

CHAPTER 1

A lot to gain and a lot to lose in the next 10-20 years

What the New Social Europe is about:

We, Europeans, are living in an era of great opportunities – and great challenges:

- For the first time Europe is no longer torn apart by conflict and division. Europe is unifying;
- Globalization has accelerated significantly over the past twenty years and Europe has been a primary actor in this process;
- The emerging new Europe is built on an economy, where knowledge and technology are already the main driving forces;
- Europe is in the lead in the efforts to strike a new balance between the economy and the management of natural resources;
- Europeans are living longer and healthier lives than ever before thanks to rising living standards, better working conditions and remarkable progress in medical treatment.

However, we are also facing the risk that Europe will be divided between the haves and have-nots, between the rich and the poor, both within and between our countries. We are also living in a period of fundamental threat from climate change. And we are also facing a great challenge as regards the generational contract between the working generation and the retired generation.

We need new and better policies to manage change and to turn opportunities into widely shared prosperity and an inclusive and sustainable society. That is what the New Social Europe is about.

Over the past few decades, Europe has become unrecognizably different.

It has come a long way from being composed of industrial, nation-building states engaging in intermittent wars and truces with other states to becoming post-industrial, peaceful members of the most successful multilateral organization ever conceived.

It is a new Europe, united in peace after centuries of division, emboldened by new knowledge, technology and innovation, shaped by globalization. The new Europe is made up of Member States which are all different, but who all share a common future.

Social democracy is undergoing a period of exciting and profound renewal in light of new challenges and opportunities we face in Europe and the world. European socialists and social democrats spent the best part of the 20th century fighting, side by side with citizens and trade unionists, to rid our societies of inequalities and to develop our welfare society. Social Europe exists thanks to the efforts of the social democratic, labour and workers' movements. However, the fight for progress is not over: over 18 million unemployed and 68 million Europeans in or at risk of poverty bear witness to the need for a New Social Europe, in which all are included and no-one is left behind.

The task of socialists and social democrats today is to continue reforming welfare states, ensuring the path for human progress and the future of social democracy.

Europeans are living in an era of great opportunities – and great challenges. What can we, Europeans achieve in 10-20 years' time? Which are the economic and political opportunities? And which are the challenges, requiring more effective political responses from Europe's socialists and social democrats?

1. Europe is unifying

For the first time in history, Europe is no longer torn apart by conflict and division which have taken us to continental war and destruction twice over the past hundred years.

The end of the Second World War marked the rise of the Iron Curtain, dividing East from West. The emergence of dictatorships in Southern as well as Eastern Europe further deepened the breach between free and democratic Europe and the Europe of authoritarianism and dictatorship.

The European Community - now Union - has progressively over a period of fifty years assiduously bridged differences of all kinds to bring the peoples of Europe together. Developing from an economic community into a political, economic and monetary Union, it has become the greatest space of peace, economic prosperity and social stability in the entire world.

Successive enlargements of the European Union particularly in the past twenty years

have served to bridge the divides of the past. From the West to the South, then to the North, and most recently to the East. Each enlargement has historic significance: for the triumph of democracy over dictatorship, of cooperation over isolationism, of unity over division.

The EU enlargements of May 2004 and January 2007, bringing in twelve new countries, have opened new horizons of stability and prosperity to Europe. These new Member States have made great leaps forward to catch up with their counterparts: they have incorporated EU laws, processes and structures into their national governance and societies and are developing fast. The enlargement process of the EU is a testament to the importance of the European way of life, in its many diverse forms. It represents an opportunity to create a larger space of freedom, peace, and stability and strengthens our capacity to generate greater prosperity and social cohesion.

EU membership, even its perspective, has a tangible impact on people's lives. The eight transition economies of Central and Eastern Europe are developing at impressive speed and people are experiencing real benefits from this convergence with Western Europe: per capita income in the EU-10 rose from around 44.25% of the EU-15 level in 1997 to more than 50% in 2005.⁶ Moreover, there is also some convergence taking place in social protection.

Free movement of labour could also be a powerful source for income convergence inside the European Union, as witnessed

by the Baltic countries, for example, where wages have been increasing in order to retain skilled workers.

How long will it take these new Member States to reach the levels of prosperity and social cohesion in Western Europe?

Under the average growth rate experienced from 1995 onwards, it will take until 2017 for Slovenia, Cyprus, the Czech Republic and Hungary to exceed 75% of average income per head in the EU-15. It will take until 2019 for Slovakia, until 2029 for Estonia, until 2035 for Poland, and until 2041 for Latvia to reach the same level of convergence, which still leaves them some way behind Western Europe.⁸ The incoming Member States of Romania and Bulgaria will take even longer. The relative poverty and under-development that exists in Central and Eastern Europe has grown by comparison with the wealth of its neighbours. People have come closer and become more inter-dependent in Europe, while at the same time gaining greater awareness of inequalities and of rapid economic changes across Europe.

A first challenge to our unified Europe is the risk of lingering division, deepened by the rising inequality taking place in many Member States. Income inequality has risen in eleven countries since 1999, an inequality which is particularly strong in the new Member States but not only.

A second challenge is assuring that new and prospective Member States pursue the right reforms to continue on the path to convergence. Socialists and social

democrats in these countries are playing leading roles, in government and in opposition, to ensure that reforms are progressive rather than reactionary in content. In this sense, the European flat tax phenomenon created by conservative and neo-liberals in Estonia, Latvia, Lithuania, Slovakia and Romania over the past few years poses a threat to the financing of progressive public policies in these countries. Conservatives and neo-liberals have misunderstood the concept of competition: they believe that it applies to both companies and countries. Moreover, the most recent research has shown that flat taxes have failed to boost public revenues since they have not resulted in people working longer hours.⁶ The European Union was created as a means for companies to compete, countries to cooperate and citizens to come closer together. Europe's socialists and social democrats uphold this original purpose, believing that competition must continue to take place between companies, not between countries.

However, the use of tax competition between Member States at the expense of social objectives risks undermining the fair and transparent competition between companies as the main characteristic of the Single Market. The downward pressure on corporate taxes has seen the EU's average corporate tax rate (25.04%) fall below the OECD average and well below the US average (40%). While corporate tax is just one component of any taxation system, this trend is worrying enough for socialists and social democrats who fear the consequences for the future financing of the welfare state.

2. Europe in a globalized world

Whereas globalization was hardly a topic for debate in the late 1980s, today it has become a phenomenon of which both politicians and the general public are acutely aware. Indeed the general feeling of economic insecurity amongst Europe's citizens is on the rise. Over the last three years, a relative majority of Europeans have gone from being in favour of globalization to seeing it as a threat to employment and companies.⁷

Globalization has accelerated significantly over the past twenty years.⁸ Europe has been a primary actor in this process. Representing around 20% of world trade, almost 30% of global GDP, 45% of total overseas foreign direct investment and acting as the largest donor of overseas development aid, the EU is a global player of significant proportions. In fact the EU's world export share has risen by 1.6% since the year 2000, outperforming both the US and Japan whose share has deteriorated since then. Europe's performance is still healthy and growing, despite low internal growth.

EU Member States are making net gains from rising trade largely thanks to the EU's Single Market. The Europeanization of trade – and shifts to greater comparative advantage within Europe – is twice as important to European countries as trade with countries outside the EU's borders. Indeed Europe's Single Market has been the single greatest factor in growth and productivity gains in Europe, creating the largest economic and trade bloc in the world. This has benefited

the European workforce, creating 25 million net jobs over the past 20 years. Although seven million jobs have been lost in industry, these have been more than compensated by the 36 million jobs created in the service sector. Indeed jobs have shifted from industry to services as a result of remarkable productivity gains instead of industrial decline. Two out of three workers are now employed in services.

The balance of the global economy is changing. Countries of East and Southeast Asia are growing much faster than industrialized countries, with an aggregate population of more than 3.3 billion, almost four times as much as the US, the EU and Japan together. In 2030 almost 60% of the world population will be living in China, India and East Asia, while only 6% of the world population will be living in Europe. However, economic growth and the creation of prosperity in other parts of the world should not be seen as threats. Economic development is not a zero-sum game, but can be a win-win situation as the global economic pie grows. The European economy will expand in absolute terms, even if there is a decrease in relative terms. The impact will be more fundamental in the next 10-20 years, in terms of changes - and in terms of opportunities.

Nevertheless, if Europeans fear globalization it is because public policy has not sufficiently confronted the negative consequences of restructuring in Europe. Even in a context of net job creation, those who lose jobs are not being helped back into work fast enough. Job creation has not helped integrate those most excluded from the labour market, such as the long-term unemployed and the most

experienced workers (+55 years of age). Job loss can be devastating for workers and for communities. Moreover, delocalization and industrial restructuring can have an impact on entire regions, taking them out of the loop of economic development unless concerted efforts are made for regeneration. It is the reality of constant change, driven by job destruction and creation in the European economy, which must be managed better to the advantage of workers because the opportunities for higher living and working standards are there to be taken.³

Despite globalization, there are still fewer jobs than working age citizens. Europe's economy is globally competitive, but economic growth is still too low to create the high quality jobs needed to eradicate economic insecurity. Furthermore, given that more new jobs are being created in skilled sectors of the economy, there is a risk that there will be increasing labour market mismatching unless workers have the right skills to meet the demands of the global economy. The long-term unemployed face an increasing risk of permanent exclusion; the low-skilled are in greater danger of precariousness and joblessness. Unemployment risks becoming a permanent feature of our economies unless job creation and workforce skills develop in synergy.

Furthermore, the growth of the European economy will require ever-higher energy resources if production and consumption patterns do not become more sustainable. The dependence of the European economy is high and on the rise. By 2030, the EU is set to have an energy dependency of almost 70% of its total energy requirements, including 90% dependency for oil and 80% for gas.

If we do not break this pattern of energy dependency, then our continent will continue to contribute to climate change, while our economy – and workforce – may suffer the consequences of subsequent oil crises in terms of high unemployment and poverty. The facts speak for themselves: €60 billion of energy savings could be achieved every year through energy efficiency measures; in addition, renewable energy sources have enormous unexploited potential for providing Europe with a considerable proportion of its energy needs. Pursuing a strategy of clean and efficient energy production within Europe will be a vital part of the New Social Europe.

At the same time, globalization could raise inequalities not only within Europe, but between and within countries in the developing world.¹² The universal cause of social justice is at stake if progressive politics does not engage with the development of the poorest countries in the world. Income inequalities and political instability in developing nations also bear important consequences for Europe. People fleeing conflict and persecution or seeking an escape out of poverty and joblessness – often on our borders in Africa, in the Middle East – come to Europe for safety and a better life. This immigration – on asylum or socio-economic grounds – demands humane and responsible management from Europe.

Thus the risk of Europe coming closer to the world, of pursuing more economic opportunities, is that the costs and benefits could be unevenly distributed, environmentally and economically unsustainable. The risk is that right-wing

political forces will use globalization – and the drive for competitiveness – as an excuse to deteriorate workers' rights, to raise precarious working conditions in Europe and further shift the balance of benefits from the global economy towards capital at the expense of the workforce. Europe's socialists and social democrats must engage in a process of managing globalization to create the conditions for widely-shared prosperity and social justice on our continent and in the developing world.

3. Europe is thriving on technology and knowledge

The emerging new Europe is built on an economy, where knowledge and technology already are the main driving forces.

In a few decades we have added a new technology, digital or Information and Communication Technology (ICT), to the already existing tools of technology in working and daily life. This new technology has radically reduced the cost of information and knowledge, radically improved connection and the development of new services. It has brought people closer and made globalization a reality. It is reshaping the way we work and the way we live, providing new tools for education and training and improving our access to public services.

Today, more than 90% of businesses and more than 50% of households in Europe have access to the Internet – higher in north-east Europe, lower in southeast – and the figures are growing. Almost all schools are

using computers in education and training. Computer literacy is one of the basic skill requirements for almost every new job. E-commerce has begun reshaping the traditional form of distribution.

At the same time as this technology becomes everyone's tool, the capacity of the Internet is growing rapidly: in the last five years the amount of data available on the Internet increased 1000-fold and in the next five years another 1000-fold increase is expected. The access to information and connection has already begun changing the way we are working, when we are working and where we are working.

The integration of new technology - in education, research and development, production, distribution and consumption - is running in parallel with another fundamental change, the increasing content of knowledge in the economy. Investment in intangible, human and social capital is the most important asset in the new knowledge based economy. Such an economy has a potential much greater than the economy of the last century due to the fact that knowledge, contrary to traditional factors of production, can be shared and used by many people without diminishing in any way the amount available to any one of them. It is an economy of increasing not decreasing return.

The transition towards more knowledge-intensive economies changes the skills required to enjoy productive lives. Knowledge in general, and scientific and technological knowledge in particular, will be even more crucial for most of our actions and decisions, as workers, voters,

consumers or investors. Our participation in public affairs assumes an ability to understand the many socio-scientific issues that appear on the political agenda. Thus, modern societies need both people with scientific and technological qualifications at the highest level and a broad understanding of science and technology, coupled with an insight into their role as social forces that shape the future.

Lifelong learning, a necessity in the emerging knowledge based economy, is a reality for almost half of the labour force in Scandinavian countries, but only for one out of ten in Southern Europe. People who are in most need of post-school education and training opportunities, such as the unemployed or the low-skilled, get the fewest training opportunities. People who have not completed upper secondary education are on average less than half as likely to be found in post-school education and training programmes in most European countries - and less than 25% as likely to be found there if they do not have adequate tertiary education.

The same goes for ICT. Around 30-40% of the EU population still reaps few or no benefits from ICT. The major reasons for this are lack of access to terminals and networks, limited accessibility of easy-to-use technologies, poor affordability, limited ICT skills and competences, and different generational attitudes to technology. On average, only 16% of persons over 55 in Europe have Internet access. The groups most at risk of exclusion from the information society are the elderly, those not in the labour force and those with a low level of education.

4. Europeans are living longer and healthier

Europeans are living longer and healthier than ever before thanks to rising living standards, better working conditions and remarkable progress in medical treatment.

Demographic change is proof of remarkable social progress over the 20th century. Fifty years ago, a person in their late sixties would have likely been infirm and inactive, with few if any years spent healthy in retirement; today's sixty-year olds are usually still healthy and active in their families as well as capable of continuing to deploy their experience at work and in their communities. Services for retirees, such as in leisure and travel, is a whole new growth sector in itself.

However, this rising life expectancy – which is to be celebrated – masks continuing social inequalities. Life expectancy in the Central and Eastern European Member States ranges between 65 and 73 years for men and 76 to 81 for women, while Western European countries enjoy significantly higher life expectancies, between 74 and 78 years for men, and between 80 and 84 years for women.¹ For example, a man in Latvia today lives on average ten years less than a man in France.

Persistent inequalities exist between the rich and the poor within European countries. Those with tertiary education, in white-collar jobs, and with high incomes, have benefited most from higher disabili-

ty-free life expectancy over the last decades, while poorer, blue-collar workers have benefited much less, and the unemployed least of all. For example, life expectancy for a 25-year old Belgian man today belonging to the lowest education quintile is 27 years in good health and 16 years in poor health; life expectancy for a 25-year old Belgian man belonging to the highest quintile is 42 years in good health and 4 years in poor health.

The huge advances in health treatment are constantly raising the number of terminal illnesses that will soon be treated successfully. As life expectancy increases, so will the number of treatments needed by an ageing population. However, in developed economies, the costs associated with technological progress in health care rise on average 1% to 1.5% faster than output per head in the rest of the economy. Thus, if European countries do not foster the terms of higher, sustainable growth, Europe's universal health services will not be able to deliver advanced treatments to all those who need them. Only the wealthy will be able to afford such treatments, further deepening inequalities.

Another facet of demographic change in Europe is insufficient fertility. Women have finally gained the capacity to choose when and how many children they have. However, women have fewer children than they desire and fewer than are needed to maintain Europe's population. The EU-25 average fertility rate is currently 1.5 children per woman, well below the replacement level required to maintain the EU population from decline (2.1 children)

and below the average number of desired children (2.2). Italy, Spain and Greece now record amongst the lowest fertility rates in the EU and have in common limited state support, few work-life balance policies and a traditionally patriarchal society. Central and Eastern European countries have also seen a dramatic drop in their fertility rates, at least partly explained by the insecurity of economic transition and the collapse of state support for families.¹²

Women are highly aware of the huge opportunity costs of having children and the unfavourable social and economic conditions for child-rearing in some European countries, so they have fewer children or not at all. The promise of education and professional self-fulfilment is dashed for many women by an inability to reconcile work and family life.

The discrimination against mothers persists if they remain in employment: mothers earn less, are less likely to be promoted or be given education and training opportunities. For example, it is estimated that British women with two children forgo approximately 50% of their potential cumulated life-time earnings, in contrast with Denmark where there is hardly any significant loss in life-time earnings. Those women who do manage to have more than two children are increasingly those who have been given the means to combine work and family life. The highest fertility rates (2+ children) are now found among women with tertiary education – whose income and employment is better and more stable – and the lowest among women with only compulsory schooling. Similarly, women in

steady employment are likely to have more children than those in precarious and unstable employment.

The combined consequences of rising life expectancy and lower fertility will be considerable on a macroeconomic scale. There will be fewer people in work and more in retirement, making the pensions systems unsustainable: on current trends the ratio of the EU population over 65 to the working-age population will increase from 25% in 2002 and 30% in 2015, to 40% in 2030 and 48% in 2040. The dependency ratio will vary in 2050 from 36 % in Denmark to 61 % in Italy by 2050.¹³

A shrinking population will diminish the EU's economic growth potential, from 2.1% to 1.3% over the period 2000-2050, and have a corresponding impact on living standards. Total population decline in Europe will start to take effect from 2025, and has already begun in many European regions. The Central and Eastern European Member States will be particularly affected by population decline, with an almost 12% fall as compared with a 1.5% decrease for the original EU-15 Member States by 2025.¹⁴

The effects of a shrinking working age population may be partly compensated for, at least for some time, by rising participation rates. However, from 2018 onwards, the size of the working age population and hence the employed population will decline – unless much more effective reforms are implemented to raise female and old age employment, to reduce unemployment and reach a sustainable level of full employment.¹⁵

Net migration has counterbalanced some of these trends until now, offsetting population fall in many countries and meeting shortages in labour supply in some sectors. Non-EU nationals represent around 3.3% of the people living in the EU in 2002 or 14.7 million people. Former countries of emigration such as Spain, Portugal and Ireland have become countries of immigration, with this incoming labour force meeting short and medium term labour market shortages, contributing to raising growth rates and government fiscal revenues. However, the positive effect on labour supply of net migration has been mitigated by the lower employment and higher unemployment amongst immigrants, as compared with the native population. A key challenge in order to gain the most economic benefit from the EU's net immigration will be to eliminate discrimination and assure better integration.

Nevertheless, immigration in itself is not a long-term solution to Europe's demographic deficit. It is estimated that the annual volume of immigration would have to quadruple to offset fertility which is below 1.6 children per woman. Such high volumes of immigration may make integration and social cohesion more difficult to achieve. At the same time, the compensatory effect of immigration may end up far smaller in the long run because immigrant fertility eventually converges with that of the native population.

5. Europe is in the lead on environment protection and the fight against climate change – but

The next 10-20 years will be decisive for the environment and for the fight against the existential threat of global warming.

Much has been done to improve Europe's environment. A range of environmental policies have been developed and implemented, many with great success. For example, acidic emissions decreased almost by half between 1991 and 2002, while local air pollutants are decreasing and the use of heavy metals such as mercury is being phased out. There has been a relative decoupling of economic growth from domestic material consumption. There has been a consistent decline in energy intensity over the last decades.

However, much remains to be done and the most pressing challenge is carbon dioxide emissions and global warming. The European Environment Agency (EEA) highlights the effects of global warming on our environment:

*"Global temperatures are rising faster than ever before and Europe exceeds the global average. Increasing precipitation, melting glaciers and ice sheets, increased frequency of extreme weather events, rising sea levels and increasing stress on terrestrial and marine ecosystems and species are among the most visible impacts on the environment."*¹⁵

Nevertheless, Europe is in the lead in the fight against CO₂ emissions and global warming. The EU was the driving force behind the Kyoto agreement and took the lead in implementing the carbon dioxide emissions trading scheme. It must now retain its leadership role in defining the post-Kyoto period.

The task at hand is to develop a long term system for the period after the Kyoto protocol, a system that can gain broad global support, and to turn the whole transformation of Europe's fossil fuelled economies into a smart growth strategy, a win-win situation both for the economy and for the environment.

Technology and investment are keys to success in both respects. There are already technologies available or emerging, which can substantially reduce the use of energy and other natural resources and the emission of carbon dioxide. The introduction of cleaner, more sustainable technologies has to be achieved through the ongoing process of investment in new buildings, in new transport systems and new equipment. Every investment decision is a choice between more or less sustainable technologies; even a decision to postpone investment involves such a choice. In macroeconomic terms all investment, presently around 20% GDP in the EU, represents potential investment in a strategy for sustainable development. Moreover, a great deal of private and public consumption – driving, housing, flying – includes similar choices of great significance.

A higher level of investment will bring more opportunities for the introduction of resource efficient technologies and

will lead to more sustainable forms of economic growth. Thus a well designed strategy for sustainable development can both build on the macroeconomic efforts to stimulate investment and give a strong contribution to such an investment strategy.

The transition to sustainable technologies is of fundamental importance for global sustainability. At the global level the need to save energy and replace old fossil fuel technologies by renewables is urgent. According to the conclusions of the G8 Summit in 2005 about 16,000 billion dollars will need to be invested in the world's energy system in the next 25 years. There are significant opportunities to invest this capital cost-effectively in cleaner energy technologies and energy efficiency.

These investments will not only lead to greater sustainable growth and act against climate change. They will also create the new jobs which Europe so desperately needs to fight unemployment and eliminate energy poverty. In the last 25 years, out of all money spent on R&D in energy in OECD countries, 75% went into nuclear and fossil fuels, and only 1% into wind power, although wind power alone could supply one-fifth of the world's electricity by 2025 and one-third by 2050. Reaching this target for wind power would create almost 3 million more jobs. If Europe could take the lead in wind and other renewable technologies, jobs, growth and sustainability would be generated in a mutually reinforcing way.

We are just at the beginning of a fundamental transformation of our economies, a process

that requires strong policies to unleash a new wave of technological innovation and investment, generating growth and employment – and a better environment.

**6. The European challenge:
how to make economic and
social developments mutually
supportive?**

The perspective presented above of the next 10-20 years is a perspective of great opportunities for a united Europe, of new resources, of technological progress, of improvements in health and longevity. However, it is at the same time a perspective of risks and challenges, which will require new political responses.

The challenge of the unification of Europe

We are facing the challenge that what we have achieved formally by uniting Europe, may not be achieved in real terms for ordinary people in this new united Europe in terms of widely shared prosperity and welfare. Europe risks being divided between the haves and have-nots, between the rich and the poor, both within and between our societies. The present policies are not effective enough in addressing this challenge.

The challenge of coming closer to the world

Europe is coming closer to the world and this has already generated new challenges, to manage change both in our

own countries as well as in the world to translate the great opportunities into widely shared prosperity.

The challenge of technology and knowledge

The new knowledge-based economy will offer new opportunities for a great majority of people. However, it will also lead to a deepening of the digital and educational divide – between and inside European countries, between the young and the old, between the haves and have-nots – unless public policies are substantially strengthened to bridge this divide.

The challenge of living longer and healthier

The fact that people are living longer and healthier is a sign of the success of our welfare states. However, demographic changes will pose a number of challenges to Social Europe. There is potential to be exploited, investments to be made, and policies to be changed to meet these challenges. The principle means for this long-term strategy will be improving the conditions for child-rearing and childhood itself as well as reaching full employment amongst the working age population.

The existential challenge of climate change

Economic progress and higher standards of living have also led to climate change, an existential threat to our civilization. We have to find a new strategy for economic development and use of natural

resources. Europe has, again, to take the lead, finding a new sustainable development path for rich and poor across the world.

Conclusion

Taken together these challenges can be summed up in one basic challenge for Europe's socialists and social democrats: how to make economic, social and environmental objectives and strategies mutually supportive and how to render obsolete the trade-offs between economic and social objectives that offered conservatives the justification to diminish social policy and protection.

Conservative and neo-liberals want to change Europe in light of new challenges, but in a very different way to socialists and social democrats. Conservative and neo-liberals believe that economic policy takes precedence over social policy: "first the economy, then the rest". This "trickle down" approach accepts inequalities as necessary and regards growing inequalities as inevitable. They argue that the market can offer solutions to people's fundamental needs in a global economy; that Europe cannot afford its welfare states and that these should, to a greater or lesser extent, be dismantled; that public provision of high quality social policy and protection is an unnecessary cost. The idea to which they adhere is that countries must now compete with each other for a piece of the global economy and that Europe should start the downsizing of its social and environmental standards. Thus conservatives and neo-liberals consider tax competition, which lowers our collective capacity to pursue public policy, beneficial for the European project and Europe's peoples.

Europe's socialists and social democrats believe that making economic, environmental and social policies mutually supportive is the only way to ensure rising living and working standards and a sustainable welfare society in Europe. Well-designed social policies are a productive and inclusive factor, ensuring that we make the best use of our most precious resource: people, and their capacity to work, create, take initiative, support each other, and contribute to the welfare of all.

We need better social policies, not fewer. This is what the New Social Europe is about.

CHAPTER 2

The European Social Model – in better shape than it is rumoured to be

In our current fight as socialists and social democrats to tackle Europe's economic and social challenges – existing as well as emerging challenges – we have strong political foundations on which to build. European integration has been working in parallel with the development of local, regional and national policies to fight poverty and exclusion, to create security in change, to invest in people, make labour markets inclusive and generate greater welfare in society.

The European Social Model exists as a community of values and as a social reality in which institutional arrangements differ, but comparable social outcomes are achieved. The European Social Model is not the definition of one welfare system, but an expression of the common characteristics of the national welfare systems present in Europe, which differentiates us from other world regions. The definition offered by the Nice European Council of December 2000 encapsulated its elements: *"The European Social Model, characterized in particular by systems that offer a high level of social protection, by the importance of social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of the Member States' social systems, on a common core of values."*

The different institutional paths of the European Social Model can be loosely grouped as follows:

- The continental path;
- The British path;
- The Nordic path;
- The Mediterranean path;
- And the Central and Eastern European path.

These are not static institutional systems, but are constantly evolving and are highly responsive to political decision-making – they can and do change. But the particular trajectory of the European Social Model is distinctive, which is particularly evident when comparing Europe to other world regions, in terms of values, governance, objectives and outcomes. European countries are changing, but in broadly the same direction, defining a specifically European way of life.

Europeans have broadly the same values and public attitudes with regard to their way of life, society and the role of government, as revealed by many public opinion surveys.¹² Europeans are far less accepting of inequalities and poverty in society, seeing the role of government as responsible for fighting these and ensuring universal access to public goods such as health. In fact, European citizens view the fight against poverty and social exclusion as amongst the top priorities for EU action.

Europeans are also more tolerant to different lifestyle choices than other peoples. For example, homosexuality as a way of life is accepted by a vast majority of Europeans, from 72% in Italy to 83% in Germany. In comparison, Americans are less tolerant, with most Republicans not accepting homosexuality and only a slim majority of Democrats believing in tolerance towards homosexuality. Furthermore, Europeans generally believe in secularism and in the secular nature of government. Even in traditionally Catholic European countries, fewer than three-in-ten Italians say that religion is important to them personally, while 36% say religion is important in Poland.

The majority of Europeans also believe that economic power is more important than military power and oppose the view that war is sometimes necessary to obtain justice. International institutions should be strengthened and force should not be used in the absence of multilateral legitimacy. In contrast, just over a quarter of Americans believe that military power is more important than economic power, that war is sometimes necessary for justice, even in the absence of multilateral support, and are willing to bypass the United Nations. Nowhere in Europe is there such a sizeable current in favour of such a hawkish view of the world. It is perhaps Europe's experience of two world wars on its continent and six decades of peace, that has contributed to building this majority view for the use of "soft power" and trust in multilateralism.

These opinions and values concerning solidarity, the role of government, welfare, tolerance and secularism define in some fundamental aspects the European way of life. Within the European Social Model, the welfare state plays the predominant role in providing public goods, placing solidarity at the heart of our societies. Thus the public sector is larger than in other world regions, illustrated by total government revenue that is consistently between 33% and 57% GDP, while in the US, Japan, Korea and Mexico, it ranges between 23% and 34% GDP. This reflects the strong European belief in universal access to high quality public services for the fulfilment of fundamental rights.

The European Social Model ensures universal protection against social risks such as unemployment, illness, poverty or old age, through redistributory policies and insurance-based systems. Indeed public social spending is again consistently higher than in other industrialized countries, at an average of just under 28% GDP against under 15% in the US or 17% in Japan.¹⁵ European Union membership has been accompanied by upwards convergence of social spending over the past twenty years for less prosperous European countries such as Greece (just under 14% GDP in 1981 to over 24% GDP in 2001) or Portugal (from 12% GDP in 1986 to just over 21% today). Private social expenditure remains minimal in the European Union, even in relation to pensions, in contrast to extra-EU countries like Australia, Canada, Korea, and the United States.

Strong labour market institutions are another important feature of the European Social Model. Indeed all Member States have unemployment benefit systems, strong anti-discrimination legislation, decent job security, decent minimum wage provisions, and well-established social dialogue. European Member States have higher job security and more entrenched workers' rights than other industrialized countries, including higher trade union density and more collective bargaining. Europeans also prefer to work fewer hours over the year and enjoy more leisure time, in comparison with Americans who work longer hours and take few holidays. Indeed, in many European countries, the workforce has achieved higher output per hour than the US, showing that working longer does not necessarily mean working smarter.

The predominance of standard employment – indefinite working contracts – is a key characteristic of the European labour market, in contrast to the US labour market, although this has been eroded in recent years by right-wing forces leading to a rise in precarious employment in Europe.

Despite institutional diversity within the European Social Model, the social outcomes of Member States constitute a defining common feature, marking another point of differentiation with other world regions. European countries have amongst the lowest rates of poverty in the OECD, lower than the US, Japan, Korea or Mexico.¹⁶ Income inequality is also lower, measuring 27.7 in Germany, 27.3 in France or 26.0 in the Czech Republic, against a much higher 35.7 in the US or 33.7 in New Zealand.¹⁷

Social benefits reduce the proportion of people at risk of poverty in all European countries, the reduction ranging from 50% or less in Greece, Spain, Ireland, Portugal, Cyprus and Malta to more than 75% in Sweden, Czech Republic and Hungary.²² This allows a majority of citizens to contribute to and take an active part in society. In general, Member States with higher than average per capita social expenditure tend to show relatively lower risk of poverty, and vice versa.²²

The European way of life is centred on solidarity in society and work/ life balance in the social market economy, in contrast to the markedly individualistic society and competitive ethos of the economy in the United States. Indeed, researchers are now starting to point in the direction of these differences to explain health disparities between the US and Europe. The most recent health research has revealed that Americans in the 55-64 age group suffer from more illness than the British – despite spending more than twice as much on health care than the UK – and that rich Americans suffer from as much heart disease and diabetes as the poorest English citizens despite their wealth. Factors such as greater obesity in the US only account for a fraction of the higher rate of disease, and questions are now being asked about whether the American way of life – the higher levels of stress and economic insecurity – are at the root cause of ill-health in the US.

The European Union has driven forward the European Social Model to make this continent the greatest space of prosperity and social progress in the world. Solidarity and social justice have been at the heart of European integration ever since its inception. The Treaty of Rome made the achievement of equal pay for equal work one of the primary objectives of the Community. The Charter of Fundamental Social Rights, adopted in 1989, had the specific purpose of setting out the social dimension of the European Community so that it would be accounted for in the work to establish a Single Market. The Charter established rights in relation to freedom of movement; employment and remuneration; the improvement of living and working conditions; social protection; freedom of association and collective bargaining; vocational training; equal treatment for men and women; information, consultation and participation of workers; health protection and safety at the workplace; the protection of children and adolescents; and rights for elderly persons and disabled persons.

Since then, Community competences have developed as Member States have realized the need for greater cooperation in the social and employment fields. The Treaties of Maastricht, Amsterdam and Nice established and developed the basis for cooperation in the promotion of employment; improvement of living and working conditions; adequate social protection; social dialogue; the development of human resources to ensure a high and sustainable level of employment; and, the integration of persons excluded from the labour market.

- There are now over fifteen directives establishing minimum standards in labour law for information and consultation of workers, the protection of employees in collective redundancies and the insolvency of the employer,

health and safety at work, rights for fixed time, part-time and posted workers, maximum working time, equal opportunities, equal treatment and equal pay, parental leave, race equality, non-discrimination, and the protection of young people at work.

- Legislation is also in place to protect the social security rights of employees, the self-employed and their families as well as the rights of resident third country nationals in a Member State other than their own.
- The European Health Insurance Card now allows European citizens to gain access to health care in all EU Member States.
- European citizens have a right to live and work in any Member State of the EU.
- The EU has also established cooperation between Member States in the field of social inclusion, pensions, health and long-term elderly care, so that national reforms of social protection systems meet common challenges.
- Social dialogue has since 1985 become a permanent feature of European governance: over 300 joint agreements, opinions and declarations have been agreed by European trade unions and employers; social dialogue is organized at tripartite, bipartite, cross-industry, sectoral and company levels under mandates established at European level; the European Social Partners assist in the definition of European labour and social standards.
- The establishment of the Charter of Fundamental Rights completes the picture of a Social Europe that already exists to a certain degree. The Charter sets out the whole range of civil, political, economic and social rights of European citizens and all persons resident in the EU. These include social rights such as the right to education and to have access to vocational and continuing training or the right of workers and employers to negotiate and conclude collective agreements at the appropriate levels and, in cases of conflicts of interest, to take collective action to defend their interests, including strike action. Although it is as yet not legally binding, it has already begun to have an impact on the rulings of the European Court of Justice.

Much has already been achieved in raising standards across this single labour market for all Europeans, to avoid downward pressure on standards as a result of free movement. Social Europe has not regressed in the past few years, it has in fact widened since the accession of ten new Member States in May 2004 who have incorporated EU social and employment standards into their own welfare systems.

Socialists and social democrats have been primary drivers of the development of the European Social Model in their own countries and across the European Union. The new challenges facing the European Social Model demand a phase of renewal, which should build on, rather than erode, its common values and characteristics.

1. The continental path

The continental path - with roots in the Bismarkian policies for workers - has been described as a corporatist system. Its features include strong state management of the economy and a social insurance system financed by contributions from employers, employees and taxation. Status, occupational and income differences are generally reproduced in the pattern of benefits for unemployment, sickness or old age, which lowers the redistributive function of the welfare state. Non-governmental and para-state organizations are involved in public service, social insurance organization and delivery. The continental path is historically very much centred on the idea of a male-breadwinner family, in which men work and women carry out family caring responsibilities. Thus female employment is generally low and there is little public child care provision. This development path reflected the influence of Catholic social teaching, in particular the principle of subsidiarity: welfare arrangements should only fall to the state in the absence of adequate measures at some lower or intermediate level, either through the family, the community, the occupational group or some other aspect of civil society.²³ Key differences between the countries of this development path include wide variations in unionization and social dialogue (France has the lowest level in Europe, whereas the other countries have far higher levels and more entrenched social dialogue) and the provision of child care (far higher in Belgium, France and the Netherlands, than in Germany or Austria, for example).

2. The British path

The British welfare state has its roots in the reform strategy implemented by the Labour government in the end of the 1940s. It was founded on universal principles, epitomized by the tax-financed National Health Service founded in 1948 under the leadership of Ernest Beveridge. There are a wide range of contributory benefits, whose value did indeed erode in the 1980s and first half of the 1990s. The welfare state therefore provided declining social protection to an ever smaller proportion of the UK population. Social dialogue declined significantly, through purposeful governmental action on the part of successive conservative governments, with a marked fall in trade union density. This led to regard the

UK system as being part of a broader Anglo-Saxon model, with the United States, Australia and Canada, with a far greater role for the market and more inequalities.

While the long years of conservative government in the UK undermined public services – through lack of investment – and introduced neo-liberal principles into the running of the economy – the UK welfare state has evolved over the past ten years under social democratic leadership. Since 1997 the role of the welfare state has been growing, through greater investment in universal public services such as education and health, targeted schemes for disadvantaged groups and means-tested benefits.

Public spending has risen, with a doubling of investment in the National Health Service and in education, and a tripling of investment in social housing.

The UK's first minimum wage was introduced in 1997 and has risen above inflation since then to lift low-earners out of working poverty. While before 1997, a third of Europe's poor children were British, since 1997 the number of children in poverty has been cut by 1.1 million in the UK. Pensioner households are no longer at risk of poverty thanks to an increase in the minimum pension guarantee, amongst other measures. These policies have all been financed by a growing economy and employment rates that are now amongst the highest in Europe.

The tax-financed welfare state in the UK is not as extensive and universal as in the Nordic countries and more experimentation has been undertaken with the involvement of the private sector in the provision of public goods. The UK is gradually moving towards a dual-earner family model, with higher gender equality, through increasing provision of child care and family benefits.

3. The Nordic path

The Nordic path has combined the universalism of the UK Beveridge-inspired system with the work-related social policy of the continental path. It has often been described as a classical social democratic system. It is designed to provide a universal, high level of social protection – equality in high standards – rather than aiming to provide only for minimum needs. There is generally a high level of services and benefits, giving low-income and disadvantaged citizens the same quality of rights as higher income and privileged members of society. The latter participate rather than opt-out of the system because of the quality of the system. Work and welfare are strongly related: financing of the welfare system is strongly dependent on full employment and social safety nets include strong incentives to work. A key feature is the high degree of unionization and the entrenched, cooperative

nature of social dialogue, which is central to the running of the economy. This development path is centred on dual-earner families, representing a high degree of gender equality, in which the costs of parenthood and elderly care are socialized. The Nordic countries are consistently in the top of the league of the best performing economies in the world.

4. The Mediterranean path

The Mediterranean path is characterized by a lesser role for the welfare state and centred on the premise of the male-breadwinner family. The labour market is highly divided between those with highly protected jobs in the large public sector administration and the older generation in white collar employment, contrasting with precarious employment for the young and low-skilled in the private sector and in the more sizeable informal economy. The state and economy are highly clientalistic, which can exclude the least advantaged. The welfare state provides for minimum needs - with better pensions than other types of benefits - and few services like child care, with the exception of health care that has been developed on universal principles. Trade union density is generally lower and social dialogue more conflictual than in the continental or Nordic development paths.

5. The Central and Eastern European path

The Central and Eastern European path is very much characterized by the recent past of these countries, emerging as they did from their communist past in 1989. These countries shared a highly collectivist welfare state, in which universal welfare rights were the rule.

Universal public services, such as health and education, were supplemented by other welfare rights linked to employment, such as child care, that were quasi-universal given the existence, at least on paper, of full employment. Welfare benefits were generous and income equality high, although general levels of wealth were low.

Following the "velvet revolution", the welfare state has been retrenched and significantly transformed. In the absence of clear prospects for European Union membership when the Iron Curtain fell, these countries turned to liberally-minded international organizations such as the IMF and World Bank for loans and advisory support. Given the adoption of a more market-oriented philosophy, universalism generally gave way to means-testing and insurance-based systems, alongside the introduction of user fees for some services, set at

sometimes prohibitive levels. The retrenchment of family benefits and child care has had particularly dire consequences, contributing to a real fertility crisis. In addition, whereas high trade union density and social dialogue were institutional features of the pre-1989 period, reaching highs of over 70% of workers, membership of trade unions has drastically fallen to under 20% of workers in most Central and Eastern European countries.

The condition for International Monetary Fund (IMF) and World Bank loans was the implementation of strict neo-liberal orthodoxy, also called the Washington Consensus, which consisted of establishing a free market economy with minimal state management or institutions. The result has been a sharp rise in inequalities and a weakening of the welfare state. Upon the opening of negotiations for EU membership, these countries have worked hard to incorporate key features of the European Social Model, including an effective role for the welfare state in raising social and environmental standards. Thus most Central and Eastern European countries have been turning their backs on the neo-liberal approach to society and the economy.

6. Lessons of the past, conclusions for the future of social policy

The conservative approach of a trade-off between equity and efficiency has lost ground in the public debate over the last decade. For example, in a re-thinking of the traditional "Washington Consensus", the World Bank has stated: *"Inequality of opportunity, both within and among nations, sustains extreme deprivation, results in wasted human potential and often weakens prospects for overall prosperity and economic growth."*¹⁴

One element in this process is the success of social models in which synergies have been created between efficiency and equity. The lessons of the welfare reform of Europe during the last 50 years is that well-designed social policies should be regarded not as costs, but as investments in human and social capital with a positive impact on economic growth and adaptability in a globalized world. The Nordic countries are the most commonly cited example of this strategy, constituting some of the best performing economies and, at the same time, amongst the most equal societies in the world.

Their economies have amongst the highest rates of employment in the world. Social policy, protection and economic success have proved to be mutually reinforcing.

A striking characteristic of the public sector in Europe, and the main reason for its size, compared to other parts of the world, is the important role of social transfers in protecting citizens against risks. Social transfers include pensions, disability and sickness schemes, unemployment benefits, housing programmes, integration

programmes, amongst others. This is one of the principal tools for ensuring inclusiveness in our societies and a main feature of the European Social Model. Analysis of government spending and competitiveness rankings show that the present lack of economic growth and dynamism in some Member States does not relate to the size of public spending or social transfers, but to other factors that will be examined in this report, inter alia:

- Insufficient public and private investments in areas such as R&D, ICT, education;
- Structural problems, including the lack of interplay between public labour market policy and private sector job creation and investments.

Indeed, there is a correlation between, on the one hand, a strong, modern public sector and, on the other hand, low rates of poverty and high employment.²⁵ The public sector must, in future, play a pivotal role in promoting the ability to innovate, restructure, and allocate the proper resources to generating growth and employment, sustainability and social inclusion in Europe.

Therefore, for socialists and social democrats, it is not a question of diminishing or cutting the public sector. It is a question of modernizing and better realizing inclusiveness in our societies.

The rationale behind social policy is that it promotes growth and quality of life in a simultaneous, mutually-reinforcing dynamic. It allows both the achievement of high levels of equality, high levels of employment and economic prosperity. Social policies for a welfare society not only concern income transfers from the rich to the poor. They are about strengthening the foundations of a society – providing common goods to which all have access, including education, health care, unemployment insurance, pensions, to name but a few.

There are also conclusions to be drawn from the shortcomings of the present systems and the challenges of unification, globalization, technology and demography: we need better economic, social and environmental policies, not fewer to cope with these challenges to make our societies inclusive and sustainable.

CHAPTER 3

Why we need a New Social Europe

1. Proud of Social Europe – but not satisfied with Europe as we know it

In the next ten to twenty years, we will have the opportunities to generate economic resources of a magnitude that would allow us to successfully fight poverty, social exclusion and discrimination and at the same time improve the well-being of all in our societies.

We, socialists and social democrats, are proud of Social Europe - unique in international comparison - but not satisfied with society as it stands and how it may develop. In the years to come strong market forces risk deepening the cleavage between the haves and have-nots, between the socially and economically successful and those at the margin of society.

We need a New Social Europe, a programme for a new more active, inclusive and sustainable society. We need to further develop the European Social Model to address the shortcomings of Europe as we know it:

- Too many people are excluded from good job opportunities. Employment is low, only an average 64%, unemployment is high, at about 8%; almost half of the unemployed are long term unemployed;
- Too many children drop out of school. Early school leaving reveals mechanisms of exclusion in the education system. In 2005 almost 15% of young people aged 18-24 left school prematurely;
- Too many young people suffer from a lack of quality education and a lack of job opportunities. Unemployment among young people is twice as high compared to the average, amounting to 17% in the EU, up to 30-40% in some countries;
- Too many women are denied an equal position in work and society. There are pay gaps and "glass ceilings". Women have more precarious jobs, they take more responsibility for children and elderly, find it difficult if not impossible to reconcile work and family life. There are growing numbers of women, lone parents, struggling to make ends meet;

- Too many disabled persons lack the support needed for successful integration in working life. Chronic illness or disability affects approximately 15% of the working age population. More than half of the disabled are out of work;
- Too many people who have come to Europe to work and make their living have a long way to go to be well integrated into society. Unemployment is higher; discrimination is more frequent for immigrants;
- Too many people are still living on the margins of society, even in poverty, in spite of many years of economic growth;
- Our production and consumption patterns are causing damage to our environment and climate change is an existential threat to the European way of life.

These are the shortcomings of the past, serious problems that we bring with us into the emerging new Europe. This new Europe with all its new opportunities will not automatically solve these problems. Enlargement, globalization, technology and demography – all these fundamental changes in society – include both opportunities and risks.

We, socialists and social democrats, disagree with the conservative approach of "trickle down", which accepts inequalities as necessary and regards growing inequalities as inevitable. We believe that economic and social developments can be made mutually supportive. We regard social policy

as a productive and inclusive factor, making better use of our most precious resource: people's will to work, take initiative and develop, contributing to the welfare of all.

We are convinced that Europe needs better social policies, not fewer - social policies based on strong values and governed by clear objectives.

2. The New Social Europe: our values

Socialists and social democrats will form a New Social Europe based on the following values, which have a strong tradition in our parties, in the trade unions and in popular movements all over Europe:

- We believe in the value of **democracy**. Democracy is the foundation for freedom. Democracy safeguards individual and collective freedoms. Citizenship, which consists of exercising rights and duties in a society, is at the centre of democracy. A citizen not only enjoys economic, social, civil and political rights, but also has duties to society, which include the responsible exercise and non-abuse of these rights;
- We believe in the value of **freedom**. Freedom is the ability to fulfil one's capabilities. It is freedom from material and psychological deprivation. A free society balances the freedoms of each individual in order to achieve the greatest possible overall freedom;
- We believe that society should be based on **solidarity**. Solidarity binds individuals together in a society and allows human dignity and equality to be fulfilled. Increasing individualization of our societies - leading to the breakdown of the social fabric and a rise in loneliness, distress and unhappiness - places solidarity at risk. We must place solidarity back at the centre of society;
- We believe in the inviolability of **human dignity**. Each human being has an inherent dignity which must be upheld and should never be stripped away;
- We believe in **equality**. Equality is fundamental for human dignity and freedom. At the same time, total equality is impossible to achieve in a society without harming other social democratic values such as freedom; thus we aim for a high degree of equality so that each person enjoys equal chances in life;
- We believe in **social justice**. Social justice implies that every citizen should be able to enjoy a fair share of the benefits, and carry a fair share of the responsibilities, of living in a society. It means that socio-economic background should not determine life chances, that all citizens should enjoy equal rights and opportunities and should be provided for in times of need.

3. The New Social Europe: our objectives

A New Social Europe has to be a common concern for the Social Partners, for local authorities, governments and the European Union. European countries will have to find a new way of working together - unifying without centralization, inspiring each other without prescribing standardized solutions - in order to strengthen social justice and thereby individual freedom.

Our objectives and priorities are the following:

Economic development, social inclusion and environmental sustainability

The creation of new economic resources, a widely shared prosperity and environmental sustainability are the three elements that will form the basis of a better future. Economic, social and environmental policies should be made mutually supportive. Social policy, based on investment in human and social capital, is a productive factor, not a burden on the economy.

Full employment as a cornerstone for the New Social Europe

Full employment is a cornerstone of the New Social Europe. Full employment is the way to make societies both more inclusive and more prosperous, using everyone's potential to contribute to the creation of new resources.

Make labour markets inclusive

Labour market conditions determine whether working life will be inclusive or exclusive. Job security, unemployment benefits, antidiscrimination legislation and active labour market policies should be reformed to strengthen inclusion. Rights and obligations should be balanced in a way that creates synergy between security for workers and flexibility for enterprises. Public policies can shape a framework, but most conditions at work are decided, either by employers or by the Social Partners in dialogue and negotiations. The more Social Partners can do in cooperation, the better for the economy and working life. Social dialogue has to be strengthened at all levels, in work places, in sectoral and national collective bargaining and in European affairs to give workers a stronger voice in the shaping of the economy and of working conditions.

Invest in people and get it right from the beginning

Investment in people - in child care, education, training and retraining - should be at the heart of economic policies for growth and social policies for inclusion and social justice. Europe has a long tradition of investing in people, but the fact that millions are unemployed, excluded and poor is a sign that we need to do more and better to cope with the challenges of the 21st century. A new approach, a life course approach, to education and social policies is needed to get things right from the beginning, to prevent rather than cure social problems.

Equal rights and opportunities between women and men

In spite of political progress, the old society of inequality between men and women still exists. These traditions of the past explain why employment is low in many countries, why wages and salaries are lower for women than for men and why family responsibilities are unevenly distributed. Reform and change are urgent in the fight against discrimination. Public policies for equal opportunities – in working life, in family life and in political life – bring economic and social progress and contribute to a fair society.

Active ageing instead of age discrimination

Europeans are living longer, healthier and richer lives. In the years to come, age discrimination and passivity should be replaced with active, inclusive ageing, giving older people more opportunities to contribute both in working life and in society in general.

Eradication of poverty – a dynamic approach to rights and opportunities

In spite of a century of social policies European societies are still characterized by inequalities in economic resources and life chances. The emerging new Europe will bring new opportunities to the vast majority – but strong market forces will lead to marginalization and exclusion of millions, unless balanced by active social policies. The New Social Europe will have to include a firm policy for the eradication of poverty. Such a new commitment has to be made a common concern and responsibility in national and European policies.

Solidarity, competition and cooperation in the European Union for upwards convergence in living and working conditions

Europe is built on a combination of solidarity between citizens, competition between enterprises and cooperation between countries. The more global markets are opened for competition, the more solidarity between citizens and cooperation between countries will be needed. The ultimate objective is the upwards convergence of living and working standards in the European Union.

A New Social Europe built by people, parties and civil society

People, parties and civil society were the driving forces behind the development of the different forms of welfare states in Europe during the 20th century. The emerging new Europe runs the risk of being driven by strong economic forces, leaving ordinary people

outside the political process with social exclusion and democratic deficits as a consequence. A new strategy for democratic involvement is needed. The New Social Europe will be developed on the basis of Debate, Dialogue and Democracy to serve as a model for the active involvement of people all over Europe in policy-making for the 21st century.

CHAPTER 4

Our roadmap

Our roadmap for a New Social Europe consists of a vision for the future of social democracy in the 21st century. Social democracy at every democratic level: at the local and regional levels, in our Member States and in the European Union.

The roadmap is about ensuring that Europe's people can reach their full potential. It is about ensuring progress in our welfare societies. It is far more than just a matter of eliminating poverty or unemployment; not just about tackling existing problems.

Social democracy needs a roadmap because it cannot progress if marked by internal contradictions. Social democracy can only develop if we, today's socialists and social democrats, embrace the interdependence of the countries in which we live and work. The future of social democracy lies in using this interdependence proactively towards the objectives of the New Social Europe.

In all parts of the European Union, governments and political parties are faced with choices of reforms. The fundamental idea of the New Social Europe is that the direction of reform choices must be the same. The direction is the modern social democracy we aspire to as today's socialists and social democrats.

Reforming the European Social Model is not an apolitical endeavour: there will not be one way to do it. This is where people will rediscover the essence of political choices and the difference between the progressive vision of social democracy and the neo-liberal and conservative vision of the right.

Europe's socialists and social democrats believe that European welfare societies will have to improve their performance in many respects. They must:

- Be geared towards full employment and full social inclusion;
- Be based on environmental sustainability;
- Be activating, providing springboards for achievement at every stage of the life cycle in the new knowledge-based economy;
- Be built on both rights and duties – collective rights for individual opportunities and responsibilities;
- Promote stronger social dialogue;
- Engage civil society in dialogue and partnership.

The New Social Europe must be a collective endeavour. We must renew our welfare societies on the basis of rights and duties. The individual and government, as well as business, trade unions and other actors should have clearly understood rights and duties. The duty of **government** is to ensure that all citizens have access to public services, such as education and social protection, and to guarantee political, civic, social and labour rights, as well as to provide the conditions for full employment and inclusion in society. The right of government is to expect that individuals and all other actors in society contribute to the welfare society. **Businesses** have the right to expect stability, fairness and transparency in the conditions of competition; their duty is to contribute to public finances and support the achievement of full employment, helping raise the skills and competences of the workforce and playing a positive role in society through the tenets of corporate social responsibility. The right of **trade unions** is to organize, to bargain collectively, to fight for the interests of workers and to play a part in binding tripartite social dialogue; their duty is to contribute to building an inclusive labour market. **Individuals** have the right to participate fully in society and in the workforce; their duty is to seize the opportunities of high quality education and training and all other means provided for enriching our human and social resources, in their own interest and in the general interest of society as a whole.

Thus, building a new active welfare state must be part of a dynamic process of participation for development. There is no better way to create a New Social Europe that is relevant for Europe's peoples.

The roadmap represents a comprehensive strategy for the New Social Europe, in which each democratic level – local, regional, national, European – works in the same direction to achieve common goals. At each democratic level, socialists and social democrats must adopt a new approach and new instruments to face today's challenges.

It is not enough for socialists and social democrats to achieve equal chances and inclusion in one area of Europe, if another area bears stark inequalities. Moreover,

it is not acceptable for socialists and social democrats that Europe becomes a region of prosperity and social progress, if peoples outside Europe are dying from hunger and suffering from hardship. Social democracy is European and international. Our values are universal, not exclusive to a region, nation or religion.

Socialists and social democrats must take a fresh look at the role we give to the European Union in tackling common challenges and building a New Social Europe. In order to achieve our objectives throughout the European Union, Europe's socialists and social democrats advocate a strategy built on all the three fundamental elements of the European Union:

- Competition between enterprises;
- Cooperation between countries;
- Solidarity between citizens.

This approach defines how the European Union can strengthen European cohesion, master globalization and help the developing world.

In a European Union of 27 Member States, this three-pillar approach offers a means to harness the greater economic strength of an enlarged Single Market towards sustainable development. As competition grows between firms across the European Union, there is a need for more cooperation between Member States and for placing this greater prosperity at the service of social cohesion and social justice.

A strategy based on the three pillars of competition, cooperation and solidarity offers a way forward for Europe to harness the potential of the European Union, to build a New Social Europe and play a part in the development of a fair globalization.

- In the New Social Europe, the conditions of increasing competition should be better defined, in full respect of the public interest and essential objectives such as the provision of public goods and workers' rights.
- Cooperation between Member States will be strengthened as a complement to the local, regional and national levels in the aim of reaching the objectives of the New Social Europe.
- In the New Social Europe, the European Union must better unite Europe's peoples through solidarity and act in solidarity with developing countries for their development. Stronger public policies for employment, social justice and social cohesion are needed to create a better balance between competition and solidarity.

The role of the European Union in the New Social Europe will be to support national capacity to pursue welfare and employment policies, as well as obtain synergies between Member States for the achievement of social democratic goals.

The first pillar sets out the opportunity offered by the European Union for companies to compete in an enlarged economic space, with greater opportunities for economies of scale, for higher innovation, to the benefit of citizens through lower prices, more and better jobs. Today, competition continues to be the strongest vector to ensure improved productivity. The creation of the Single Market of 27 countries with 460 million inhabitants, offers enterprises and the whole economy huge advantages. However, public policies are needed both to maintain a healthy competition between enterprises and to prevent that competition leads to social dumping.

Competition between enterprises is not the same as competition between countries. Countries do not compete with each other the way corporations do. Countries are each other's main export markets and each other's main suppliers of useful imports. If one country is doing well, it needs not be at the expense of other countries. On the contrary, the success of one country is likely to help other economies by providing expanding markets and goods and services of superior quality at lower prices. The bottom line is that international trade is not a zero-sum game; it is a win-win game. A consequence of this is that Member States will have to ensure that competition remains on an enterprise level and not on the fiscal or social policy levels.

The second pillar sets out the opportunity offered by the European Union for Member States to share sovereignty by engaging in close European political cooperation, rather than losing sovereignty as a result of globalization. The merits of the European Union lie in the principle that more can be achieved together than alone.

Cooperation acts in three ways. Firstly, to avoid that competition between enterprises will turn into a race to the bottom. This form of cooperation includes the development of "hard" law, such as on health and safety standards, non-discrimination, environmental protection, by setting minimum standards. Secondly, cooperation works to stimulate convergence to best performance. This includes "soft-law" strategies which try to promote the exchange of best practices between Member States, thereby developing mutual understanding including policy developments at national level. There are policies which are conducted nationally, such as education, but which benefit from exchanging best practice, setting common reference frameworks and establishing common projects. Thirdly, cooperation plays a role in coordinating economic policies for growth and stability. This has taken place notably in the interests of protecting European countries from the fluctuations of a global economy. Economic and Monetary Union is the best example to date, although one whose potential has not been fully realized.

In the present political period, the main priorities for European cooperation are encapsulated in the Lisbon Strategy, adopted in the year 2000, which sets a strategic goal of making the EU into: *"the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"* by 2010. This strategy has been detailed in a set of concrete objectives, which

have now been translated into integrated guidelines for growth and jobs. These guidelines provide the basis for implementation at national level in the framework of national reforms programmes. If European Member States reached the goals set out in the Lisbon Strategy, their Gross Domestic Product could increase by 12% to 23% and employment by about 11%.²⁶ This would represent a significant improvement in the outcomes generated by Social Europe.

However, the European Union is not on schedule to reach the Lisbon objectives by 2010, and in light of the broader vision of the New Social Europe, an evaluation will have to be made of the guidelines and the direction of national reform programmes. Two central questions for European cooperation are the following: how can we change European cooperation to improve economic performance, sustainability, employment, social inclusion and social cohesion? How can Member States better implement policy priorities at national level?

The third pillar of "solidarity that unites" interacts with the other pillars to create the social dimension of the European Union. The case for a stronger social dimension has become more pressing as the Internal Market has deepened and as the EU has enlarged to include Member States at very different stages of development. It enables Member States to distribute better the costs and benefits of integration and globalization among regions and peoples. Solidarity demands an institutional framework which sets parameters for the functioning of the market and the protection of workers' rights. It also works as a redistributive function to foster upwards convergence of living and working conditions in the European Union. Solidarity is not only internal to the EU, but also concerns the external dimension through assistance to developing countries.

Europeans perceive the enhancement of our welfare states and the improvement of social standards as a central purpose for the future of Europe. In a recent survey, 62% of Europeans, including 81% of citizens of the ten new member countries, were in favour of the convergence of social welfare systems within the European Union (Eurobarometer 2006). The desire for positive social change is there. People expect the European Union to help deliver this change for the better.

The New Social Europe is based on a new vision of smart growth for full employment, inclusive and sustainable societies.

- **Smart growth.** Socialists and social democrats are convinced that there is a new and better way of managing our economies and our human and natural resources. We know that there are new technologies available that can bridge the gap between the economy and the environment and between the economy and people. Europe is in the lead in this development of new technologies, but we are still only at the beginning of a new era. We know that investment in research and development will make our economies stronger.

There is a huge growth potential in the transformation, on a broad scale, of our economies away from the old tradition of mismanagement of natural resources and underperformance in knowledge investment towards new technologies and future-oriented investments. Every investment decision is a choice between old technologies or new more sustainable technologies, between old growth and smart growth. We suggest replacing the present EU concept, where economic growth is seen as a sort of Olympic Game between Europe and other regions of the world, with a new growth concept, aimed at serving the people of Europe to meet the needs of the present generation, while enhancing the ability of future generations to meet their own needs.

- **Full employment.** The future of the welfare state depends on Europe's ability to reach full employment; Europe's ability to reach full employment depends heavily on the welfare state. We will use a smart growth strategy to modernize Europe and to stimulate the creation of new, more and better jobs. Full employment is the key objective that helps achieve many of our aims for the New Social Europe: for social inclusion, equality and an upwards convergence of living and working standards, as well as financing the new functions which a new, active welfare state will perform. This is the overarching objective of the New Social Europe. The first step is to make employment the central goal of economic policy, not by giving up on stability, but by developing policies that are mutually supportive. Thus, the present trade-off or "trickle down" approach has to be replaced by a much more ambitious strategy for synergy between employment and stability. The main objective of economic and social policy must be creation of new, more and better jobs, building bridges for individuals into work and from old jobs to new jobs. Social dialogue is a principle means for achieving this objective.
- **An inclusive society.** We regard full employment as a core element in the creation of an inclusive society and we recognize the potential for prosperity and well-being of better social policies for inclusion. We need a broad reform agenda in all European countries in child care, education and training, labour market conditions and social protection to give those in need better chances to be integrated into working life and into society, thereby eliminating poverty and providing positive social mobility. We need better social policies to improve opportunities for citizens and to fight discrimination and poverty.

The following chapters describe the roadmap for a New Social Europe in detail.

CHAPTER 5

A progressive strategy for full employment

Full employment is a cornerstone of the New Social Europe, contributing to social inclusion, an upwards convergence of living and working conditions, as well as financing the new functions of the New Social Europe's active welfare state. In order to reach full employment, the following policies must be pursued:

- The establishment of economic policy coordination in the EU, including a simultaneous growth and investment strategy, to raise sustainable growth as a condition for labour market reforms;
- Developing the broad economic guidelines to comprise a more coherent balance between the stabilization goals for inflation and monetary performance and the Lisbon Strategy;
- A new deal with the unemployed, in a framework of rights and duties, providing high unemployment benefits and active labour market policies, notably education and training, to support re-employment;
- Decent minimum wages, as defined in collective agreements or legislation, contributing to the end of the working poor phenomenon, including the precarious informal economy;
- A new deal for employment security as a strong, enduring perspective. An active interplay between the public and private sectors for re-skilling; stronger security should be ensured during the course of working life;
- Developing EU labour law to cover atypical forms of work across the EU;
- Rigorous enforcement of anti-discrimination policies;

- Clear rights and duties for public and private sector employees in cases of unavoidable mass redundancies. Advanced notification to allow the introduction of active investment policies in affected communities and regions;
- EU actions to improve labour mobility;
- Actions to promote European Works Councils, including improved rights to information and consultation;
- Introducing an EU target for the minimum wage in terms of GNP per capita;
- Government action to support a rise in the representativeness and capacity of Social Partners;
- The strengthening of tripartite social dialogue at the national level;
- At EU level, the relaunch of tripartite dialogue on priority issues including wages, lifelong learning and ways of “working smarter, not harder”;
- Promoting European Works Councils;
- At EU level, improvement of the scrutiny, transparency and accountability of corporate social responsibility practices and moving towards a core set of commonly agreed standards.

Full employment is the key objective that helps achieve most of our aims for the New Social Europe: the inclusive society where there is an active role for every citizen, eradicating poverty, ensuring decent work and decent lives for all – and a long-term condition for financing the new active, welfare state. It is quite simple: no high, stable employment is possible without a modern active welfare state – and no sustainable welfare state is possible without high, stable employment. Work is invaluable for each of us as individuals: it is the basis for a productive life, our creativity and social security. Work is a value that is essential for cohesion and solidarity in dynamic, innovative societies.

The European economy has the potential of generating far higher, sustainable growth and far more quality jobs. But better public policies are needed – at the local, regional, national as well as European levels – to build a strong, vital and job creating economy with an inclusive labour market.

This is the overarching objective of the New Social Europe. The first step is to make high quality, full employment the central goal of economic and competitiveness policies, not by giving up on stability, but by developing policies that are mutually supportive. Thus, the present trade-off or “trickle down” approach has to be replaced by a much more ambitious strategy for synergy between employment, stability and competitiveness.

High quality, full employment is dependent both on demand and supply, both on good macroeconomic policies, concrete policies in education, in the labour market, research,

business innovation, and better public/private partnerships to generate more and better jobs. It also relies on a set of coherent, active policies to support individuals to find and keep a job and to improve their capacities throughout their working lives. At the moment, we are faced with unacceptable levels of unemployment in many Member States as well as insufficient quality in jobs since an estimated one third of workers are working below their skills at the same time as the development of a two-tier labour market and a rise in involuntary part-time work from 15% in 2002 to 20% in 2005.⁴⁷ There must be a strong bridge between sustainable growth-supporting macroeconomic policy and human capital policy; there must be renewed efforts to raise the quality of employment in all its aspects. This should take place against a backdrop of renewed social dialogue.

Investment in the economy has been neglected for far too long, and many countries have failed to implement effective active labour market policies. Low employment levels and high unemployment is the ultimate sign that Europe has to develop and implement better policies in both these areas. There can be no successful implementation of labour market reforms without higher, sustainable growth; and there can be no sustainable growth without labour market reforms.

Each level of democratic governance – the local, the regional, the national and European levels – will have a role to play in this progressive full employment strategy.

1. Higher growth and more and better jobs by doing things together

At the European Council in Lisbon in the year 2000, the European Union set itself a strategic goal: *“to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”* by 2010.

Nevertheless, the European Union is not on track to achieve this ambitious goal, not least in terms of economic performance.

There is no lack of economic policy ambitions in Europe. Currently the EU has three growth strategies: the stability and growth pact; the Lisbon Strategy and the sustainable development strategy. Moreover, it has at least four different policy processes: the Cardiff process, the Cologne process, the Luxembourg process in addition to the Lisbon Strategy. In addition, there is the Euro group. They all aim at some sort of economic policy coordination. However, it can hardly be assumed that seven different strategies or processes lead to any form of coordination.

Still the EU is a very important global player: the Single Market is the largest economy in the world. The EU has enormous potential for sustainable economic growth, provided that we take full advantage of unused capacities and economic interdependence. In this search for a new growth strategy, there are three questions subject to debate: structural reforms, short-term macroeconomic management, and higher investments.

For the right-wing - conservatives and neo-liberals - the reason for low growth in the EU, particularly in the Eurozone, is a lack of structural reforms. The fact is, however, that Europe has gone through a process of massive structural reform over the last 10-15 years - at the European level as well as in many Member States:

- A European Single Market has been established, which brings increased competition in markets for goods;
- A Single Currency has been created, which reduces transaction costs and improves transparency and price competition;
- The enlargement of the EU, first to the EU-15, then to the EU-25 and now to the EU-27, expanding the Single Market and creating more competition;
- Important markets have been deregulated - and gradually integrated in the Single Market - such as telecoms. This process is not complete, but most countries have taken steps in that direction;
- Some public enterprises have been either entirely or partly privatized in many countries with the intention of making them more entrepreneurial;
- Global trade has been growing extremely fast and a global financial market has been emerging, exerting enormous pressure on manufacturing and banking;
- Massive introduction of new technologies, particularly ICTs, has been promoted at an unforeseen pace, penetrating every part of our economies.

This is, by any standards, a wide-ranging list of structural reforms, introduced and implemented over the last 10-15 years. This was undertaken with the aim of improving productivity and therefore economic growth and prosperity. However, contrary to all expectations, Europe has not improved productivity performance. We have not even been able to maintain the productivity growth of that period. What has happened is that Europe has seen a strong fall in productivity growth over the last ten years. This is an important explanation behind the underperforming European economy.

This economic experience has taught socialists and social democrats that productivity and growth must go hand in hand. Europe has clearly been suffering from a lack of short-term, effective demand management and a lack of investments in the core Lisbon goals. Europe has simply not, until now, taken advantage of the interaction between short-term demand management and investment and of Europe's economic interdependence.

There is another way: for ordinary people, for business and for society as a whole. We must base our future – our full employment strategy – on a coherent and coordinated set of policies.

Further structural reforms – of the right kind – cannot work, and hence be accepted by people, without more and better growth. Sustainable growth cannot be realized without the right kind of structural reforms. For socialists and social democrats, structural reforms and economic growth need to go hand in hand.

Firstly, the right kind of structural reforms and an increase in productivity values are of utmost importance to the European economy. Indeed, increasing productivity values, through better and further investing in knowledge and innovation are key to maximizing output potential in the EU and, therefore, are goals to be pursued if we want to increase welfare. However, structural reforms and the productivity challenge need to be matched by two sets of actions: responsible, well-coordinated, short-term demand management to enhance business cycles in accordance with our full employment goal; and coordinated investment policies for the core Lisbon goals.

More and better jobs will only be created when the economy grows faster and more sustainably; but the EU's growth rate has been sluggish in recent years. The right-wing has for years been saying that structural reforms per se are conducive to economic growth but that growth strategy has clearly failed: not only has unemployment gone up but also productivity has been declining.

Until now, Europe has still not taken advantage of its economic interdependence. A sound short-term macroeconomic policy cooperation is fundamental for economic growth. Parallel to demand management, it is essential to initiate much higher investments in the core goals of the Lisbon Strategy. It is indispensable for job creation, for consolidating public finances and for providing the resources to achieve our New Social Europe.

The demand side of the economy needs therefore to be strengthened. We cannot continue to be passive and inactive. We need further investments and more sustainable economic growth.

European cooperation will be an essential tool for strengthening the growth of European economies. Thus, strengthening the economic policy cooperation within EMU in order to achieve real and effective coordination of economic policies for higher sustainable growth and job creation will be an important means for developing the New Social Europe.

The interdependence of national economies in the European Union signals the central role that the EU must play in raising economic growth. Economic decisions taken in one European country have a significant impact on other European economies, either positively or negatively. Indeed Europe's economies are more interdependent than they have ever been.

Within the Eurozone, Member States could even use the common currency for a much more proactive growth-generating cooperation. Let us recall that the common currency protects Member States in the Eurozone against speculation – but it does not in itself create dynamism.

Indeed, since it was launched, monetary union has achieved its goal of protecting Eurozone economies from external shocks and instituting a more stable economic environment.

A clear example is the recent increase in oil prices and the negative effects it could have caused to European economies had they not been integrated and shared a common currency in the Eurozone. However, the Treaty's goal of dynamizing the economy – through the coordination of economic policies – is yet to be realized.

Europe must start fostering better this economic interdependence towards higher, sustainable economic growth. For socialists and social democrats, the economic, social and environmental pillars are of equal importance.

A first, imperative step is to apply our common PES strategy for Growth, Jobs and Investment.²⁸ Here we show that if Europe's Member States act together, through a well-coordinated set of higher investments in the five core Lisbon goals: research, education, active labour market, child care and incentives for private investments – substantially higher growth and 5 million more jobs would be created in the coming years.²⁹ The growth potential if Member States act together is enormous.

But there is even more that can be obtained. Thus, it is now time to move further to a new "smart growth" strategy, which mobilizes all economic, social and environmental policies, making them mutually supportive, a strategy to stimulate investment in new knowledge and new technologies.

European economic policy coordination has several facets:

- Firstly, it is about implementing the right investment strategy. Much higher investments are needed in EU Member States to increase sustainable economic growth and job creation, doing this simultaneously and in a well-coordinated way. It will, in short, allow Member States to achieve balanced budgets;
- Secondly, it is about having a better-managed macroeconomic policy, ensuring that Member State's budgets comply with Treaty regulations;
- Thirdly, the EU and the Single Market must not become areas for tax competition and social dumping;
- Fourthly, the right kind of structural reforms should be promoted in Member States in the coming years, so that reforms and growth go hand in hand.

All in all, it is about creating **coherent policies. Economic policy coordination and cooperation**, combining economic with social, environmental and technological initiatives.

Establishing an effective coordination of economic policies will enhance the capacity of national governments to use national fiscal policies more effectively. National governments will take better decisions concerning national fiscal policies in the full knowledge of decisions being taken in other European economies with which their economies interact.

Indeed, European leaders should integrate the present fragmented European growth strategies into one coherent and comprehensive strategy, "a smart growth strategy". Moreover, such a coherent and comprehensive strategy should be linked to a new approach to reforms as described in the New Social Europe roadmap.

The time for demanding the traditional structural reforms of deregulation is over. Now we have to understand why the massive programme of the last decade of structural reform did not lead to increased but decreased growth in productivity. Europe must realize that structural reform has to focus on human capital, involving investment in knowledge. Hence, Europe must apply a more active investment policy.

The current official three competing and overlapping growth strategies at the EU level, plus the four different economic processes in the EU, do not offer a solution to Europe's common challenges. Europe has to make a choice, whether to continue to underperform or to start using the potential of the EU as an economic entity. We, in the socialist and social democratic family, make our choice for using the EU's potential for reaching full employment.

In order to achieve this turnaround in European cooperation, the European Commission, the Eurogroup and the Economic and Financial Affairs Council (ECOFIN) must be driving forces.

The European Commission must be at the forefront of economic policy coordination, by using its right of initiative. It has a crucial role to play when it comes to proposing the EU's macroeconomic framework, particularly through the definition of the broad economic guidelines, and ensuring that Member States comply with it. The European Commission should present a scenario demonstrating the economic benefits for coordination, before making a concrete proposal for the launch of coordination.

The ECOFIN Council, as the principle body for coordination of economic and financial affairs of the EU, can and must play a proactive role in launching economic policy coordination. It should take up its mantle as the primary force in strategic decision-making.

The Eurogroup must have decision making powers in as far as Euro-related issues are concerned. It is now high time that the Eurogroup assumes its role as a driving force behind

European economic policy-making. Reinforced political cooperation between the members of the Eurogroup establishing economic policy coordination and a new investment strategy could show the way for later action in the European Union as a whole.

The broad economic guidelines must comprise a more coherent balance between the stabilization goals for inflation and monetary performance and the goals of growth and job creation. The guidelines should form the basis for ensuring a concerted growth-promoting economic policy at the European level, including a new set of proposals for a smart, green growth strategy.

With such a new approach to macroeconomic policies the EU could draw the full benefit of the massive structural reform programmes of the last 10-15 years – and of the massive investment in new knowledge and new technology that we have to do in the next decade. The benefits of deploying Europe's economic interdependence to achieve high sustainable growth and full employment are too great to ignore.

2. Making labour markets dynamic and inclusive

Europe's socialists and social democrats believe that the principle means of achieving full employment is by investing in people. People are ready to engage and participate in dynamic labour markets, but only in conditions of economic security, not in conditions of fear and insecurity.

That is our basis for action and we see many concrete examples in Europe illustrating that it is possible to combine economic and social security with competitiveness and adaptability, if done in the right way.

People throughout Europe need support to remain confident and secure in a world of constant economic change, developing the capacity to take up new jobs, improve their competences, earning higher incomes while pursuing their own personal development.

Europe's labour markets must become more inclusive by raising employment and reducing unemployment.³⁰ At present, 64% of the European labour force is employed. This implies that employment has to increase by about 10% of the existing labour force if only to meet the Lisbon Strategy's target of 70% employment by 2010. If we reach this target alone, the European economy could grow by an additional 6% to 9%.³¹

Labour market conditions will determine the inclusiveness of the labour market once the base conditions of growth and job creation are established. Labour market conditions consist of minimum wages; unemployment benefits; job and employment security; active

labour market policies; non-discrimination; the extent of labour mobility; social dialogue and collective bargaining.

Given the increased pace of today's global economy and longer life courses, the time has past when people could graduate from school or college, then get a job and stay in work uninterruptedly until retirement. Today, people will move within, in and out of the labour market much more than ever before: they will move in and out of education throughout their working lives to develop their competences, re-skill, change careers; they will move between employment and unemployment more than once; parents and carers will combine family care and work or take career breaks to care for dependents; and finally people will move in a more gradual way from work to retirement. Labour market conditions will have to be carefully adapted in order to facilitate these changes to the benefit of ordinary people.

Europe's labour market conditions will have to change as a response to new challenges and evolutions, but to varying degrees across the European Union. Institutions will have to be strengthened in some countries and be made more flexible in others. The roadmap sets out the direction in which we can make these changes through our progressive political philosophy.

All the policies that frame the labour markets in Europe are in need of review and reform to support the overall goal of full and productive employment: active labour market policies, unemployment benefits, job and employment security systems, non-discrimination, minimum wage systems, job mobility, social dialogue, and the role of employers in the labour market.

European cooperation will also have to support these changes. The EU's employment guidelines will be a useful instrument for setting out the new, progressive direction that is needed. EU hard law will also have to be considered to maintain minimum standards across the European Union.

To make modern labour markets dynamic and inclusive, we need coherence in a whole set of policies. Rights and duties must be the basis for every actor in our societies: for wage-earners, employed and unemployed, for public authorities, for employers and employers' organizations, for trade unions, every actor from job-seekers on unemployment benefits to CEOs.

Active labour market policies

Active labour market policies are about making the journey from the old to the new job as fast, as productive, as enriching and as socially secure as possible for the individual and for the economy. Active labour market policies create a macro and microeconomic virtuous cycle that gives powerful support to spending on these policies.

Active labour market policies are relevant to those who have lost their job recently and need some support to re-skill and get back on a career track; the long-term unemployed who need specialized support to re-orientate, train and integrate back into work; those who want to start work, such as parents after a career break, or young people looking for a first, stable job; immigrants who have particular difficulties to integrate the jobs market; and, lastly, people who are particularly marginalized on the labour market, including the physically or mentally handicapped. Tailored support is needed for each of these groups to help them back into jobs on a stable basis.

Active labour market policies consist of education and training, incentives for employers, job rotation and job sharing, integration of the disabled, direct job creation and start-up incentives.

These policies continue to represent less investment than out-of-work income maintenance and early retirement. It is worrying however that investment in active labour market policies has been steadily decreasing since 2002:

- Indeed in 2002, spending on labour market policies represented 0.74 % GDP. In 2004, this spending fell to 0.64 %, which is a drop of around 14%: a substantial drop in spite of growing needs;⁸²
- The drop in investment in training alone represents nearly 50% of the total disinvestment in active labour market policies in recent years;
- All EU countries, except Sweden, have more disabled persons inactive than in employment;
- On the contrary, those countries, which have introduced or strengthened active labour markets policies and programmes, have performed better than others. Unemployment in Denmark, the Netherlands, and the UK has fallen by more than half in recent years from their peaks in earlier periods.

It is time to reverse this trend, and substantially invest in active labour market policies, not least the education and training component. Active labour markets policies have to be defined as investments in well functioning labour markets. These policies must be proactive to support an early intervention on behalf of the unemployed and prevent long term unemployment. The number of participants in active labour market policies must increase substantially.

All unemployed persons should have a right to high quality education and training if they are unable to find a job to match their skills. The education and training component of active labour market policies is fundamentally important for developing Europe's human capital and achieving a dynamic, inclusive labour market characterized by full employment.

Given that the low-skilled are far more likely to be at the bottom end of the earnings scale, at risk of poverty and unemployment, the education and training component will be a fundamental

means of reducing unemployment and tackling working poverty. Furthermore, education and training will be particularly important to re-integrate the long-term unemployed into the labour market.

Education and training courses must be highly relevant up to date and in tune with labour market needs. This will require a major up-scaling in the financing and organizational development of educational institutions: the Social Partners and employers particularly must play a major role to ensure that education and training delivers the right skills and know-how to the unemployed in order to enable speedy re-employment. A first major investment push must be followed by a constant flow of investments into equipping educational institutions with the latest technology and highest quality teachers to keep up-to-date with skills development in the labour market. By bringing more people with new skills into the labour market, such courses will prevent skills mismatches and reduce bottlenecks thereby improving the efficiency, inclusiveness and dynamism of the labour market.

Public employment and social security services must, in an integrated fashion, enter into a new dialogue with those excluded from the labour market to identify which are the specific barriers to employment in each case and how these can be overcome. The type of measures needed will be different depending on the individual person's situation. In some cases it will be education and training; in others, sheltered jobs.

Active labour market policies are labour intensive, especially because public employment services will have to identify the specific needs on an individual basis, and hence will require, in many countries, more effective investment into the modernization of employment and social security services.

The New Social Europe is about investing in people for the creation of an active and inclusive society: active labour market policies are a principle means of achieving this.

Unemployment benefits

The interaction between income support in the form of unemployment benefits and active measures for re-employment is the central feature of successful labour market reform in the New Social Europe.

Unemployment benefits should be set at a high level of income replacement to maintain living standards, promoting the will and motivation to work in a clear framework of rights and duties. Benefits should never be a stand-alone measure, but part of an integrated plan, a new deal between the unemployed and public employment services, based on rights and duties, providing personalized advice and support for job-seeking, identifying concrete steps to be taken by the job-seeker and offering any further education or

training needed to take up new job opportunities. The wider context of such a new deal must always be a broad macroeconomic strategy for job creation. Without new job opportunities, Europe's unemployed will remain unemployed irrespective of the new deal.

The unemployed have the right to unemployment benefits, support for job seeking and the further education and training required to be re-employed. But they also have the duty to take up jobs matching their skills and re-skill if necessary, failing which their rights are forfeited.

Equally, the state has the duty to provide the macroeconomic conditions for job creation in the economy; to provide the education and training needed to help the unemployed back into new jobs; and to organize public employment services which have the resources to offer high quality personalized advice, the identification of needs, awareness of the local labour market, and interaction with businesses and trade unions to meet needs and match workers to jobs. Public employment services must become springboards for re-employment and play an active part in facilitating dynamic labour markets.

Decent minimum wages

The majority of European countries have a system of minimum wages, some through collective agreements, others through statutory provision. Minimum wages are fundamental in preventing the exploitation of workers and enabling workers to earn a living wage. Still, the working poor are too numerous in some parts of Europe.

Decent minimum wages encourage participation in the workforce and are therefore an essential tool for reaching full employment throughout the European Union. The minimum wage should be set at a level that does not harm job creation, enables inclusion and decent living standards in work. It should form part of a broader, comprehensive plan for decent work for all. Minimum wage systems also serve to stimulate enterprises to become more productive, thereby acting as a positive factor in the economy.

Minimum wages set at low levels can pose a problem for inclusion: those on low incomes are more likely to suffer from poverty, illness and disability. A decent minimum wage must be combined with an appropriate mix of tax credits, social security, education and training, to put an end to the working poor phenomenon. As economic growth rises, and extra prosperity is generated from year to year, average wages move upwards, but so should minimum wages in order to avert a risk of inequality and relative poverty.

The most recent example of the formal request by Estonia's Social Partners for the introduction of a statutory minimum wage demonstrates that it is fundamental for a well-functioning economy.

As Member States at lower levels of productivity and development catch up with Western Europe, minimum wages should also rise to eliminate the working poor phenomenon and improve social cohesion. In order to assure this development, it would be useful to introduce an EU target for the minimum wage in terms of GNP per capita. Establishing such a target within the open method of coordination would set Member States on the road of higher social inclusion and cohesion to the benefit of workers throughout the European Union.

The balance of job and employment security

In the New Social Europe a new progressive balance must be struck so that public policies generate economic security and rights through new kinds of support and protection in a global economy.

Job security provides workers with protection of rights against dismissal and social security rights in employment.

There are currently wide variations in job protection laws across Europe.³³ Even in countries where job protection is high, unemployment can fluctuate and reach high levels.³⁴ Over the last three years, there has been a rise in economic insecurity within the EU, with a relative majority of Europeans changing their views from being in favour of globalization to seeing it as a threat to employment and companies.³⁵ Thus workers, whether in or out of employment, are feeling economically insecure in economies irrespective of the levels of job security. People have realized that there is no guarantee against unemployment.

At the same time, some European countries have allowed the development of two-tier labour markets, with a higher tier of highly-protected jobs, and a lower tier of precarious employment with low job security. This development has been to the detriment of the positive development of human capital and social cohesion.

Job security should protect against arbitrary dismissal and precariousness as well as ensuring rights in employment. Unifying the labour market to achieve inclusiveness involves setting job security at a level that does not reach the extremes of allowing precariousness or, on the other hand, a job for life.

One important rationale behind job security is that it fosters the conditions of personal investment and trust needed for raising productivity as well as helping to manage change in ways that give workers time and opportunity to adjust when enterprises are undergoing restructuring. For long-standing employees, advanced notification is an important means to allow time to prepare for change, through identifying new job opportunities or undertaking education or training. Notification periods vary considerably in Europe for long-term employees: for example, for collective dismissal of workers with 20 years employment

in a company, these range from high levels in the Nordic countries, Germany and the UK to 2 months in Spain. Firing workers should be the last available option in the event of restructuring, as set out in the agreement on restructuring agreed by the European Social Partners.

Making dismissals easier – to provide greater flexibility in the labour market – should only take place in the context of a rise in employment security. Employment security is a new concept for providing the means for employment throughout the life-course, including the means for re-employment during periods of unemployment. Indeed employment security – providing new forms of social and economic rights – represents the best way of fostering job mobility in secure conditions in the global economy. Employment security is still under-developed throughout Europe. This must change if we are to make Europe's labour markets dynamic and inclusive.

Employment security in the New Social Europe is composed of the following:

- Income replacement during unemployment, within the framework of rights and duties for the state and the unemployed, as described above;
- Active labour market policies, including personalized advice and support within the first three months of unemployment, education and training that is relevant to the labour market for re-skilling during unemployment;
- The recognition of informal skills and qualifications;
- Policies to promote the development of competences (educational leaves and education credits) in order to raise productivity, reduce the chances of unemployment and help those threatened with unemployment prepare for change.



* Active Labour Market Policy

Employment security also concerns the adaptation of work to life circumstances and promoting internal adjustment within enterprises in order to avert dismissals. Measures to foster internal adjustment within enterprises can improve the reconciliation of work and family life, enhance the quality of working life and help enterprises adapt to change:

- Jobs can be flexible in terms of working hours, such as time-banking schemes in which higher hours worked over one time period compensate lower hours worked over another;
- Flexibility in the beginning of the labour contract, in the form of probation periods, can enable more effective jobs matching, to the benefit of the worker and employers, although it should never be used as a tool to discriminate against certain groups in the labour market or as a substitute to a standard labour contract;
- Flexibility can also be developed at the firm level, by having employees performing different tasks and functions, provided that these reforms are accompanied by multi-skilling. By investing in training firms increase the capacity of the employee and therefore his or her productivity.

Globalization, technological progress and the need to fulfil the productive potential of Europe's workforce demand that all European countries review existing systems of job security and develop such a new progressive concept of employment security. The aim must be to enhance the capacity of workers to benefit from change in economically-secure conditions, while allowing enterprises adapt better to change.

In this context, the role of the European Union – and the value of European cooperation – will be best focused on the fight against precarious employment and discrimination. Given the emerging reality of a single European labour market – in parallel to the Single Market – the EU has developed minimum standards in labour law, to ensure that workers throughout the EU enjoy minimum levels of job security and social protection. The EU protects workers from exploitation within its borders and is a guarantee that workers are not the first victims of social dumping.

Nevertheless, non-standard work has grown in most EU countries, including agency work and self-employed economically dependent work, fixed-term and part-time employment. Non-standard employment can be beneficial if it suits the life circumstances of workers and is chosen. But, at present, much non-standard employment is not chosen and many workers are falling outside the scope of fundamental labour and social rights, thereby undermining the principle of equal treatment.⁸⁰ This signals a worrying rise in precariousness in Europe's labour markets. In these types of work, there is little or no access to education and training, occupational pensions and professional development; job security is very low and employment more unstable. Such developments increase economic insecurity and opposition to globalization in general, while undermining Europe's labour standards.

The EU has already acted in the field of fixed-term and part-time work as well as posted workers, establishing equal treatment and minimum standards. The precariousness of non-standard employment demands a similar approach for some other types of work, for example for agency workers and self-employed economically dependent workers. Minimum standards for greater employment security should include access to pensions, social security benefits, training, parental leave, and rights to information and consultation.

Non-discrimination and positive measures for inclusion

Legislation and governmental organizations establishing non-discrimination in the labour market are also central to a progressive full employment strategy. These outlaw discrimination on grounds of sex, age, race, disability or ethnic origin. More rigorous enforcement of anti-discrimination is needed across Europe. However, negative integration measures will never be fully effective on their own. They must be accompanied by positive measures for inclusion in the labour market.

Labour mobility

A certain degree of labour mobility is positive for workers, given the opportunities to develop knowledge, skills and earn higher wages. Furthermore, thanks to free movement of workers in the European Union, people can travel and work in other European countries, learn foreign languages and gain new professional experiences.

At a macroeconomic level, labour mobility within the single European labour market allows individual European economies adapt better to economic change, managing labour supply and skills shortages more efficiently. This will become even more important in the future, due to Europe's ageing population. For example, if employment grows annually by around 1-2%, several regions of the EU will reach employment rates of 80% or over by 2010, including southern Britain, Denmark, Sweden, the Netherlands, central France, southern Germany, western Austria and central Portugal. These regions may face significant shortages of skilled labour unless they can attract workers from other parts of Europe to fill job vacancies.

Enlargement, globalization and demographic change demand a better approach to labour mobility within the European Union so that short-term national labour market shortages can be addressed rapidly within the Single Market to improve Europe's overall performance and adaptability in the global economy. The EU Action Plan on Skills and Mobility, adopted in 2002, presented concrete proposals on how to improve skills and mobility in view of achieving the Lisbon Strategy goals. Some progress has been made, including the introduction of the European health insurance card and the proposal for a directive on improving the portability of supplementary pension rights. However, further progress

is needed particularly in the area of lifelong learning, skills recognition and transferability, as well as social security rights, so that people can work in Member States other than their own, in the short, medium or long term, to enjoy equal treatment and not lose their rights or lose recognition of their qualifications.

Strong social dialogue to promote and manage change

Social dialogue and collective bargaining are highly important pillars of our progressive employment strategy. Economies with a high degree of social dialogue, such as the Nordic and some continental countries like the Netherlands entail lower unemployment and higher income equality without producing a trade-off between these two objectives. Such strong systems of social dialogue – consisting of strong and stable institutional relationships between Social Partners – produce greater aggregate wage flexibility than decentralized systems where wages are negotiated at firm level.³² In fact, unemployment is on average 1.4 % lower in countries with strong social dialogue than in countries with an intermediate to weak system of social dialogue.³⁵ Thus, stronger wage-setting institutions and better social dialogue – fostered by government, trade unions and businesses – would be desirable across the European Union.

However, social dialogue has diminished in the past two decades in most parts of Europe. One cause has been the declining representativeness of the Social Partners. For example, trade union density has been falling everywhere with the exception of the Nordic countries: it now ranges from over 70% in Sweden, Denmark, Norway and Finland to under 20% in Hungary, Poland, France, Spain, Estonia, and Lithuania.³⁹ It has declined most dramatically in Central and Eastern European countries. One cause of declining social dialogue and of diminishing trade union density has been the calculated onslaught on social dialogue by right-wing governments and right-wing forces at national and at European level, which have refused to engage in tripartite relations and tripartite agreements. The backbone of any tripartite dialogue is the government's "right of last resort" to legislate in the case of non-agreement. This "right of last resort" provides the glue for social dialogue, binding all parties to the commitment to reach agreement. But if the legislator does not provide the glue, social dialogue comes undone and relations between the Social Partners risk becoming conflictual.

Another cause of falling trade union density has been the declining numbers of workers employed in industry – who were heavily-organized in unions since the end of the 19th century – and the rising numbers employed in the growing service sector, particularly women, who are not joining unions. Trade unions are recognizing the imperative of reaching out to workers in the service sector, modernizing their recruitment strategies, their internal functioning and the services they provide to new members with different expectations. It is crucial that public policy supports these efforts to

develop trade union membership again and consolidate the capacity of trade unions to function in a modern economy.

The Social Partners have reached a number of notable agreements at European level, for example, setting out that restructuring and firing workers should be the last option available, and that atypical work should remain the exception. However, the role of European social dialogue has been diminishing in recent years in spite of the increased pace of globalization and restructuring, which places more importance on supranational cooperation to anticipate and manage change. The “right of last resort” at European level is held by the European Commission, which can propose legislation, within the scope of Treaty provisions, in the case of non-agreement.

Social dialogue at sectoral level does point to a revival, but this must be rolled out and sustained across Europe and at European level. European Works Councils must be able to function effectively and have improved rights to information and consultation.

European governments and the European Union should take the leading role in building trust-based tripartite relations. At national level, governments can play a key role in engaging in tripartite dialogue and supporting the Social Partners to build their representativeness and their capacity so that they can properly fulfil their role in the labour market. Government and the Social Partners should work together for equal access and equal opportunity in the labour market, ensure fair work practices, and fight discrimination.

At EU level, tripartite dialogue should be relaunched, with strong support from the European Commission, on priority issues including productivity growth, lifelong learning, and wages. The EU should explore whether information and consultation of workers is sufficient within the Single Market, in the context of restructuring. The Social Partners should also be associated to the EU’s macroeconomic dialogue on how to improve economic growth and job creation.

A dynamic and inclusive labour market of full employment can be reached using social dialogue to better manage change in times of restructuring.

Progressive standards of corporate behaviour in the New Social Europe: the future role of corporate social responsibility

The private sector must also contribute to a progressive full employment strategy in the New Social Europe. Corporate social responsibility (CSR) must develop from a purely voluntary practice to a core set of commonly agreed standards, which are supportive of employment, social and environmental objectives and respectful of ethical concerns.

The currently accepted definition of CSR is that it is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis”.³⁰¹ The case for CSR is social, environmental and also economic: consumers take an enthusiastic view on companies that champion CSR, while punishing those that act irresponsibly from a social or environmental perspective vis-à-vis the communities in which they work. Consumer actions against multinational companies applying lower standards of business conduct in developing countries than would be acceptable in developed countries are a case in point. But there are also cases in Europe of unacceptable corporate behaviour that undermine progressive values and objectives: of high CEO bonuses occurring simultaneously with poor financial performance and lay-offs; of companies delocalizing production, despite generating good financial results and receiving generous public subsidies, from highly developed European countries to lower wage economies, provoking hundreds if not thousands of dismissals.

Enterprises should make decisions based not only on financial or economic factors but also on the social and environmental consequences of their activities. Companies do not operate in a vacuum, but in a society and thus should uphold the values and objectives of that society. In this sense, companies must play an active role in the New Social Europe, committed to the achievement of its objectives, including full employment, sustainability and gender equality. This implies private investments in innovation and sustainability. It implies giving the unemployed, women, young people, the disabled, and older persons better chances of entering the workplace, sharing and developing their capabilities. It also means pursuing better company policies to reconcile work and family life, promoting women, retaining the most experienced workers, and flattening hierarchies to foster new talents. There are a whole set of new company practices – which do not lie within the ambit of the law or public policy – that must develop to make the New Social Europe a success.

For CSR to develop and become a wider practice in the private sector, there needs to be convergence in the understanding of what it means and entails such as independent reporting of economic, environmental, and social performance, the binding nature of guidelines, and the commitment to social dialogue and involvement of stakeholders needed for it to be an effective and inclusive process at company, sectoral or industry level. Transparency and accountability are key pre-conditions for CSR to work in future.

The establishment of albeit voluntary guidelines for CSR has already begun, for instance in relation to multinational companies, including the ILO tripartite declaration of principles concerning Multinational Enterprises (MNEs) and social policy, the OECD guidelines for MNEs, and the UN Global Compact.

These set out principles to which all multinational companies should adhere: for example the OECD guidelines prohibit threatening employees and employee representatives with transferring the whole or part of an operating unit from the country concerned.

However, these guidelines are non-binding: companies do not always stick to their spirit or letter across their worldwide operations nor do they always demand the same of their suppliers. There is a deficit of transparency and accountability particularly concerning the operations of multinational companies, which should be remedied, for example in respect of international standards. Further work also needs to be made on how to make CSR practices achievable for small and medium-sized companies.

The European Union must improve scrutiny, transparency and accountability of CSR, thereby also enabling consumers to make informed choices. The aim should be to create a modern, new alliance for decent work and sustainability, enabling modern businesses, enabling employees, enabling consumers to act together for the cohesion and sustainability of society.