CHAPTER 6

Knowledge and innovation - the key to smart green growth

The generation of knowledge, innovation and sustainability for prosperity, employment and environmental balance is one of the key pillars of the New Social Europe. The EU and its Member States must:

- Substantially raise public and private investments in research and development to reach the EU's target of 3% GDP in R&D by 2010;
- Invest in sustainable forms of energy and energy efficiency;
- Improve the attractiveness of European universities for researchers and students;
- Foster closer links between universities, research institutions and the private sector, to translate research into innovation in the economy;
- Improve student and researcher mobility;
- Establish closer coordination of investments and promoting trans-European projects;
- Introduce the systematic exchange of information between innovation agencies;
- Promotion of knowledge and innovation in the Single Market;
- Deploying the Galileo project in order to bring forward an innovation-oriented European industrial policy;
- Anchor use of new technologies in public services.

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Knowledge, learning and employment are core elements of social democratic policies, at the national as well as at the European level. Knowledge is a prerequisite for improving Europe's human capital, fostering higher productivity and widely shared prosperity: a foundation for a New Social Europe.

Europe has great traditions in research and development – from ancient philosophy and the first university through to 20th century breakthroughs in medicine and natural sciences - but Europe has been lagging behind the US and Japan in R&D investment for quite some time, with the sole exceptions of Finland and Sweden.[5] In so doing, Europe has diminished its capacity for innovation.

At the same time, the depletion of Europe's natural resources and the existential threat of climate change demand a new approach to the economy and management of resources: Europe needs "smart growth" based on new sustainable forms of energy, technology and knowledge.

Europe has a huge potential for growth and employment if there were greater investment in sustainability, research and development resulting in more innovation.

1. Why is knowledge so important?

During the last 10-15 years we have seen a fundamental rethinking of growth theories: knowledge and technology have become central element of economic analysis. We have learned to understand the difference between labour and capital on the one hand and knowledge on the other. While labour and capital are rival goods, which can be used by one person/enterprise at a time, knowledge is a non-rival good, a resource which can be used simultaneously by a great many people. Basic research findings, the Internet and patents, aimed at expanding markets for innovations, all are examples of the unique role of knowledge.

Knowledge is not a fixed quantity, which has to be divided in slices like a cake. Knowledge can be used by many, without limiting the value of knowledge for others. As a consequence - and the main point in the new growth theories - the traditional economic perspective of diminishing return is replaced by a new one: we are living in the age of increasing return. This is a great idea, of utmost importance for the way we look at the future and for the way we organize our societies.

Knowledge in general, scientific and technological knowledge in particular, will be crucial for most of our actions and decisions, as workers, voters, consumers or investors. Our economies are becoming more knowledge intensive and the highly knowledge-based sectors are growing faster than the rest of the economy; half of the new jobs are created in these sectors, representing one third of the economy.

2. Investing in new knowledge and innovation

The knowledge economy can be described as a combination of four elements:

- The production of knowledge through scientific research;
- Its transmission through education and training;
- Its dissemination through the information and communication technologies;
- Its use for innovation in medicine, technology, organization, etc.

International comparisons show that Europe is lagging behind other major economies in all these respects. Europe invests about 1.9% in R&D, while US spends 2.8% and Japan 3.1% of GDP on production of new knowledge and on the transformation of knowledge into innovation and production. Europe has less than 1.2 million researchers, while the US - with a smaller population - has more than 1.3 million researchers.

80% of the investment gap is due to underinvestment in R&D from the private sector, particularly in information and communication technologies. The links between universities and business – key to innovation - seem to be much weaker in Europe than in the US. For example, less than 5% of innovative companies consider information from universities or other higher education establishments as being a very important source ofinformation.[32]

There is a need to bring universities and other public research organizations closer to industry and improve innovation systems. A strong cooperation between universities and business would develop the practical side of innovation policies.

Indeed use of innovation in the public and private sectors must be further developed. Public services must set the example and be at the forefront of the use of new technologies, bringing efficiency gains and improving service to citizens. Society has become more demanding: citizens are asking for faster and better services, more transparency and more user-friendly administration. Greater work should be undertaken to build more innovation-related public services.

There are reasons to be concerned about the state of knowledge production in Europe, both for the level of investment, the return of investment in terms of innovation and production and for the role of knowledge in building a New Social Europe.

Raising public and private investments in R&D to reach the 3% GDP target would have hugely positive effects on the economy, on employment and on prosperity.

The European Union currently invests about 2% GDP, but is lagging behind compared to the United States (2.8%) and the rest of the OECD (3.1%). The benefits would be enormous if the 3% GDP target were reached on an annual basis from 2010 to 2025: the best scenario would add an extra 10% GDP to the European economy, raise consumption by 7% and real wages by 9.5% by 2025; the most conservative scenario would see the economy grow an additional 3% GDP, consumption up by 1% and real wages 3% higher.[33]

Furthermore, reaching the 3% target would require an additional 600,000 scientists, raising employment in the R&D sector

alone by 30%. Overall, the European economy and Europe's people would benefit enormously.

Thus, investing in knowledge is key to economic growth and employment and will require a fundamental rethinking of the policies of the past. The economic potential is very high. The reward in terms of prosperity is great.

At the moment, European universities - responsible for 80% of fundamental research - offer scientists and students a less attractive environment than the US. Many European students go to the US and stay there. Student mobility in Europe is low: only 2.3% of European students are pursuing their studies in another European country.

Researcher mobility across the EU and with third countries should be considerably strengthened because it could decisively contribute to developing new knowledge and allow for greater dissemination of experiences across countries. More partnerships between European universities and centres of research excellence worldwide could also help fostering mobility.

The majority of European countries need to make a decisive restructuring of public expenditure in favour of greater R&D investment and improve incentives for business investment in knowledge. There are huge differences between Member States in R&D investment.

A few invest between 3% and 4% and count among the best performing economies in the world. Several Member States invest around 2%, and others even below 1%.[9]

The European Union is supporting Member States to reach this target, through benchmarking and financial support. At EU level, the Seventh Framework Programme on R&D has been approved with a total budget of almost €55 billion over seven years, an annual average increase of about 60%. That means that EU investment in R&D until 2013 is now supporting technology platforms, a new form of cooperation between Member States in areas of high priority.

The European Union can also help improve student and researcher mobility. The EU's funded student and researcher programmes should be significantly developed to foster greater mobility across the EU.

Innovation policy is also an area where simultaneous Pan-European actions and investments can generate further economic growth. Coordinating initiatives and developing specific trans-European projects in areas where regional and national programmes can cooperate across borders would encourage business innovation and further develop best practice. A systematic exchange of information between innovation agencies and analysis of common strategic issues is essential and this can be spread out through the development and implementation of joint initiatives and programmes.

The European Union can indeed play a positive role in promoting innovation policy. National innovation policies are

currently evaluated and bench-marked at European level on a voluntary basis, and this has already generated some good results. However, this voluntary cooperation could be made more targeted and formal. A move from the regional and national dimension of innovation to European cooperation would counter the fragmentation of innovation policy and create high spillover effects across the whole European Union.

We must unlock the potential of the Single Market to generate knowledge and innovation. Better regulation – not less – will be needed to achieve this. The EU's Galileo project will also be a key means for bringing forward a real, innovation-oriented European industrial policy. In this way, the EU will help promote knowledge and innovation for smart, green growth and jobs.

3. Sustainability for employment, growth and environmental balance

Since the mid 20th century climate change has been accelerating at such a rate that the world is now faced with a serious threat to the future of the planet and humanity. Atmospheric indicators show that the concentration of carbon dioxide (CO_2) in the lower atmosphere has increased from its pre-industrial concentration of 280 ppm (parts per million) to its 2003 concentration of 375 ppm. This is the highest level in the last 500,000 years.[45]

In Europe, many catastrophic events since 1980 are attributable to weather and climate extremes: floods, storms, droughts and heatwaves. In 2003 alone, more than 20 000 people died as a result of the summer heat wave in Western and Southern Europe. The losses due to extreme weather have been in human lives and also in financial terms with damage to private households, industry and infrastructure. Heatwaves and other extreme weather occurrences are due to become more frequent and more intense throughout this century.

Rises in energy prices hit the poorest hardest: across the EU, millions of people live in energy poverty. The effects of climate change will exacerbate this trend, exerting a profoundly negative pressure on economic and social development both in Europe and the world.

The world has a limited window of opportunity now to act against climate change. The recent Stern Review on the economics of climate change has made clear the high costs if we fail to act now against climate change:

"If we don't act, the overall costs and risks of climate change will be equivalent to losing at least 5% of global GDP each year, now and forever. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20% of GDP or more. In contrast, the costs of action – reducing greenhouse gas emissions to avoid the worst impacts of climate change – can be limited to around 1% of global GDP each year. The investment that takes place in the next 10-20 years will have a profound

effect on the climate in the second half of this century and in the next. Our actions now and over the coming decades could create risks of major disruption to economic and social activity, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century. And it will be difficult or impossible to reverse these changes."[15]

The European Union played a leading role in the agreement of the Kyoto Treaty and should now re-take this leadership role in the definition of a post-Kyoto agreement to combat climate change. These actions at global level should be complemented by European, national, regional and local efforts to create a post-fossil fuel society: raising energy efficiency, to reduce our energy consumption, and investing in sustainable forms of energy.

There are substantial gains to be made in making the EU the leading producer of renewable energy. 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 over a third of the world's electricity by 2050, and one-fifth by 2025. The growth in the wind power sector would correspond to an employment of nearly 3 million people. This example illustrates how the EU should take the lead in wind power and other renewable sources of energy that will generate jobs, growth and sustainability in a mutually reinforcing way.

Furthermore, the EU could save at least 20% of its current energy consumption through energy efficiency measures, representing a saving of €60 billion for the European economy, vital savings in energy costs for those on low-incomes, and the creation of several hundreds of thousands new jobs. The EU and its Member States will have to take the lead in rigorously enforcing energy efficiency measures and promoting further innovations for generating energy efficiency. The EU's Action Plan on Energy Efficiency is an important step forward, which requires full and effective implementation.

The European Union and its Member States must take serious action to meet the challenge of climate change, while taking advantage of the potential for renewable energies and energy efficiency, through its forthcoming common energy policy and negotiations of the post-Kyoto period. The outcome of such action could finally eliminate energy poverty and set Europe on the course of truly sustainable development.

CHAPTER 7

Learning from the beginning - and learning throughout life

The revolution in knowledge, technology and globalization require a radically new approach to learning in society and in the labour market. Welfare policies must be reformed in order to:

- Institute universal provision of high quality educational child care for babies and children;
- Make the outcomes and benefits of education and training independent of socio-economic background and other forms of disadvantage;
- Eliminate early school leaving;
- Institute a right to lifelong learning and second chance education for those without tertiary level education;
- Upgrade vocational education systems for rapid, relevant responses to risks of delocalization and structural changes in the private sector;
- Encourage businesses to give early warnings of their skills needs to ensure dynamic and relevant re-skilling for jobs through vocational training and skills programmes;

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- Ensure the permanent updating of teaching materials and equipments, making the knowledge and competences delivered by education, training and lifelong learning systems relevant to labour market needs;
- Ensure a smooth transition for young people into work;
- Raise investments in and reform of the tertiary education system;
- Widen access to tertiary education;
- Democratize access to and participation in the digital society;
- Promote incentives for education and training through the EU structural and education funds, including a possible contribution to fulfilling the new right to adult education for those with basic qualifications;
- Strengthening EU efforts towards an inclusive information society, including better defining and fulfilling new rights, setting out the role of public authorities and services in extending digital access, establishing European benchmarking in the attainment of targets;
- Placing education and training at the heart of the Lisbon Strategy.

The knowledge and innovation factor will be the most important determinant of Europe's future success. It will be the essential means of building a New Social Europe in the long run. In this sense, building a knowledge-based society – consisting of the highest level of human capital - will be the basis of the knowledge and innovation economy. But Europe's fundamental problem is that continuing inequalities are stopping the democratization of knowledge and educational achievement.

Education is fundamental for the progress of humanity. Knowledge and understanding are the foundations of society itself. It is therefore vital that all children gain this knowledge and understanding through education. Education throughout life is based on four pillars: learning to learn; learning to do; learning to live together and learning with others; learning to be.[47] Given its pivotal role in assuring human development, education is a priority that should never leave the top of the political agenda.

The dividing effect of globalization not only impacts on wealth distribution or labour standards, but on knowledge in society. Information and communications technologies have significantly changed the skills that are needed to access and profit from new knowledge and take full part in society and the economy.

With 1.2 million engineers and scientists graduating from Chinese and Indian universities annually, the EU 's comparative advantage in knowledge and technology is shrinking over time even in relation to developing economies. The average European is less educated than citizens of other industrialized countries, with two years' worth of education less than the average American and one year less than the average Japanese. At the same time, each additional year of additional education increases aggregate productivity by 5% immediately and a further 5% in the long-term.

Europe simply cannot afford to keep the best education and training opportunities in the hands of a small elite, thereby restricting the spread of knowledge in society and the economy. If children from all backgrounds are not given the means and motivation to learn from the beginning, if adults of all ages are not allowed to raise their skills and realize their potential throughout their working lives, how can Europe expect to build a knowledge-based society that unlocks the doors to rising living standards and higher sustainable growth in a global economy?

The future of the European Social Model – the possibility for building a New Social Europe – lies in our ability to become the best-performing region in education and training and hence knowledge and innovation.

The major part of these efforts will take place at local, regional and at national levels. The useful role that the European Union is already playing should be strengthened, to stimulate reform through more intense exchanges of best practice and the reinforcement of existing policy processes, such as the Bologna process in relation to tertiary education and the Copenhagen process for lifelong learning, including the setting of clear targets and objectives and ensuring effective implementation at national level.

Learning for life – from high quality child care, through schools and universities to further education and training – is the main road to an innovative, knowledge-based and inclusive society. It focuses on our most precious resource: people.

1. Learning from the beginning: shifting the investment curve towards babies and children

In order to design sustainable social policies for an ageing Europe we need to put children first. Thus, our first priority is to make high quality child care and pre-school education as basic a public service as health care or education in Europe.

Early years care, providing early learning opportunities for children from the earliest age, is proving to be the principle means of maximizing the life chances of children from diverse backgrounds. The quality of early childhood is fundamental in determining youth and adult development. It is the principle means of breaking the cycle of generational poverty and low achievement that can be seen in too many European countries.

The benefits for babies and children from child care and pre-school education will be enormous: developing cognitive skills, thereby diminishing the importance of socio-economic background in the ability to learn; fostering important social and communications skills for life, showing them for the first time, in a certain sense, how to be

citizens of a community; encouraging creativity through early stimulation; and integrating children of diverse cultural and linguistic backgrounds. This is particularly true for immigrant and ethnic minority children, especially those whose native language is not the home country's language, who would get a head start in language learning and improve their chances at integrating later on in school and their communities. Pre-school education fosters the capabilities that are the very basis for the later development of knowledge, competences and social interaction.[118]

Furthermore, Europe will be unable to reduce poverty, achieve gender equality and tackle the demographic challenge without systems of universal child care provision for babies and pre-school children. Too many women are still denied the opportunity of working full-time or sometimes even part-time, due to insufficient and expensive child care, and are left with few prospects of providing for their families, fulfilling themselves professionally and earning a good pension for their retirement. Women are not having the number of children they desire, largely as a result of these difficulties, fostering the fertility crisis we now see across most of Europe. The prevalence of poverty amongst single-parent households and amongst households with several children, in which women do not work or work too few hours, makes the need to facilitate female employment ever more important. Children also benefit from growing up in a household in which parents do work, given that it significantly reduces the risk of poverty that has been shown to damage children's prospects in life.

The need to provide high quality early years care is particularly pressing for children under three years where coverage is barely minimal in most European countries. These are also the crucial years to ensure the re-integration of mothers back into the labour market. Only Denmark and the Flemish part of Belgium have achieved child care provision for over 50% of children under three years of age, followed closely by France and Sweden. Coverage of children between three years and mandatory school age is better: nine EU countries provide child care for over 90% of children.[119]

Furthermore, the opening hours of child care facilities do not always correspond to working hours, making it difficult for parents to have full time jobs. For this reason, involuntary part-time employment is an unwelcome reality in Europe, affecting women particularly. Thus the question of restricted opening hours for child care facilities is a political issue which must be resolved, given its close link to enabling full-time employment and equal opportunities for women and men.

Most formal child care services are already publicly-provided, mostly with a progressive scale of parental contributions even in Denmark, the Flemish part of Belgium and Sweden where coverage is high. In a system that intends to be universal, parental contributions should be low and progressive enough for low-income earners and those

with more than one child to afford care. Consideration should also be given to the role that the private and non-profit sectors could play in achieving universal provision, within the framework of a publicly-defined strategy.

Socialists and social democrats have been the driving force in many countries for expanding child care and pre-school education facilities, but efforts must be radically stepped up to make universal high quality child care as basic a public service as health or education all over Europe.

2. Learning for life: democratizing educational achievement and preparing better for work

Our second learning priority is to make our education systems all over Europe inclusive and excellent, ensuring that children from all backgrounds have the best chances of educational success from primary to tertiary education. While the task for socialists and social democrats in the 20th century was to democratize access to education – through universal primary and secondary schooling – our task for the 21st century will be to democratize educational achievement by promoting inclusion in high quality education at all levels.

Existing and new jobs will increasingly require a high level of education and professional training. By 2010 only 15% of newly created jobs will be for people with basic schooling, whereas 50% will require highly skilled workers. However, at the moment almost 15% of young people aged 18-24 in the EU are leaving school prematurely every year, with at most lower secondary education.[58] Estimates of the total cost of early school leaving reach figures of between €0.6 and €2.5 million over the lifetime of a person, in terms of lost labour input and extra social and health service costs. Europe will not be able to perform well and achieve full employment, if this trend continues. The result will be a Europe of comparatively declining wealth and potential, marked by ever-increasing inequalities.

The majority of Member States need to strengthen their efforts in the coming years to avoid this wasted potential for individuals themselves and for society. This places the need for excellence in education and training for all at the centre of our political efforts.

The benefits and outcomes of education and training should finally become independent of socio-economic background and other forms of disadvantage. European countries currently differ in the extent to which education systems close the gap between students from richer and poorer backgrounds.

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The PISA 2000 studies[91] showed that high average quality and equality of outcomes among students of different socio-economic backgrounds are compatible: for example, Finland, Ireland, and Sweden have above average educational performance and a below-average impact of socio-economic status on student performance, whereas the Czech Republic, Hungary, Luxembourg, and most of all Germany, appear to have a disproportionate impact of socio-economic status on student performance. In highly tracked education systems, for example in the continental and Mediterranean countries, selection often takes place on socio-economic lines, putting students from poorer backgrounds at an added disadvantage. It has been shown that highly differentiated programmes, including vocational courses, are more likely to reduce the chances of children from disadvantaged backgrounds to go on to tertiary education.

European countries must end early school leaving, providing every young person with the knowledge and competences to succeed in the new Europe. The Nordic countries, which have highly comprehensive educational systems, have been judged to be broadly successful in providing a high proportion of students with a solid foundation in core subjects, putting them in a better position for further studies, work and full participation in the knowledge society. These countries represent four out of the eight best-performing countries in the OECD, in terms of low early school leaving. The advantage of achieving upper secondary education is enormous: for instance in the Netherlands the social rate of return for an upper secondary education in addition to lower secondary has been estimated at 22.3%.[92]

It is important that educational policies address better the most excluded groups of children and prevent exclusion from the mainstream education system. In the interests of diversity, children with special needs should have special attention and be in smaller classes within the mainstream education system.

Furthermore, Europe's education and training systems must be geared towards delivering the knowledge and competences required in the labour market and to ensure a smooth transition for young people into work. School and university education should prepare students better for the transition into work, through the organization of professional experiences, vocational programmes, and careers counselling. Above a certain age, providing job-based opportunities to young people while still in education can be a good way of improving their preparedness for the labour market and inclusion in education. Vocationally-oriented universities and university programmes must be valued as highly as traditionally academic educational paths.

Finally, access to tertiary education must widen considerably. Just under 20% of Europe's people have a tertiary education in comparison to just over double that number in the US and Japan. The benefits for people will be enormous, substantially reducing the risk of unemployment and improving earnings:[93] for example, in Germany, employees with a

university degree have been able to increase their earnings premium from 134 to 153 between 1997 and 2003, in contrast with employees without upper secondary education who have seen their relative earnings stagnate at around 80.[12]

In the OECD, employees with higher education have not seen their earnings premiums decrease, despite increases in numbers of people with tertiary education entering the labour market: the trend is towards rising rates of returns for tertiary education. European countries should democratize access to tertiary education.

European countries must learn from each other as to the strategies and investments needed to deliver excellent and inclusive education to children and young adults of all backgrounds.

3. Learning throughout life: second chances and the springboard to continuous achievement

Lifelong learning is our third priority to make Europe's economies more productive and its labour market more inclusive. We need an almost revolutionary change in education and training for the working age population in most of our countries.

In this fast-changing world, the most vulnerable to economic change are those leaving school without qualifications, those in unstable employment, the unemployed, and older workers. These disadvantages can combine to increase the risk of long-term unemployment and persistent poverty. Paradoxically, these citizens are the least likely to participate in lifelong learning.

Lifelong learning must become an integrated part of our education systems. It must form the basis for European economic performance, our high quality jobs strategy, and our very conception of personal development. It is up to every citizen to take an interest in learning, but up to collective institutions and employers to ensure access to learning throughout life.

First, all adults without tertiary education must have a right to lifelong learning and second chance education, for example through paid educational leave while in work, the recognition of informal skills and free or affordable access to education and training for the unemployed. Such a step change in lifelong learning must be financed through multiple sources, public and private.

Some Member States have gone further than others in instituting lifelong learning, although it is yet to become a reality for the vast majority of Europeans. Sweden, the UK, Denmark and Finland have 25% or more of their working population in learning activity in

any given month.[35] Lifelong learning is more of a problem in the private than in the public sector: public sector workers are twice as likely to receive training as those in the private sector across Europe (41% and 21% respectively).[36] All European countries must improve their efforts to widen access to lifelong learning amongst the employed and unemployed.

Second, the providers of lifelong learning must teach the right skills: teaching those that are relevant to current and future labour market needs and being able to give formal recognition to informal skills. Everybody is capable of building on what they know – whether that means having informal skills formally recognized or learning something new. The key competences needed to progress in today's global economy include foreign languages and the use of digital technology; all educational programmes should include information and communications technology as a central part of the curriculum.

For this to take place teaching equipment and materials should be constantly updated. Businesses should also give early warnings of their skills needs to ensure dynamic and relevant re-skilling for jobs.

Bringing lifelong learning to Europe's working age population will require a new inter-play between educational institutions, businesses and trade unions. Educational institutions must have established relationships with businesses, trade unions and public employment services in order to respond effectively to real labour market needs by teaching the right skills. In this context, public-private partnerships between learning institutions and employers can increase the relevance of adult learning.

4. Living and learning in the emerging digital society

Information and Communications Technology (ICT) education is our fourth learning priority. European countries must democratize access and participation in the digital society as it has become a new factor for social inclusion or exclusion. In most EU countries, income, education and age emerge as the main determinants of digital exclusion, followed by geographical location (the rural/urban divide) and gender. The emerging Information Society in the new Member States is more polarized than in the EU-15 zone, even in areas showing an Internet penetration rate close to the EU-15 average (Estonia and Slovenia). Access to computers and Internet-facilities are provided in public settings in most of the EU-10. However, facilities are limited in scale compared with the EU-15 and are unevenly distributed among regions.[37]

Disadvantaged persons often lack access and do not possess the necessary skills to participate actively in the knowledge-based society. Around 30-40% of the EU population

still reaps few or no benefits from ICT. On average, only 16% of persons over 55 in Europe have Internet access. For people with disabilities lack of accessibility is a major barrier to the use of new technologies having a direct impact in their inclusion and participation in society.

Thus, digital inclusion should be made into a political issue and consist of clear rights to access and participation. Member States should move towards the universal provision of ICT content and services, for example in schools, public libraries and community centres. Digital inclusion is of strategic importance socially, economically and culturally and should be treated as such in public policy.

There are substantial improvements in public service delivery and citizen engagement that can be brought about through the use of ICT. But the whole set of improvements – from e-health consultation to online interaction with public administration – will only benefit citizens and the workforce if ICT skills are shared by all and access to ICT equipment is democratically available – in spite of economic, social, educational, territorial or disability-related disadvantages.

Although most efforts must be concentrated at the local, regional and national levels, European cooperation can provide value-added in this field. The EU has already taken initiatives in the area of e-inclusion, including targets and specific EU funding for e-inclusion projects. The EU Education ministerial declaration of June 2006 for an inclusive and barrier-free Information Society sets out targets and actions in relation to Internet usage for groups at risk of exclusion, broadband coverage, digital literacy, the accessibility of public websites and e-accessibility.[28] Such efforts must be strengthened with further work on defining and fulfilling new rights in relation to the Information Society, setting out the role of public authorities and services in extending digital access, establishing European bench-marking in the attainment of targets.

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CHAPTER 8

Achieving real equal rights for women and men

Persistent gender inequalities must be tackled through social dialogue and the reform of public policies to:

- Eliminate the gender pay gap and in-work discrimination;
- Better sharing of parental leave between men and women;
- Socialize the costs of parental leave;
- Institute a right to flexible working for parents and pregnant workers;
- Regulate working time to tackle the culture of long working hours;
- Tripartite dialogue to manage and benefit from organizational change resulting from parental leave and flexible working;
- Individualize social security, pension and taxation rights;
- Tackle gender inequalities in pension systems;
- Ensure social protection coverage of women and men in precarious employment;
- Establish urban time policies for men and women to reconcile work, family and civic obligations.

Significant advances in women's rights over the past hundred years risk being overs had owed by the new and persistent gender inequalities that remain at the heart of our societies.

Women now have access to all institutions in our societies – educational, labour, political and social. Indeed, girls enjoy great educational success, performing better than boys at school and universities, although they remain under-represented in scientific fields. However, other institutions have proven more difficult to conquer. Women find it hard to

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reconcile work with family life; they sometimes earn less than men in comparable jobs and reach a glass ceiling in their careers that is unknown to men; women are promoted less and are more likely to be in precarious employment; they have fewer children than they would want; they are more likely to be saddled with domestic chores at home and care responsibilities in relation to dependent relatives. As a result of shorter and more precarious employment, they are at a greater risk of poverty and earn lower pensions. With rising instability in family structures, there are growing numbers of female lone parents struggling to make ends meet.

The sense of frustration and unfulfilled expectations amongst today's women is great. Although women have gained sexual and reproductive rights across Europe, including the right to choose the number and spacing of children and the right to a safe and legal abortion, many are still constrained from choosing their desired number of children with their partners, as a result of the continuing incompatibilities between work and family life. While women have now gained equal access to education and attain better results than their male counterparts, this does not translate into equal treatment in work. Women have gained the right to combine the roles of mother and professional, but have not been given the means to benefit fully from this right on an equal footing with men.

Substantial improvements need to be made throughout Europe to reach equal rights and opportunities for women and men. All democratic levels of policy-making will have to play a role.

1. Gender equality as a socio-economic imperative

Equal rights and opportunities between women and men are now not just a value-based goal for society, but also a socio-economic imperative. This imperative concerns the future of the welfare state in a context of demographic change. Since the ageing and shrinking of the population will result in proportionally lower fiscal revenues at a time of growing welfare costs, there is an ever greater need to raise the growth potential and actual growth of our economies, through better female employment in numbers of women and the productive quality of work, as well as mitigating the demographic effect in the long term by eliminating the opportunity costs of having more than one child. At the same time, the higher proportion of poverty amongst women and single parent households, headed mainly by women, establishes the social imperative of ensuring female economic independence throughout the life course.

We must achieve employment on equal terms between women and men, making better use of women 's productive talents and creating the conditions for women and men to have their desired number of children. Some European countries have managed to reduce the employment gap between men and women, including the Nordic countries, the Netherlands and the UK. Indeed, European countries with higher female employment rates also have higher fertility rates. But elsewhere in

the Mediterranean, Central and Eastern European and continental countries the divide is far too high and fertility far too low. At the same time, the gender pay gap is higher in those countries with the highest female employment rates, making it clear that equality has not been achieved even in these countries due to labour market discrimination and segregation.

2. Equality in the welfare society and the labour market

The obstacles to achieving the goal of gender equality in the labour market are financial, in terms of access to affordable child care and compensation for parental leave; consist of labour market discrimination and segregation, in terms of the gender pay gap, the highly unequal distribution of parental leave between men and women leading to discrimination against prime-age females, low work-life balance and the prevalence of women in low-paid sectors; relate to organizational culture, as a result of a culture of long and inflexible working hours, affecting women and men, in the private sector particularly; and, domestic, given the reticence of some men to share family responsibilities and domestic chores.[58]

Achieving gender equality will require a sea change in the welfare state and the economy. It requires efforts from men and women, from businesses, trade unions and government. It demands not only changes in structures, but a revolution in attitudes. Political leadership and public action must lead the way.

The pro-natalist policies of the past, aiming to keep mothers in the home, will either maintain fertility rates at their current depressed levels or lead to further declines. The vast majority of today's women aspire to motherhood and professional fulfilment, not one or the other. Public policies must foster these aspirations.

Firstly, universal, high quality and affordable child care must be established throughout Europe; in combination with a care system for other dependents such as the elderly and disabled. The costs of child care and dependent care are still prohibitive in the majority of European countries, particularly for lone parents and parents with two or more children. For example, Denmark enjoys an activity rate for single parents of 60% thanks to near universal child care coverage, that is 20% higher than in other European countries which have less child care provision. Progressive scaling of contributions must be introduced everywhere, taking account of income and number of dependants. In countries where cultural norms discourage institutional child care of babies and very young children, the means for child care in home environments should also be provided. Such care systems would allow a rise in full-time employment and contribute to the end of involuntary part-time work for parents.

Secondly, there must be comprehensive action to fight discrimination and segregation in the labour market and end disincentives to work through policy reform and social dialogue:

- The gender pay gap and in-work gender discrimination must re-surface as major political priorties, with stricter enforcement of national legislation through better policing of labour and wage practices. Equal pay for equal work is an established European principle since the founding Treaty of Rome in 1957. Thus, the European Union has a particularly important responsibility in setting out a new direction for achieving equal gender pay;
- Parental leave must be better shared between men and women in order to prevent discrimination against women and encourage fertility. Paternity leave policy should be reformed to ensure take-up and reduce the wide imbalance between maternal and paternal leave that makes employment and promotion of prime-age females less attractive than that of prime-age males. Countries in which paternity leave is an individual, non-transferable entitlement including compensation for loss of earnings, have far higher take-up rates. For example, in Norway 85% of men take leave, followed by Sweden in which 42% of men take leave. Apart from these European countries, only Luxembourg, the Netherlands and Iceland have take-up of paternity leave above 10%. In 2002 only 16% of all avai-lable leave days were taken by men;
- The costs of maternity and paternity leave should be socialized as far as possible, through tax or insurance-based income maintenance;
- The right to flexible working should be instituted for parents and pregnant workers, including a right to time off work, flexible and/or reduced working hours through time bank and time account schemes, and tele-working. Such a right should reduce the often involuntary reliance of women on part-time work;
- The culture of long working hours in certain sectors, which disadvantages parents particularly, must be strictly regulated within the framework of the law, namely through maximum working time;
- Tripartite dialogue should be established to identify measures to support the economy and employers, particularly SMEs, to manage and benefit from organizational changes in relation to parental leave and flexible working, including retaining staff, raising productivity, and from the perspective of the wider concern of lowering unemployment, combining parental leave with vocational training and temporary work placements for the unemployed.

Thirdly, social security and taxation systems must be based on the presumption of economic independence and female employment in a life-course perspective:

- Social security rights, pension rights and taxation must be individualized;

- The reform of pension systems must take due account of the gender gap in pension entitlements, due to the general structure of earnings-related pensions, leaving more retired women in poverty. This means ensuring a decent minimum pension guarantee, pension credits for unpaid care work, amongst other measures;
- Ensure social protection coverage of women in precarious employment.

3. Equality through time as a social value

Making child-rearing compatible with social democratic goals such as full employment and social justice in a gender neutral approach will also involve taking a new and more innovative approach to time as a social value.

The entry of women into the labour market, new forms of work organization as well as the increasing flexibilization of working time have left most women and men struggling to cope with conflicting demands on their time: these include time for work, time for their families, time for learning, time for community and political participation, personal time. These demands sometimes prove to be irreconcilable and have grave implications for our quality of life, for example rising stress and diminishing community vitality. The result is that people do not feel able to lead full lives and opt out of one aspect or another, in a way that also has an impact on gender equality, with the unequal distribution of time.

Creating time as a social value refers to time as a value over the whole life course as well as a value day-to-day. Thus, first of all, we must rethink the management of time over the life course, as education, child-rearing and work, become ever more parallel, rather than consecutive or mutually exclusive activities in life, for women and men. Public policy in some European countries has already begun to take account of this new reality, for example, providing for flexibility in working hours for parents, educational leave allowances, sabbatical leaves for personal development. Each European country must explore such innovative policies and find their own balance in redefining the mix of working, educational, family and personal time throughout the life-cycle.

Secondly, time as a value day-to-day is regaining attention as a major aspect of quality of life, over which women and men aspire to have greater control. In this regard, innovative public policies are being explored in some cities in Europe, with surprising results. Urban time policies seek to make work and commuting more compatible with accessing public and community services, exercising civic duties, shopping, taking children to crèches and schools, family and leisure time. Examples from Italy and France show that urban time policies allow a community to manage time better for the wider good: for instance, extending opening hours for public services, community leisure centres or local businesses or improving local transport networks to shorten commuting time. For example, several northern Italian cities pioneered such policies with the opening of "time offices" which were charged with consulting local stakeholders – including employees, local associations,

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and businesses - and negotiating new measures to reconcile work with family responsibilities and other aspects of urban life.[67]

Such policies do not imply a shift to a 24/7 society, such as in the US Social Model, but place control over all aspects of time back into the hands of men and women. Greater consideration should be given to time as a social value for the future of the European way of life.

CHAPTER 9

Making our ageing society proactive

Europeans are living longer and healthier than ever before thanks to rising living standards, better working conditions and remarkable progress in medical treatment. This is a European success story and at the same time a serious challenge.

A passive policy response would undermine our pensions systems, health services, elderly care and social services in the future. We must realize a three-tier strategy to ensure our common future our way: bringing more people into work; reforming our social protection systems for retirement and old age; taking the lead in a new, proactive approach to ageing:

- We must reform and act to bring more people – more hands – into work, through: bringing unemployment down, through massive coordinated investments and active reforms; increasing the employment rate for women and young people; making a more flexible and friendly labour market for older workers; strengthening the integration of immigrants in the labour market; increasing employment for vulnerable groups through proactive policies of inclusion;
- Reform of the pension systems must be completed across Europe in order to ensure that social inequalities do not get reproduced amongst the elderly population;

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- Reforms to ensure that the growing elderly population can rely on adequate, equitable and financially sustainable pensions;
- A new, proactive approach to ageing must be taken;
- Care for the very old must be guaranteed and provided;
- A new way of sharing our common responsibility for elderly care must be developed.

1. Ageing, a European success story – and a serious challenge

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 new 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.

Thus, Europe's ageing society is a success story, while at the same time presenting a real challenge, both within countries and between countries.

The number of elderly and very elderly (80+) will rise by over 224% from today until 2050. The over-65s, which now represent almost a quarter of the EU population, will rise to over 50% by 2050, ranging from 30.5% in the United Kingdom to 67.7% in Spain. This will raise considerably the number of dependants each working person will be supposed to "support" in our pensions systems.

At the same time, the profile of the average 65-year old is changing: we are healthier, more fit and capable of engaging in activity at this point in life than ever before. However, most Europeans tend to retire – or are forced out of work - between 56 and 62, despite the average statutory age of retirement being 65.[1] Once retired, many people find themselves at higher risk of isolation, inactivity and even depression, despite the fact that these are the most experienced workers and citizens in our society, who are still healthy and capable of engaging in activity. Active ageing is as much about prevention of ill health as it is of promoting well-being and inclusion in society.

The agenda for reform includes a three-tier strategy: firstly, we must ensure that more people are included in the labour market. Secondly, we must strengthen the basis of the pension systems, reform of pension systems and care for the very old. Thirdly, we must adopt a new, proactive approach to ageing.

2. Strengthening the basis of the pension system – more people in employment

The best way to make pensions systems and public services for the elderly sustainable is to include more people in employment, thus strengthening the financial basis of the pension systems and the number of people working in elderly care and health services.

There is no doubt that Europe has a potential for improvement. Take for example people between 55 and 65. Employment rates of these workers have increased in recent years, reversing a long declining trend. However, a majority of Member States has employment rates below 45%, some of them even below 30%, while the best performing Member States have employment rates above 55%.

The good news is that we can substantially improve the employment, thereby the ratio between employment and retirement during the next two decades. In the projections, based on current policies, there is a growth of employment by 20 million between 2004 and 2017.

However, when we look further into European demographic development, from 2025 to 2050, the outlook is quite negative. The reason for this is, on the one hand, a growing generation of elderly, 65+, and on the other hand, a decreasing working age generation, due to low fertility, leading to a decrease in employment by 30 million people. It is always very difficult to make projections for such a long period, so there is reason to be careful in interpreting projections. The balance between the inactive elderly and the total employed population will rise sharply for the EU 25 from 37% in 2003 to 48% in 2025 and to 70% in 2050. That means, there will be less than 1.5 workers per pensioner in 2050, while there are currently almost three workers per pensioner.

This is why we must realize our PES strategy for more and better jobs, our progressive strategy for full employment. We must ensure higher employment through: bringing unemployment down, through massive coordinated investments and active reforms; increasing the employment rate for women and young people; making a more flexible and friendly labour market for older workers; strengthening the integration of immigrants in the labour market; increasing employment for vulnerable groups through proactive policies of inclusion.

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Migrant workers from EU Member States and third countries must also have their pensions rights protected through appropriate European legislation.

3. Reform of pension systems

The basic trend indicates that the pension systems will inevitably be put under heavy strain. The gravity of the problem in relation to assuring the future adequacy and sustainability of pensions systems demand that European governments act now. While pensions systems differ, and the precise details of pension reform will vary, all systems must strengthen their financial basis.

Pension reform must be completed across Europe in order to ensure that the growing elderly population can rely on adequate, equitable and financially sustainable pensions. If we do not do this based on social justice and solidarity, the losers will be elderly people who were the lowest paid in their active working lives. We, socialists and socialist democrats, do not want to transfer poorer living conditions to the third and fourth ages. That is why we need to reform our way.

It is estimated that pension costs will amount to an additional 5-8% of GDP in the coming decades. If all costs fall on the working population, the contributions of a typical German worker would rise from 22% to 38% of wages.[62] Finding an equitable balance for the costs of the ageing population will be important to avoid inter-generational conflict.

It will be equally important to ensure equity between women and men. Given the large employment gap between the sexes, women often receive far lower pensions and are more likely to find themselves in poverty. The gradual equalization of the pensionable age between men and women is an important step and the generational shift towards higher employment amongst today 's women in their 20s and 30s will of course contribute to better pensions for women in future. However, women may still continue to have shorter and lower paid working lives as a result of the gender pay gap, the prevalence of part-time work amongst women and the unequal distribution of family responsibilities between men and women.

Thus a twin-track approach is needed: firstly, addressing gender inequalities and discrimination in employment and family care; secondly, ensuring that pensions take account of these imbalances – through pension credits for example - and women 's longer life expectancy in order to prevent rising numbers of female pensioner poverty in future.

Evolution in the global economy, work organization, demography and societal expectations, will demand a much more fluid interchange between education, work, family

responsibilities and retirement. Education will not only be a matter for the young due to the need to re-skill several times over a working life; retirement and work should no longer be mutually exclusive to allow working later in life; family responsibilities will require better balancing with employment in order to achieve gender equality and encourage higher fertility.

This fluid interchange must also be reflected in reforms to our pension systems. Pension credits should value employment breaks taken to undertake unpaid care work, education and training. The 60+ generation should be able to combine part-time work with partial retirement.

The macroeconomic costs of pensions will be broadly similar whatever the private-public mix chosen, but the distributional impacts will be significant if not properly managed. People from lower socio-economic groups are less likely to save for voluntary private pensions, more likely to suffer as a result of fluctuations in the pensions market, and as a result fall into poverty in old age. Thus it is vital to maintain and even improve, in some European countries, minimum pension guarantees in order to prevent pensioner poverty. Private saving can play a role in supplementing pensions, but should not replace the role of public provision.

Labour market pensions – based on collective agreements - should be further promoted to play an even more important role in the future – as a part of a more coherent and fair pension policy and as a part of our progressive strategy for full employment.

First pillar state pensions should indeed be complemented by mandatory occupational pensions, although in-built employment inequalities – for example between men and women – should be factored into public pension provision.

4. Active ageing, inclusion and care for the very old

The very old, 80+, is a group growing from less than 20 million to more than 34 million in 2030, whose care must be provided and ensured.

Social democratic policies to provide elderly care must begin at present in order to anticipate the future. To prevent the risk of marginalization and isolation amongst this growing number of elderly citizens.

Europe needs a new way of sharing the costs of care so that unpaid carers, who are almost entirely women, can work and so that the elderly are properly taken care of. A basic network of social services should cover the variety of situations in which the elderly find themselves

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and allow them to remain at home as long as possible. Day-care centres can also play a very important role in preventing isolation, allowing the elderly to socialize, and integrating even the frailest into the community.

Autonomy amongst the very old must be promoted through integrated provision of public services and the organization of community activities and associations for the elderly in order to prevent isolation and improve general well-being.

There must also be a new, active approach to ageing. European countries must in future consider the introduction of general lifestyle strategies for the preservation of physical and mental health amongst older citizens, with a focus on quality of life, health, and activity.

The link between activity and health holds good into advanced old age. You're not finished because old: therefore the contribution that can be made by older people to society should not be limited to paid employment, but should encompass voluntary work and many other activities. Older citizens have a wealth of knowledge and experience to contribute and share. Society must make the most of this.

Politics and policy-making must also ensure the inclusion and representation of the growing numbers of older citizens at local, regional, national and European levels. Advisory groups and councils of older people have been established in most countries. Sometimes, these organizations have a statutory responsibility and are able to exert real influence on the policy making process. These organizations have been important catalysts for political participation of older people and could be strengthened as part of comprehensive strategies for active ageing.

CHAPTER 10

Social inclusion and cohesion

The continuing presence of poverty and inequalities in Europe requires a new welfare approach in the New Social Europe:

- Commitment at the national and European levels to pursuing a comprehensive and mainstreamed strategy to fight against poverty and social exclusion, based on social, economic, cultural and political participation;
- Achieving full employment and raising human capital to tackle poverty amongst the unemployed, the inactive and low-wage earners;
- Enabling female employment through universal provision of child care and the provision of elderly care;
- Active ageing to tackle poverty and social exclusion;
- Renewing the public sector as the principle means to achieve social cohesion and inclusion, while acting as a dynamic factor;
- Introducing a EU new framework directive for services of general economic interest to safeguard universal access and provision;
- Establish sectoral EU directives for health and social services to safeguard universal access and provision;
- Safeguarding universal access to the public services across the European Union;
- Binding social impact assessments of proposed EU legislation;
- Improving social cohesion across the European Union through the Structural and Cohesion Funds.

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1. Mainstreaming social inclusion

High numbers of Europeans living in poverty – 68 million are in or at risk of poverty - demand a substantial improvement of Europe's welfare approach. Losing a job must not mean poverty for the unemployed and their families. Disability or elderliness should never entail destitution. Children should not grow up deprived of proper nutrition, high quality education and the right to a good childhood.

The strategy for achieving social inclusion in the New Social Europe is multi-faceted. It includes elements already explored in the New Social Europe roadmap including:

- Achieving full employment and raising human capital to tackle poverty amongst the unemployed, the inactive and low-wage earners;
- Enabling female employment through universal provision of child care and the provision of elderly care;
- Active ageing to tackle poverty and social exclusion amongst the "young-old";
- Care for the very old.

In this way, employment will be a principle means for tackling poverty amongst those of working age and their families and preventing old age poverty. However, full employment cannot by itself ensure social inclusion and cohesion in society. Thus, a strategy for social inclusion must be far more comprehensive and mainstreamed in the New Social Europe.

The Charter of Fundamental Rights defines social inclusion as *"a process which ensures that those at risk of poverty and social exclusion gain the opportunities and resources necessary to participate fully in economic, social and cultural life and to enjoy a standard of living and well-being that is considered normal in the society in which they live. It ensures that they have greater participation in decision making which affects their lives and access to their fundamental rights."* Hence by implication, exclusion cannot simply be defined as income poverty or exclusion from the labour market, but is far more complex. Inclusion refers to the possibility for an individual to develop and fulfil his or her individual capabilities in a society through access and participation in its many facets.

Social inclusion is constituted by four parameters all related to participation: consumption (the capacity to purchase goods and services), production (participation in economically or socially valuable activities), political engagement (involvement in local or national decision making), and social interaction (integration with family, friends and community). The implication for any policy strategy for social inclusion is that it must be comprehensive in its approach. It cannot be limited to the provision of a minimum income

safety net or access to the labour market. It must encompass income and labour market policy, but also all public policies relating to participation in society: housing, transport, cultural resources, involvement in democracy and governance, civil society, education, and digital inclusion in the emerging information society, to name but a few. Therefore, social inclusion demands a mainstreamed strategy, based on social,economic, cultural and political participation.

Major pockets of social marginalization and exclusion can be presently found in poor suburban areas in many European countries, with concentrations of poor, unemployed, and badly integrated ethnic minorities. Investment in community regeneration is desperately needed, addressing housing supply and quality, schools, public services, access to work, transport, community trust and cohesion. National, regional and local authorities must engage in a new dialogue with the citizens of these communities, establishing a bottom-up approach, to give citizens a real co-responsibility in the future of their communities.

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. Commitment to a comprehensive and mainstreamed policy for fighting poverty and social exclusion is fundamental in the New Social Europe. Such a commitment has to be made a common concern and responsibility at the national and European levels.

Furthermore, binding social impact assessments of proposed EU legislation should be carried out, examining the social impacts on people's living and working conditions that may result from new legislation. A solely economic rationale in the planning of new legislation risks harming the development of the European Social Model and the European project as such, as was clear in the first European Commission proposal for a Services Directive.

2. The role of the public sector in promoting cohesion and inclusion

Public services are also at the heart of social inclusion and sustainable development providing public goods as well as allowing the exercise of fundamental rights – such as the right to education, to health care, to social protection. Universal access to public services constitutes one of the principle foundations for healthy, active and inclusive societies. It allows the fulfilment of shared values including social justice, human dignity, and equality, and of common objectives such as making economic development, social inclusion and environmental sustainability mutually supportive. Services of general economic interest - such as energy, transport or communications – are also essential for social cohesion and sustainable development. As such, assuring the future of public services - through timely renewal and investments to maintain high quality and universal access - will be of critical importance for the future of Europe 's welfare societies.

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Several of the most competitive economies in Europe have strong public sectors, thus overcoming the false dichotomy between liberalization or protection of the public sector as a factor for competitiveness. The public sector can act as an engine for development and social inclusion, guided by transparent and responsible government. This is a fundamental component of the New Social Europe.

The public sector will play a key role in the ambitions outlined in this report for a new, active welfare state. With government budgets ranging from 33% to 55% GDP, the public sector in Europe clearly plays a pre-eminent role in the production of goods and services, in the economy and in society.[25] In this sense, the public sector is the backbone of European societies and many good and bad lessons can be drawn from studying our experience in recent decades.

Traditional neo-liberal thinking has often suggested that the public sector was a burden for Europe's societies and that the focus on economic and social policy should be on well-functioning markets and the performance of the private sector. In neo-liberal economic thinking, the public sector is viewed as an "enemy" to competitiveness, ignoring the role it can and often has played as a purveyor of active investments into society's ability to meet the challenges of a globalized economy.

The public sector accounts for around 50% of the economy in most EU Member States, albeit with ranging between 33% and 57%. Until the mid-nineties, Member States generally increased the size of their public sectors in order to fulfil the need for more services in the social fields (better health care, education) and to reduce inequalities through social transfers such as pensions, unemployment benefits, also as a result of the economic recession that affected the majority of European countries.

As from the mid-nineties this general trend changed. The public sector has remained generally stable, but in some cases has been reduced. Improved fiscal balances and growth have helped many Member States to keep their budgets stable and avoid high borrowing. So the question that must be asked now for the public sector in the 21st century is: how should it develop?

The current demographic trends in Europe will inevitably demand that the public sector meet new needs: low birth rates, ageing and increasingly diverse populations will dictate these changes. But the basic rationale behind the public sector should remain the same in all our societies: pursuing the collective priorities of society. There are differences in the public sector across Europe, but the task for socialists and social democrats will be to ensure that renewal and restructuring in public services and administration are undertaken according to progressive values and objectives.

Socialists and social democrats must be explicit in our vision for a healthy future for the public sector. This includes addressing its efficiency: greater efficiency is needed not only in the private sector, but also in the public sector. While a small public sector would conventionally be considered economically efficient, a progressive concept of efficiency

rejects such a simplistic equation primarily because we believe in a social market economy and not in a market society. Figures on competitiveness across Europe repeatedly show that some of the countries with the largest public sectors top the lists on competitiveness too, notably the Scandinavian economies. Thus the existence of a large public sector in itself cannot constitute a reason for poor competitiveness and inefficiency.

Social, political, and economic trends have produced change in our societies, including new social policies, organizational restructuring and higher efficiency. With the emergence of new technologies, society has become more demanding; citizens are asking for faster and better services, higher levels of transparency and more user-friendly administration, to improve accessibility and inclusion. Socialists and social democrats should be front-runners in making these improvements, which pose fundamental questions about how best to renew the public sector and renew governance.

There is no one-size-fits-all solution for Europe 's public sectors. But there are basic principles to which all should adhere. Its role must upheld in ensuring coherence and equal access for citizens to public services; in promoting equal opportunities; in acting as a basis for solidarity and inclusiveness; in supporting social justice, freedom and human dignity. In addition, the public sector can play a role in stimulating a healthy business climate and act as a pioneer itself in promoting the development of new technologies and industries. Thus, the public sector should be a dynamic factor in spurring forth progress in society and the economy.

The public sector should renew itself – according to progressive values – particularly in the following areas:

- Exploring new partnerships between the public and private sector;
- Putting in place a dynamic interplay between education and training institutions and employers to ensure optimal skills matching in the economy;
- Pursuing effective active labour market policy with the Social Partners;
- Promoting advanced research and development projects;
- Meeting better existing and new social needs, in a framework of rights and duties, helping people make the most of their potential;
- Establishing appropriate integration policies for immigrants;
- Using public procurement to pursue equal opportunities and high standards in the private sector by placing conditions on suppliers;
- Contributing directly to smart green growth.

There is a direct relationship between cohesion and inclusiveness and a modern, strong public sector.

The European Union can and must play a role in assuring the future of public services, which are at the heart of the European Social Model. Progress towards

establishing a Single Market in services has thrown up the question of how to safeguard the right of Member States to pursue social policies for the provision of public services, including services of general economic interest. The vast majority of Europe's citizens want a social market economy, not a market society. Therefore, appropriate legal frameworks for public services should be developed in the European Union, with whichcitizens can feel confident. Given that these services are vital for the exercise of fundamental social rights and for social cohesion in society, appropriate legal frameworks should be developed for services of general interest in the European Union. Important work has already been undertaken within the social democratic family in this regard: including the drafting of a framework directive on services of general economic interest by the socialist group in the European Parliament and a proposal for a directive on health services by a number of social democratic Health Ministers. Europe's socialists and social democrats must pursue these efforts.

The draft constitutional Treaty introduced a new clause providing a legal basis for legislative action recognizing public services and assuring their future functioning through clear principles and conditions.[26] This clause should feature in the new treaty for Europe, as a basis for building the New Social Europe.

3. Social cohesion across the European Union

The European Union must continue to play a role in improving social cohesion across the continent.[27] The Structural and Cohesion Funds have, since their inception, been crucial in raising the living standards of some of the poorest regions in the EU-15.

The Structural and Cohesion Funds have given new impetus to the regional and local levels in terms of their potential for development and job creation. The regional and local levels have enormous innovation potential; they can adapt and generate new prosperity. They must be strengthened in the face of globalization. The Structural Funds have allowed regions to feel part of a wider space, based on the true partnership that is Europe.

The impact of the Funds has been significant and indisputable: since joining the EU in 1986, Portugal's living standards have risen by 50% (jumping from 50% of the EU 's average GDP, to 75%). The case for solidarity measures is also economically strong: in the Single Market, rising purchasing power in one Member State is of direct benefit to businesses in another Member State. In the context of an enlarged Union, characterized by even greater socio-economic disparities, cohesion policies retain their full relevance. In the New Social Europe, the policies which were so successful in Portugal Spain, Ireland and Greece should be deployed to the benefit of new Members States in Central and Eastern Europe.

CHAPTER 11

Diversity and integration - we cannot do without it

The European Union is diverse in its ethnic, religious and linguistic communities. This diversity must be respected, on the basis of Europe's shared values and within a framework of inclusiveness.

Immigration and integration policy must be reformed to:

- Promote the integration of immigrants, in a framework of rights and duties, equal treatment and non-discrimination;
- Establish a right and duty for immigrants to learn the host country language;
- Ensure the integration of immigrant children through child care and education systems;
- Adhere fully to the EU's Common Basic Principles for integration;
- Link admissions and integration policies in a common strategy at national level;
- Build trust in the management of migration and tackle the challenges of integration, particularly at the level of local communities;

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- Fight illegal employment, precarious conditions and exploitation through financial penalties for employers;
- Pursue a flexible leave and return component for skilled immigration, in partnership with countries of origin, based on the concept of "brain circulation";
- Establish a common EU admissions procedure for economic migration, combined with coordination of nationally-determined admissions policies;
- Integrate the management of migratory flows in the EU's development policy, including a new partnership with countries of origin;
- Develop an EU policy for tackling illegal migration, including a strengthening of cooperation and technical assistance between Member States border control services and FRONTEX (European Agency for the Management of Operational Cooperation at the External Borders);
- Foster greater understanding of common European values and the respect for diversity;
- Take the lead in building the alliance of civilizations.

Europe's peoples have always been made up of a wide diversity of origins. Europe has never in history been a fortress to the rest of the world. The richness of its cultures, languages, traditions, creations and perspectives is founded in this diversity. The New Social Europe is one in which Europe's peoples recognize their diversity, celebrate, enjoy and learn from it, rather than deny or suppress it. No culture can survive in isolation. All cultures survive through development.

In recent years, immigration has become a highly controversial political issue. Right-wing, populist and extremist, xenophobic parties have sought to incite public fears of immigrants. The reality that Europe's socialists and social democrats defend is that Europe needs migration, that our Social Model depends on its openness, and that immigrants in Europe play a positive role in society and the economy. The policy that Europe's socialists and social democrats wish to pursue is of managed migration, that is fair, responsible and dynamic, and of partnership with developing countries.

1. Making immigration a dynamic factor

Europe's current ethnic and religious mix varies from country to country. Overall there are 13 million third country nationals living in the EU-15 (3.4% of the population), from a wide diversity of origins. Economic immigration has been positive and important for Europe, bringing fresh skills, talent and manpower into Europe. Immigration has in recent years prevented several European working age populations – on whose manpower our economic

growth depends - from shrinking. It has contributed positively to the development of Europe's economy overall, through abundant labour supply for key sectors, as a response to short and medium term shortages and providing new skills from abroad. Diversity drives economic dynamism. It represents one of the factors that will help European countries develop into the best performing knowledge-based in the world.

However, in order to turn immigration and our current immigrant populations into a pre-eminently positive, dynamic factor, Europe must change its policies in relation to our current immigrant populations and to immigrants in general. At present, the aim of participation and inclusion falls well short of the reality. European countries are failing to integrate immigrants successfully.

Although immigration is not a sustainable solution to population fall, it is part of the solution for the critical ageing of the European population. In an ageing society, Europe will need skilled migrants to fuel economic innovation and dynamism, but also less-skilled migrants to provide the labour supply needed for key sectors of the economy. Sustainable and effective migration policies will need to manage both types of flows. Furthermore, integration policies must be created in some cases and fine-tuned in others, according to the specific features of each of those groups.

Therefore admissions and integration must be part of one comprehensive policy, rather than two separate policy concerns as is now the case in the EU Member States. Admissions should relate to the capacity to integrate immigrants and vice-versa. Policies should be mutually-supportive and jointly-handled.

Governments need to build more trust in their capacity to manage migration amongst the general public and communicate its positive benefits. Socialists and social democrats should not underestimate the negative perception of immigration existing in large parts of our societies and therefore making the positive case for migration requires solid evidence, pedagogical action and strong political leadership.

National decisions concerning admissions should involve all relevant stakeholders and be made transparently. Admissions policy should be consistent, fair and based on relevant criteria of selection. These criteria should reflect the economic need for migrants through the appropriate skills mix and balance between temporary and permanent stay.

Making immigration a dynamic factor in the New Social Europe will also imply introducing flexible entry and leave policies at national level, based on a new concept of "brain circulation", which optimizes rather than limits the mobility of migrants. "Brain circulation" consists of allowing highly skilled migrants the opportunity to work in Member States, contributing their know-how to the European economy, and taking accumulated skills and capital back to their home countries, safe in the knowledge that they can return to work in

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Europe at a later date. "Brain circulation" policies that allow migrant workers to come to Europe to work for a certain period of time or for specific tasks (temporary or seasonal immigration), entitles these workers to return to their countries of origin, while retaining the possibility of returning to work in Europe at a later stage, will represent a new element of mobility, while diminishing the number of over-stayers and facilitating successful return programmes. For this purpose it will be important to have clear rules on portability of pensions to their countries of origin.

"Brain circulation" would also have the effect of minimizing the risk of "brain strain", a phenomenon by which developing countries lose their skilled workers to developed countries and do not return to their home countries for fear of losing their entry rights in Europe. This concept of flexibility could be expanded to other sectors of non-skilled migrants, thus providing an additional factor of flexibility and mobility in the labour market.

We, socialists and social democrats, have always insisted on respect for diversity, tolerance and fundamental rights for all. There is now an undeniable need for creating a new consensus on immigration. There is a need for a clear narrative around our diversity and common future. A need to open channels to legal immigration because the alternative is the "black economy", hidden unemployment and new social exclusion. A need to tackle illegal migration. A need to protect the fundamental rights of immigrants and asylum seekers. A need for much better integration of immigrants into society.

2. Integration for a socially cohesive society and dynamic economy

Indeed, the earlier immigrants are integrated into European society, the more they will contribute, through their work and their tax contributions to our welfare societies, and benefit from employment, given the employment conditions and protection from exploitation guaranteed to all legal workers.

The success of integration depends to a large extent on employment, but must be complemented by broader policies for social inclusion. Social inclusion policies need to be framed according to the specificities of migrants, including those of the second generation that have different demands and face different problems from the first generation of migrants. The Basic Common Principles agreed by EU Member States in the Common Agenda for Integration (November 2004) represent a very useful and valid set of principles, values and practices to which all European countries should adhere in the New Social Europe.[65]

Legal immigrants who settle must be integrated as European citizens who fully adhere to the democratic values of the EU, with equal rights and duties, including a right to

participation in the public life of host countries. At the same time, migrants who are granted temporary stay should also benefit from a clear set of rights.

A basic duty for all migrants must be to learn the language of the host country and respect its laws. At national level, Member States should set out clear guidelines for the rights and duties of immigrants, for example through national Charters.

European countries must pursue policies that combat discrimination on ethnic grounds and provide education, notably language and citizenship courses that facilitate integration. Active citizenship, through the involvement in the public and institutional life of the country of residence, is equally important for successful integration. This means "civic citizenship", consisting of rights and duties in the economic, social and cultural spheres, but also political citizenship. Some European countries have already established the right to vote for third country nationals in local elections.

Nevertheless, the recognition of formal citizenship is not enough to guarantee social inclusion. It is necessary to identify and combat the root causes of exclusion related to ethnic, religious and cultural discrimination. Equal access to education and training and the labour market as well as equality of treatment in the workplace are a prerequisite of successful integration of migrants.

The benefits of immigration should be evenly distributed across communities and negative impacts must be assessed and addressed effectively. Immigration can have adverse impacts in communities when public services are not adapted or provided with sufficient resources to meet the needs of a growing and increasingly diverse population. Governments and local authorities must effectively address the improvement of public service delivery in diverse communities as part of a credible policy for managing migration.

Besides the relevance of work places and public services to the success of integration policies, local authorities have a key role to play, in promoting integration, particularly in big cities where immigrants are concentrated. Integration requires proximity and, in many European countries, migrants tend to concentrate in suburban areas, posing new challenges to the management of those areas. The local level will be crucial for establishing and promoting initiatives to foster trust and cohesion within local communities.

Cultural alienation represents another major challenge to integration and probably the most difficult one. Resentment towards mainstream values fuels cultural marginalization and is the breath of extremism, radicalization and violence. All European countries must do more to foster a common understanding of shared values through education, through debate at all levels and with all stakeholders. Europe must confront the eternal issues of identity, in full recognition of the fact that identity, or rather identities evolve and multiply rather than remain fixed in modern societies.

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Diversity and the respect for the cultural identities of different communities can and must co-exist with basic, shared values which all citizens, irrespective of their origin, religion or culture, are bound to uphold. These basic, universal values of European society include democracy, human rights, equality between men and women, and human dignity.

3. The role of the European Union

The European Union must increasingly play a role in managing economic migration, given the interdependence of Europe's economies, Europe's common external borders and the porosity of its internal borders.

A common immigration and asylum policy must be developed in the European Union, together with strong, new efforts for positive integration in our Member States. This common policy must be based on European solidarity between Member States and with the countries of origin. Sharing the costs and responsibilities, building on rights and duties for all, are natural points of departure. Focus must be placed on direct cooperation with the countries of origin in order to promote co-development and legal migration and tackle illegal migration. There is a need for a coherent and comprehensive European approach based on progressive mutual interest and cooperation in the long term. Migrant workers are not and should not be treated as an economic buffer for business cycles in the European economy.

Legal economic migration must be properly managed, within a context of Member State cooperation. At EU level, a standard admissions procedure should be introduced, in light of the strong cross-border effects of differentiated admissions policies. Conversely, at national level, EU Member States should remain the primary decision-makers in terms of numbers of admissions, given the implications for integration policies.

Currently, migrants are admitted to one Member State but are not entitled to work in another even if they find themselves unemployed and could fill shortages in another European labour market. In fact, only migrants who become permanent residents, requiring six years of residency, can move to another Member State. A better coordination of admission policies is needed among Member States, since this potential mobile working force could be of benefit to the European economy (bearing in mind that only 2% of EU citizens make effective use of freedom of movement).

Illegal migration has also highlighted the need for specific EU policies, including the management of border controls. Channels for illegal immigration must be closed, based on effective cooperation between Member States within the European Union. There is an

ongoing violation of human rights causing death and abuse. Forced labour, slavery and human trafficking must be fought head-on by using much better, integrated control of internal borders as well as greater solidarity and burden sharing in the reception of immigrants who have been exploited. Sanctions are needed for adequate protection of immigrants.

If Europe is to attract the best and brightest of immigrants on fair terms, Europe will have to develop policies that balance our needs with those of immigrants and their home countries. Migration is part of a partnership approach with countries of origin in the global framework of EU development policy. Integrating the management of migratory flows in the context of development policy is a highly relevant means for building a partnership with countries of origin that will open the way to engage diasporas in the host countries as part of a tripartite endeavour. This kind of partnership will also have a positive impact on the integration of migrants in European societies by giving them a shared purpose in order to promote the development of their countries of origin. Better integrated immigrants will be a more effective component of this tripartite agreement and can have a positive impact in the development of their countries of origin.

We, socialists and social democrats, have vital work to do in promoting the acceptance of immigrants in our societies. We want to lead efforts for an "alliance of civilizations", including respect for cultural and religious diversity, in accordance with the European Charter of Fundamental Rights. The fight against racism and xenophobia must be based on strategies for integration and full employment. A far more in-depth dialogue must be established with immigrant and ethnic minority communities, notably Muslim communities in Europe. A dialogue must also begin between Europe and Islamic countries particularly.

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CHAPTER 12

Decent work for all – our global ambition

To build a New Social Europe, globalization will also require a strong social dimension.

The New Social Europe endorses the Decent Work Agenda, put forward by the ILO, giving priority to four strategic objectives: Employment and enterprise creation, Rights at work, Social protection and Social dialogue.

The New Social Europe will promote the integration of the Decent Work Agenda into relevant EU policies such as development and trade.

Finally, the New Social Europe will involve reconsideration of the balance between developed and developing countries in the globalized world.

Social democratic thinking and policy-making was developed in national and more recently in EU-wide frameworks. Globalization – with strong market forces and weak political institutions - fundamentally challenges the traditional approach to policy making. However, the basic social democratic idea of an integration of economic and social policies to make them mutually supportive remains valid. These ideas are now gaining support, after many years of neo-liberal views dominating the debate on globalization. This has been discussed in an earlier policy report and policy declaration of the PES.[63] The old Washington Consensus is outdated and there is an urgent need for new thinking and for new initiatives.

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1. The imbalances of globalization

Globalization has produced serious imbalances in terms of trade, Foreign Direct Investment (FDI) and ICT between Europe and the developing world. The fruits of globalization are unevenly distributed between and within countries in the developing world.[79] Although 200 million people have been lifted out of poverty in merely a decade in East Asia, more people live in poverty today than at the beginning of the 1990s in sub-Saharan Africa and Latin American. Despite an increase in total world income of 2.5% annually, the number of people living in poverty has in fact increased by almost 100 million. This can at least partly be explained by a phenomenon now commonly known as "jobless growth" in Africa and Latin America, where most people remain in informal or out of work despite reasonably high growth rates.

Local economies, governance and welfare institutions are often too weak to foster job-rich growth and rising equality in the developing world. The under-development of the welfare state means that there are few redistributive mechanisms to eradicate poverty and extend opportunities to the poor majority. Fledgling local businesses cannot survive the strength of international competition from foreign multinationals. Rapid advances in productivity, thanks to new technology, achieved primarily in industrialized economies have left workers and entrepreneurs in developing countries out in the cold. In addition, poor governance and internecine conflict destroy development opportunities along with lives, in the absence of effective international intervention, mediation and development assistance.

In this complex situation, there is a profound need to re-define the EU global political agenda. There is no other major political entity in the world today than the EU that is capable to forcefully promote a socially progressive international agenda. Taking the lead on this agenda will be in Europe's self-interest and in the interest of people around the world. This goes beyond the ambition of existing development policies into promoting a global roadmap for the development of humankind in the decades to come.

The same can be said about social democracy itself. Today, as a political movement, we are facing a new and immense political challenge, which is to construct and to promote as broadly as possible a socially progressive world vision aiming at the combination of economic development and social progress in all relevant policies throughout the governance scale: from local towards national, regional and global policies.

Until a few years ago, this seemed like a desperately huge challenge. More recently, the international political context has started to undergo significant change which, although in an early and therefore still fragile phase, represents an enormous opportunity for us.

2. Decent Work as a global objective

In 1999, the ILO proposed the concept of "Decent Work", endorsed as the overarching goal of the organization. Since then, the work of the ILO World Commission on the social dimension of globalization in 2004 and, in September 2005, the inclusion of a clear political reference to the Decent Work Agenda in the UN Social Summit conclusions,[21] have opened up a new political space which we must now help to further develop and use.

Decent Work puts the priority on four strategic objectives:

- **Employment and enterprise creation**
  Ensuring that employment and income are placed as a central objective of national and international development policies. More opportunities to develop the innate initiative, creativity and entrepreneurial spirit of people. Increased access to skills development, training and employability. An enabling environment for investment, enterprise development - especially small ones, and a fair linkage to the global economy. Combining productivity and economic performance with security and stability.

- **Rights at work**
  Respect for international labour standards, in particular freedom of association and collective bargaining, the elimination of forced labour, child labour and an end to discrimination at work against the most vulnerable, especially women. It means a voice for all - especially the weakest in society. Also labour ministries and labour courts that have the means to perform their functions.

- **Social protection**
  Safeguarding people against the vulnerabilities and contingencies of work and life - unemployment, accidents, sickness and old age; Safer and healthier working conditions. combating HIV/AIDS through the workplace; basic social protection for those working in the informal economy and bridges towards the formal economy. Identifying, based on experience, what is the best balance between private and public-led social security systems in diverse country realities.

- **Social dialogue**
  Developing ownership and participation, addressing workplace disputes and labour issues through dialogue within the enterprise itself, or at the sectoral, national and global levels that counterparts may prefer. Fostering social cohesion at the national level. Social institutions where voices of all are heard - strong and independent workers and employers organizations.

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Creating diverse possibilities for conflict resolution as a key development tool. Consensus-building between government, private sector, parliaments, trade unions, local authorities and citizens groups, among others, on key policy directions and tools to implement Decent Work objectives.

3. Integrating Decent Work into EU policies

The ILO World Commission on the Social Dimension of Globalization proposed that decent work for all should become a global goal for all international, regional, national and local public and private actors. At the level of the EU institutions, the European Commission supports the promotion of decent work for all as a global goal in its communication of 18 May 2004 *"The social dimension of globalization - the EU's policy contribution on extending the benefits to all"*, making proposals on how to integrate the Decent Work Agenda into relevant EU policies, such as development or trade. This approach was endorsed by the Council in 2005. The EU need to foster an international political climate as favourable as possible to the agenda's gradual integration into global and, more importantly, national policies, especially in poorer countries.

In addition to the EU policy level, progressives must build broad-based support with civil society, businesses and trade unions in favour of decent work as a global objective. In this respect, initiatives such as the Global Progressive Forum, could play an important role, launched and supported by the PES, its Parliamentary Group in the European Parliament and the Socialist International.

Building a New Social Europe and promoting decent work for all are part and parcel of the same progressive agenda in a global perspective. They are closely intertwined, reflecting the world's own increased interconnection and, therefore, increasingly common destiny.

As socialists and social democrats, and as Europeans, we must systematically and forcefully fight for a globalization with a strong social dimension, because there can ultimately be no future for a social Europe in a purely competitive world in which social rights are limited and broad-based job creation is not actively promoted.

4. Developing a global approach to global development

Decent Work will be an essential tool for social and economic development across the world and a vector for the achievement of other development goals. Nevertheless, the development agenda will remain broader than decent work alone – socialists and social democrats must also engage in this agenda.

A new balance is indeed needed between developed and developing countries in the globalized world. A new debate should begin on how this balance should be struck. The achievement of the UN Millennium

goals must remain a central element. The European Union and its Member States should strengthen its dialogue with other industrialized and developing countries on the major questions that must play a role in this balance: a fairer trade regime; a new approach to intellectual property, including generic medicines against fatal diseases such as Aids and malaria; meeting the 0.7% GDP target for development assistance; how to integrate developing countries into the global fight against climate change and environmental protection; debt cancellation for developing countries; and reform of global institutions.

There can be no New Social Europe without a strong external dimension for the European Social Model. Europe has powerful tools to act in the world. Let us use them.

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CHAPTER 13

A new deal – rights and duties

The time has passed for top-down policy-making and governance. Now, it is time to engage all actors in society, using the capacities and experience of each towards our common goals. Without participation in the broadest sense, we will not manage to introduce this new agenda as a positive force for society at large. People, parties and civil society will have to work together to revitalize Europe's welfare societies and our democracies.

Civil society organizations play an important role in our welfare societies. They are gaining ground because of their ability to fill a gap between the market and the state, between business and government. They represent a unique combination of private structures and public purpose.

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There is much of common ground in relation to social responsibility and involvement, a unique basis for cooperation in the challenges which lie ahead and a strong force to be mobilized for the reform of the European Social Model.

New Social Europe is an invitation to people, parties and civil society. It will be developed on the basis of debate and dialogue to serve as a model for the active involvement of people all over Europe in policy-making for the 21st century to revitalize both Europe's welfare societies and our democracies.

People, parties and civil society were the driving forces behind the development of welfare societies in Europe during the 20th century. The emerging new Europe – enlargement, globalization, demographic change and technological development - runs the risk of being driven by strong economic forces, leaving ordinary people outside the political process with social exclusion and a democratic deficit as consequences.

Thus, a new strategy for democratic involvement is needed. This New Social Europe is an invitation to socialist and social democratic members, to trade unionists, to the responsible business community, members and supporters of civil society movements, and all other interested people all over Europe to come together to shape these new strategies and new policies - better economic, social and environmental policies, not fewer - to make Europe more inclusive, more dynamic and to make Europe stronger and more sustainable.

Cohesive societies will promote participatory democracies and be the strongest competitive factor in the global economy of the 21st century. Because people, ideas, learning throughout life, personal development and an active interplay between all actors in our societies will allow European welfare states to be at the cutting edge of sustainable economic and social development.

Rights and duties for all are the glue to ensure cohesion in the New Social Europe. 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.

Rights and duties apply to everyone in society. The time has passed for top-down policy-making and governance. Now, it is time to engage all actors in society, using the capacities and experience of each towards our common goals. Without participation in the broadest sense, we will not manage to introduce this new agenda as a positive force for society at large. People, parties and civil society will have to work together to revitalize Europe's welfare societies and our democracies.

Civil society organizations are gaining ground because of their ability to fill a gap between the market and the state, between business and government. They represent a unique combination of private structures and public purpose, of flexibility and involvement.

Civil society is a broad and complex concept, encompassing informal as well as formal organizations, religious as well as secular organizations, organizations performing expressive functions – such as advocacy, environmental protection cultural and political expressions – as well as those performing essentially service functions, such as the provision of health education and welfare services. Furthermore, civil society organizations can have paid staff as well as being staffed entirely by volunteers.

A global study of civil society, based on data from 35 countries, of which 18 are European countries, has pointed out that the civil society is a considerable economic force. The strength of these organizations varies between countries; the sector is relatively larger in Western Europe and Scandinavia - with the Netherlands, Belgium and Ireland in the lead - than in Central Europe where civil society has a very limited role in the Czech Republic, Hungary, Slovakia, Poland and Romania.[72]

Civil society organizations deliver a variety of human services; they are well known for identifying and addressing unmet needs, for innovation and for serving those in greatest need. They are also of great importance for their advocacy role. They identify problems and bring them to public attention: *"The civil society is the natural home of social movements and functions as a critical social safety valve, permitting aggrieved groups to bring their concerns to broader public attention and to rally support to improve their circumstances"*. They also play a central role in community building, in the creation of "social capital".[73]

The way civil society is organized and functions differs from one part of Europe to another, reflecting the different forms of development paths of our welfare societies:

- In continental Europe, the civil society sector is generally quite large, averaging almost 8% and exceeding 10% in Belgium and the Netherlands. Much of this labour force is paid, not volunteer. The organizations have access to substantial levels of public sector support. Nearly 60% of civil society sector revenue comes from the public sector. Thus, civil society has an important role in channelling welfare support to individuals;

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- In the UK there is an old and longstanding tradition of reliance on private charity. However, government involvement in social welfare provisions has expanded in recent decades. Still, non-for-profit organizations play a significant role in the UK;
- In the Nordic countries, civil society is strong, due to a sizeable volunteer workforce, but fewer paid non-for-profit workers. In the Nordic countries strong advocacy and professional organizations are at the centre of civil society, playing an important role in the public debate and in public policy making. In Denmark up to a third of the population are engaged in volunteer work, with a higher degree of paid work than in the other Nordic countries;
- Finally, civil society in Central and Eastern Europe is still very small, much less developed than in Western Europe and Scandinavia. The diminished size of civil society is a heritage of the old regime, which did not allow freedom of action and freedom of expression, necessary conditions for civil society to flourish.

Civil society is a unique and important force for strengthening Europe's social capital and its social cohesion. It must be fostered as an important contributor to building the New Social Europe.

However different Europe might be in these respects, there is much common ground with regard to social responsibility and democratic involvement, a unique basis for cooperation in the challenges which lie ahead and a strong force to be mobilized for the reform of the European Social Model.

New Social Europe is an invitation to people, parties and civil society. It will be developed on the basis of debate and dialogue to serve as a model for the active involvement of people all over Europe in policy-making for the 21st century to vitalize both our welfare societies and our democracies.

CHAPTER 14

Can we afford the New Social Europe?

Can Europe afford to build a New Social Europe, a new and inclusive welfare society?

The traditional argument from conservatives and neo-liberals has always been that Europe cannot afford our welfare societies - the European Social Model - because of the pressures of globalization. But this argumentation has become a cliché, with no foundation in reality. There is indeed no evidence to show that countries with large public sectors are being undermined by competitive, global pressures.

Foreign Direct Investment decisions depend on far more than the tax environment of the host country in question. Good governance, transparency, stability, a highly qualified workforce, high rates of innovation, high quality infrastructure and public services all play a crucial role in attracting investments into a country. A modern and strong public sector and well-developed social policies are productive factors. Europe's societies have compelling success stories to tell on the pursuit of social justice, economic development and environmental sustainability as mutually supportive goals.

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The right combination of new, progressive reforms and focused growth policy will not only make our societies more competitive and more inclusive, but will also improve public finances.

Unemployment is much more costly for individuals and societies than many are aware. Low growth, high unemployment, low qualifications, old fashioned structures all translate into low tax revenues and high public spending for our societies. Public policy intervention to stimulate new investments, to reach full employment and pursue sustainability through smart, green growth will be many times more cost-effective and beneficial for public finances in the medium to long term than the heavy real costs of non-intervention.

That is why the long-term prospects of financing a New Social Europe are there. The initiatives detailed in this report, to create a new and inclusive welfare society, will contribute to positive sustainable development in the long run. It is about making our societies proactive and dynamic - both in the private and the public sectors.

Studies have shown that the welfare costs of a society are broadly comparable, but produce very different social outcomes as a result of the public/private mix chosen. While the US has net public expenditure of 17.5% GDP, its private expenditure – including health, higher education and pensions - raises its total social protection spending to 25.8%, which is almost that of Italy 's (26.4%) and far closer to Germany 's total of 28.9% and Sweden 's total of 30.6% than one would initially expect.[74]

Private social protection is expensive: the public costs of private social protection provision can amount to around 1.5% points of GDP in tax subsidies and incentives. Moreover, in a system in which private expenditure takes on an important role, an individual's spending capacity and choice gains higher importance. In the US, over 40 million citizens have no health insurance. However, the US is spending more on health than the EU: 14.7% for the US and an average of 7.6% for EU countries. Still US citizens have a healthy life expectancy below that of Europeans.[75]

So the real questions Europe should be answering are the following:

- Is Europe willing to go down the track of higher exclusion for the illusion of a cheaper welfare state?
- Or, should Europe commit itself to a more effective welfare state with better inclusion and higher employment?

Europe's socialists and social democrats are in no doubt. What we need in our New Social Europe are better social policies, not fewer - better learning for life, investments in child care, active and inclusive labour market policies, effective integration of immigrants - enabling everybody to participate in the long-term sustainability of the welfare state.

1. Generating new resources to finance the New Social Europe

The purpose of the New Social Europe is to better use our most precious resource – people's will to work, take new initiatives, create new resources – by making economic policy, social and environmental policies mutually supportive and sustainable. In economic terms the purpose is to get more hours worked over the life course and more output per hour worked. In terms of sustainability, the purpose is to achieve this in the framework of diminishing pressure on the environment.

There will broadly be five ways of generating new resources for the New Social Europe. These include:

- Obtaining higher economic growth through simultaneous investment strategy across the European Union and better economic policy coordination;
- Improving productivity for greater prosperity;
- Increasing employment and cutting unemployment;
- Sustainability;
- Changing the structure of public expenditure.

The effects in additional growth and employment will be significant. Where possible the best, but also the most conservative, estimates are cited here. The growth and employment effects of each action cannot be added for a final global estimate, but should be taken as indicative of the magnitude of Europe 's potential gains if Europe commits to building this New Social Europe.

Macroeconomic calculations show the positive, long-term effect of structural changes in the labour market and the rest of the economy, raising the numbers in work, reducing structural unemployment and increasing productivity, as proposed in the New Social Europe.[78]

The implementation of the PES growth and investment strategy in the next 4 to 5 years and the realization of our long-term strategy for the New Social Europe, gives us a future based on sustainable financing of proactive welfare states, excellence in economic performance, social inclusion and environmental sustainability.

By combining a shorter term investment strategy with a long-term roadmap, our welfare states in the 21st century are not only affordable, but productive and sustainable. As illustrated in macroeconomic calculations, the New Social Europe would create new jobs for almost 10 million people in the period until 2020, in addition to the number that would be created in the framework of current policies.[79] Current accounts and public budgets would be in better shape; Europe 's people would be better off. And future generations would benefit from smart, green growth, protecting our environment from degradation and climate change.

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Obtaining higher economic growth through simultaneous investment strategy across the European Union and better economic policy coordination

The EU-25 average growth rate has reached an average of 2.2% GDP in real terms in 2006. This means that we will this year have 2.2% GDP more for public and private consumption or investments. But more additional resources will be needed to achieve the New Social Europe.

If all Member States participated in a simultaneous Pan-European investment strategy, the synergies would generate an additional 0.7% and 0.9% GDP annually for the EU-15, and for the EU-10, there would be growth in the first year of an extra 0.7% and then further increases in growth in subsequent years. The effect over a 4-5 year period of implementing the strategy would be 4 million new jobs. The long-term effects would be greater, once investments were fully absorbed.

Economic policy coordination would serve to reinforce this growth effect, generating even higher resources in the long term.

Improving productivity for prosperity

Growth in productivity, i.e. more output per hour, has been slow in the EU in the last few years and Europe is lagging behind the US. However, some countries, like France and Germany, show a performance in par with the US in productivity per hour worked. By focusing strongly both on promotion of change and on management of change, a huge potential for economic growth could be made available. The key to success is investment in knowledge - education, raining and learning throughout life – for effective use of modern technology.

Increasing employment and cutting unemployment

There are 18 million people, or 8% of the working age population registered as unemployed in EU 25, a high level. There is about 64% of the working age population, who are employed, a low level. Through a more successful employment policy, raising the employment level to 70% and above, the level of GDP can be increased by 10%, a huge potential for more prosperity and welfare. This will increase both private and public income and will reduce public expenditure for unemployment benefits and other income maintenance programmes.

Reaching the target of a 70% rate of employment by 2010 – up from 64% today - would generate an additional 7.7% GDP in 2025.[78] The New Social Europe should aim for even higher employment, given that some Member States already exceed the 70% target rate of the Lisbon Strategy.

Knowledge, innovation and sustainability

Higher and more productive employment will have to be achieved with less pressure on the environment. Investment in sustainability - new knowledge, new technologies and new infrastructure - will promote economic growth and make the economy more environment friendly, i.e. "smart growth".

Reaching the R&D target of 3% GDP by 2010, and maintaining 3% GDP per year, would generate an extra 10% GDP to the European economy in the best scenario and an extra 3% GDP in a conservative estimate by 2025.[74]

Energy efficiency would generate energy savings of 20% of energy consumption by 2020, with savings of up to €60 billion for the European economy. Investments in sustainable forms of energy would also generate sustainable growth and jobs.

Changing the structure of public expenditure and using the public sector proactively

A shift away from consumption, notably unproductive income transfers such as for early retirement and away from unproductive subsidies and investments in old technologies, to productive investments – in child care, active labour market policies, education and training, lifelong learning, ICT and sustainable sources of energy. Most EU-15 countries will be able to do this within current levels of public expenditure. However, the majority of new Member States will need to gradually raise their levels of public expenditure as their economies grow.

These observations illustrate both the growth potential of the European economy and the need for better policies, national as well as European, to build a strong, vital and job creating economy with an inclusive labour market, the overarching objective of the New Social Europe.

The public sector should act as a dynamic factor in our societies:

- Improving the regulatory environment. Bringing down administrative burdens, compliance costs as part of a drive for "better regulation", rather than deregulation in the neo-liberal thinking;
- Better services to citizens to promote activity and inclusion;
- Improving transparency and fighting corruption will create a better environment for healthy growth and public revenues;
- Promoting new investments and initiatives for sustainable, higher economic growth and job creation.

2. Deploying the EU budget for the New Social Europe

The European Union can also contribute to supporting the financing of the New Social Europe through its budget. For the 2007-2013 period, the EU budget is set at a maximum total figure for the enlarged EU of €862,363 million in appropriations for commitments, representing 1.045% of EU GNI. While small in comparison to national budgets, the EU budget has an important role to play in achieving the EU's objectives.

In the 2007-2013 period, the EU budget will be spent on the following policies: 43% on the preservation and management of natural resources (notably the Common Agricultural Policy) 35.7% on competitiveness and cohesion; 8.4% on competitiveness for growth and employment; 5.8% on the EU as a global partner (notably development policy);

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5.8% on administration; and 1.2% on citizenship, freedom, security and justice.[88] Europe's socialists and social democrats must ask themselves whether the right balance is being struck between policy areas to focus resources on the political ambitions of building a New Social Europe. The main basis for the revision of the European budget must not be the budgets of the past but the political ambitions for the future of Europe. For socialists and social democrats, the New Social Europe encapsulates these ambitions for the future.

The European Council of March 2006 gave a clear mandate for the revision of the European budget. In its conclusions, it is stated that a *"comprehensive reassessment of the financial framework, covering both revenue and expenditure, to sustain modernization and enhance it, on an ongoing basis"* is needed. Moreover, it points clearly to a *"full wide ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of revenue, including the UK rebate, to report in 2008/2009"*.

It is now the time to carefully evaluate not only the EU budget but also national budgets, identifying which policies could benefit from the pooling of resources at EU level and vice-versa, in full respect of the principle of subsidiarity, and in view of the political ambitions defined for the European Union. One example is the Structural and Cohesion Funds, representing just over one third of the EU's budget, representing a key lever for upwards convergence in the New Social Europe.

The synergies of doing things together at EU level must be well documented and properly demonstrated. The recent decision of Defence Ministers to create a voluntary fund to finance military related research at European level, thus avoiding the duplication of national research efforts, is an example of the EU generating added-value.

Europe's socialists and social democrats must participate actively in this review of the European budget, taking account of the role it can play in contributing resources to the development of the New Social Europe.

3. Protecting our capacity to finance the welfare state: acting against fiscal dumping

The European Union has always promoted competition between firms – the purpose of the Single Market – but was not founded on the idea of competition between states. The future financing of Europe 's welfare states – of the New Social Europe – will also depend on Europe 's commitment to protect against fiscal dumping.

However, there has been a downward pressure on corporate taxes, with the EU's average rate (25.04%) falling below the OECD average and well below the US average (40%). In addition, the flat tax phenomenon - which has swept Estonia, Latvia, Lithuania, Slovakia and Romania over the past few years – poses a threat to the financing of progressive public

policies in our welfare states. Thus, some Member States see tax competition as a real threat and are launching reinforced political cooperation on the corporate tax base.

Member States currently decide unilaterally upon lowering their corporate tax base with a view to attracting more foreign companies to their territory. This has clear effects on other Member States especially neighbouring states. Competitive tax reductions cannot be a replacement for the former competitive devaluations. This could put the whole of EMU in jeopardy.

The lack of coherence in the corporate base and rate across the EU also poses problems to international companies that wish to operate in the European market and makes the completion of the internal market more difficult. The Lisbon Strategy stresses that key reforms are still needed to complete the Internal Market and that these should be given specific attention. The bulk of the action taken by the EU in the field of taxation policy addresses issues related to the establishment and functioning of the Internal Market. At present, several aspects of the functioning of national tax systems have negative effects on market integration or prevent the advantages of a Single Market from being fully exploited. Moreover, because the current business environment is more conducive to cross-border activities than was the case two decades ago, tax obstacles are now more evident as remaining barriers in the Internal Market.

The removal of such obstacles would allow businesses to make sounder economic choices that are based on the productivity of factors and are less distorted by the influence of certain extra costs. This would lead to an increase in the output of the economies of Member States and, depending on the conditions of the relevant product markets and the actual behaviour of firms, downward pressures on costs and prices. This, in turn, would result in welfare gains.

The introduction of flat taxes imposes burdens on the poor, benefit the wealthy disproportionately and increase deficits. It also diminishes the capacity to finance social policies. Government revenues are key to the reform of the welfare state and its financing should not be undermined.

The present coexistence of 27 different and sometimes even mutually incompatible corporation tax systems in the EU de facto imposes supplementary compliance costs and offers few opportunities for cross-border loss compensation, even though such loss compensation frequently exists for purely domestic situations.

This should not happen in a truly Single Market. While in their commercial activities (research, production, inventories, sales, etc.) companies increasingly tend to treat the EU as one Single Market, they are obliged, for tax purposes alone, to segment it into national markets.

Corporate tax rules treat cross-border activities in the EU differently and frequently less favourably than similar

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purely domestic activities. This encourages firms to invest domestically and deters participation in foreign companies and the establishment of subsidiaries abroad. At the same time, inconsistencies between national systems open possibilities for tax avoidance. Cross-border economic activities in the EU are also confronted with a number of other taxation measures, particularly in the VAT system, which impose cumbersome obligations and act as barriers to trade and investment.

Cross-border activities lead to statistically significant increases in compliance costs for all companies. Small and medium-sized enterprises are particularly vulnerable to such obstacles since compliance costs are proportionately higher for SMEs than for large companies, and relief from these obstacles could considerably increase SMEs' participation in the Internal Market, that is at present much lower than that of large companies. This results in economic inefficiencies and a potentially negative impact on economic growth and job creation.

As a first step, current initiatives to establish a minimum corporate tax base should be pursued with the aim of improving the functioning of the Internal Market. Stronger convergence of corporate tax rates should also be discussed. A Common Consolidated Corporate Tax Base would permit cross-border offsetting of losses and would solve the current tax problems linked to cross-border activities and restructuring of groups of companies. A method for sharing the consolidated tax base between Member States so that each state could apply its own tax rate to its share of the consolidated base would have to be agreed. This method should lead to a simpler and more transparent corporate tax system in the EU and prevent the risk of competition between states on the basis of fiscal dumping.

NOTES

1 "Acting together and simultaneously: Higher Growth and More Jobs", adopted by PES Leaders and Prime Ministers, 26th October 2005 Back to page 11

2 "Acting together and simultaneously: Higher Growth and More Jobs", adopted by PES Leaders and Prime Ministers, 26th October 2005 Back to page 31

3 Cf Annex II: "Increasing growth potential"

4 Cf. Annex 1. Figures as yet unavailable for Bulgaria and Romania

5 Cf Annex 2

6 "The "Flat Tax(es)": Principles and Evidence", Michael Keen, Yitae Kim, Ricardo Varsano, IMF Working Paper, September 2006 Back to page 52

7 Cf Annex 3

8 Cf Annex 4

9 Cf Annex 5, showing the pattern of job creation and destruction in industrialized and developing countries

10 Cf Annex 6, demonstrating the unequal distribution of Foreign Direct Investment inflows to developing countries

11 Cf Annex 7

12 Cf Annexes 8 and 41

13 Cf Annex 9

14 Cf Annex 10

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18 Cf Annexes 11-12

19 Cf Annex 13

20 Cf Annex 14

21 Cf Annex 15

22 Cf Annex 16

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29 Cf Annexes 17-18

30 Cf Annex 19 for Member State variations in employment and Annex for variations in unemployment

31 "The new Lisbon Strategy: An estimation of the economic impact of reaching five Lisbon targets", G. Gelauff and A. Lejour, Enterprise and Industry Directorate-General, European Commission, January 2006 Back to page 92

32 Cf Annex 20

33 Cf Annex 21

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39 Cf Annex 24

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41 Cf Annex 25

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44 Cf Annex 26

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53 Cf Annex 30

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60 Cf Case study in Annex I: Progressive urban time policies in Italy "Tempi della città" Back to page 126

61 Cf Annex 35

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63 Cf Annex 36 on the risk of poverty rate and most frequent activity status

64 Cf Annex 37 on poverty rates for children by family type, showing far higher rates of poverty amongst single mother families

65 Cf Annex 45. Public sector as measured by total government expenditure

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66 Part III, Article III-122 Back to page 136

67 Cf Annex 38 showing the wide variations in GDP per head in the EU-27

68 See the full text of the EU's Basic Common Principles in Annex I

69 "Europe and a new global order", 2003, Report by Poul Nyrup Rasmussen to the PES "Europe 2004: Changing the Future", Political Declaration of the PES High Level Group on Globalization, February 2004 Back to page 147

70 Cf Annex 6. The lion's share of FDI goes to Asia and the Pacific

71 Paragraph 47: *"We strongly support fair globalization and resolve to make the goals of full and productive employment and Decent Work for all; including for women and young people, a central objective of our relevant national and international policies as well as national development strategies, including poverty reduction strategies, as part of our efforts to achieve the MillenniumDevelopment Goals. These measures should also encompass the elimination of the worst forms of child labour, as denied in the ILO Convention N°182, and forced labour. We also resolve to ensure full respect for the Fundamental Principles and Rights at Work"* Back to page 149

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74 Cf Annex 39

75 Cf Annex 40

76 Cf Annex II "Increasing growth potential" for further macro-economic calculations on the macroeconomic impact of the New Social Europe

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80 Cf Annex 42