a program of »corporate social responsibility.« Of course, here again some neoliberal actors would prefer to stay inactive or deregulate labor markets and labor relations even more completely. The outcome might be short-term flexibility, but it would be accompanied by increases in inequality and exclusion as well as long-term inefficiency. The new SD should promote long-term capacities for adaptation and innovation, and this can only be accomplished by developing a renewed social dialogue, grounded on well-accepted indicators, especially at the territorial and local levels.

4) Extending and deepening democracy is also necessarily related to the problem of refugees and migration to counteract the potential threat of downward social competition. Lack of imagination and visible good practices have so far led many EU member states to refuse to integrate refugees, relying on the argument that immigrants, or those seeking asylum, would undermine social peace. This reluctance to welcome refugees represents a serious departure from the traditional idea of SD. Social democrats used to be proud of their cosmopolitan attitudes and international solidarity. A revitalization of this original idea (if not a habitual reflex of social democratic thinking) would have to start on two fronts, one being the prob-

lem of social inclusion and the other, combating the causes of economic migration and flight from political persecution.

This is not the place to delve deeply into that crucial but complex issue. Here, we only emphasize two points that would mark out a natural path for social democracy in a Europe 4.0: The first involves the utilization of digital technology to develop easily-accessible platforms and networks for matching decentralized demand for skilled and unskilled workers with the availability of workers having a foreign or refugee background, possibly within the framework of the European Employment Service (EURES). European cities and municipalities could play a central role in matching up job applicants with positions. Cities or municipalities as extended neighborhoods and guardians of effective public infrastructure (child care, schools, social assistance, transport systems, etc.) are central for social integration. Most of these local communities also have excellent knowledge of the potential sources of growth and job creation in their own areas. All they need is a European mandate to fulfil this function and the necessary resources for an inclusive policy for refugees. They should have the right to apply for such resources at the European level, provided that they adhere to their respective national regulations. A corresponding proposal recently has been formulated in an initiative by the prominent German and Portuguese social democrats, Gesine Schwan and Maria João Rodrigues. In the same vein, »Solidarity Cities« deserve to be mentioned, an initiative on the management of the refugee crisis launched by Athens, Greece, within the framework of the EUROCITIES network.

When it comes to fighting the causes of economically- and politically-induced migration, Europe has to reform drastically its official aid policy towards Africa. According to the World Bank, \$835 billion were spent in official foreign aid between 1960 and 2014, with no, few, or even disastrous effects for the development of Africa. It is not enough to call for a »Marshall Plan« for Africa, as the German government recently announced. That plan (1948–1952) was effective only because the human (skills), infrastructure (transport), and the institutional (rule of law) capacities for economic development already existed. Many of those requirements are either missing or weakly developed in Africa. Moreover, employers who invested under the original Marshall Plan could be sure of fair trade conditions, whereas African employers often have to fight against subsidized foreign products or services, in particular against subsidized European agricultural products. As long as such prerequisites, along with fair trade conditions, are not met, the chances of preventing economically-induced migration look bleak. Furthermore, a social and democratic Europe must come up with a joint migration policy to ensure that those conditions are in place and to provide a transparent and regulated way for legitimate migration flows in both directions (return migration).

### **Possibility of such reforms**

A final note regarding the possible realization of such a scenario for a European SD seems appropriate here. We concur only partially with Fritz W. Scharpf whom we previously quoted and who is extremely skeptical about the possibility of such



reforms unless the constitution of the EU is amended first. Although we agree that in the long run such a change is necessary, it seems unlikely to materialize. It would probably require still more pressure stemming from deepening economic or political crises in Europe.

However, under the current constitutional conditions, we still see some leeway to move ahead with the reforms proposed above. It may indeed be true that the European social dimension has not yet been well integrated in the European treaties: still, that dimension is more entrenched there than is often maintained. Article Nine of the Treaty on the Functioning of the European Union (TFEU), in particular, deserves to be mentioned because it contains a »horizontal social clause« obliging the EU to take into account »requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training, and protection of human health« when defining or implementing its policies. Furthermore, the establishment of a European Pillar of Social Rights, currently foreseen only for the EURO member states, could be justified under the enhanced cooperation mechanism provided in Article 20 of the TFEU. Finally, Article 153 (1)(c) in combination with (2)(b) TFEU, on social security and the social protection of workers, allows for the adoption of directives, in particular those related to working conditions. For instance, since paid educational leave or personal activity accounts could be considered as a »working condition«, it would be possible to develop European-level directives related to the above-mentioned skills guarantee or personal activity accounts, among other possible measures.



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**Bernard Gazier**

is Professeur Émérite (sciences économiques) at University 1, Paris-Sorbonne.

*bernard.gazier@univ-paris1.fr*



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**Günther Schmid**

is the Emeritus Director at Berlin Social Science Center and was Professor at the Free University of Berlin from 1990 to 2007.

*guenther.schmid@wzb.eu*