



## Progress in Prosperity: Reconciling Economic and Social Policy Objectives in the EU<sup>1</sup>

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In the spring of 2010, professor Mario Monti presented his suggestions for a revival of the single market to Commission President José Manuel Barroso. In the original entrusting letter to professor Monti, Mr Barroso rightly pointed to “the dramatic consequences that would derive from undermining the Single Market [which] would erode the basis for economic integration and growth and employment throughout the EU”.<sup>2</sup> After rehearsing the mantra that the Single Market is still far from being fully realised, and after stating the Commission’s intention to “take a more systematic and integrated approach”, Mr Barroso notes that the financial crisis triggered “[a] critical reconsideration of the functioning of markets” as well as “enhanced concerns about the social dimension”. Since the EU Treaty provides that “the Union [...] shall work [...] for a highly competitive social market economy”, the Commission President calls for a fresh look “at how the market and the social dimensions of an integrated European economy can be mutually strengthened”. The new ‘horizontal clause’ that was recently inserted in the Treaty also requires the Union to take the social consequences of any proposed new rules into account when defining and implementing its policies and activities.<sup>3</sup> For many stakeholders, this provision was actually one of the more positive features of the Treaty of Lisbon. Nevertheless, in the public debate, negative or sceptical perceptions about ‘more market’, including ‘more internal market’, currently hold sway, and the support for the EU’s economic policies evidently needs to be strengthened. As will be pointed out in this

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<sup>1</sup> This text draws considerably on two CEPS papers, “How Social the Single Market” (13 April 2010) and “Required: A bold follow-up to Monti” (22 July 2010), both available on [www.ceps.eu](http://www.ceps.eu). Henri de Waele is an Associate Professor of European Union Law at Radboud University Nijmegen and a Visiting Professor of European Institutional Law at the University of Antwerp. Jacques Pelkmans is Director of European Economic Studies and holder of the Tinbergen Chair for European Economics at the College of Europe in Bruges, as well as an Associate Senior Fellow at the Centre for European Policy Studies (CEPS) in Brussels.

<sup>2</sup> See PRES(2009) D/2250.

<sup>3</sup> Article 9 of the Treaty on the Functioning of the EU, which will be discussed further below.



paper, the most suitable way of doing so would be to ‘place the social dimension upfront’ when reviving the European single market. This can be easily accomplished within the current legal framework, as long as the rules are taken seriously and deployed to their full extent.

The ‘social dimension’ of the internal market has in fact already been a theme of debate since the late 1980s, when then Commission President Jacques Delors introduced it as a counterbalance to the emerging ‘Europhoria’ among businesses about the ‘Europa 1992’ Single Market Programme. The present contribution however encourages the reader to take a further step back, reflect on what the social dimension of the single market does and does not stand for, where we find ourselves today and how we should proceed. It is easy enough to complain about (presumed) deficiencies, but a profound analysis of the term itself and the actual progress made is much more helpful, if only for assessing the amount of truth behind the rash allegations. In the process, we will attempt to highlight the added value and grand potential of ‘putting the social dimension upfront’ in any new initiatives for reviving the internal market, particularly the envisaged ‘Single Market Act’.<sup>4</sup>

## **European economic integration and the social dimension in the run-up to the Services Directive**

### **A social dimension at the EU level?**

A great fear of the late 1980s was that a deepening and broadening of the European internal market would spark a Thatcherite wave of privatisation and deregulation across the EU-12. This fear was effectively dispelled at the Hannover European Council (1988) by proclaiming that the EU was committed to preserving ‘a high standard of social protection’, a phrase inserted in the Maastricht Treaty not long after. Of course, those standards were not set at the supranational level, since the Member States were reluctant to transfer significant social powers to the EU. Therefore, action to guarantee this ‘high standard’ was principally to be undertaken at the national level. Nevertheless, the EU was required to ensure the same level of protection in all fields where it *did* have the competence to act. In particular, the realisation of the internal market was not to erode said objective, and the minimum harmonisation approach was regarded as guaranteeing a strong ‘floor’ of social protection.

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<sup>4</sup> See Communication from the Commission of 27 October 2010, “Towards a Single Market Act”, COM (2010) 608 final.



Stronger guarantees were not included in the Maastricht Treaty due to opposition from the UK government, which also negotiated an opt-out from the attached 'Protocol on Social Policy'. This might suggest that this Protocol was ambitious (which it definitely was not), and that the other Member States were significantly less sensitive to a further delegation of social powers to the EU level (which was not the case either). In 1997, the UK reversed its position, and the Labour government formally subscribed to the Protocol. During the 1990s, and to some extent in more recent years, a series of minimum social requirements have been incorporated in EU directives.<sup>5</sup> The Social Dialogue, also introduced in Maastricht, has been used by the social partners to jointly formulate the texts of some of these directives, as well as a large number of specialised sectoral agreements.<sup>6</sup> Thus, even though Member States are loathe to transfer social competences to the EU level, increasing market integration has nevertheless been accompanied by a considerable EU effort to ensure that the single market was not turning into an anti-social project.<sup>7</sup> Thus, any assertions that 'the' social dimension of the single market has been neglected at the EU level seems to be more an expression of a political preference than a factual observation.

### **EU enlargement and the downsides to host country control**


The two rounds of enlargement of the EU with ten Central and Eastern European (CEE) countries in 2004 and 2007 raised a certain anxiety in the high-income part of the EU. At this point, it is useful to remember that host country control (HCC) had been part of the '*acquis*' since the early 1970s (and still is nowadays). Labour unions typically regard this as a form of (national) social protection, which has led them to accept the free movement of workers in the EU. HCC ensures that workers migrating to another EU country cannot be too

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<sup>5</sup> Without being exhaustive, these concern health and safety at the work place, information and consultation of workers (e.g. on major investments and mergers), collective redundancies, avoiding nightshifts, etc. for pregnant women, maternity leave, working time (with a host of exceptions for special reasons), posted workers, the European Work Councils for large European companies and directives on part-time and fixed-time contracts. More recent examples include, among others, a directive on temporary agency work and on protection of workers in the event of insolvency of employers. Also, several of these directives have in the meantime been enhanced.

<sup>6</sup> Based on Article 139 of the EC Treaty, now Article 155 of the Treaty on the Functioning of the EU.

<sup>7</sup> This includes efforts from the side of the European Court of Justice, which has on several occasions stressed that social considerations need to be taken into regard in the interpretation of various rules of EU law. See further Lenaerts (2008).




'competitive' as regards the essentials of labour market regulation in the destination country, irrespective whether it concerns e.g. minimum wages, holidays or working time. HCC serves as a convenient rule among countries with more or less similar income levels: given the complexity of labour law and its manifold links with the local welfare state, it brings immediate clarity as to which country's rules apply. Pursuant to the 2004 and 2007 enlargements however, income levels in the EU came to display a massive variation. This led to a painful dilemma between preserving HCC in high-income EU countries on the one hand, and ensuring the rights of workers from the new Member States on the other. As before, high-income EU countries have tended to stick to HCC, but found that, somehow, workers from CEE countries flocked to 'their' labour markets nonetheless, in particular in segments like construction, horticulture, cleaning, simple restaurants and meat processing. The rules of the internal market rules have made this all possible, but do not appear very 'social' and have actually given the EU a bad reputation. Economically, a strict adherence to HCC has the effect of reducing or eliminating the demand for CEE workers in the high-income EU countries.<sup>8</sup> This is so irrespective of whether they come as migrants taking up a regular job, or as posted workers for temporary services. The only potential for those workers to be hired is 1) the differential between the minimum wage and the wages actually paid and 2) their willingness to work longer hours and on Saturdays (since they are away from home in any event). HCC is therefore protectionist: it keeps foreign workers out. Consequently, the latter cannot exploit their 'social rights of free movement' under the EU Treaty, namely, the income-raising opportunity of going to work in those corners of the single market where the best-paid jobs are. Thus, what may seem 'social' for high-income workers is 'asocial' for CEE workers. It is thus simply incorrect to contend that high-income countries – in imposing HCC on CEE workers that are interested to enter their labour market – are exercising a benign form of 'social protection' on their behalf.<sup>9</sup> The contrary is true: HCC ensures that the effective demand for those workers dries up, so that there will be no-one to protect in the first place. HCC prevents the EU rules on free movement of workers (or the free movement to provide temporary services) from relatively poor countries to acquire socio-economic meaning. In the

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<sup>8</sup> For a formal economic analysis, see Pelkmans (2006), 197-198.

<sup>9</sup> Note that the slogan "same workers, same site, same labour conditions" may sound perfectly reasonable, but can have similarly perverse effects of locking out CEE workers.



2008 *Rüffert* case, the European Court of Justice (and the German national court that requested for guidance) spotted this correctly.<sup>10</sup>

## The social dimension and the creation of a single market for services

### The Services Directive: fanning anxiety further?

The turbulent debates that surrounded (the adoption of) the Services Directive may have further strengthened the idea that the social dimension of the EU is only weakly developed. In the European Parliament, the obsessive debate (which regularly turned into a non-debate) on the draft Directive (the ‘Bolkestein edition’) served as an inefficient distraction from addressing more pressing social problems.<sup>11</sup> To add insult to injury, during these debates, no attention was given at all to the very helpful guidance provided by the Dutch Socio-Economic Council (the SER).<sup>12</sup> In a cautious and highly detailed report, the SER not only exposed the many misunderstandings and countered the false allegations concerning (the purport of) the draft Directive, but also suggested a limited list of amendments that would have enabled the text to remain based on the country-of-origin principle, adding some derogations (but less than those proposed by the Parliament) and clarifying some boundary issues (such as private law questions under the Rome Conventions). The report, a text that was in fact almost suitable to be adopted immediately, was approved unanimously by the social partners and independent experts in the Netherlands. One cannot seriously argue that the Dutch Socio-Economic Council, with the active participation of labour union leaders and an impressive sixty-year record of accomplishments, would have ignored or neglected any credible threats the Services Directive posed to existing social standards.

### Globalisation as an erosion of social standards in the EU?

But perhaps, one should blame the impact of globalisation on a very open EU market for manufactured goods for the (alleged) weakening of social standards? The underlying idea is

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<sup>10</sup> Case C-346/06, ruling of 3 April 2008. The ECJ sided with the German *Oberlandesgericht* which stated that complying with local collective agreements would make them “(...) lose the competitive advantage which they enjoy”. Similarly, the same obligation does not lead to ‘equal treatment’ with German workers either “(...) but rather prevents [posted] workers (...) from being employed in Germany”.

<sup>11</sup> On the broader opposition against the ‘Bolkestein edition’ of the Directive, see De Waele (2009), 523-4.

<sup>12</sup> See SER (2005).



that the single market for goods boils down to a direct and fierce competition with China; this in turn leads to an incessant pressure to cut non-wage labour costs (i.e. mainly social charges) and incentives to invest in China itself. It is argued that, in the long run, both trends could threaten the viability of Europe's social models, and possibly even the general welfare level in the EU.<sup>13</sup> Of course, this is a very one-dimensional picture (only applicable to trade in goods), which ignores the fact that international economic intercourse is not a zero-sum but instead a win-win game. So far, the EU's problem is one of restructuring, adjustment and shifting to new economic activities. These endeavours have of late been relatively successful, not least due to the opportunities provided by the newly acceded CEE countries for remaining competitive in certain industries. Indeed, in the eyes of the rest of the world, it is often the EU that is seen as a – if not *the* – leader in globalisation (especially as regards services, direct investment, capital, intermediate and high quality goods). For the EU to continue this relatively successful transformation, it needs to be far more aggressive in innovation and change. The full realisation of the single European market, this time between twenty-seven Member States, should once again be a prime objective. This should go hand in hand with further innovation and adjustment, all the more so since for the next twenty years, population ageing will form a great menace to future productivity growth. Since services – domestic just as well as transnationally tradable ones – represent 70% of value added, more dynamism and competition in this sector must be central to any long-term growth strategy.

#### **Putting the social dimension of the single market upfront – some possible meanings**

The foregoing may give pause to reflect on what 'putting the social dimension of the internal market upfront' could actually mean. As remarked, to an extent, the single market already has a built-in social 'floor'. The latest rounds of EU enlargement have however increased sensitivities and demonstrated the ugly side of HCC: the benefits of the enlarged Union are not unambiguous, depending on whether one focuses on 'rich' or 'poor' EU workers. At the same time, if the pace of economic growth in Central and Eastern Europe were to increase once again, the issue is likely to recede into the background within the next decade.

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<sup>13</sup> Arguably, the sharpest expression of this fear forms a famous article by professor Richard Freeman entitled "Are your wages set in Beijing?" (Freeman (1995)). See also Brenton & Pelkmans (1999) for extensive analysis of the issues in Europe.



Perhaps then 'putting the social dimension upfront' means that in 2012 (when the Services Directive has to be reviewed), the suggestions of the Dutch Socio-Economic Council need to be given serious attention, and serve as a basis for improving the existing legal framework. Alternatively, it could mean that the EU should be pursuing growth and jobs even more than before so as to pull workers back into jobs. There have been repeated talks on the staging of a European Employment summit and the crafting of an employment strategy in the framework of the EU-2020 policy. One should realise here that one of the best forms of social support is income earned through paid work.


But perhaps, the phrase means that the internal market can and should not be deepened where-ever social sensitivities are expected to crop up. Knowing that such sensitivities persist mainly in labour migration and in services, such prudence would pre-empt any move to bring genuine productivity improvements (except the long-awaited EU patent). Yet, this would mean the efforts would only be concentrated on side-shows such as education (admittedly a crucial area, but the EU has few powers here) or endless rehearsals of the importance of domestic reforms.

Possibly, advocates of 'putting the social dimension upfront' refer to measures that are to accompany new single market rules. They would point to such goals as fostering social inclusion, pursuing 'flexicurity' in domestic labour markets, improving active labour policies and emphasising further education and training of the European workforce (several such objectives have already been included in the Lisbon / EU-2020-Strategy).

Finally, maybe 'putting the social dimension upfront' means that one has to do everything to counter the perception that the single market mainly serves the interest of European businesses. Instead, it should be stressed that the single market is all about increasing economic welfare and creating durable growth; it is above all the citizens, both workers and consumers, that are meant to benefit. The fact remains however that it is predominantly large and wealthy undertakings that are actively exploiting the benefits of the single market.<sup>14</sup> Whether we like it or not, in effect, they are the big agents that make the single market work. Recently though, much progress has been made in facilitating SMEs to operate successfully in the internal market, through the Small Business Act, by lowering thresholds and cutting a lot

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<sup>14</sup> For revealing results, based on research with data at the individual firm level, see Mayer & Ottaviano (2007).



of red tape. Of course, a renewed emphasis on consumers and citizens is to be hailed with approval. Yet, 'putting the social dimension upfront' may still amount to much more than this. We may find some very useful pointers for going down this road in the Monti Report.

### **Putting the social dimension upfront – The best way forward?**

#### **The Monti and Grech Reports**

In May 2010, professor Mario Monti published his report, *A new strategy for the single market: At the service of Europe's economy and society*.<sup>15</sup> In retrospect, the timing of this publication was slightly unfortunate, as a new episode of the Eurozone crisis was unfolding. Just a few days before, the European Parliament's 'Grech Report' on the internal market was published, which is also strongly in favour of a determined new initiative by the EU and calls for a "new paradigm of political thinking, focusing on citizens, consumers and SMEs in the relaunch of the European single market".<sup>16</sup> Putting the budgetary house in order in the Member States, and designing a new 'economic governance' may be indispensable for resuming healthy and sustained growth, but in and by itself, it does not generate higher productivity, which is the very basis of our prosperity. It is the single market – but a deepened rendition with a wider scope, updated to accommodate new technologies, markets and business models and with clear benefits for consumers – that can induce higher productivity, in addition to firm domestic reforms in areas and markets where growth, entrepreneurial initiative and investment are hindered – yet, without losing sight of the social dimension which has always figured so prominently in continental European thinking.


One would have expected a lively debate on the strategic reflections of either of these reports, and active discussions on the numerous concrete proposals. Instead, both were greeted with an almost deafening silence in the 'Brussels circuit', with little being heard from the political, social, civil society and business stakeholders, and even less from the Member

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<sup>15</sup> Available on [http://ec.europa.eu/commission\\_2010-2014/president/news/press-releases/pdf/20100510\\_1\\_en.pdf](http://ec.europa.eu/commission_2010-2014/president/news/press-releases/pdf/20100510_1_en.pdf).

<sup>16</sup> Report of the European Parliament on delivering a single market to consumers and citizens, A7-0132/2010 of 3 May 2010 by the Internal Market and Consumer Protection (IMCO) Committee, subsequently adopted in plenary session (Rapporteur: Louis Grech).





States. Apparently, they are these days no longer capable of discerning, let alone pursuing, their enlightened self-interest, but succumbing *en masse* to ‘internal market fatigue’.<sup>17</sup>

The Monti Report, in any case, starts off with a careful analysis of the obstacles that a new single market strategy has to overcome. This seems a laudable and entirely justified approach, in light of *inter alia* the aforementioned controversy surrounding the adoption of the Services Directive, the initial sensitivities with regard to East-West migration in the EU, the cumbersome ‘second’ and ‘third generation’ EU regulation and liberalisation packages for the gas and electricity, postal services, eCommunications and freight rail sectors, the profound frustrations over the EU patent that never seem to get resolved, and the dramatic failure of the latest series of financial services regulation just two years after its so-called ‘successful accomplishment’.<sup>18</sup> The Monti Report fully recognises that the internal market is not popular, in particular with citizens, (on-line) consumers and social partners. Mere recognition is not enough, however: the concerns have to be addressed in a credible fashion. Deep-rooted socio-political legitimacy is essential for an ambitious single market strategy to have any chance of success.<sup>19</sup>

### **Building socio-political legitimacy**

The Monti Report contains three blocks of proposals on the substance of the single market. One block consists of a series of proposals of a horizontal character (e.g. for citizens, consumers and SMEs; the digital market; physical infrastructure), supplemented by specifics on the markets for goods, services, labour and capital. A second block is made up of elements

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<sup>17</sup> The Monti Report (at 23-24), observes a certain “integration fatigue” as well as a “market fatigue” in a section entitled “Less popular than ever, more needed than ever”. For further analysis of the ‘internal market fatigue’, see the commentary “Single Market Revival” (17 March 2010) by Jacques Pelkmans, available on [www.ceps.eu](http://www.ceps.eu).

<sup>18</sup> As to the latter, the revised Capital Requirements Directive and the revised Banking Directive of June 2006 concluded the Financial Services Action Plan, based on partial delegation under the Lamfalussy method. No less than 43 regulations and directives, including interesting breakthroughs like MiFID, had been adopted in barely five years. However, only two years later, the financial crisis demonstrated that the central objectives of such regulation and supervision – overcoming deep asymmetries of information for bank clients and investors, as well as assuring financial stability – were not achieved at all, with dreadful consequences for the European economy for many years to come.

<sup>19</sup> For other, more general aspects that might be conducive to ensuring optimal compliance with the internal market rules, see De Waele (2010).



that can be said to generate more sensitivities, and hence require the building of a strong consensus (balancing free movement of [posted or migrating] workers with social rights of [local] workers; social services; public procurement; a better balance between justified harmonisation and national tax sovereignty; cohesion, etc.). A third block concerns delivery, which essentially reiterates – for good reasons – the ‘delivery’ elements of the Single Market Review package of November 2007.<sup>20</sup> The Monti Report ends with a plea for a new political initiative on the single market that is both comprehensive and consensual.

The true and lasting significance of the Report is as yet unclear, and depends on what the Commission and the other EU institutions legislature decide to do with it. It is surely unique in recognising and squarely addressing the lack of socio-political legitimacy of the internal market; clearly, this is not a ‘big business’ report. The Report may be eminently valuable for underlining the European public interest when the European Round Table (ERT), BusinessEurope and AMCHAM-EU advocate a deeper and wider single market. Consumers, social partners, SMEs and citizens worried about public services are regarded as anything but residual. Their preoccupations are seen as crucial for securing or restoring grassroots support for a deeper and wider single market, and hence addressed with concrete proposals.


With the review of the Services Directive approaching fast, the feasibility of a major new internal market initiative should be considered at much greater lengths though. A proposed resolution attached to the Grech Report comes down heavily in favour of such an initiative when it speaks of “a clear set of political priorities through the adoption of a ‘Single Market Act’ by May 2011”.<sup>21</sup> Such an initiative has been proposed in outline by the Commission at the end of October 2010.<sup>22</sup> In its call for a new grand initiative, the Monti Report devotes considerable attention to the “integrity” of the process, a more “comprehensive” approach

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<sup>20</sup> The little noticed Single Market Review was hardly about new EU regulation – except Better Regulation, of course. Instead, a myriad of legal, economic (e.g. market monitoring exercises) and institutional proposals about more effective implementation and enforcement were initiated. See COM (2007) 724 of 20 November 2007, “A single market for 21<sup>st</sup> century Europe”, and a series of accompanying COM SEC papers on legal instruments, etc. See also COM (2007) 502 of 5 September, “A Europe of results – applying Community law”. A convenient overview can be obtained from SEC (2008) 3064 of 16 December 2008, Staff Working Document, “The Single Market Review: One Year On”.

<sup>21</sup> Grech Report, paragraph 76.

<sup>22</sup> See above, footnote 4.




and a “holistic vision” from the side of the President of the Commission. With respect to the European Parliament, the Report calls for a more unitary vision of the internal market. Professor Monti surely deserves credit for emphasising this point. One may still wonder though what he means exactly, and why this is so important. Over time, the objectives of the Commission with regard to the internal market have become ever more fragmented (the same can be said of the Council, the Parliament, and the many actors that participate in comitology procedures). Commissioners and DGs have strong incentives to chop up the objective into smaller parts, and (re)label their policies as separate or even ‘stand-alone’ domains of EU law and policy. This chopping up of the internal market imperative would not be a problem if there were not just a ‘vision’, but also a hard overall policy constraint, or put differently, a *binding single market strategy*, disciplining possible deviations and stimulating complementary approaches so as to achieve a larger gain. By suggesting that such a new approach needs to be adopted, Monti has placed a finger on exactly the right spot.

Yet, in light of continued complaints of the alleged ‘social deficit’ of the EU, the question will still be how to ensure sufficient socio-political backing for a new policy initiative like the Single Market Act. Arguably, this could be achieved extremely well by promoting the ‘horizontal’ or ‘linking clause’ of Article 9 TFEU in such an initiative, and putting this clause to effective use in the realisation of the new programme. The provision requires 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 and implementing its policies and activities”. So far, the Commission has paid insufficient attention to precisely such concerns in the mandatory ‘impact assessments’ of the legislative proposals it has tabled.<sup>23</sup> At the same time, in its recent Communication on ‘Smart Regulation’, it has expressed its commitment to engage in more extensive analyses and consultations so as to strengthen the voices of citizens and stakeholders further.<sup>24</sup> With the Lisbon Treaty, the legal framework has been adapted, and the ‘horizontal social clause’ is ready to be fully deployed. We contend that now is the time to remedy the earlier imbalance, and to expand the assessment of the social impacts of any new regulatory initiatives. By proceeding in this way, the concerns and interests of

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<sup>23</sup> According to the report of the European Court of Auditors (2010), there exists indeed a manifest asymmetry, whereby comparatively greater attention goes out to the environmental and economic impact of the proposals.

<sup>24</sup> See Communication from the Commission of 8 October 2010, “Smart Regulation in the European Union”, COM (2010) 543 final.



citizens and stakeholders would be better taken into account, which would render them more receptive towards European integration in general, and every new effort to rejuvenate the single market in particular. In other words, this course of action would present the best way forward for ensuring sufficient socio-political legitimacy for the envisaged Single Market Act.

## Conclusion


Compared to the situation of over two decades ago, it should be admitted that the EU has provided for a robust 'floor' of minimum social requirements. Certainly, one may wish to add extra minimum harmonisation measures in a few areas, or make current requirements a little but more ambitious when revising existing directives. Broadly speaking however, the Member States expect the EU level to be responsible for ensuring a social dimension of the single market, but nothing more. For that reason, the competences of the EU in the field of social policy remain limited, which perfectly reflects the Member States' (current) wishes.<sup>25</sup> Overall then, it is misleading as well as pointless to accuse the EU of not doing enough in areas where it possesses no great competences to deliver. Of course, in the context of the EU-2020 Strategy or otherwise, it is useful to encourage Member States to introduce reforms and coordinate their national employment policies, but this can take place independent of further internal market initiatives.<sup>26</sup> Naturally, one may also attempt to bring them more closely together in a wider 'strategy'. Both routes are eminently sensible interpretations of what is meant by 'putting the social dimension upfront' in a new internal market initiative. As has been detailed above, there already appears to be firm determination for pressing ahead with a new, balanced and comprehensive approach.

The single market is the cornerstone of European integration, which has in the past decades delivered economic growth, created jobs and increased the general welfare of the Member States. The extent to which the single market will continue to deliver prosperity for all depends crucially however on its potential for social inclusion. The case of the Services Directive illustrates why the EU should invest in strengthening the socio-political legitimacy of its proposals, and it is extremely important to do this in a thorough and structural way. The

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<sup>25</sup> For an accessible and brief survey of the current EU powers and their limits, see Pelkmans (2006, chapter 15) or Pelkmans (2008). Note that the Working Group 11 of the European Convention concluded that the social powers of the EU were just about right: see the Final Report, available at [www.european-convention.eu.int](http://www.european-convention.eu.int).

<sup>26</sup> See also the new Communication of the Commission of 6 October 2010, "Innovation Union", COM(2010)546 final, which contains some very interesting considerations on public sector and social innovation.



Monti Report rightly refers to the importance of assessing social impacts and of social mainstreaming as a *sine qua non* for proceeding with the integration project and launching a new strategy for the single market. Indeed, in order to strike the right balance between the EU's economic goals and its social objectives, it is essential to consider seriously the social ramifications in the conduct of economic policy. As outlined above, as long as it is employed fully and properly, the horizontal social clause may be a very suitable means to that end.

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