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NOTES AND COMMUNICATIONS

SOCIAL JUSTICE AND OPEN COORDINATION IN EUROPE. REFLECTIONS ON DRÈZE'S TINBERGEN LECTURE

Summary

In his Tinbergen lecture Jacques Drèze broaches two interesting themes. He argues, firstly, that we have failed to develop an efficient instrument for income insurance on behalf of potentially low-skilled workers; wage subsidies are such an instrument. Secondly, he argues that labour market integration in an economic union like the EU entails externalities, resulting in underprovision of insurance; coordination or matching grants could overcome that second inefficiency. I largely share Drèze's policy paradigm. Yet, I believe enhancing social justice in the European Union requires, at this stage of European cooperation, a different methodology of policy coordination, which has recently been coined 'open coordination.' I will develop my argument in favour of 'open coordination' with reference to the two themes Drèze discusses.

1 FIRST-BEST, SECOND-BEST AND THIRD-BEST WORLDS

Drèze is right in construing the problem of social security in the 21st century as an insurance problem, where moral hazard considerations prevent us from choosing the first-best solution. Note that, in this context, 'insuring' is given a broader interpretation than usual. For Drèze and myself, the veil of ignorance is quite thick: it includes not only the uncertainty of specific contingencies such as illness or premature death, but also the *ex ante* ignorance about our abilities and personal characteristics, which are decisive for our success in society. So we share the same, largely Rawlsian paradigm.

Moral hazard is one of the well-known problems of our world, which economists solve by looking for 'second-best solutions.' However, when it comes to European cooperation we are not in a second-best world, but in a world we might qualify as 'third-best.' Different views on the implementation of social justice – views on how to run a social security system – coexist in Europe today. Behind the system of every member state lies a distinct history. Each member state actually embodies a welfare state *sui generis*, and nearly every member state wants to keep it this way. Thus, the social welfare functions that inform the govern-

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