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The New Social Europe

The New Social Europe

by Poul Nyrup Rasmussen
and Jacques Delors

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Party of European Socialists

The way forward...



*Poul Nyrup
Rasmussen
PES President,
Prime Minister
of Denmark
1993-2001*

One year ago, the PES decided to launch a new initiative: the New Social Europe.

The New Social Europe report is provided to the PES under our joint responsibility as co-authors and co-chairmen. It is based on a year long process of internal debate and reflections, involving all member parties of the PES, the socialist group in the European Parliament, the socialist group in the Committee of the Regions, PES Women and ECOSY.



*Jacques Delors
Founding
President of
Notre Europe,
European
Commission
President
1985-1995*

Our welfare states, our Social Europe, have been an unchallenged success story throughout the 20th century. In the past 50 years the European Union has contributed substantially to the wealth and job creation in our Member States. The Single Market and Economic and Monetary Union have been of enormous significance.

In this new era of globalization and ageing societies, the conditions for the future survival of our welfare states have changed fundamentally. Citizens, parties and governments are faced with fundamental, political choices. Which way do we go in the face of globalization? What can we do about the consequences of demographic change? And, what can we do for the future cohesion of our societies?

We know that globalization offers new opportunities and chances. However, many of our citizens do not perceive the future in this way. There is an increasing risk of a permanent social divide in our societies - between those, who are well educated, employed, gaining new wealth through the opportunities generated by globalization - and those, who are low-skilled, unemployed, excluded and struggling to make ends meet.

The cohesion of our societies is at stake. Therefore, we need **a new common direction** for our welfare societies in the European Union as a whole. This is the very purpose of our New Social Europe: to create **a common direction for the future**. To offer a **roadmap** - a strategic framework for reviewing, rethinking and reforming the European Social Model in its many different versions. Our purpose is to ensure its survival with all its unique values of solidarity, inclusion and social justice for all in tact.

The New Social Europe is based on a review of the achievements of the past and on a perspective of what we can achieve in the next 10 to 20 years, **if we make the right choices** - in our Member States as well as in the European Union. We do not have to start a race to the bottom due to globalization and competitive pressures - or a devastating fiscal competition among states. This has never been the purpose of the European Union.


We can combine social justice and security with full employment, growth and competitiveness in this new age of globalization. A number of European success stories prove that we can. We will succeed in preserving our most cherished values, if we act and make the right choices.

This is our ambition in this report: to inspire progressive reforms; to inspire the process of reforming our welfare states within the European Social Model. To modernize without weakening it. To transform it so that it enables and empowers people, in more inclusive and cohesive societies. The incontrovertible ally in this process will be a renewed and stronger European Union. Our roadmap for the New Social Europe stands ready for political debate and decision-making.

Our work has benefited greatly from the input given by member parties, representatives in the three PES discussion forums on an active society, an inclusive society and the EU dimension. The chairpersons and rapporteurs of the respective forums have made invaluable contributions to this initiative: Hans Karlsson, former Minister for Labour, Sweden, and Angelica Schwall-Düren MP, Germany; Ministers Stephen Timms and James Purnell, UK, and Marisol Pérez Domínguez MP, Spain; Anna Diamantopoulou MP, former European Commissioner for Employment and Social Affairs, Greece, and Anne Van Lancker MEP, Belgium.

Our work has further gained from the invaluable inspiration and advice of António Vitorino and Gösta Esping-Andersen. We would like to express our special thanks to Allan Larsson, special advisor on this project, and to Alexandra Pardal, project coordinator in the PES secretariat, Hugo de Sousa and the entire PES staff for contributing to making this report a reality.

Poul Nyrup Rasmussen



Jacques Delors



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New Social Europe

Ten principles for our common future

Resolution adopted at PES Congress in Porto, 8 December 2006

Europe's commitment to social justice is unparalleled in any other region or continent. We are the only continent to be pursuing social justice and competitiveness as mutually supportive goals rather than trade-offs. This unique alliance of social and economic progress must remain at the heart of Europe's development. There is so much to gain in the global economy if we modernize in the right way, making our welfare societies fit for the 21st century – and so much to lose if we don't.

A new Europe is emerging: an enlarged Europe, a Europe transformed by new technologies and new knowledge, a Europe where people are living longer and healthier lives. But it is also a Europe which has left millions unemployed, socially excluded, in poverty and deeply uncertain about the future.

The European Union brings together a unique group of welfare states built through the efforts of ordinary people and trade unions and championed politically by socialist, social democratic and labour parties. This is our Social Europe.

There are those who argue that Europe can no longer afford its welfare states due to the unrelenting pressure of globalization. That the welfare state will have to be "down-sized" in the future and the role of government limited to averting the worst forms of poverty. They also argue that societies should compete with each other to set the lowest rates of taxation.

That the primary purpose of the European Union should be to promote free trade and competitiveness.

But Europe's socialists and social democrats know there is another way – not only in theory but in practice. We set out our commitment: that the European Union shall not be reduced to a competition among states, or a marketplace for social dumping. Europe's socialists and social democrats firmly reject such a short-sighted view of the economy, society and democracy. We stake our claim for a New Social Europe.

Our task is to renew and strengthen Europe's welfare states. This does not mean preserving our welfare states as they are. We know that in today's world, this would be doomed to fail. At the heart of the renewal of our welfare systems is a new set of rights and duties. They form the basis for a new deal between people and government.

Our Europe and Member States need better social policies, not less social policy, to tackle today's challenges. For socialists and social democrats, the future is about pursuing the right kind of reforms: making economic competitiveness, environmental sustainability and social justice mutually supportive rather than mutually exclusive. Modern government must ensure equal access and equal opportunity for all, if our societies and people are to be properly equipped to cope with the challenges of today's world. Equal access to the highest quality public goods and services must constitute a fundamental right for all in our societies. Government and the Social Partners should work together for equal access and equal opportunity in the labour market, ensuring fair work practices and

fighting discrimination. In return for this right, citizens and all actors in society have a duty to participate and contribute. It is only by respecting rights and duties on all sides that tomorrow's welfare states will be strong and effective, able to provide new forms of social security.

The future presents new risks, but also new opportunities. Europe is still suffering from the shortcomings of the past. Europe has to manage change in a new way that makes our societies more inclusive, bringing everyone on board. Nobody should be left behind; everyone should share the new opportunities.

Certain reform choices must be made in the Nordic countries; others in the new Central and Eastern European Member States; others still in the northern and southern parts of the continent and in the Anglo-Saxon model.

The New Social Europe is a roadmap for the future of European social democracy. It represents a new, common direction for our welfare societies. While our welfare societies have different points of departure, given their varying levels of development, they have far more in common than they have differences. We insist on radical changes in our societies, but the right changes with a perspective for a better future for ordinary people. In all our countries, reforms must be made without losing our insistence on inclusiveness and cohesion. Our approach is not to deal with European questions separately from national questions. For far too long, we have been thinking and acting in separate boxes – as if we were isolated from each other. Our idea is to act together simultaneously

in all of our four democratic houses: local, regional, national and European. We are decided to follow the same progressive principles in one common direction. The fundamental idea is that the direction of reform choices and investment initiatives must be based on cooperation. A focused coordination so that Member States do not take decisions that contradict one another.

It's about building bridges to the New Social Europe, rather than building new walls between our Member States. For this we also need a sustainable treaty basis for a Europe that is coherent and politically effective. The PES is ready to support a relaunch of this process.

A New Social Europe has to be a joint concern for all socialist, social democrat, and labour parties. A joint concern that also goes beyond our own parties to include other progressive political forces, trade unions, socially responsible businesses, civil society, national governments and the European Union. In this drive for a more inclusive, active New Social Europe, we invite all actors to participate in fulfilling the New Social Europe report on the basis of the following ten principles:

1. Rights and duties for all – the essence of cohesion

Some speak of leaving the future of our societies to the guiding hand of market forces.

We, the PES, have made our political choice: rights and duties for all, which represents

the glue ensuring cohesion in the modern welfare society.

The individual and government, as well as business, trade unions and other actors should have clearly understood rights and duties. The duty of government is to ensure that all citizens have access to public services – 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. 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.

2. Full employment – the basis for the future

Some say that full employment is impossible.

We, the PES, have made our political choice: full and high quality employment can

be realized. It is the best route to make societies more inclusive and more prosperous, using everyone's potential to contribute to the creation of new resources. It is clear to us: there can be no full employment without a modern welfare state – and no sustainable welfare state without full employment.

Labour markets must be made dynamic and inclusive through policies of support, security and activation throughout people's working lives. A new deal is needed to enable those excluded from the labour market to enter the workplace in a clear framework of rights and duties for all. Well-designed social, educational and active labour market policies will form the basis of this new deal. Young people must be given better chances of entering the workplace. In the years to come, age discrimination and passivity should be replaced with active, inclusive ageing, giving older people more opportunities to participate in working life. Concerted efforts must be made to fight precariousness in work.

The European dimension is clear: the EU and its Member States must provide the conditions for full employment through concerted, simultaneous efforts for smart, green growth, based on investments and the best use of new sustainable technologies. We must start by realizing the PES Growth and Investment Strategy.¹ European Economic and Monetary Union must be rebalanced through a real coordination of economic policies for high growth and job creation. Fiscal competition policies – like flat taxes at minimum levels – can be contradictory with Social Europe.

3. Investing in people – we take the high road

Some say that we just need to focus on opportunities for the highly skilled, not minding the poor prospects for the low-skilled without higher education.

We, the PES, have made our choice: the inclusive choice of investing in the capabilities of all people. It is about constantly developing skills and competences: about working smarter not harder; about competing in the right way, not on lower wages, but on higher skills.

Investing in people – through education, training and social policies – will be an essential tool to fight social exclusion, reach full employment and achieve social justice. Europe has a long tradition of investing in people, but the fact that millions are unemployed, excluded and poor is a sign that we need to do more to cope with the challenges of the 21st century. There is a divide between those who are highly educated and those who have been given poor educational opportunities. Those who need high quality education most – the poor and disadvantaged – are still those who receive it least in many European countries. Education and training is the most secure route to progress, equipping people with the knowledge and capabilities to take up the jobs and opportunities of the new knowledge society. Those without higher education should have a right to second chance education. There also needs to be a strong bridge between a new concerted investment and growth policy

and education and training policies to match new jobs in the economy with new skills in the labour force.

In today's globalized competitive economy, there can be no guarantee of a job for life. But what we, as socialists and social democrats, are committed to is guaranteeing employment throughout the course of a working life. This includes providing the means for re-employment during periods of unemployment. Employment security – providing new forms of social and economic rights – represents the best way of fostering job mobility in secure conditions in the global economy.

The European Union must focus on putting education and training at the heart of the Lisbon Strategy. Public and private investment in the knowledge society remains insufficient. The EU Structural Funds and European funds for education and training should be fully used by Member States towards our New Social Europe. A central part of achieving the knowledge economy must be a higher commitment to investment in innovation, research and development.

4. Inclusive societies – nobody left behind

Some claim that we cannot do anything about those at the bottom of society.

We, the PES, have made our choice: Europe's strength lies in its inclusive society in which everyone counts. But despite over a century of social policies, there are still too many inequalities in life chances and wealth.

Globalization and demographic changes will bring new opportunities to the many – but market forces will create marginalization of millions unless balanced by active social policies.

Those at greatest risk of exclusion – the elderly, the long-term unemployed, women, young people, ethnic minorities, the unskilled, those from deprived communities, and those suffering multiple disadvantages – demand renewed commitment from society and government to fight poverty and ensure new prospects for inclusion and participation. Public policies at national, regional and local levels must be targeted at individuals and communities. These should address all relevant issues, including health, social services, active labour market policies, as well as innovative measures for community cohesion, in partnership with local stakeholders and grassroots organizations. We must guide our reforms on the basis of rights and duties, making our social policies a springboard for entering the active, inclusive society.

Furthermore, the provision of care, health and social services for the elderly will become ever more important in an ageing society to avoid widespread isolation, and promoting activity, individual autonomy and inclusion, while helping families, and particularly parents, reconcile work with care responsibilities.

Europe's value-added must be based on our common approach in the Lisbon Strategy to realise a stronger economy and more socially cohesive society. The European Union must remain a

constructive ally in safeguarding the rights of citizens to high quality public services in all Member States and appropriate legal frameworks for Services of General Interest. Mandatory social impact assessments of proposed EU legislation and of the implementation of existing EU competition and internal market law should be carried out, examining the social consequences for people's living and working conditions that may result from legislation. These impact assessments must integrate the social, economic and environment impacts of legislation. Having a solely economic rationale in the planning of new legislation risks harming the development of the European Social Model and the European project itself, as was apparent in the first European Commission proposal for a services directive.

5. Universal child care

Some say that child care is a private matter and nothing more.

We, the PES, have made our choice: European countries should move towards child care for all who want it. High quality, affordable and accessible child care is an enormously positive investment both in the short and long term. It gives children the best possible start to their education, while giving them important social skills for life. Good local nurseries and crèches integrate parents and children alike into the community, and lay the foundations for stronger communities now and in the future. Parents often find that the contact with child care workers and other

parents provides invaluable support. Child care frees parents to enter paid employment, essential for ensuring equal rights for women and men, ending child poverty and tackling the economic challenge posed by demographic change. Child care creates local jobs – which further stimulates economic growth, particularly in deprived communities.

6. Equal rights for women and men

Some claim that enough progress has been made in equal rights between women and men and that we need no go any further.

We, the PES, have made our choice: in spite of progress, inequality between women and men is still strong and we must act on it. Women are the largest disadvantaged group from the labour market due to discrimination, insufficient access and unequal conditions. Wages are lower for women than for men and women still bear most domestic responsibilities in the family, often without child care support.

Equal rights for women and men are not just a moral imperative: they are also a key to solving the demographic challenge, to strengthening democracy and ensuring higher welfare for families.

New public policies for equal rights and opportunities – in working life, in family life and in public life – will bring economic progress and deliver social justice. These will be crucial for tackling gender inequalities in the labour

market, such as the pay gap, and the resulting inequalities in welfare and life chances, as well as pursuing better work-life balance policies, including the right to flexible working for parents. Social dialogue and collective bargaining will also play an important role in achieving these objectives.

The European value-added is clear: Europe must go further in the broad struggle for equal rights in all areas of work and life, not least in the field of equal pay for equal work as established in the Treaty of Rome.

7. Social dialogue – we cannot do without

Some say that the time for organized labour is over.

We, the PES, have made our choice: as work is an invaluable part of life and society, the way we organize our work and our shared responsibilities through trade unions and employers' organizations is fundamental for modern society.

The organization and conditions of working life are of utmost importance for achieving economic growth, full employment and equal rights. Working people and employers require strong and responsible representatives; thus trade unions and employers' organizations must undergo their own processes of renewal, encouraged by the commitment of government to social dialogue. This means new responses from trade unions. This means new and broader responses from business and employers.

And it means supportive government policy for social dialogue. It is about anticipating and managing change; about creating a more dynamic European economy and a fairer, inclusive labour market.

The more Social Partners can do in cooperation, with clear and unambiguous backing from government, the better for the economy and the quality of working life. The Social Partners must particularly have greater responsibility in the implementation of education, training and active labour market policies to raise the human capital of Europe's labour force and prevent skills mismatches in an ageing workforce. Social dialogue has to be strengthened at all levels, in work places, in national, industry and sectoral collective bargaining and in European affairs to give working people a stronger voice in the shaping of a progressive new deal for full employment.

The European dimension of social dialogue has much unfulfilled potential. Europe must be more proactive in engaging in tripartite social dialogue and associating Social Partners more closely to the promotion of growth and jobs.

8. Making diversity and integration our strength

Some try to take political advantage of xenophobia and hatred in relation to minorities and immigrants in Europe.

We, the PES, believe in Diversity and Tolerance as set out in the declaration of this Congress. European societies must

reject all forms of intolerance and hatred. Everyone has the right to live in dignity and be treated with respect regardless of their nationality, ethnic origin, race, gender, sexual orientation or religion.

Social democracy must fully address the opportunities and challenges of societies that will be increasingly diverse. Sustainable and effective migration policies will be needed to ensure cohesion in our societies and as a contribution to economic progress and employment. Without strong respect for diversity and a strong commitment to shared European values, it will be impossible to resolve the genuine challenges of integration. We must also understand ordinary people's fears and uncertainties in the actual context of high unemployment and social exclusion often concentrated in suburban "ghetto" areas.

Therefore, positive integration policies must go hand in hand with an active economic policy for more and better jobs. Integration policies must be created in some cases and fine-tuned in others, based on a framework of clear rights and duties for all, focusing on employment, anti-discrimination, public services, community dialogue and cohesion.

The European Union has a huge responsibility in managing migration, tackling illegal immigration and its root causes, including poverty and conflict in neighbouring developing countries. It must also support the fair and responsible management of economic migration, while helping to tackle the imperative of integration in our societies.

9. Sustainable societies – tackling climate change

Few people doubt the need for better climate and energy policy; but many still regard it as an extra cost.

We, the PES, have made our choice: an active policy for tackling climate change and energy needs should be at the centre of a new smart green growth strategy.

Europe's energy and climate challenge deserves monumental political effort to assure social justice, environmental protection and economic progress. The next ten to twenty years will be decisive. Rising energy prices hit the poorest hardest. The impact of global warming will reinforce social inequalities both within Europe and in the developing world, affecting the poorer, elderly and most vulnerable people most.

The challenge extends beyond energy to the sustainable use of all natural resources. It encompasses the protection of the natural environment, and the creation of a clean and green environment for our children to grow up in. It is vital to underline the economic and social imperative of environmental sustainability. Without it our planet, our home, has no future.

The European Union played a leading role in the agreement of the Kyoto Treaty and should now take a 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, reducing our energy consumption, and investing in sustainable forms of energy. The PES action programme for energy and climate change represents a new way forward for the European Union.

10. An active Europe for people

Some argue for a passive Europe, limited to the Single Market with little or no regulation.

We, the PES, have made our choice: the EU is more than just a market place. The EU is an essential part of the New Social Europe, helping regions and countries achieve more together than they can alone. But we are far from having realized the potential of the European Union - there are far more benefits which European cooperation and solidarity can bring to people's lives. In the new global economy our New Social Europe can be realized step by step if we build further on the balanced basis of: competition that stimulates, cooperation that strengthens and solidarity that unites.

These three pillars are equally important and mutually reinforcing. These are our means to harness the enlarged Single Market towards sustainable, smart, green growth and ensure, through better cooperation among states, that stronger competition between companies transforms into greater shared prosperity for people, stronger social cohesion and social justice.

Competition yes, but it must not lead to competition between Member States through fiscal and social dumping. Competition among companies should be fair, transparent, bringing higher innovation, lower prices, and more and better jobs for people.

Cooperation yes, allowing Member States to regain part of the national sovereignty lost to globalization. We must ensure that competition is conducted on the right terms and does not act to the detriment of social protection, workers' rights and public services. We believe in a social market economy - not a market society. European cooperation will be vital in supporting Member States meet common challenges to their welfare societies.

Since it was launched, monetary union has achieved its goal of protecting Eurozone economies from external shocks and instituting a more stable economic environment. However, the Treaty's goal of dynamising the economy through effective economic cooperation must still be realized.

Solidarity yes, through social and employment policies and Europe's structural and cohesion funds. We must ensure cohesion, social and labour rights within our nation states, but also among Member States of the European Union.

The strength of Europe lies in its cohesion. Europe is the most cohesive region in the world. It will be a challenge to ensure that this cohesion is strengthened in an enlarged Union of 27 Member States, but this is crucial if we

are to remain faithful to our shared values and generate shared prosperity in the global economy. Furthermore, it is fundamental to the relevance of the European Union to the lives of ordinary people.

The New Social Europe will create more wealth and inclusiveness through better competition between enterprises under fair and transparent conditions, through political cooperation between Member States and through solidarity within and between our Member States.

The New Social Europe represents:

- A green Europe with more and better jobs;
- An inclusive Europe;
- A learning Europe;
- An innovative Europe;
- A cohesive Europe.

This is our Europe - people's Europe. It is not a dream - it is the political choice of Europe's socialist and social democratic family. European countries will together be stronger if they act together to improve living and working standards - to ensure decent work and decent lives for all people throughout the European Union.

The PES and its member parties are determined to make our New Social Europe a reality.

Executive Summary

A new vision – for our Social Europe

The purpose of the New Social Europe is to offer a strategic framework for reviewing, rethinking and reforming the European Social Model in its many different versions. It is based on the achievements of the past and on a perspective of what we can achieve in the next 10 to 20 years.

The New Social Europe is based on a new vision of smart growth for full employment, inclusive and sustainable societies, a growth concept aimed at serving the people of Europe to meet the needs of the present generation, without compromising the ability of future generations to meet their own needs.

New Social Europe is an invitation to socialists and social democrats, to trade unionists, to progressive business, members of civil society movements and all other interested actors across Europe to come together to shape new policies.

We need better economic and social policies, not fewer, to make Europe's welfare societies more inclusive, strong and sustainable.

The New Social Europe will serve as a roadmap for political choices and policy development at all political levels, from local to the European and global levels.

There is another way

The European Social Model exists and does so thanks to the efforts of ordinary people, trade unions and socialist, social democratic and labour parties. We fought for it for the past 100 years within our countries and gradually, we - the people, socialist, social democratic and labour parties, and trade unions - succeeded in creating our welfare states. This is **our Social Europe**.

Indeed, the European Union is a unique grouping of welfare states, based on our conviction that social inclusion and economic performance can go hand in hand.

The European Social Model exists as a social reality and as a set of shared values. Europe's welfare states have much in common, distinguishing them from other world regions. We created it and it is our responsibility to renew it so that it survives and prospers in the 21st century for the benefit of Europe's people.

There are those who argue that globalization is eroding the welfare state. Conservative and neo-liberal politicians are repeating the same message: money has become mobile across the globe; capital gravitates to where tax rates and wage costs are lowest and levels of regulation less burdensome. They claim countries are forced to wage a competitive war of deregulation with each other - leaving people's lives and the future of our societies entirely in the hands of market forces.

For the PES the very essence of the European Union has never been a competition among states or a marketplace for social dumping. We believe in fair, free, and transparent competition in the Single Market among companies. This has been and still is an important source of new wealth and job creation. But it is not a sufficient condition to ensure inclusion, cohesion and sustainable development in the future.

The PES has decided to formulate our common direction as a coherent alternative to the neo-liberal perspective. There is another way, which implies no race to the bottom, no social dumping, no undermining of our welfare states. The neo-liberal way is not even necessary from an economic viewpoint. There is a better and even more competitive way. There is a modern and inclusive way.

The ambition of the New Social Europe is to **build bridges** from a post-industrial society to a global society. Globalization does not make a race to the bottom inevitable. We know that it is possible to build these bridges, while retaining our values and identities, by renewing our welfare societies. Europe's success stories prove this.

Each version of the European Social Model has its own history, its own structures, its own point of departure. Exchanges of best practices will only be successful if due attention is paid to local, regional and national conditions.

What we can do together is set A New Agenda - to combine economic competitiveness, social justice and environmental sustainability. The right choices can be made to retain the best of the past and build on it in the future.

But we cannot do this without people's support. This demands an understanding of people's feelings of uncertainty about the future. Many people at work are increasingly faced with the difficulties and risks attached to an ever more intense competitive working environment. And those who are unemployed feel more and more marginalized, while their chances of finding a new job remain generally low in many Member States. When this is combined with a whole set of other perceived threats to their quality of life, encompassing painful labour market and pension reforms, and illegal migration, uncertainty is even greater. This calls for a new sense of co-responsibility, of rights and duties, in every citizen, in businesses, in governments, in trade unions, in every actor in society. The European Social Model can survive. **A renewed and strengthened European Union** will be a crucial ally in ensuring this.

Our way

What we propose is a common direction to ensure that our member parties and governments make political choices in a coherent way, complementing not contradicting each other across the European Union. Reforming and cooperating in order to create a new social democratic win-win situation in Europe.

This is the choice - the political choice - that we have decided to make: a new vision for the renewal of strategies and policies, amongst socialist and social democratic parties and governments, **for the future of European social democracy**.

We must form this new vision, this new direction together, based on clear analysis and courageous new thinking. The New Social Europe is a direction - for reviewing, rethinking and reforming **our way**. Our New Social Europe is based on the achievements of the past and on the perspective of what we can achieve in the next 10-20 years.

The New Social Europe will serve as an agenda, not only for tomorrow but for the coming years. An agenda and a roadmap for policy development and decisions at all political levels: from the local, regional and national levels to the European and global levels. Our democratic levels do not compete against each other but supplement each other - with clear, common goals, but with different tools depending on whether we are working at the European level, the national level or the local or global level.

The New Social Europe represents a new connection to ordinary people. It is an ambition to provide relevant answers to people's worries. An ambition to inspire socialist and social democratic parties and governments in their work to renew our welfare states in order to reach our common goals.

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

There is so much to gain in the next 10 to 20 years, so many great opportunities if we make the right choices - and so much to lose if we do not tackle new challenges according to our values, if we close our eyes, refuse to modernize **our way** and let the conservatives and neo-liberals do it **their way!** **This is the essence of the New Social Europe.**

The potential gains are there to be made: European cooperation and the enlargement of the European Union to 27 Member States represent the framework for potentially enormous new sustainable economic and social development. Europe is a global economic player - the Single Market is the largest economy in the world. Europe is both driving globalization and affected by globalization - we do not have to adapt passively, we can actively shape the future.

Europe's people are living longer and healthier thanks to rising living standards and better working conditions.

Europe can transform new knowledge, innovation and technologies into new welfare for the many.

The risks, at the same time, are of rising inequalities, between rich and poor, between the young and the old, of failing cohesion in an increasingly diverse population, and of spiralling environmental degradation. But we can still tackle these challenges if we make the right choices.

This can only be done with the participation and trust of ordinary people. It is about enabling society, people, businesses, trade unions - all actors - for change. It is about ensuring that people can feel confident and able in a context of continuous change.

Decisions are to be taken on how to make our societies inclusive, based on decent work, social dialogue, rights and opportunities for all. Decisions on finding a new balance between the active working population and a growing retired population.

Decisions on putting Europe firmly on the path of sustainable development. It is now a question of making coherent decisions in a comprehensive framework.

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

The European Social Model is not the definition of one welfare system, but an expression of the common characteristics of the welfare states in Europe.

Within this European Social Model, our histories and structures are different. But, we have far more in common than differences. Whether it is the Nordic countries, the new Central and Eastern European Member States, the continental or Mediterranean countries or the UK: Europe's people belong together in our New Social Europe.

Europe's welfare states must renew together. But renewing is also recognizing the strengths of the European Social Model. It is in better shape than some right-wing politicians and commentators claim.

One of the most important features of the European Social Model is the high value placed on the welfare state, namely the public sector. But in political debate, the role of the public sector has been somewhat neglected. We believe this is a mistake because the public sector de facto plays a key role in defining Europe's performance in economic and social terms. The public sector provides public goods, universal protection against social risks, such as unemployment and poverty. The public sector is an undeniable factor in determining labour market conditions, including social dialogue. It is decisive for the practical realization of solidarity, social justice, inclusiveness and cohesion.

With government budgets and public sectors ranging from 33% to 55% GDP, the public sector in Europe obviously plays a major role in the economy, including the production of goods and services. The role of the public sector acts as the backbone of European societies and the framework for the market economy – it is the precondition for Europe's social market economy and a bulwark against the development of a market society. Many lessons can be drawn from studying the functioning of our welfare states and the role of the public sector.

Traditionally conservative and liberal thinking has considered the public sector a problem for an economy's competitiveness. In the more extreme cases of neo-liberal thinking, the public sector is viewed as an "enemy" to competitiveness. But this is not borne true by a comparison of today's public sectors in Europe. Many European countries have, by acting in an advanced partnership between the public and private sectors, transformed both social inclusion and the protection of the environment into engines of development, not as costs. This is the essence of **modern, proactive welfare state**. It is only by learning from each other's experiences that we will be able to renew Europe's welfare states, building on the best of the past for the future.

The European Union as such has also played an important role in developing our welfare states. The values and objectives set out in the European treaties, the Charter of Fundamental Social Rights, the creation of the Single Market, employment and social legislation, the Structural and Cohesion funds, European social dialogue, the creation of the Economic and Monetary Union. All these have played a vital role in the development and prosperity of our welfare states.

Europe's welfare states have resulted in lower rates of poverty and inequality, a better distribution of prosperity and a greater reconciliation of work and family life, in comparison to other world regions. Hence, European countries hold nine out of the ten top positions worldwide as far as quality of life is concerned. This is today's Social Europe.

These are the foundations for building a New Social Europe, tackling existing problems and new challenges to Europe's welfare societies in the 21st century. The new challenges of an ageing population, climate change and increasing pressure on the environment, technological revolution and the growing competitive pressures of China, India and other nations in a globalized economy. The unsolved problems of unemployment, poverty and inequality in most of Europe's Member States. European countries must perform better in terms of economic growth, employment, knowledge and innovation, education, inclusion and cohesion.

Our task is clear: to strengthen and renew Europe's welfare states. This does not mean preserving our welfare states as they are - we know that this would be doomed to failure. We know that defending what is there without providing answers to real problems and new challenges is not acceptable or sustainable. We cannot turn our backs on the need for reform, on the need for new solutions.

The losers of a failure to pursue the renewal of Europe's welfare states would be Europe's people. Investing in the New Social Europe is investing in their well-being and prosperity.

We, socialists and social democrats, are proud of the values and results we have achieved in our welfare states within the European Union - in our Social Europe - but we are not satisfied because there remains much to be done and new challenges to tackle.

3. Why we need a New Social Europe

Today Europe is facing new challenges due to globalization, new technology, demographic change, enlargement of the EU and climate change. Europe is falling behind in knowledge and innovation, in education. In most countries we have not found sustainable

answers to these new challenges. There is a risk that more people will be marginalized and excluded from mainstream society:

- Too many people are excluded from good job opportunities and from adult education and re-training;
- Too many children drop out of school;
- Too many young people suffer from poor education systems and difficulties in finding a job;
- Too many women are denied an equal position in work and in society;
- Too many disabled persons lack the support needed for a successful integration into working life;
- Too many people who have come to Europe as refugees or immigrants have great difficulties in being integrated into our societies;
- Too many people are still living on the margin of society, even in poverty;
- Too much pressure is being placed on natural resources due to old technologies and life styles.

These are the shortcomings of the past - shortcomings which must be remedied in light of new challenges.

The conditions for the future of our welfare states have changed. We will not achieve employment, social cohesion and sustainability, unless we take the lead in modernizing and reforming our conditions. We have decided to set out another way forward to the neo-liberal perspective. We know there is another way - not only in theory, but in practice. **We stake our claim for a New Social Europe.**

This new way forward is inspired by the compelling success stories that already exist in Europe. Some Member States have combined social inclusion, economic performance, sustainability, and a highly qualified workforce, against a backdrop of a healthy and sustainable public sector, a competitive private sector and a strong civil society. The result is the highest quality of life in the world.

We disagree with the conservative "trickle down" approach - that economic objectives should be given the highest priority, while social and environmental considerations should wait. That approach is outdated and doomed to fail.

We believe the welfare state should be more than just a protector of last resort. We want to transform the welfare state into a proactive springboard for Europe's people, investing in their capabilities and their futures.

There is a correlation between, on the one hand, a strong, modern public sector and, on the other hand, low rates of poverty and high employment. The public sector must,

in future, play a pivotal role in promoting the ability to innovate, restructure, and allocate the proper resources to generating growth and employment, sustainability and social inclusion in Europe. In short, there can be no high, stable, quality employment without a well-functioning welfare state – and no sustainable welfare state without high, stable, quality employment. Therefore, for socialists and social democrats, it is not a question of diminishing or cutting the public sector. It is a question of modernizing and better realizing our objectives.

We must create the framework for new security, a new awareness, a new capacity for society and people to live and work during the permanent change that is the consequence of the global economy and new technologies. We, socialists and social democrats, should be the front runners in these efforts.

Europe's welfare states can only develop – and ensure a better future for ordinary people – if today's socialists and social democrats embrace the interdependence of the countries in which we live and work. It is about being proactive – at all levels. Locally, regionally, nationally and at the European level.

We, socialists and social democrats, commit ourselves to making economic, social and environmental developments mutually supportive. We regard a modern public sector and well-designed social policies as a productive and inclusive factor. The public sector should be based on strong values and governed by clear objectives. We regard a new management of natural resources as a basic element of a new vision for economic policies, a smart, green growth vision.

The New Social Europe is based on the socialist and social democratic values of democracy, freedom, solidarity, human dignity, social justice, and equality. The main message, running through this programme, is that new public policies and new social dialogue for prosperity, inclusion and sustainability are needed to balance the strong market forces that could otherwise lead to social exclusion and environmental degradation.

Europe's socialists and social democrats are committed to defining a new way forward – a New Social Europe. Because our future should not be based on competition among states, social or fiscal dumping. Because we have not taken full advantage of all we have in common within the European Union and of our mutual interdependence. Because we will not accept increasing inequality and insecurity amongst Europe's people. The changes occurring in society and the economy demand new political responses. Every individual should be able to develop his or her potential in today's Europe; no-one should be left behind.

4. Our roadmap for a New Social Europe

Our roadmap for a New Social Europe consists of a vision for the future of social democracy in Member States and across the European Union.

We want to transform the welfare state into a proactive one, investing in people, anticipating problems and unleashing potential; not just intervening when things go wrong. It is about turning passive support into new opportunities. Our welfare societies must:

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

The European Union and its Member States can do this together based on clear strategies in a common roadmap.

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

The New Social Europe must be a collective endeavour. We must renew our welfare societies on the basis of rights and duties. The individual and government, as well as business, trade unions and other actors should have clearly understood rights and duties.

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

The roadmap is **relevant** for reform choices in each of the five different versions of the European Social Model: relevant for continental countries, for Mediterranean countries, for the Nordics, for Central and Eastern European Member States and for the UK. By forming a common direction, we will ensure that we are supporting each other, not undermining each other; that we are inspiring each other, not contradicting each other. That we are taking full advantage of our interdependence.

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

In this report, **we propose to make the European Union a proactive partner for putting people first**. Investing in people. Ensuring that the European Union is based on the social market economy and does not develop a market society.

The welfare state can only develop in a positive direction – working for a better future for ordinary people – if we, today's socialists and social democrats, embrace the **interdependence** of the countries in which we live and work. It is about being proactive at all political levels. There is so much to be gained through better cooperation within the European Union.

The main message, running through this programme, is that **new public policies** and **social dialogue** are needed at all levels. Policies and dialogue for prosperity, inclusion and sustainability, to balance the strong market forces that lead to social exclusion and environmental degradation.

The European Union is of paramount importance for the future of our welfare states. We advocate a strategy built on all the three fundamental elements of the European Union:

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

In a European Union of 27 Member States, this three-pillar approach offers a means to harness the greater economic strength of an enlarged Single Market towards sustainable development.

As competition grows between firms across the European Union, there is a need for more cooperation between Member States and for placing this greater prosperity at the service of people.

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

There is a substantial value-added to be gained from the European Union. Europe must act:

- To strengthen **economic cooperation** within the European Union to promote higher growth and more and better jobs;

- To ensure fair and transparent competition between companies in the Single Market; avoiding a race to the bottom or social dumping;
- To pursue environmental sustainability and the fight against climate change;
- To improve working conditions for people;
- To promote education and skills in an inclusive knowledge society, research and development, innovation;
- To stimulate regional development;
- To support this region to become the most cohesive, competitive and sustainable knowledge-based society in the world;
- To ensure a social market economy, in which public services operate on the basis of universality, promoting social inclusion, cohesion and economic development.

Fundamentally, it is a choice of society. It is a choice of whether to take a high road or a low road to economic competitiveness. We must base our competitive strategy on excellence – in high quality infrastructure, public services, environmental protection, and the most advanced knowledge and skills. There is no future for Europe in trying to compete on low wages or poor standards – our secret is to compete on the basis of excellence.

A progressive strategy for full employment

There can be no high, stable, quality employment without a well-functioning welfare state – and no sustainable welfare state without high, stable, quality employment. This is the central interplay in today's European Social Model.

Thus, a dual strategy is needed: reaching full employment while renewing the welfare state. We know that people will not accept reforms without more and better jobs – and long-term growth will not be sustainable without new reforms. In order to reach full employment and renew the welfare state, we must use all democratic levels with all our different tools: at the local, the regional, the national, and the European levels. This strategy must be a coordinated and simultaneous effort by the Member States of the European Union.

Full employment is the key objective that helps achieve many of our aims for the New Social Europe: combining economic development with social inclusion; equality; active ageing; eradicating poverty; and promoting solidarity, to name but a few.

The first step is to make employment the central goal of economic policy, not by giving up on stability, but by developing policies that are mutually supportive.

We must recognize that people will change jobs far more than their parents did in the past. Not because this is a goal in itself, but as a result of the faster pace of the global economy and technological change. Our modern way of life is placed in an environment

of permanent change. And it will not go away. We, socialists and social democrats, will be decisive in tackling this head-on by providing new forms of security, enabling people to face change with confidence. We must base the future on security in transition, supporting individuals to find and keep jobs, to move from one job to the next fast and effectively, improving peoples' capacities throughout their working lives. Labour markets must become inclusive. We must strengthen labour market institutions, making them more dynamic in the interplay between the public and private sectors. Social dialogue and co-responsibility of all actors must be guiding principles.

In the future, progressive policies must be centred around this message: that we can no longer guarantee jobs for life – but we can guarantee that there will be more and better jobs in the future, replacing the jobs of the past. It is about creating the circumstances for employment security – new and better jobs throughout working life – as a new road from job security. Employment security in the future is about unleashing people's potential to benefit from change. It is about investing in people.

To reach full employment, the following policies must be pursued in Europe's Member States:

- We must establish a new, active investment policy, focused on promoting growth through the central objectives of the Lisbon Strategy, raising sustainable growth as a condition for labour market reforms;
- A new, active labour market policy based on a new, fair deal with the unemployed. A framework of rights and duties for the state and the individual. Providing high unemployment benefits and active labour market policies, notably education and training, to support re-employment and re-skilling during employment;
- A new deal for employment security as a strong, enduring perspective. An active interplay between the public and private sectors for re-skilling; stronger security should be ensured during the course of working life;
- Decent work based on decent minimum wages, as defined in collective agreements or legislation in Member States. Contributing to the end of the working poor phenomenon, including the precarious informal economy;
- Strong enforcement of anti-discrimination policies and active integration of ethnic minorities and immigrants in the labour market;
- Actions to strengthen the role and participation of the Social Partners, including tripartite dialogue;
- Concrete development of corporate social responsibility (CSR) in a framework of new rights and duties for all actors in our societies, including the duty to contribute to public finances and eliminate unfair work practices;
- Clear rights and duties for public and private sector employees in cases of unavoidable mass redundancies. Advanced notification to allow the introduction of active investment policies in affected communities and regions;

- Targeted policies for eradicating long-term unemployment, raising employment amongst young people and older workers, including second chance education and training.

The European Union can bring an enormous value-added by:

- Establishing effective economic coordination in the Economic and Monetary Union (EMU), including a simultaneous growth and investment strategy as proposed by the PES.² This is a pre-condition for obtaining higher economic growth and more jobs as a basis for progressive labour market reforms;
- Developing broad economic guidelines to comprise a more coherent balance between the stabilization goals for inflation and monetary performance and the real jobs and growth strategy. The broad economic policy guidelines should form the basis for ensuring a concerted growth-promoting economic policy at the European level, including a new set of proposals for a smart green growth strategy;
- Promoting work councils on a European level;
- Developing new EU labour laws to protect employees against precarious jobs;
- Relaunching tripartite social dialogue on priority issues including lifelong learning and ways of "working smarter, not harder";
- Improving the scrutiny, transparency and accountability of corporate social responsibility practices, introducing a core set of commonly agreed standards for corporate behaviour;
- Re-shaping the EU budget with the aim of promoting a financial basis for new investments in R&D, in innovation, in learning policies, and other Lisbon priorities.
- Labour market policies and an offensive economic growth policy must be the basis for creating a faster moving European economy – and new confidence amongst the European workforce. A real confidence that change is not a threat but an opportunity. With modern work organization and active labour market policies. With strong social dialogue, so that the workforce is well equipped for change, so that industrial change can be managed on decent working and living conditions.

Knowledge and innovation – the key to smart, green growth

New technologies can bridge the gap between the economy and the environment and between the economy and people. Europe is in the lead in the development of new technologies but we are only at the beginning of a new era. Europe's strategy for economic competitiveness should be based on excellence in the use of new knowledge

and innovation, rather than on low wages and low standards.

Europe is underperforming as regards investment in new knowledge, both in R&D and in education and training. At the moment, R&D expenditures are just below 2% GDP. The EU target of 3% GDP investment requires a substantial increase in spending, both public and private. Thus, there is a strong need to make a decisive commitment to higher investments. Public spending must be restructured in most European countries. Incentives for business investment in knowledge must be improved. Universities and other public research organizations must establish new cooperation with industry and improve innovation systems. Because the return on R&D spending is high, the European economy could grow by an additional 10% by 2025.

Furthermore, investments in R&D and innovation must contribute to the development and rolling out of sustainable technologies in order to avert the threat of climate change and ensure environmental balance. In Europe, many catastrophic events since 1980 are attributable to weather and climate extremes: floods, storms, droughts and heat waves. 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.

There is a huge growth potential in the transformation, on a broad scale, of our economies - away from the old tradition of mismanagement of natural resources and under-performance in knowledge investment, towards new, sustainable technologies and future-oriented investments. Every investment decision is a choice between old technologies or new, more sustainable technologies - between old growth and smart, green growth. New green technologies are the key to raising social and environmental standards, while promoting growth and jobs.

We must unlock the potential of the Single Market to generate knowledge and innovation. Better regulation - not less - will be needed in order to do 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 European dimension will help promote knowledge and innovation for smart, green growth and jobs.

With the rise of new technologies, society has become more demanding: citizens are asking for faster and better services, more transparency and more user-friendly administration. We, socialists and social democrats, should be at the forefront of meeting these new demands.

To promote knowledge and innovation as a key to smart, green growth, the European Union and Member States must focus on:

- Substantially raising public and private investments in research and

development to reach the EU's target of 3% GDP in R&D by 2010;

- Investing in sustainable forms of energy and energy efficiency;
- Improving the attractiveness of European universities for researchers and students;
- Fostering closer links between universities, research institutions and the private sector, to translate research into innovation in the economy;
- Establishing closer coordination of investments and promoting trans-European projects;
- Introducing 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;
- Anchoring use of new technologies in public services.

Learning from the beginning – and learning throughout life

Europe's welfare societies will not compete on lower wages or standards, but on excellence in knowledge and skills. Learning from the beginning and learning throughout life – from high quality child care, through schools and universities to further education and training – is at the centre of the New Social Europe.

It is clear that those countries consistently investing in children, education and skills, are those countries able to meet new challenges. Our education and care systems must make considerable headway in meeting the demands of modern society. Putting children first is investing in the improvement of their life chances.

Thus, our first priority is to make universal high quality child care as basic a public service as health care or education in our welfare states all over Europe. It is about shifting the investment curve towards children: providing early learning, fostering social and cognitive skills. This is particularly important for immigrant children, representing the first opportunities for language learning and integration.

Our second learning priority is to make our education systems all over Europe inclusive and excellent. We must ensure that children from all backgrounds have the best chances of educational success from primary to tertiary education.

We know that those who need education and training the most get it the least. It is time for change - it is time for new priorities in our educational investments.

We know that people without basic qualifications face a much higher risk of unemployment and poverty. This is not acceptable. We want our society to prevent this: we must invest more into secondary education and skills, more into vocational education, more into adult

education and training for those in and out of work - a pre-emptive educational policy for all. Too many young people are leaving primary school without any further education. This is a triple loss: for individual youngsters, for our societies today and for our societies in future. We know that there is another way - in some European Member States, more than two-thirds of those leaving school now enter higher education institutions. It is a question of adapting our school systems and opening up higher education. If we fail, these citizens and our societies risk greater long-term unemployment, persistent poverty, and lower chances of catching up through adult education in later life.

Our **third** priority is for adult education to 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 as a part of their rights and duties, but up to collective institutions as part of their duties to ensure real access to learning throughout life.

Let us take a new jump in our educational investments. Europe must find ways to move up the value-chain. We know that people with high skills and the motivation to continue learning throughout their lives will be essential for this to happen. This should not only be for the few, but for the many. We want a knowledge-rich education system where teachers and pupils are partners, where there is a permanent updating of education.

Lifelong learning must become a reality in all European countries. Those who depend most on post-school education and training - the unemployed or those with low skills - get the fewest training opportunities. **It is time to change this, to invest in a real second chance education for all those who need it, whether in or out of work.**

The winners with access to adult education and training are to be found in large companies, the public sector, in business services, banking or finance - all in full-time employment. If we fail to act, the losers in today's economy will be those employed in small businesses, part-time jobs and traditional service jobs, particularly older workers, women and young people.

Our **fourth** priority is for European countries must democratize participation in the digital society. 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.

The revolution in knowledge, technology and globalization requires 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 adult education for those without basic qualifications;
- 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 reskilling for jobs through vocational training and skills programmes;
- Ensure the permanent updating of teaching materials and equipment;
- Ensure a smooth transition for young people into work;
- Raise investments in and reform of the tertiary education system;
- Democratize access to and participation in the digital society.

The European Union will be important in building our knowledge societies:

- We must promote incentives through the EU structural and education funds for education and training;
- EU education funds could be used as a contribution towards fulfilling the new right to adult education for those without basic qualifications;
- Strengthening 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 bench-marking in the attainment of targets;
- Education and training must be placed at the heart of the Lisbon Strategy.

Europe's best asset is people - our workforce. Europe must contribute to overcoming the barriers, which keep so many Europeans under-skilled and out of the workforce. Education and skills are part of a dynamic, active labour market policy to ensure that people have the skills to match new jobs.

Achieving real equal rights for women and men

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.

Persistent gender inequalities must be tackled through social dialogue and 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;
- To manage organizational change resulting from parental leave and flexible working;
- Individualize social security, pension and taxation rights;
- Tackle gender inequalities in pension systems;
- Social protection coverage of women in precarious employment;
- Establish urban time policies for men and women to reconcile work, family and civic obligations.

Achieving equal rights and opportunities is a key goal for the European Union. This must be promoted in a far more dynamic approach through new policies and new tripartite dialogue. This must be given a stronger priority as a fundamental part of our high quality jobs strategy and as a means to achieve social inclusion. Making it a part of our shared responsibility in the labour market and a pillar of our common rights and duties in society.

Making our ageing societies proactive

Europe is an ageing society, which represents a success story and a serious challenge. The over 65s, now a quarter of the EU population, will rise to over 50 per cent by 2050 – thanks to improved living and working conditions and remarkable progress in medical treatment.

At the same time, the ratio of the elderly compared to 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 1.5 workers per pensioner in 2050, while there are currently almost three workers per pensioner.

We are faced with a **double challenge**: the basic trend indicates that the pension systems will inevitably be put under heavy strain. At the same time it will create difficulties for ensuring an acceptable level of employment in social services, health services, education, amongst other public services.

This is the perspective if we do not do anything. But we will not be passive – we will be proactive. Tackling this challenge head-on in **our way**.

The agenda for reform includes a three-tier strategy. First and foremost, we must ensure that more people are in work. This is the best way of making pension systems sustainable and ensuring a sufficient number of hands in our public services. That is why we have to realise our progressive strategy for full employment. This means:

- Bringing down unemployment through massive investments and reforms of the labour market and educational systems;
- Increasing the employment rate of women and young people;
- Allowing older workers to stay in work longer through a more adapted and non-discriminatory labour market;
- Stronger inclusiveness and better integration in the labour market for immigrants and minorities;
- A new inclusive policy strategy for vulnerable people supporting those who can to work.

Secondly, our social protection systems for retirement and old age care have to be reformed in **our way**. If we do not do it in our way, based on social justice and solidarity, the losers will be people from disadvantaged groups falling 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.

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

Thirdly, we, socialists and social democrats, must take the lead in forming a **new proactive approach to ageing**. European countries must in future focus on quality of life, health and activity as a new way of life, based on rights and duties.

The link between activity and health holds good into advanced old age. Therefore, the contribution that can be made by older people to society should not be limited to paid employment in earlier old age. It should encompass voluntary work and many other activities into advanced old age. Older citizens have a wealth of knowledge and experience to contribute and share.

Public policies must be reformed to ensure our pensions and elderly care **our way**:

- Reform of the pension systems must be completed across Europe in order to ensure that elderly people can rely on adequate, equitable and financially sustainable pensions that do not reproduce social inequalities;
- Adopt a new, active and preventive approach to ageing;

- Care for the very old must be guaranteed;
- A new way of sharing our common responsibility for elderly care must be developed.

The European Union can add value to Member States efforts by focusing on:

- Promoting higher growth for more and better jobs to be obtained through the PES strategy for coordinated investment policies;
- Promoting pensions reforms on the basis of adequacy, equity and financial sustainability, ensuring non-discrimination between women and men in the pension systems;
- Ensuring pension rights for people on the move, including migrant workers.

Social inclusion and cohesion

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.

We regard full employment as a core element of an inclusive society. We need better social policies - not fewer social policies - because there is a huge potential for prosperity and well-being if we pursue better policies for inclusion. These must be comprehensive in their approach. These cannot be limited to the provision of a minimum income safety net.

Our ambition for societies based on inclusion and cohesion must be founded on a broad reform agenda in all European welfare societies – an agenda encompassing child care, education and training, labour market reforms and social protection. To give those in need better chances of being integrated into working life and society.

It must also encompass public policies relating to participation in society: housing, transport, cultural resources, involvement in democracy and governance, civil society, and digital inclusion in the emerging information society. Therefore, social inclusion demands a mainstreamed strategy for social, economic, cultural and political participation.

In all these efforts the public sector is of fundamental importance. In modernizing our public services and policies for inclusion, we must also understand how to integrate our concept of rights and duties. Citizens threatened by exclusion have both rights and responsibilities to prevent their exclusion. This social policy approach conveys the

message: "You have a lot to contribute, you can make a difference", "you can develop your talents", "a better life is within your reach". In making our societies proactive to include all people, it is crucial to ensure the future of public services, through legislative frameworks for the safeguarding of public services across the European Union. There must be a clear line between the market economy and the provision of public services to all citizens in society.

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, 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;
- Fostering public services – as a key means for ensuring inclusion – and safeguarding universal access to these services across the European Union.

The role of the European Union must be focused on:

- Introducing a new framework directive for services of general economic interest;
- Establishing sectoral directives for health and social services, to ensure that these are not undermined by market competition;
- Carrying out binding social impact assessments of proposed EU legislation;
- Improving social cohesion across the European Union through the Structural and Cohesion Funds.

Diversity and integration - we cannot do without it

Immigration to Europe has raised new challenges and dilemmas in recent years. There is a need for a balanced, coherent approach to tackling all its dimensions. As socialists and social democrats, we insist on respecting the fundamental rights of individuals.

The good story is that Europe, as a region of diversity, a region of peace and prosperity, is a place to which people want to move as immigrants or refugees. Immigration has been positive and important for Europe's welfare societies, bringing manpower, fresh skills and talent into Europe. Immigration has contributed positively to Europe's economy overall as more people have entered the labour market in key sectors as a response to new employment needs.

The other side of the story is that the increased immigration to Europe in recent years has created problems of integration and a new feeling of uncertainty amongst parts of our populations. This has given ground to populist political movements and encouraged the creation of new extreme right-wing parties and a climate of hostility in some countries against people on the move.

Although immigration is not a sustainable solution in itself, it is a part of the solution to the critical ageing of the European population in the coming years. Immigration cannot be a sustainable alternative to reaching full employment amongst Europeans or an alternative to achieving inclusive labour markets. Immigration cannot and should not be used as a means to put off the reforms needed in our welfare societies as a result of demographic ageing. Managed in the right way, immigration to Europe can still be a part of creating new progress and dynamism - not only with skilled immigrants, but also less skilled immigrants who can fill vacancies in key sectors of the economy.

However, there is a fundamental need to turn immigration and our current immigrant population into a positive, dynamic factor in our societies. In order to do that, European Member States must change their policy in relation to immigration and to immigrants in general. European countries are simply failing to integrate immigrants successfully. That is why in the New Social Europe immigration and integration have to go together. Immigration must be seen in the light of our common effort for more and better jobs - in our progressive strategy for full employment. Without much better employment in Europe's welfare societies, the integration of immigrants will fail and immigrants will be forced into the informal economy, the so called "black" labour market.

We 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.

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.

Too many migrants are still working in the informal economy. Their working conditions do not respect labour rights and standards; these migrant workers are unprotected. In the New Social Europe there must be new public policies to combat exploitation. We must ensure that the principles of human dignity and decent work are respected by all, as enshrined in the European Charter of Fundamental Rights.

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.

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.

The integration of immigrants must also be based on rights and duties. Rights to equal treatment and non-discrimination in society and the labour market. Duties to learn the language of the country as a precondition for integration, to respect European values such as equality between women and men, duties to contribute to society. These are vital for the foundations of trust, respect and cohesion among all groups in society. In many Member States there are good examples of successful integration - based on equal rights and duties and new partnerships - and the public sector has been a progressive example of ensuring equal rights in the labour market.

Socialists and social democrats, Member States and the European Union must actively cooperate and assist countries of origin for new progress as a part of the fight against the real causes of migration: poverty and under-development.

This is also a part of a much broader process for removing the root causes of unrest, human rights violations, civil wars and even terrorism. We insist on a new immigration code of conduct at EU level, so that Member States of the European Union commit themselves to an immigration policy based on clear criteria and ethics. Migration policy should avoid brain drain from developing countries and instead encourage "brain circulation", through flexible entry, leave and return for economic migrants.

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;
- 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;
- 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;
- Fight illegal employment, precarious conditions and exploitation through financial penalties for employers;
- Develop a coherent policy for the integration of immigrants into the labour market, including the public sector;
- Pursue a flexible leave and return component for skilled immigration, in partnership with countries of origin, based on the concept of "brain circulation".

At the EU level, we must:

- Establish a common EU admissions procedure for economic migration, combined with coordination of nationally-determined admissions policies;
- Adhere fully to the EU's Common Basic Principles for integration;
- Take the lead in building the alliance of civilizations;
- Integrate the management of migratory flows in the EU's development policy, including a new partnership with countries of origin;
- Foster greater understanding of common European values;
- Strengthen cooperation and technical assistance between Member States border control services and FRONTEX (European Agency for the Management of Operational Cooperation at the External Borders) – as a part of protecting the basic rights of migrants and fighting human trafficking.

Decent work – our global ambition

To build a strong Social Europe, we need a strong social dimension to globalization. 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.

The Decent Work Agenda is also an integrated part of a long-term solution to people on the move – establishing conditions of stability and prosperity in developing countries – diminishing the pressure of illegal migration on Europe in the long term.

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 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.

In addition to the 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.

5. A new deal for participation for all – rights and duties for all

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.

Inclusiveness – leaving no one behind – is at the heart of our common efforts. We must reform to ensure that we are enabling all people to live, work and progress in the future. An inclusive policy to ensure that our societies empower people and do not breed passivity and aimlessness. People will never feel lost – in proactive societies, there will always be a new opportunity – no one will be left behind. That is our proactive New Social Europe. 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. Civil society organizations also have an important role to play. 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.

The way civil society is organized and functions differs from one part of Europe to another, reflecting the different development paths of our welfare societies. However different Europe may be in these respects, there is much of common ground in relation to social responsibility and involvement, which is 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.

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.

New Social Europe is an invitation to all actors in society to participate and engage in this new project. 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.

6. Can we afford the New Social Europe?

In the New Social Europe, the welfare state will not become smaller, but will become more proactive!

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.

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.

In this respect the modernization of the public sector is important - and it is important to understand that a strong public responsibility is the best way to fight poverty and to build an inclusive society. A comparison between Europe and the US confirms it clearly. The welfare costs of these two societies are broadly comparable - when public and private social expenditures are included - between 25% to 35% of the total GDP of the society. However, the big difference between the two societies is social outcomes: income distribution and poverty!

In a system in which private expenditure against social risks takes on an important role, an individual's ability to finance his or her own insurance becomes far more crucial. In the US, over 40 million citizens have no health insurance! Nevertheless, 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 that is below that of Europeans.

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. The New Social Europe is not only affordable but vital for the sustainability of future public finances, as documented in the annex of our report.

There will broadly be six ways of financing the New Social Europe. These include:

- **Obtaining higher economic growth through a simultaneous investment strategy**

across the European Union and better economic policy coordination. It is fundamental that such a strategy is implemented in the coming years. It is about making investments in education, active labour market policies, R&D, child care and other Lisbon Strategy priorities. And it is about making these investments simultaneously across Europe. If all Member States participate in such a simultaneous European investment strategy, the synergies in the Single Market would result in 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 are fully absorbed.

- **Improving productivity for greater prosperity**

Investment in knowledge - education, training and learning throughout life - for effective use of modern technology will raise productivity per hour, thereby generating more wealth.

- **Increasing employment and cutting unemployment**

Reaching the target of a 70% rate of employment by 2010 - up from 64% today - would generate an additional 7.7% GDP in 2025. 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.

- **Sustainability**

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. 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**

A shift away from consumption, notably unproductive income transfers such as 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.

- **The EU budget**

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

In addition to these six ways of financing the New Social Europe, the European Union must act as an ally in protecting Europe's welfare states from fiscal dumping. Initiatives to avoid unfair tax competition must be seen as a central part of safeguarding the cohesion of the EU. The Single Market needs a coordinated approach to corporate taxation, starting with coordination of the corporate tax base.

In this New Social Europe report, additional macroeconomic calculations have been made, which document 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.

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. 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.³

CHAPTER 1

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

What the New Social Europe is about:

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

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

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

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

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

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

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

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

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

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

1. Europe is unifying

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

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

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

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

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

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

EU membership, even its perspective, has a tangible impact on people's lives. The eight transition economies of Central and Eastern Europe are developing at impressive speed and people are experiencing real benefits from this convergence with Western Europe: per capita income in the EU-10 rose from around 44.25% of the EU-15 level in 1997 to more than 50% in 2005.⁴ Moreover, there is also some convergence taking place in social protection.

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

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

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

Under the average growth rate experienced from 1995 onwards, it will take until 2017 for Slovenia, Cyprus, the Czech Republic and Hungary to exceed 75% of average income per head in the EU-15. It will take until 2019 for Slovakia, until 2029 for Estonia, until 2035 for Poland, and until 2041 for Latvia to reach the same level of convergence, which still leaves them some way behind Western Europe.⁵ The incoming Member States of Romania and Bulgaria will take even longer. The relative poverty and under-development that exists in Central and Eastern Europe has grown by comparison with the wealth of its neighbours. People have come closer and become more inter-dependent in Europe, while at the same time gaining greater awareness of inequalities and of rapid economic changes across Europe.

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

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

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

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

2. Europe in a globalized world

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

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

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

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

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

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

experienced workers (+55 years of age). Job loss can be devastating for workers and for communities. Moreover, delocalization and industrial restructuring can have an impact on entire regions, taking them out of the loop of economic development unless concerted efforts are made for regeneration. It is the reality of constant change, driven by job destruction and creation in the European economy, which must be managed better to the advantage of workers because the opportunities for higher living and working standards are there to be taken.⁹

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

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

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

At the same time, globalization could raise inequalities not only within Europe, but between and within countries in the developing world.¹⁰ The universal cause of social justice is at stake if progressive politics does not engage with the development of the poorest countries in the world. Income inequalities and political instability in developing nations also bear important consequences for Europe. People fleeing conflict and persecution or seeking an escape out of poverty and joblessness – often on our borders in Africa, in the Middle East – come to Europe for safety and a better life. This immigration – on asylum or socio-economic grounds – demands humane and responsible management from Europe.

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

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

3. Europe is thriving on technology and knowledge

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

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

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

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

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

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

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

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

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

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

4. Europeans are living longer and healthier

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

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

However, this rising life expectancy – which is to be celebrated – masks continuing social inequalities. Life expectancy in the Central and Eastern European Member States ranges between 65 and 73 years for men and 76 to 81 for women, while Western European countries enjoy significantly higher life expectancies, between 74 and 78 years for men, and between 80 and 84 years for women.¹¹ For example, a man in Latvia today lives on average ten years less than a man in France.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*"Global temperatures are rising faster than ever before and Europe exceeds the global average. Increasing precipitation, melting glaciers and ice sheets, increased frequency of extreme weather events, rising sea levels and increasing stress on terrestrial and marine ecosystems and species are among the most visible impacts on the environment."*¹⁶

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

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

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

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

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

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

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

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

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

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

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

The challenge of the unification of Europe

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

The challenge of coming closer to the world

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

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

The challenge of technology and knowledge

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

The challenge of living longer and healthier

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

The existential challenge of climate change

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

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

Conclusion

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

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

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

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

CHAPTER 2

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

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

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

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

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

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

Europeans have broadly the same values and public attitudes with regard to their way of life, society and the role of government, as revealed by many public opinion surveys.¹⁷ Europeans are far less accepting of inequalities and poverty in society, seeing the role of government as responsible for fighting these and ensuring universal access to public goods such as health. In fact, European citizens view the fight against poverty and social exclusion as amongst the top priorities for EU action.

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

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

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

The European Social Model ensures universal protection against social risks such as unemployment, illness, poverty or old age, through redistributory policies and insurance-based systems. Indeed public social spending is again consistently higher than in other industrialized countries, at an average of just under 28% GDP against under 15% in the US or 17% in Japan.¹⁸ European Union membership has been accompanied by upwards convergence of social spending over the past twenty years for less prosperous European countries such as Greece (just under 14% GDP in 1981 to over 24% GDP in 2001) or Portugal (from 12% GDP in 1986 to just over 21% today). Private social expenditure remains minimal in the European Union, even in relation to pensions, in contrast to extra-EU countries like Australia, Canada, Korea, and the United States.

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

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

Despite institutional diversity within the European Social Model, the social outcomes of Member States constitute a defining common feature, marking another point of differentiation with other world regions. European countries have amongst the lowest rates of poverty in the OECD, lower than the US, Japan, Korea or Mexico.¹⁹ Income inequality is also lower, measuring 27.7 in Germany, 27.3 in France or 26.0 in the Czech Republic, against a much higher 35.7 in the US or 33.7 in New Zealand.²⁰

Social benefits reduce the proportion of people at risk of poverty in all European countries, the reduction ranging from 50% or less in Greece, Spain, Ireland, Portugal, Cyprus and Malta to more than 75% in Sweden, Czech Republic and Hungary.²¹ This allows a majority of citizens to contribute to and take an active part in society. In general, Member States with higher than average per capita social expenditure tend to show relatively lower risk of poverty, and vice versa.²²

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

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

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

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

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

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

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

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

1. The continental path

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

2. The British path

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

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

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

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

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

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

3. The Nordic path

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

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

4. The Mediterranean path

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

5. The Central and Eastern European path

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

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

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

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

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

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

The conservative approach of a trade-off between equity and efficiency has lost ground in the public debate over the last decade. For example, in a re-thinking of the traditional "Washington Consensus", the World Bank has stated: *"Inequality of opportunity, both within and among nations, sustains extreme deprivation, results in wasted human potential and often weakens prospects for overall prosperity and economic growth."*²⁴

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

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

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

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

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

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

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

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

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

CHAPTER 3

Why we need a New Social Europe

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

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

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

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

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

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

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

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

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

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

2. The New Social Europe: our values

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

- We believe in the value of **democracy**. Democracy is the foundation for freedom. Democracy safeguards individual and collective freedoms. Citizenship, which consists of exercising rights and duties in a society, is at the centre of democracy. A citizen not only enjoys economic, social, civil and political rights, but also has duties to society, which include the responsible exercise and non-abuse of these rights;
- We believe in the value of **freedom**. Freedom is the ability to fulfil one's capabilities. It is freedom from material and psychological deprivation. A free society balances the freedoms of each individual in

order to achieve the greatest possible overall freedom;

- We believe that society should be based on **solidarity**. Solidarity binds individuals together in a society and allows human dignity and equality to be fulfilled. Increasing individualization of our societies – leading to the breakdown of the social fabric and a rise in loneliness, distress and unhappiness – places solidarity at risk. We must place solidarity back at the centre of society;
- We believe in the inviolability of **human dignity**. Each human being has an inherent dignity which must be upheld and should never be stripped away;
- We believe in **equality**. Equality is fundamental for human dignity and freedom. At the same time, total equality is impossible to achieve in a society without harming other social democratic values such as freedom; thus we aim for a high degree of equality so that each person enjoys equal chances in life;
- We believe in **social justice**. Social justice implies that every citizen should be able to enjoy a fair share of the benefits, and carry a fair share of the responsibilities, of living in a society. It means that socio-economic background should not determine life chances, that all citizens should enjoy equal rights and opportunities and should be provided for in times of need.

3. The New Social Europe: our objectives

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

Our objectives and priorities are the following:

Economic development, social inclusion and environmental sustainability

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

Full employment as a cornerstone for the New Social Europe

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

Make labour markets inclusive

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

Invest in people and get it right from the beginning

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

Equal rights and opportunities between women and men

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

Active ageing instead of age discrimination

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

Eradication of poverty - a dynamic approach to rights and opportunities

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

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

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

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

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

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

Our roadmap

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A progressive strategy for full employment

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

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

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

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

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

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

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

business innovation, and better public/private partnerships to generate more and better jobs. It also relies on a set of coherent, active policies to support individuals to find and keep a job and to improve their capacities throughout their working lives. At the moment, we are faced with unacceptable levels of unemployment in many Member States as well as insufficient quality in jobs since an estimated one third of workers are working below their skills at the same time as the development of a two-tier labour market and a rise in involuntary part-time work from 15% in 2002 to 20% in 2005.²⁷ There must be a strong bridge between sustainable growth-supporting macroeconomic policy and human capital policy; there must be renewed efforts to raise the quality of employment in all its aspects. This should take place against a backdrop of renewed social dialogue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

European economic policy coordination has several facets:

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Making labour markets dynamic and inclusive

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

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

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

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

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

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

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

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

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

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

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

Active labour market policies

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

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

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

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

- Indeed in 2002, spending on labour market policies represented 0.74 % GDP. In 2004, this spending fell to 0.64 %, which is a drop of around 14%: a substantial drop in spite of growing needs;³²
- The drop in investment in training alone represents nearly 50% of the total disinvestment in active labour market policies in recent years;
- All EU countries, except Sweden, have more disabled persons inactive than in employment;
- On the contrary, those countries, which have introduced or strengthened active labour markets policies and programmes, have performed better than others. Unemployment in Denmark, the Netherlands, and the UK has fallen by more than half in recent years from their peaks in earlier periods.

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

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

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

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

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

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

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

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

Unemployment benefits

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

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

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

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

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

Decent minimum wages

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

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

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

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

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

The balance of job and employment security

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

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

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

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

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

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

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

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

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

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



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

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

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

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

Nevertheless, non-standard work has grown in most EU countries, including agency work and self-employed economically dependent work, fixed-term and part-time employment. Non-standard employment can be beneficial if it suits the life circumstances of workers and is chosen. But, at present, much non-standard employment is not chosen and many workers are falling outside the scope of fundamental labour and social rights, thereby undermining the principle of equal treatment.³⁶ This signals a worrying rise in precariousness in Europe's labour markets. In these types of work, there is little or no access to education and training, occupational pensions and professional development; job security is very low and employment more unstable. Such developments increase economic insecurity and opposition to globalization in general, while undermining Europe's labour standards.

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

Non-discrimination and positive measures for inclusion

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

Labour mobility

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

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

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

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

Strong social dialogue to promote and manage change

Social dialogue and collective bargaining are highly important pillars of our progressive employment strategy. Economies with a high degree of social dialogue, such as the Nordic and some continental countries like the Netherlands entail lower unemployment and higher income equality without producing a trade-off between these two objectives. Such strong systems of social dialogue – consisting of strong and stable institutional relationships between Social Partners – produce greater aggregate wage flexibility than decentralized systems where wages are negotiated at firm level.³⁷ In fact, unemployment is on average 1.4 % lower in countries with strong social dialogue than in countries with an intermediate to weak system of social dialogue.³⁸ Thus, stronger wage-setting institutions and better social dialogue – fostered by government, trade unions and businesses – would be desirable across the European Union.

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

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

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

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

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

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

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

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

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

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

The currently accepted definition of CSR is that it is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis".⁴⁰ The case for CSR is social, environmental and also economic: consumers take an enthusiastic view on companies that champion CSR, while punishing those that act irresponsibly from a social or environmental perspective vis-à-vis the communities in which they work. Consumer actions against multinational companies applying lower standards of business conduct in developing countries than would be acceptable in developed countries are a case in point. But there are also cases in Europe of unacceptable corporate behaviour that undermine progressive values and objectives: of high CEO bonuses occurring simultaneously with poor financial performance and lay-offs; of companies delocalizing production, despite generating good financial results and receiving generous public subsidies, from highly developed European countries to lower wage economies, provoking hundreds if not thousands of dismissals.

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

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

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

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

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

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

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.

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.⁴¹ 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 of information.⁴²

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.⁴³

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%.⁴⁴

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 (CO₂) 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."*⁴⁶

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;

- 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.⁴⁸

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.⁴⁹

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.⁵⁰ 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.

The PISA 2000 studies⁵¹ 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%.⁵²

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:⁵³ 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 80.⁵⁴

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.⁵⁵ 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).⁵⁶ 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.⁵⁷

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.⁵⁸ 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.

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 overruled 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

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.⁵⁹

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 priorities, 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 available 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,

and businesses - and negotiating new measures to reconcile work with family responsibilities and other aspects of urban life.⁶⁰

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;
- 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 65.⁶¹ 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.

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

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.

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;⁶³
- Enabling female employment through universal provision of child care and the provision of elderly care;⁶⁴
- 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.

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.⁶⁵ 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 uphold 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 inter-play 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 which citizens 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.⁶⁶ 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.⁶⁷ 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 Member 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;

- 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

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.⁶⁸

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.

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.

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.⁶⁹ The old Washington Consensus is outdated and there is an urgent need for new thinking and for new initiatives.

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.⁷⁰ 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 America. 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,⁷¹ 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.

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.

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.

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;

CHAPTER 14

- 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.

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.

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.⁷⁶

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.⁷⁷ 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.

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, training 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 2025.⁷⁹

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);

5.8% on administration; and 1.2% on citizenship, freedom, security and justice.⁸⁰ 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

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
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ANNEX I

Case studies of progressive public policies

The Danish example of a progressive strategy for full employment

From 1993 to 2001, Denmark underwent significant reforms in its labour market and social protection policies under three terms of social democratic government. In 1993, unemployment was at a 25 year high at 13%, much of it structural. This was coupled with low economic growth and high public debt.

At the end of 2001, employment was at the highest level in Europe at 76.6%, unemployment had fallen below 4%, long-term unemployment had been cut to a third of what it had been, and youth unemployment dropped to their lowest levels. Public finances had become sound, characterized by surpluses and old-debt deductions.

The key to this turnaround in economic performance was a combination of appropriate macroeconomic policy dynamizing the economy and progressive reforms. A new investment programme was launched in education, child care, active labour market policies, research and innovation. This programme produced a real rate of growth in 1994 – the first year for implementing reforms – was 5.5% in order to favour job creation. On this basis trade unions **accepted the introduction of major labour market reforms, which are now termed “flexicurity”.**

Flexicurity is a coherent system of rights and duties in which the unemployed individual has a right to a high degree of income protection – up to 90% of his/her salary – in return for which she/he must commit to a period of professional training or to accept a job offer. This system of flexicurity cannot be transposed selectively: flexibility must be coupled with a high degree of security.

The concept of “individual action plans” was introduced, based **on one-on-one interviews with the unemployed, which take into account the persons' qualifications, job opportunities in the local labour market and the need for re-training.** It became a fundamental right for the unemployed. Education, training schemes and job opportunities are then offered to each individual unemployed person – “an offer you can't refuse”. In the first reform package of 1993 these interviews and action plans would happen within a year, the next package in 1996 lowered this to six months and the goal of the final reform package in 2000 was to reduce this to three months. The quicker the action plan is done, the faster re-employment takes place. All in all the result is also lower public costs and higher efficiency.

Youth unemployment was dealt with in a special way through the Youth Guarantee, which gave the young unemployed the right to a job offer or training within six months. Today, 85% of Danish youngsters go into some form of further education, whether it be university, training college, an apprenticeship scheme or skills training.

Another key feature of the Danish model is investment in human resources through education, training and lifelong learning policies. This was a key part of the Danish progressive reform agenda from 1993 onwards. Denmark has raised investment in active labour market policies higher than any other European country, and the majority of this investment goes into education and training.

70% of working age citizens participate in some form of lifelong learning scheme during their careers.

This places people at the centre of labour market reform by assuring that whether they are in or out of a job, they can develop their competences and take advantage of new job opportunities.

Strong social dialogue is the cornerstone of the Danish model: over 80% of the labour force is a member of a trade union. The Social Partners were consulted in advance of each labour market reform package and performed a central role in implementing the policies. The Social Partners are co-responsible for training programmes for the unemployed, making sure that they are adapted to labour market needs.

As a result of this system of strong social partnership, falling unemployment did not lead to a rise in wage inflation. In fact, the Social Partners took account of macroeconomic conditions in wage negotiations, resulting in moderate average real wage growth of 2% per year, which allowed rising living standards while containing inflation. This resulted in the flattening of the Philips Curve, contrary to all the expectations of traditional economic theory.

The results of this coherent system of flexibility and security from the perspective of the individual worker or unemployed person are clear: both employed and unemployed Danes feel more economically secure than any other workers or unemployed citizens in Europe.

The Danish model has undergone some changes since the entry into government of the Liberal party in November 2001. These changes have undermined several of the most progressive and dynamic features of the labour market reforms introduced in the 1990s. For example, the Social Partners are no longer co-responsible for active labour market policies and funding for lifelong learning has been cut.

The British example of effective active labour market policies

The Labour government began its programme of active labour market policies with the new deal for the young unemployed in 1997. Since then, the new deal programmes have been introduced for several other groups of people finding it difficult to integrate the labour market, including the new deal 50+, the new deal for Lone Parents, and the new deal for Disabled People.

All new deals start with an interview with a new deal Personal Adviser who supports the participant throughout his or her time on the programme. During this interview the participant's skills, experience and job hopes are discussed. Any gaps in skills or knowledge are identified and the new deal Personal Adviser may suggest extra help to get the participant ready for work, such as support to develop self-confidence.

The new deal Personal Adviser helps participants into work by tailoring the support available through new deal to their individual needs and circumstances. This support can

include subsidized employment, work experience with employers, training, help with essential skills.

To date, the new deal has helped well over a million people into work, including 535,000 young people and 296,000 lone parents. Since 1997, both long-term unemployment and long-term youth unemployment have been cut by over 75% and the lone parent employment rate has reached its highest level with more than half in work.

Finnish educational success: high achievement and high inclusion

It is in Finland that we find the best-performing education system in the world, combined with a high level of inclusion. Research has shown that there are several reasons that contribute to the success of the Finnish education system, which we can learn from:

- There is an extensive network of educational institutions covering the entire country;
- A lot of resources have been invested in the teacher education system which is of high quality;
- Instruction and pedagogy at Finnish schools have been structured as to fit heterogeneous student groups. For example Finnish teachers know that no student can be excluded and sent to another school;
- Special education is usually closely integrated into normal teaching and is highly inclusive by nature;
- Every student has right to counselling;
- Heterogeneous grouping, which is higher in comprehensive systems, appears to be of the greatest benefit to the weakest students. In order to cope with heterogeneous groups, teachers are highly educated as pedagogical experts;
- The Finnish national core curriculum which used to be very strict and detailed underwent reorganization in the early 1990s whereby it became more flexible, decentralized and less detailed.*

Universal child care in Denmark and Sweden

Denmark and Sweden are the only Member States to have simultaneously instituted a universal system of child care for pre-school children and achieved over 70% employment amongst women, while raising their fertility rate to the higher end of the EU range (only 6 Member States have fertility over 1.77 children per woman).

* "The Finnish Success in PISA and some reasons behind it." Välijärvi J. et al, PISA 2000, Institute for Educational Research, University of Jyväskylä, cited in "Study on Access to Education and Training, Basic Skills and Early School Leavers" GHK, September 2005

In Denmark parents are guaranteed child care from the age of 9 months until the school age of 6 years. If the municipality cannot provide this care, parents are entitled to economic compensation corresponding to private care. Parents pay an income-related fee, which differs between communities and regions, but average costs are approximately 110 € per month, whereas the costs for private organized child care are around 690 € per month. The prices of public child care therefore are massively subsidized; around 23% of the costs are taken by parents' fees.*

In Sweden, public child care is available throughout the country. All children between 1 and 12 years have the right to child care, pre-school children (1-5 years) on a full-time or part-time basis and school children (6-12 years of age) are entitled to care after school hours e.g. in leisure time centres. There is an increase in the number of children attending pre-school because of a new right for children of unemployed parents and parents on parental leave to attend pre-school. Parents pay an income-related fee, which may differ by municipality. The maximum fee is set at 3% of income for one child with a maximum of 140 € per month; at 2% of income for the second child with a maximum of 93 € per month and 1% of income for the third child with a maximum of 47 € per month.**

United Kingdom, Portugal and Spain – investing in extended education and care for children to facilitate parental employment and improve educational outcomes

Several social democratic governments are currently expanding early years education and exploring the role of pre- and after- school activities to improve educational outcomes and facilitate parental employment.

The UK Government's major investment in early learning and child care, over £17 billion since 1997, has led to an unprecedented expansion in choice for parents.

The Child care Bill, which is currently before Parliament, is the first ever piece of legislation specifically on early years and child care. Under the bill, local authorities in England will have to carry out a detailed child care sufficiency assessment and help the local child care market to respond to local demand, especially from families on low incomes or with disabled children.

By 2010 in every area parents and children should find that:

- Their local authority understands their needs, and has worked with local partners to ensure they have a choice of affordable child care, and ready access to other opportunities and services;

* Information available in "Reconciliation of work and private life: a comparative review of 30 European countries", EU Expert Group on Gender, Social Inclusion and Employment, European Commission Directorate-General Employment and Social Affairs, September 2005

** Idem

- The local information service not only knows what is available but can help create a personalized package of care and education which meets the family's needs;
- 3 and 4 year olds have 15 hours of free early education and child care which can be taken flexibly to fit into that package;
- They have a local Sure Start Children's Centre which will provide easy access to child care and services for children from birth to 5, and in the most disadvantaged areas will provide those services on site and reach out to make sure they are used by those in most need;
- Schools offer easy access to child care, out of school activities, parenting support, community access to school facilities and quick referral to specialist health and social care services when necessary.

In addition, the UK Government aims for all schools to become "extended schools" by 2010. Schools will be expected to work with outside partners and other schools to offer a minimum "core" of services. These will consist of:

- Child care from 8am to 6pm, available all year round;
- Varied and interesting activities for children;
- Parenting support;
- Access (or referral) to support services, including health services;
- Wider community access to ICT, sports and arts facilities.

Evidence shows that extended schools can have a positive impact on pupil attainment, attendance and behaviour, as well as getting parents more engaged with their children's education and improving community cohesion.

Portugal has responded to its high upper secondary school drop-out rates by expanding after-school activities: about 25% of children from 6 to 10 years of age already have some subsidized after-school support. The aim is to extend this to all children. Extra-curricular school activities will include English lessons and sport for example. After-school activities will be free until 5:30pm, after which further activities will be fee-paying on a means-tested basis.

In Spain, infant education is one of the areas that has experienced the biggest leap in quality and number of places requested and offered. All Spanish regions are about to achieve universal, quality schooling for children of three years of age. The new education law of 3rd May 2006, has amongst its primary objectives to raise the rate of infant pre-schooling and lower early school leaving.

Bringing lifelong learning to all who need it in Sweden

Sweden's system of lifelong learning has developed continuously since the 1960s and is amongst the most inclusive of the whole of Europe. Since 1968, municipal adult education has been organized to offer adults second chance education. Municipalities are obliged to provide basic education to all adults who have not completed compulsory schooling.

Since 1975 all employees in Sweden have a right to take leave of absence in order to study. Sweden's lifelong learning system is organized in a range of educational institutions and programmes in order to cater for different needs and reach the maximum number of people.

Over the past decade particularly, Sweden's social democrats have been developing lifelong learning to offer education and training to all adults who need it. The adult education initiative – Kunskaftlyftet – has given 800,000 people second chance education. The social democratic government also set aside 1.8 billion kronor to enable local authorities to offer around 80,000 full-time places in adult education for the least educated.

The government invested over two billion kronor into a study programme, enabling 25,000 people who were unemployed or facing unemployment to go back to school with the aid of student support providing an 100% grant for one year.

Each year, over 1.5 million men and women attend courses organized by adult educational associations.

One hundred thousand people are enrolled in long-term or short-term courses at regional colleges. The number of participants in advanced vocational training courses has increased from 846 in 1996 to 27,000 in 2005. Adults with learning disabilities and immigrants also have special educational programmes meeting their needs. The result is that Sweden has amongst the most well-educated workforces in Europe, with the highest employment rates.

Meeting the challenges of an ageing society: introducing a new national system for dependency in Spain

The Spanish Socialist Government is using social investment to generate economic growth and meet the challenges of the ageing society. For the second year running, the government has devoted over half of budgetary resources to social policy.

Minimum pensions are rising at double the rate of average pensions, with the objective of achieving a 26% rise in minimum pension by the end of the legislature, the biggest rise since

the democracy was established. For the group of almost 3 million people, this rise in minimum pension is undoubtedly an important factor for social inclusion.

The government is using social investment to generate economic growth: the draft law for Personal Autonomy guarantees care for the elderly and disabled. This will have the significant effect on employment, since it will help families to work as well as generating new social rights.

This new piece of legislation establishes the right of dependent persons to receive help in order to carry out the basic activities of daily life.

Care for dependants is approached from a dual perspective: combining actions to protect those who cannot fend for themselves and those who care for them, as well as actions to promote autonomous living for the elderly and the disabled.

The draft legislation provides for services that are public and universal in nature, ensuring equality of access.

Rights are guaranteed through a National System for Autonomy and Care for Dependants. Three types of services will be provided throughout the country.

The draft law has a strong social dimension which will affect the different policy spheres (economic, health, labour market, training, social services and social protection), using mechanisms for cooperation and administrative cooperation to the full.

The law is currently being debated in Parliament – due to enter into force in 2007 – and will represent a real social revolution. The introduction of the System for Autonomy and Care for Dependants will, above all, have a direct impact on the welfare of over 1,125,000 dependants and their families. It will also have a positive impact on economic activity and job creation.

In a study commissioned by the Spanish Government (FEDEA Foundation), it has been estimated that €36,671 for services provision and infrastructure. The economic activity stimulated by this investment will represent on average €9,766 million or an extra 1.03% GDP, revealing a substantial net return to the initial public investment. It is estimated that 190,000 jobs will be created over the next six years, which would reduce unemployment by 0.49% from 2007 to 2012. In fact 65% of public investment in the National System for Dependency will finance itself through a growth in income and indirect tax revenues, social contributions, etc. Income tax revenues will rise by 2.33%, indirect tax revenues will increase by 3.22%, and social contributions will increase by 2.54%. Therefore the new National System for Dependency will stimulate production, consumption and employment. As a result around 75% of the introduction of the system will be covered without prejudicing public finances. The remaining cost of the system could be covered by means-tested co-financing.

Social investments for new growth, jobs and social inclusion in Portugal

The Portuguese government has introduced a new programme, PARES, to widen the social security network, based on a partnership strategy. In this programme, the state acts as a guarantor of essential social needs but it does so in partnership with civil society – municipalities, the IPSS as well as businesses who want to invest in this market.

With this programme, the Government aims to progress towards a society based on more solidarity:

- By supporting young couples and their children, through a 50% increase in the number of availabilities in child care facilities;
- By creating the right conditions so that a larger number of older citizens can stay in their own homes, have more autonomy and better quality of life, through an increase in the number of places in day-care centres and a reinforcement of services at home;
- By increasing the number of places available in old people's homes by 10%;
- By improving levels of integration and promoting full citizenship by enlarging the network of care centres and centres of occupational activities for people with disabilities, raising availability of places by between 10% to 30%.

This programme also promotes employment in the social sector by creating thousands of jobs (more than 15,000) for a whole range of professionals.

PARES is strongly articulated around the concept of quality so as to provide the appropriate responses to the specific needs of the users, by promoting projects that guarantee an effective partnership between institutions, local authorities, the non-profit and private sectors and the state, establishing mechanisms that allow us to increase competitiveness as well as social well-being.

The territorial aspect is also a decisive factor of eligibility for these tools, and projects that focus on regions that have less of a social coverage and that are more vulnerable to social exclusion, will be given priority. In this way, the Portuguese government hopes to reach two objectives:

- That financial resources, which are too scarce, should be channelled to regions that have an insufficiently developed network;
- The social responses that will be financed will be those that prove to be most needed in those regions.

In addition, at the investment level, it promotes private investments from institutions of solidarity and also of the profit-making private sector, in an innovative way.

The programme of enlargement of the social security network is a strong investment in Portugal's future. It represents €450 million in investment; the creation of 45,700 new places available in different services; the creation of 15,000 new jobs.

Taking up the demographic challenge in Bulgaria

One of the most notable recent examples of public policy action in relation to demographic change is that undertaken by the Bulgarian government. Bulgaria has currently one of the lowest fertility rates in Europe, at 1.2 children per mother. It is projected that the Bulgarian population will fall from 7.76 million today to 7 million by 2020 and then to 5.5 million by 2050 if current trends continue.

The government has responded by introducing a package of measures in August 2006 to encourage a simultaneous rise in child-bearing and female employment. The estimated cost of the new measures amount to around €15.8 million and consist of a rise in maternity leave from 135 to 315 days, paid at a level of 90% of the given salary; paid educational leave for mothers, until the twelfth month after the child's birth; state-funded home-based child care until two years of age, equivalent to the minimum wage.

Progressive parental leave policy with a better sharing of parental leave between women and men in Norway

Norway has amongst the most progressive policies for parental leave in the world, primarily thanks to the efforts of successive social democratic governments. The rules for parental leave for Norwegian employees give parents the right to leave of absence for a total of 54 weeks. The mother must have the three first weeks before and six weeks after birth. The father can take six weeks, which is not transferable to the mother. The rest of the parental leave period can be shared between the mother and the father. Parents choose between 54 weeks at 80% earnings pay or 44 weeks at 100% earnings, financed by the state.

Mothers and fathers are eligible if they have been employed and earning a pensionable income for at least 6 months of the 10 months immediately prior to the beginning of leave. Women who are not eligible receive a lump sum benefit of NOK 33,484 (around € 4,198).

Norwegian legislation allows for flexible use of the parental leave period through the so-called time account. Parental leave can be part-time (maximum 50% leave). Both parents have the right to use the time account, either simultaneously or consecutively. The take-up of paternity leave is the highest in Europe, standing at 85%, ensuring that fathers bond with their babies and play a greater role in child-caring responsibilities. Norway also has one of the highest female employment in Europe, with 77% of all women between the ages of 25 and 64 in employment.

Progressive urban time policies in Italy "Tempi della città"

Urban time initiatives first originated in Italy through the efforts of women's movements. In 1986, a group of Italian women presented initiative called « Women change time », proposing a draft law on how to reconcile the different demands on their time. Italian cities, such as Milan and Bolzano, began to experiment with urban time policies, drawing increasing political attention.

The Turco law 53/2000, in the social democratic government of Massimo d'Alema, on urban time policy proposed the creation of "time offices" in communes with over 30,000 inhabitants and promoted the elaboration of regional laws.

A new progressive approach to integration policy – Spain

Spain has gone from being a country of emigration to a country of immigration in merely two decades. This is the result of impressive economic development, creating new demand in the labour market for skilled and unskilled workers.

The recent process of regularization for illegal immigrants in Spain has had the effect of reducing the informal economy, raising public receipts (immigrant workers now represent 10% of contributors to the social security system) and creating a new need for an effective integration policy.

The Spanish government, led by José Luis Rodríguez Zapatero, has launched a Strategic Plan for Citizenship and Integration in 2006, elaborated in consultation with civil society and the Social Partners. The objectives of the Strategic Plan are the following:

- Recognizing full civil, social, economic, cultural and political rights to immigrants;
- Adapting public policies, particularly education, labour market, social services, health and housing, to the new needs presented by immigrants. This adaptation must be quantitative, to respond to the higher number of new citizens and users than public services have been dealing with until now, as well as qualitative, to manage appropriately the diversity of new demands and incorporate the necessary intercultural competences;
- Guarantee immigrants access to public services – especially education, employment, social services, health and housing, on equal conditions with the native population. Establish a system for reception of new immigrants and those who are in particularly vulnerable situations, until they are in conditions to access general public services;
- Foster awareness amongst immigrants of the common values of the European Union, of rights and duties of residents in Spain, and of the

official languages of the various state territories and of the social norms of life in Spanish society;

- Fight against the various forms of discrimination, racism, and xenophobia in all aspects of social life, as much in the public sphere as in the private sphere;
- Introduce a gender perspective in relation to the elaboration of integration policies and their implementation;
- Foster policies and experiences of co-development with the countries of origin of immigration;
- Favour understanding within Spanish society of the phenomenon of migration, improve intercultural cohabitation, value diversity and foster values of tolerance, and support the maintenance and awareness of immigrant cultures;
- Promote the adoption of public policies and measures by the different public administrations and by civil society that foster the integration of immigrants and cooperation in this field.

Twelve areas of intervention have been identified, in which programmes will be established: education, employment, housing, social and health services, children and young people, equal treatment, women, participation, awareness-raising and co-development.

A new fund has been created for the regions to support the reception and integration of immigrants, in the framework of this Strategic Plan.

A forum for the social integration of immigrants has also been launched as a consultative body of the Ministry for Labour and Social Affairs to allow an ongoing tripartite dialogue between immigrants' associations, social support organizations representatives of public authorities. The forum will be able to promote its own initiatives relating to the social integration of immigrants and give deliver its opinion on government proposals, plans and programmes.

The following declaration on "Common Basic Principles for Immigrant Integration Policy in the European Union" was adopted by the EU Justice and Home Affairs Council, in November 2004, and represents a set of guidelines for public policy regarding the integration of immigrants in the Member States of the European Union.

1. 'Integration is a dynamic, two-way process of mutual accommodation by all immigrant and residents of Member States'

Strengthening the ability of the host society to adjust to diversity by targeting integration actions at the host population. Setting up national programmes to implement the two-way approach. Increasing the understanding and acceptance of migration through awareness-raising campaigns, exhibitions, intercultural events, etc. Promoting knowledge within the host society of the consequences of introduction programmes and admission schemes. Enhancing the role of private bodies in managing diversity. Promoting trust and good relations within neighbourhoods, e.g. through welcoming initiatives, mentoring, etc. Cooperating with the media, e.g. through voluntary codes of practice for journalists. Supporting transnational actions, e.g. campaigns or intercultural events, to project accurate information about immigrants' cultures, religions and social and economic contributions. Supporting pilot projects and studies to explore new forms of Community cooperation in the field of admission and integration.

2. 'Integration implies respect for the basic values of the European Union'

Emphasizing civic orientation in introduction programmes and other activities for newly arrived third-country nationals with the view of ensuring that immigrants understand, respect and benefit from common European and national values. Including integration of third-country nationals in future Pluriannual Programmes of the proposed Fundamental Rights Agency. Exploring effective ways to raise public awareness about the basic values of the EU.

3. 'Employment is a key part of the integration process and is central to the participation of immigrants, to the contributions immigrants make to the host society, and to making such contributions visible'

Developing innovative approaches to prevent labour market discrimination. Involving Social Partners in the elaboration and implementation of integration measures. Informing employers and educational institutions about certificates for introduction courses to promote access to the labour market or training opportunities. Exploring additional ways of recognizing newcomers' qualifications, training and/or professional experience, building upon existing laws. Supporting training capacities of small companies, business organizations and trade unions in sectors of the economy employing many migrants. Promoting employment for immigrant women, i.a. by ensuring that restrictions in labour market access are minimized and do not hamper integration, when transposing the Directive on the right to family

reunification. Encouraging the recruitment of migrants through awareness-raising, economic incentives and other measures targeted at employers. Supporting migrant entrepreneurship, e.g. through facilitated access to banking and credit services.

Monitoring the impact of National Reform Programmes on labour market integration of immigrants. Encouraging Member States to develop labour market integration policies. Monitoring the application of the Directives concerning discrimination in employment and on third-country nationals who are long-term residents.

4. 'Basic knowledge of the host society's language, history, and institutions is indispensable to integration; enabling immigrants to acquire this basic knowledge is essential to successful integration'

Strengthening the integration component of admission procedures, e.g. through pre-departure measures such as information packages and language and civic orientation courses in the country of origin. Organizing introduction programmes and activities for newly arrived third-country nationals to acquire basic knowledge about language, history, institutions, socio-economic features, cultural life and fundamental values. Offering courses at several levels taking into account different educational backgrounds and previous knowledge of the country. Reinforcing the capacity of introduction programmes and activities for dependants of persons subject to admission procedures, women, children, elderly, illiterate persons and people with disabilities. Increasing the flexibility of introduction programmes through part-time and evening courses, fast track modules, distance and e-learning systems. Targeting introduction activities at young third-country nationals with specific social and cultural problems related to identity issues, including mentoring and role-model programmes. Pooling resources enabling adjacent municipalities to offer different types of courses. Stimulating transnational actions, e.g. adaptation of good practices to different contexts, exchange of personnel, joint development of programmes, common dissemination of results. Supporting innovative integration programmes or models incorporating language and communication training, and the cultural, political and social characteristics of the host country.

5. 'Efforts in education are critical to preparing immigrants, and particularly their descendants, to be more successful and more active participants in society'

Reflecting diversity in the school curriculum. Taking into account the specific problems of young immigrants in measures to prevent underachievement and early school-leaving. Improving the participation of young migrants in higher education. Addressing effectively migrant youth delinquency. Incorporating integration objectives into the Commission's various educational programmes. Promoting education of third-country nationals through the Education and Training 2010 Work Programme. Facilitating transparent recognition of qualifications, notably through proposals for a European Qualifications Framework.

6. 'Access for immigrants to institutions, as well as to public and private goods and services, on a basis equal to national citizens and in a non-discriminatory way is a critical foundation for better integration'

Strengthening the capacity of public and private service providers to interact with third-country nationals via intercultural interpretation and translation, mentoring, intermediary services by immigrant communities, 'one-stop-shop' information points. Developing comprehensive information tools, e.g. manuals, websites, registers of staff's diversity skills. Building sustainable organizational structures for integration and diversity management and developing modes of cooperation between governmental stakeholders enabling officials to exchange information and pool resources. Introducing schemes to gather and analyse information about the needs of different categories of third-country nationals at local and regional level through platforms for consultation, exchange of information between stakeholders and surveys of immigrant communities. Engaging companies in debates on integration and linking governmental programmes with companies' corporate social responsibility programmes. Integrating intercultural competence into recruitment and training policies. Monitoring the application of the Directive on third-country nationals who are long-term residents and on equal treatment irrespective of racial or ethnic origin. Furthering cooperation in implementing Community law in the field of immigration and good practices in the area of integration. Supporting studies and exchange of best practices. Promoting the development of transferable intercultural training activities for public officials.

7. 'Frequent interaction between immigrants and Member State citizens is a fundamental mechanism for integration. Shared forums, intercultural dialogue, education about immigrants and immigrant cultures, and stimulating living conditions in urban environments enhance the interactions between immigrants and Member State citizens'

Promoting the use of common spaces and activities in which immigrants interact with the host society. Improving the living environment in terms of housing, healthcare, care facilities for children, neighbourhood safety and opportunities for education, voluntary work and job training, the condition of public spaces, the existence of stimulating havens for children and youth. Strengthening the integration dimension in Social Inclusion and Social Protection Policies. Encouraging the exchange of information and good practice with regional, local and urban authorities through networks operating at EU level and strengthening the link between these networks and the NCPs through ad hoc consultation and expertise. Supporting transnational cooperation at regional, local and municipal level between public authorities, private enterprises and civil society, including migrants' associations.

8. 'The practice of diverse cultures and religions is guaranteed under the Charter of Fundamental Rights and must be safeguarded, unless practices conflict with other inviolable European rights or with national law'

Developing constructive intercultural dialogue and thoughtful public discourse. Promoting inter- and intra-faith dialogue platforms between religious communities and/or between communities and policy-making authorities. Facilitating intercultural and inter-religious dialogue at European level, including various stakeholders. Further developing the Commission's dialogue with religious and humanist organizations.

9. 'The participation of immigrants in the democratic process and in the formulation of integration policies and measures, especially at the local level, supports their integration'

Increasing civic, cultural and political participation of third-country nationals in the host society and improving dialogue between different groups of third-country nationals, the government and civil society to promote their active citizenship. Supporting advisory platforms at various levels for consultation of third-country nationals. Encouraging dialogue and sharing experience and good practice between immigrant groups and generations. Increasing third-country nationals' participation in the democratic process, promoting a balanced gender representation, through awareness raising, information campaigns and capacity-building. Minimizing obstacles to the use of voting rights, e.g. fees or bureaucratic requirements. Facilitating immigrants' participation in mainstream organizations, i.a. by supporting volunteer and internship schemes. Increasing involvement of third-country nationals in society's responses to migration. Building migrants' associations as sources of advice to newcomers, and including their representatives in introduction programmes as trainers and role models. Elaborating national preparatory citizenship and naturalization programmes. Initiating a study/mapping exercise of the level of rights and obligations of third-country nationals in the Member States. Encouraging the opening-up of mainstream organizations to immigrants and the building of organizations representing their interests EU-wide. Fostering the creation of a platform of migrants' organizations and organizations representing migrants' interests at EU level. Exploring the value of developing a concept of civic citizenship as a means of promoting the integration of third-country nationals, including the rights and duties needed to give immigrants a sense of participation in society. Promoting research and dialogue on identity and citizenship questions.

10. 'Mainstreaming integration policies and measures in all relevant policy portfolios and levels of government and public services is an important consideration in public policy formation and implementation'

The integration of immigrants is deeply influenced by a broad array of policies that

cut across institutional competencies and levels of government. In this context particularly consideration needs to be given to the impact of immigration on public services like education, social services and others, especially at the level of regional and local administrations, in order to avoid a decrease in the quality standards of these services.

Accordingly, not only within Member States but also at the European level, steps are needed to ensure that the focus on integration is a mainstream consideration in policy formulation and implementation, while at the same time specifically targeted policies for integrating migrants are being developed.

Although governments and public institutions at all levels are important actors, they are not the only ones. Integration occurs in all spheres of public and private life. Numerous non-governmental actors influence the integration process of immigrants and can have an additional value. Examples in this respect are, trade unions, businesses, employer organizations, political parties, the media, sports clubs and cultural, social and religious organizations. Cooperation, coordination and communication between all of these actors are important for effective integration policy. The involvement of both immigrant and the other people in the host society is also necessary.

11. 'Developing clear goals, indicators and evaluation mechanisms are necessary to adjust policy, evaluate progress on integration and to make the exchange of information more effective'

Irrespective of the level of integration policy efforts, it is important to know whether these efforts are effective and make progress. Although it is a process rather than an outcome, integration can be measured and policies evaluated. Sets of integration indicators, goals, evaluation mechanisms and bench-marking can assist measuring and comparing progress, monitor trends and developments. The purpose of such evaluation is to learn from experience, a way to avoid possible failures of the past, adjust policy accordingly and showing interest for each others efforts.

When Member States share information about their evaluative tools at European level and, where appropriate, develop European criteria (indicators, "bench-marks") and gauges for the purposes of comparative learning, the process of knowledge-sharing will be made more effective.

The exchange of information has already proven to be useful within the National Contact Points on integration. Exchanging information provides for taking into account the different phases in which Member States find themselves in the development of their own integration policies and strategies.

Increasing growth potential*

Summary

Long term prospects of financing the New Social Europe are good. Many initiatives which will create a new and inclusive welfare society will also contribute to a more sustainable development in the long run. Thus financing can be found through a simultaneous investment strategy, improvements in productivity, increasing employment, creating sustainable development and changing the structure of public spending.

Fields where these effects can be found are, for example, investments in education, research and development, targeted social expenditure and active labour market policy. This paper gives examples on effects in these fields.

A long term scenario shows the long term positive effects of structural changes in the labour market and the rest of the economy which increases the labour force, reduces the structural unemployment rate and increases productivity.

The table shown below illustrates the effect on wealth and employment. Wealth is measured as the accumulated effect on GDP. In 2020 GDP in EU15 is 4.4% higher than it would have been without any offensive policy towards a New Social Europe. The positive effects on wealth and employment imply that the effects on public budgets are also positive - despite the fact that a proportional part of the growth and employment increase in this scenario have been in the public sector. That is because an increase in employment and a decrease in unemployment will reduce public social benefits and increase tax payments.

* Many thanks to Anita Vium of the Economic Council of the Labour Movement (Denmark), for her invaluable work.

Additional wealth and employment as a result of the New Social Europe, 2007-2020

	Wealth* Increase, real terms		Employment Mio. People	
	2015	2020	2015	2020
Germany	3.5	5.5	0.8	1.3
France	3.2	4.9	0.6	0.9
Italy	4.7	6.0	0.6	0.8
United Kingdom	1.3	1.6	0.5	0.8
EU15	3.0	4.4	3.6	5.6

Note: Wealth is the accumulated effect on GDP in the end of the period.
Source: ECLM calculations on the international model, HEIMDAL*

Increasing growth potential in the long run with the New Social Europe

The potential of Europe to build a new and inclusive welfare society is large. If Europe launches an investment strategy with active investments in people, research and development, the environment etc., the return in the long run will be positive and will support a New Social Europe.

Broadly there are five ways of generating new resources for the New Social Europe. These include:

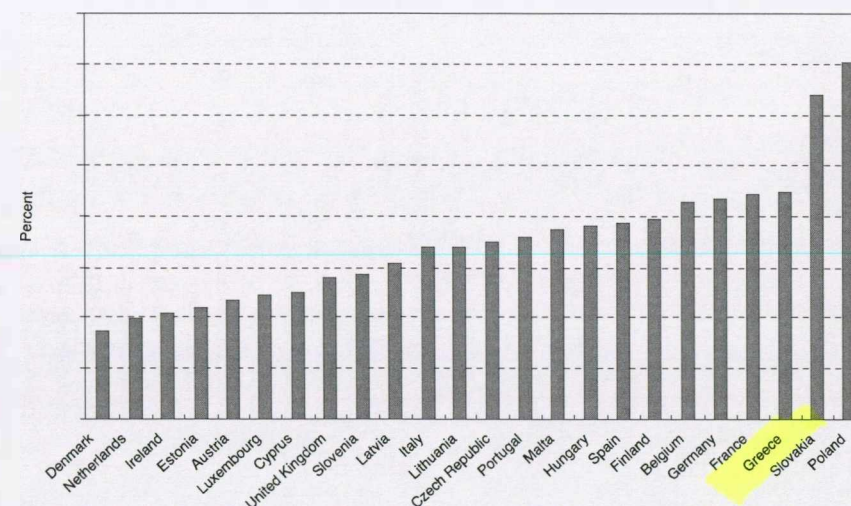
- Obtaining higher economic growth through a simultaneous investment strategy across the European Union and better economic policy coordination;
- Improving productivity for greater prosperity;
- Increasing employment and cutting unemployment;
- Sustainability;
- Changing the structure of public expenditure.

Generating resources, as detailed above, can be done in several ways – and each European country will have to find its own way and pace depending on fiscal developments, the nature of the changes required and the current status of relevant parameters.

This paper will give some examples of how to generate resources according to the five ways outlined above. The effects on different initiatives will also be quantified in the last part of the paper. The examples include investment in education, research and development, targeted social expenditure and active labour market policy.

1. Large potential for an investment strategy

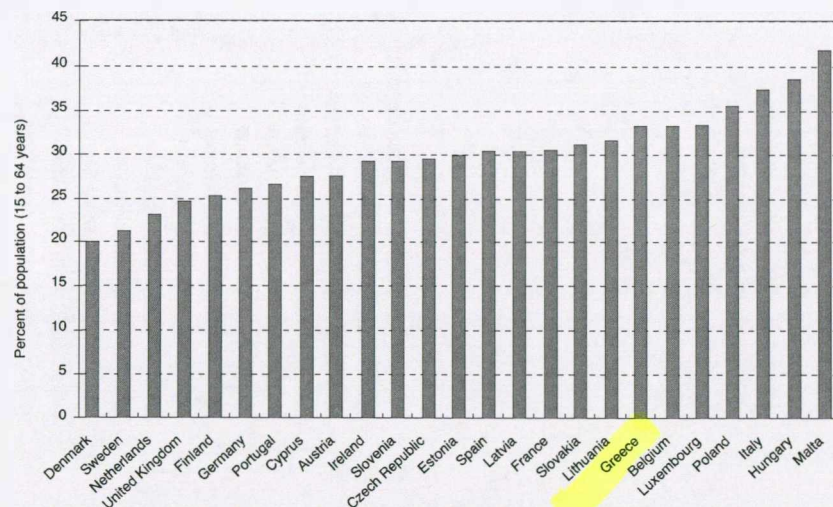
Observing the current situation in Europe illustrates the potential for further growth and financing of the New Social Europe if our resources are utilized better than today. The unemployment rates in the 25 EU countries are shown in chart 1. On average the unemployment rate in EU25 is 8%, corresponding to 17.4 million unemployed. The large number and the fact that some countries have significantly lower unemployment rates – apparently without severe problems with inflation – indicate that there is a large direct potential here.

Chart 1: Total unemployment rate, EU countries, September 2006

Source: Eurostat

In a longer perspective there is also potential for including more people in the labour force. Chart 2 shows the part of the population aged 15 to 64 which is not active in the labour market. To a large extent the differences between countries is caused by different participation rates of women – but also by the differences in retirement ages and differences in when students graduate and enter the labour market.

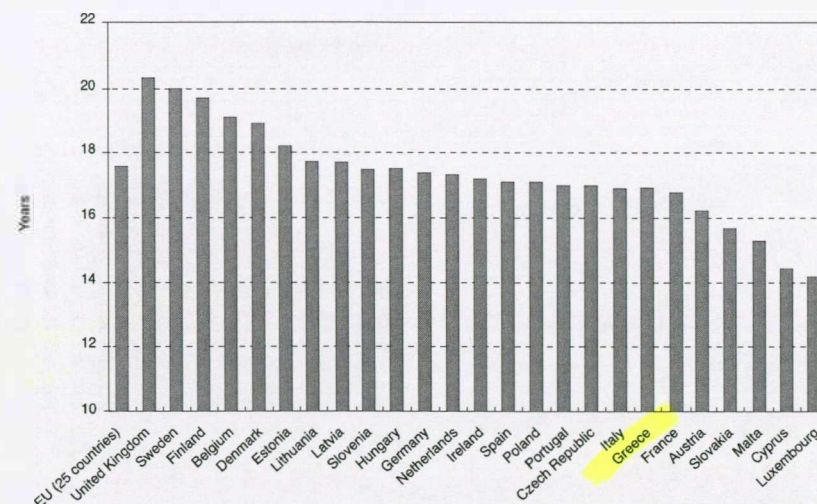
Chart 2: Inactive in the labour market, 2005



Source: Eurostat

An important issue regarding the financing of the New social Europe is the level of education of Europe's populations. As a latter part will show, the advantages of education are numerous – both for the individual and society. By the current enrolment rates the school expectancy of the EU-25 was 17.6 years in 2004 but with a significant variation as shown in chart 3. Most countries have school expectancies between 17 and 18 years while the top performer, UK, has a school expectancy of 20.3 years. Thus the bench-mark for most European countries is 2 to 3 years additional education for young people as an average.

Chart 3: School expectancy, 2004



Note: School expectancy corresponds to the expected years of education over a lifetime and has been calculated adding the single-year enrolment rates for all ages. This type of estimate will be accurate if current patterns of enrolment continue in the future

Source: Eurostat

2. Effects of initiatives within the New Social Europe

A simultaneous investment strategy, improvements of productivity, increasing employment, creating sustainable development and changing the structure of public spending can and must be done differently in different countries as national specificities must be taken into account – as well as different public budget situations. Thus moving towards the New Social Europe and better utilization of the labour force should be done as resources are released and the structures of budgets are changed – and in that way make development viable.

This analysis does not give a plan in detail for each country on how to afford the New Social Europe. Instead it sketches the effects of different initiatives and gives a scenario.

Box 1: The link between "Increasing growth potential in the long run with the New Social Europe" and "A scenario for growth and prosperity in Europe"

Earlier calculations in the paper "A scenario for growth and prosperity in Europe"* are primarily dedicated to how Europe can utilize the unused – but available – reserves by way of reducing unemployment and turning the business cycle.

The New Social Europe scenario has a longer-term aim because it gives the effects of increasing production potential – primarily by increasing the labour force and decreasing the structural unemployment rate. This scenario shows the effects of providing additional production factors as opposed to "A scenario for growth and prosperity in Europe" which shows the effect on using the already existing resources in the labour market.

Thus in principle these two scenarios supplement each other and the effects can be added together. In practice, adding the two scenarios would give too high an outcome since some policies are the same in both scenarios, for example, active labour market policy. The condition for the long run policy to work is that initiatives are launched so that the necessary demand is present to increase demand for labour.

2a. Education

Investment in education is a sure way to increase employment, reduce unemployment, increase productivity and improve the public budget in the long run. The demand for educated people is higher than that for uneducated people – reducing public expenditure for social benefits, and increasing wages and thus tax payments.

Using additional resources for the education of the population would have significant, positive effects on employment and the public budget in the long run. That is illustrated in calculations made by OECD. Table 1 shows the public internal rates of return for individuals obtaining different levels of education. The table illustrates that the rate of return of education is far bigger than e.g. the interest rate on public debt.

Table 1: Public internal rates of return for an individual obtaining education

	Obtaining an upper secondary or post-secondary non-tertiary education, ISCED 3/4		Obtaining a university-level degree, degree, ISCED 5/6	
	Males %	Females %	Males %	Females %
Belgium	11.3	9.2	12.2	17.9
Denmark	14.3	11.6	7.8	6.9
Finland	9.8	6.7	13.6	11.3
Hungary	7.6	8.2	18.8	13.1
Sweden	13.2	10.2	7.5	6.3
UK	13.8	11.1	13.7	16.1

Note: Rate of return when the individual immediately acquires the next higher level of education.
Source: OECD "Education at a glance", 2006, table A9.7 and table A9.8.

Calculating the rate of return on education is quite complicated as there are a numerous relevant factors. The OECD considers the wage rates (and thus tax payments) of people with different education and the fact that well-educated people are less likely to be unemployed than people with lower levels of education. If more factors are added into the analyses it will tend to make the rate of return on education even larger. This is described below.

Box 2: Rate of return of education with more factors

The calculations on the rate of return on education of the OECD take into account that well educated people are less likely to be unemployed. But the OECD does not include the fact that a larger part of the well-educated are active in the labour market and that the activity rates of people with less education are lower. Furthermore, the OECD assumes that the income of people is zero during the years of education. For some people that is also a simplification since many combine studies with part-time jobs.

On the other hand the OECD does not take into consideration that people who get an education might have certain inherent qualities that would allow them to do somewhat better anyway. Calculations on the basis of Danish data including these additional factors shows that the rates of return of education tend to be underestimated by the OECD.

*"A scenario for growth and prosperity in Europe" Economic Council of the Labour Movement, Denmark 2005

Table: Public internal rates of return for an individual obtaining education, Denmark

	Obtaining an upper secondary or post-secondary non-tertiary education, ISCED 3/4	Obtaining a university-level degree, ISCED 5/6
ECLM	18.6	22.3/24.9/31.2
OECD	14.3/11.6	7.8/6.9

Note: The ECLM results on ISCED 5/6 depend on the duration of the education. The OECD results depend on the sex of the person.

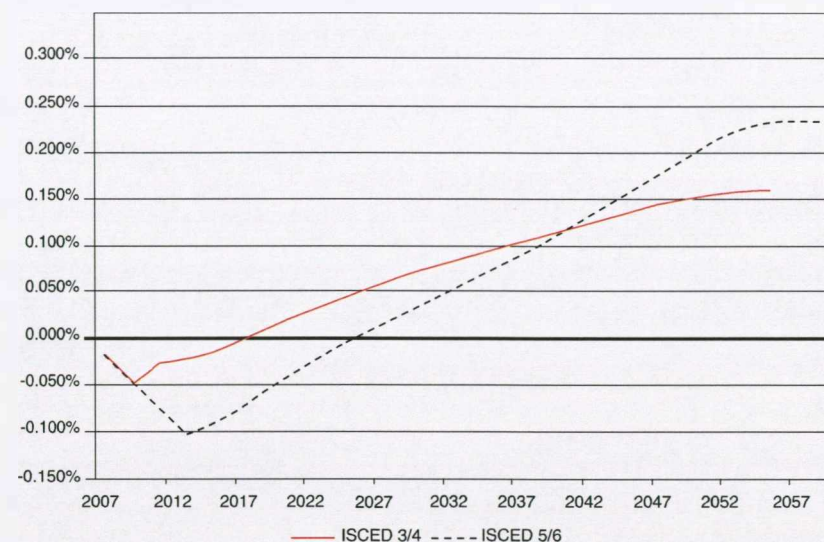
Source: ECLM.

Investment in education must be seen in a long term perspective as educating young generations will cost money in the short run but will generate resources in the long run.

This is illustrated in chart 4 which shows the effect on the employment rate of educating 1% more of each young generation in Germany. Of course this is not all the effect of education; reduced social benefits, increased wages and productivity etc. are not a part of this calculation which only focuses on the long term employment effects.

When a greater number of people are educated the effect in the short run will be that labour supply and employment rate are reduced as young people are engaged in education instead of being available to the labour market. As employment rates of people with more education is higher than for lower educated people, the effect on employment will be positive in the long run.

When more people stay in the education system the effect on the employment rate is negative until the first generation enters the labour market which will make the line reverse direction. After some years the positive effect on the labour force exceeds the negative and the line crosses the zero-line and the total effect on employment is positive. As seen in the chart, short periods of education will give a positive effect sooner (in this case positive from 2017 compared to 2025) while longer periods of education will have a larger long term effect (0.23% compared to 0.16%).

Chart 4: Effect on employment of educating 1% more of each new generation, Germany

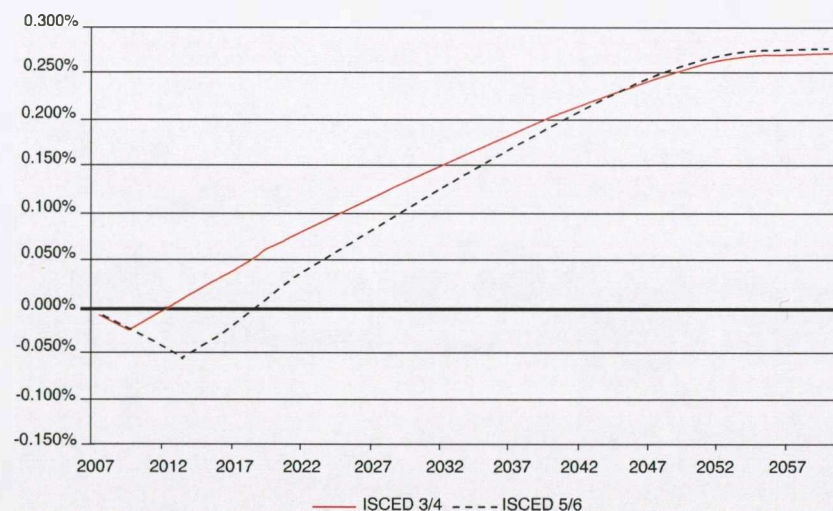
Note: This is an illustration which is based on a number of assumptions specified in box 2.

Source: ECLM on the basis of OECD employment rate distributed by age and education.

The effects on employment of educating more young people will vary between countries because the effects of education vary between countries. In the United Kingdom there is a huge difference between employment rates for young people with different levels of education. Because of that large difference the positive effect on the total employment rate will come faster than, for example, for Germany. If, on the contrary, the difference is smaller, the positive effect on the employment rate will come after more years. These calculations are based on OECD figures for employment rates by age and education from 2003 and the result will change if the employment rates change (which could be the case with changing business cycles).

The calculations only cover employment rates for the population aged 15 to 64 years. That means that any effects on employment for people older than this are not included. As more educated people tend to stay even longer in employment this implies that the effects on employment rates of education are underestimated.

Chart 5: Effect on employment of educating 1% more of each new generation, United Kingdom



Note: This is an illustration which is based on a number of assumptions specified in box 3.

Source: ELCM on the basis of OECD employment rate distributed by age and education.

Table 2 shows the medium and long term effects on the employment rates of educating 1% more of a generation. Countries have been sorted in a way that the countries with the largest long term effects on obtaining university-level degrees (ISCED 5/6) are at the top.

As can be seen in the table, the effect on employment rates of education is the largest in the new Member States. But even in the medium run most countries will have positive effects on the employment rates of education. On average, giving 1% more of each youth generation ISCED 3 or 4 education will increase the long term employment rate by 0.16% and giving them ISCED 5 or 6 education will increase the long term employment rate by 0.24%. It might seem a small number – but if the result is scaled up the effects are more obvious. To increase the employment rate by 2% European countries on average need to give about 4% more of each young generation an ISCED 5 or 6 education and some 6% more of each young generation an ISCED 3 or 4 education.

Table 2: Effect on employment rates of educating 1% more of a new generation

	ISCED 3/4			ISCED 5/6		
	2020	2040	2060	2020	2030	2060
	Percent			Percent		
Slovakia	0.14	0.43	0.52	0.10	0.48	0.69
Poland	0.00	0.15	0.18	-0.01	0.31	0.48
Hungary	0.04	0.22	0.30	0.01	0.27	0.46
Czech Republic	0.06	0.23	0.33	0.02	0.23	0.42
United Kingdom	0.07	0.21	0.27	0.02	0.20	0.28
Belgium	-0.02	0.10	0.15	-0.04	0.13	0.25
Germany	0.02	0.12	0.16	-0.04	0.11	0.23
Ireland	0.01	0.09	0.14	-0.06	0.08	0.19
Finland	-0.01	0.06	0.07	-0.04	0.10	0.18
Spain	-0.08	0.00	0.05	-0.12	0.03	0.17
Austria	0.00	0.09	0.12	-0.07	0.05	0.15
Denmark	0.00	0.09	0.15	-0.07	0.04	0.13
France	-0.01	0.07	0.11	-0.08	0.03	0.12
Sweden	0.03	0.10	0.14	-0.07	0.03	0.11
Greece	-0.08	-0.04	-0.08	-0.12	0.03	0.09
Portugal	-0.09	-0.04	-0.05	-0.12	-0.04	0.00
EU average*	0.00	0.11	0.16	-0.04	0.13	0.24

*Note *: Some EU countries are not in the table due to lack of data from OECD. The EU average is of the countries in the table. The average is weighted by the size of the population aged 15 to 64.*
Source: ECLM calculation on the basis of OECD employment rates.

The results for Greece and Portugal seem contrary to logic but the reasons can be seen from the figures behind the calculations. The people with an education in the ISCED 3 and 4 categories only have a marginally higher employment rate than people with an education in the ISCED 1 and 2 categories and for people aged 55 to 64 years the employment rate for the low educated is even higher. This might stem from the pension system. For people with an education in the ISCED 5 and 6 categories the difference in employment rates compared to ISCED 1 and 2 are also quite small.

Box 3: Assumptions behind the calculations of labour supply effects of education

Many of the differences in the education systems of EU countries have not been incorporated into these calculations. This means that the results in table 2 should only be seen as an indication of the effect of education on young generations.

Generally it is assumed that obtaining an upper secondary or post-secondary non-tertiary education (ISCED 3/4) on average takes 3 years compared to a primary or lower secondary education (ISCED 1/2). Obtaining a university-level degree (ISCED 5/6) on average takes 7 years compared to a primary or lower secondary education (ISCED 1/2). It is assumed that during education students will work equivalent to 20% of the employment rate of young people with a primary or lower secondary education.

The employment rates by age and education are 2003 figures from the OECD. The source only contains one set of figures on employment for low educated young people, and does not separate students from non-students. It is assumed that all low educated, non-student young people have an employment rate equal to the rate of participation in the labour force for all low educated corrected for the often higher unemployment among young people.

2b. Research and development

An effort to increase research and development can contribute to higher productivity, higher employment and an environmentally sustainable development. There is a consensus that research and development is vital for increasing productivity and employment but estimates on the rate of return on research and development vary.

If research and development is focused on environmentally sound technologies two birds can be killed with one stone; productivity can be enhanced and an environmental sustainable development can be implemented. One example is R&D in new energy technologies. There are many ways to go; energy efficiency, renewable energy or clean fossil fuels.

One example of positive economic and ecological effects is the Danish effort to establish wind energy as a significant source of renewable energy in Denmark. Today Danish wind energy companies have a world market share of 40%, and 99% of Danish production is exported. In addition to that 16% of Danish energy supply comes from wind.

Despite the obvious advantages of R&D in energy technologies, European countries are spending an ever smaller part of their economic resources on R&D in energy technologies (cf. box 4).

Box 4: OECD on Public energy R&D

In most industrialized countries, total public R&D expenditure in general has increased in real terms whereas at the same time energy R&D expenditure has been declining quite dramatically from the peak levels of the early 1980s. Since GDP has been growing in real terms, energy R&D expenditure as a percentage of GDP has been declining even more rapidly. This means we are spending an ever decreasing share of our total income on researching new energy technologies and solutions. Total public energy R&D expenditures in OECD countries amounted in 2004 to approximately \$ 9 billion.

The decline in energy R&D expenditure from the peak in 1984 to 2003 was especially pronounced in the United Kingdom (-95%), Spain (-85%), Germany (-73%), Italy (-63%) and France (-55%). These sharp declines have not been matched by an increase in research by the EU on a collaborative basis. Although in constant 2004 USD the total EU research programme has been steadily increasing from approximately \$ 1.9 billion a year in the First Framework Programme (1984 – 1987) to \$ 3.8 billion a year in the Sixth Framework Programme (2002 – 2006), the energy share in the budget has been declining in both percentage and absolute terms.

The energy budget declined from \$ 0.9 billion (1984 – 1987) to \$0.5 billion (2002 – 2006) annually. In the Commission proposal for the Seventh Framework Programme (2007 – 2013) the energy R&D budget is set to double to approximately \$1 billion a year. This would bring energy R&D funded through the EU budget back to just above its 1984 levels in real terms.

The federal governments of the United States and Japan are the dominant public sector supporters of energy R&D, currently and historically. The combined funding of the U.S. and Japanese governments is around 70% of total energy R&D expenditure of all IEA countries (\$ 6.8 billion in 2004). Measured as a percentage of GDP, energy R&D investments in the US ranks fifth among IEA countries, while Japan ranks first.

Source: "Do we have the right R&D priorities and programmes to support the energy technologies of the future?" Richard Doornbosch and Simon Upton, OECD, Paris, 14-15 June 2006

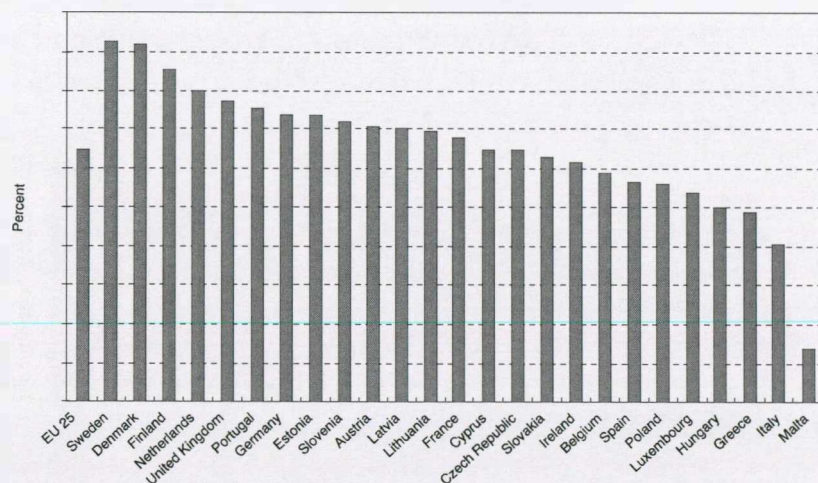
2c. Dynamic effects of public expenditure

Many types of social services have large dynamic effects and a changing of the structure of public expenditure will contribute to the financing of better social policies. One example is public subsidized child care which increases the labour supply of women (mothers) significantly. Public spending on education will also have a significant yield by way of smaller public expenditure on social benefits, increased earnings and tax payments, higher employment rates and higher retirement ages. The effects of education are described in section 2a above.

The activity rates of the populations in Europe vary a lot. Especially the part of women who are active in the labour market is very different between countries as shown in chart 6. There are many reasons for the differences, but for the younger generations of women responsibilities for children is a major explanation.

According to Eurostat more than 11 million women between the ages of 25 and 54 years were in 2004 inactive on the labour market due to personal or family responsibilities (Eurostat, Statistics in focus, population and social conditions 2/2006).

Chart 6: Female activity rates, 15-64 years, 2005



Source: Eurostat

The sample from the Labour Force Survey shows that 29% of women in the EU with children under the age of 15 are inactive in the labour market. Almost 4 out of 10 women with 2 or more children where the youngest is between the age of 0 and 6 years are inactive in the labour market. Thus there is a large potential if some of these women can be made available to the labour force. The inactivity rates of women with children are shown in table 3.

Table 3: Inactivity rates of women aged 25-54 years by age and number of children, EU-25* 2004

	Total	1 child	2 or more children
Parents of children <15, total	29.0	24.0	34.4
Youngest child 0-6	34.7	27.2	39.6
Youngest child 7-14	22.7	21.8	24.3

Note *: EU-25 excluding Denmark, Sweden and Ireland.

Source: Eurostat – LSF

The effect on labour supply given increased public spending on child care depends on a number of factors. As an example the calculation is made for Denmark in table 4.

Table 4: Labour supply by public spending on child care

	Day care (0-2 year) 100 children	Kindergarten (3-5 years) 100 children
a) Number of full time employed	33.5	18.0
b) Resources on construction and education	1.5+2	3+1.5
c) Total resources = a+b	37.0	22.5
d) Number of mothers	56	56
e) Liberated full time participation: 0.84	47.0	47.0
f) Net gain: e-c	10.0	24.5

Source: Updated version of table 2.3.2, Bureau 2000 "Børn i kroner og ører", 1997

The first row (a) shows the number of fulltime employed per 100 children in different day care offers. This number will vary according to the standard and type of day care offered. The second row (b) shows the estimated resources used for building institutions (which are zero in the case of family day care) and for educating and training staff. These two (c) add up to the total resources used for supplying additional day care.

As some mothers have more than one child the number of mothers released will be smaller than 100 (d). Since the fertility rate in Denmark is among the highest in Europe, most EU countries will have an effect in number of mothers that is larger than in Denmark. Not all mothers having their children in day care will be active on the labour market. The (e) row indicates the participation rate of women aged 25 to 54 (84%) times the number of mothers. Some countries (e.g. Sweden) in principle only offer day care to mothers who are active on the labour market. In that case the participation effect will be nearly 100%.

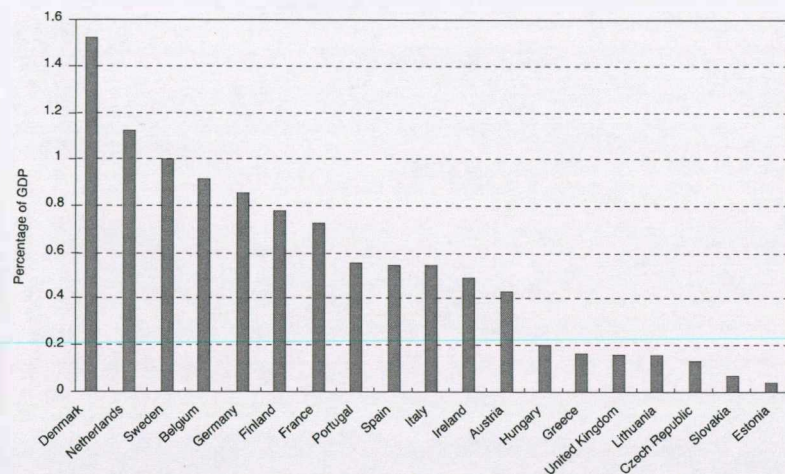
The last row shows the net gain for female participation rates by offering an additional 100 day care vacancies. The number varies according to the kind of offer given – but is in all circumstances positive and significant. The calculation illustrates that there are significant effects of public spending on child care.

2d. Active labour market policy

Changing the structure of public expenditure towards more active labour market policy will increase employment, decrease unemployment and increase productivity when the active labour market policy contains skill-raising courses.

The scope and contents of active labour market policy varies between EU member countries. Chart 7 shows the public expenditure on active labour market policies as a percentage of GDP. The measures include labour market services, training, job rotation etc. As can be seen in the chart the new member countries are at the lower end in terms of public spending on active labour market policy – but also the United Kingdom and Greece are placed fairly low. Generally southern European countries are intermediate in ranking, with public spending on active labour market policy around 0.5% of GDP while the northern European countries are at the top end – with some variation.

Chart 7: Active labour market policy, 2004



Note: There is not data for all EU countries.

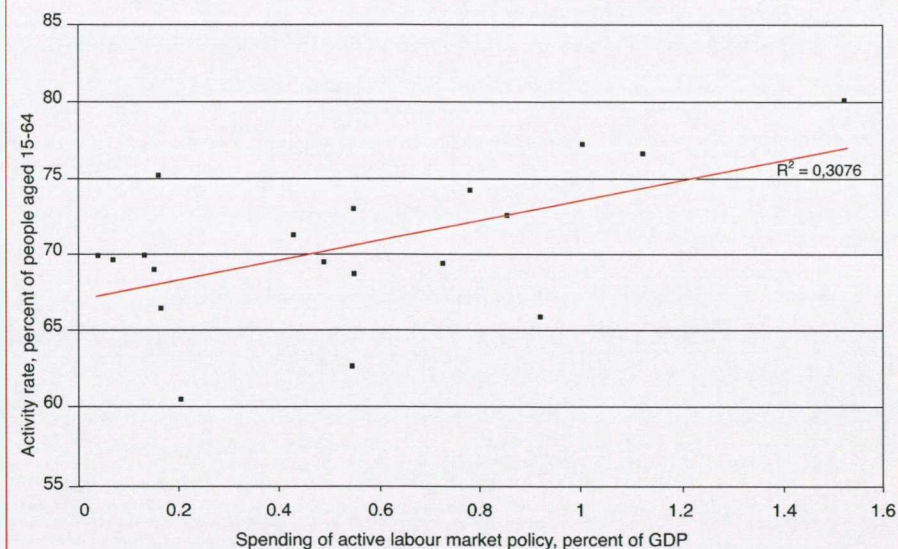
Source: Eurostat

There is a tendency that countries spending more money on active labour market policy have a higher activity rate than countries spending less. This is illustrated in chart 8. The activity rate of course is determined by numerous other factors such as historical and cultural background, the economic environment and the social model of the country.

Countries which have large compensation rates for the unemployed need to use active labour market policies to maintain incentives for the unemployed to seek jobs. Therefore looking at European data there is a clear positive correlation between money spent on active labour market policy and on money spent on income compensation for people out of work.

But active labour market policy is also a way of making the labour force qualified and flexible. Active labour market policies include education and training and ought to increase turnover in the labour market, reducing the deterioration of the social capital of unemployed workers.

Chart 8: Correlation between active labour market policy and activity rate



Source: Eurostat

Having an effective labour market policy is not just a question of money but also a question of how the money is spent. What is a good and effective active labour market policy today might not be one tomorrow. Some problems in the labour market disappear and new emerge – and the labour market policy should adapt to these changes to make the best use of resources.

Giving people out of work fair income compensation is in line with the New Social Europe. And a consequence is that a comprehensive active labour market policy is essential. In the long run this will increase employment and productivity.

3. Effect of a New Social Europe

All the examples given above will take Europe in a more sustainable direction generating higher growth, higher productivity, increased employment and decreased unemployment. The final effect will depend on the nature and pace of initiatives.

A long term scenario shows that we can afford the New Social Europe. The scenario illustrates the effects of structural changes in the European economy. Box 5 gives a detailed description of the scenario.

Box 5: A scenario illustrating the resources resulting from "A New Social Europe"

The long term scenario illustrates the structural effects of increasing the labour force by 1% until 2020. This effect could come as a combination of effects of education, child care, active labour market policies and research and development. Furthermore it is assumed that the structural (long term) unemployment rate will fall by 2% in all countries – however with a minimum structural unemployment rate of 4%.

Increased productivity and competition result in a lower inflation rate than there would otherwise have been. The inflation rate is assumed to be 0.2% point lower each year than otherwise.

The utilization of extra resources in the labour market is subject to the condition that an active economic policy is implemented to increase demand for labour. The demand generating equilibrium is equally distributed between private and public internal demand. External demand is endogenously determined by the demand in other European countries and the rest of the world.

Increasing the labour force and reducing structural unemployment will increase wealth in the long run which is illustrated in table 5. In the period between 2007 and 2020 the wealth (measured by GDP) will be 4.4% higher than it would otherwise have been. That is the equivalent of an additional growth of some 0.3% per year. It can be seen from the table that the effect on the United Kingdom is a bit lower than for other countries. That result comes from the fact that the structural unemployment rate of the United Kingdom is already quite low and thus that the unutilized potential in the British labour market is smaller than in the other countries presented here.

In employment terms the effect will be 5.6 million extra employed in 2020 than there would have been otherwise.

Table 5: Additional wealth and employment, 2007-2020

	Wealth, end of period Increase, real terms		Employment, end of period Mio. People	
	2015	2020	2015	2020
Germany	3.5	5.5	0.8	1.3
France	3.2	4.9	0.6	0.9
Italy	4.7	6.0	0.6	0.8
United Kingdom	1.3	1.6	0.5	0.8
EU15	3.0	4.4	3.6	5.6

Note: Wealth is the accumulated effect on GDP at the end of the period. The employment increase is measured compared to what it would have been without the initiatives. Exchange rates are assumed to develop the same way in all EU countries. *Source: ECLM calculations on the international model, HEIMDAL*

Table 6 shows the development in employment with and without an extra effort to increase the labour force in the future. The baseline scenario is constructed under the assumption that the employment rate of the EU15 will reach 70% in 2015 and stay at that level.

As the table indicates demographic changes will cause employment to fall. With fewer people between 15 to 64 years of age the employment level can only be maintained if the labour force is increased and structural unemployment reduced.

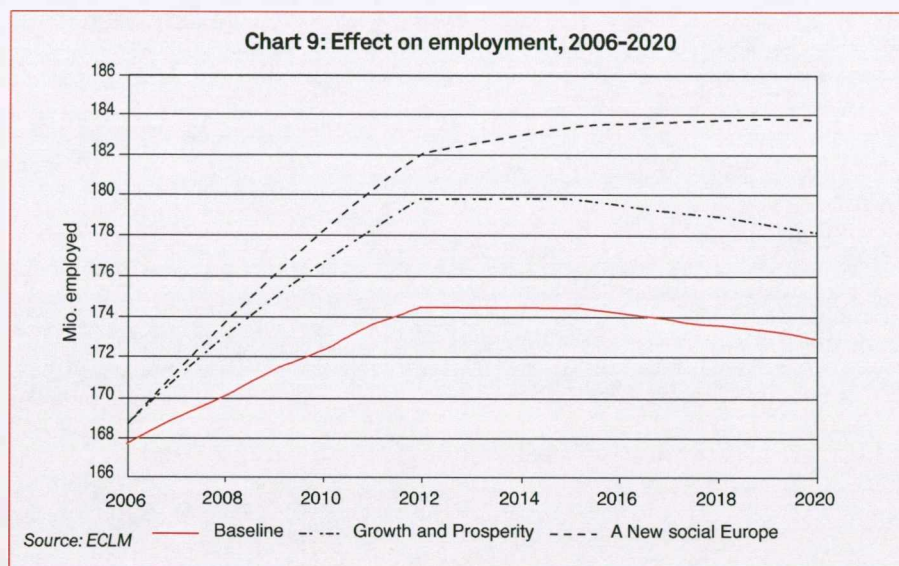
Table 6: Total employment EU15, 2007-2020

	Mio. People		
	2006	2015	2020
Before (baseline scenario)	168.7	175.5	173.9
+ Growth and prosperity	168.7	179.8	178.2
+ A New Social Europe	168.7	183.4	183.8
Isolated effect of A New Social Europe	0	3.6	5.6
Total effect of Growth and Prosperity and A New Social Europe	0	8.0	9.9

Source: Eurostat and OECD (2006 numbers) ECLM calculations on the international model, HEIMDAL (2015 and 2020 numbers).

Some of the positive effects in this scenario are due to the fact that European countries make a simultaneous effort regarding investments in education, R&D, social expenditure etc. This means that there are positive spill over effects on individual countries which enlarge the effects on employment and wealth and help the final effect on the public budget to be positive.

Chart 9 shows the effects on employment in EU15 of the short run (Growth and Prosperity) and the long run initiatives (A New Social Europe).



The demand generating equilibrium in this scenario is equally distributed between private and public internal demand. In the EU15, on average, that results in an increase in public investments and consumption (e.g. on education, child care, R&D etc.) by approximately 0.9% of GDP in 2020. That is the equivalent of an additional public spending in the EU15 of €120 billion (2006 price level). Even with this injection to create a New Social Europe investing in a new inclusive welfare state one will still have positive long run effects on public budgets. This is shown in table 7. Thus there is financial latitude on top of the extra resources used in this scenario.

Table 7: Effect on public budget and current account, end of period

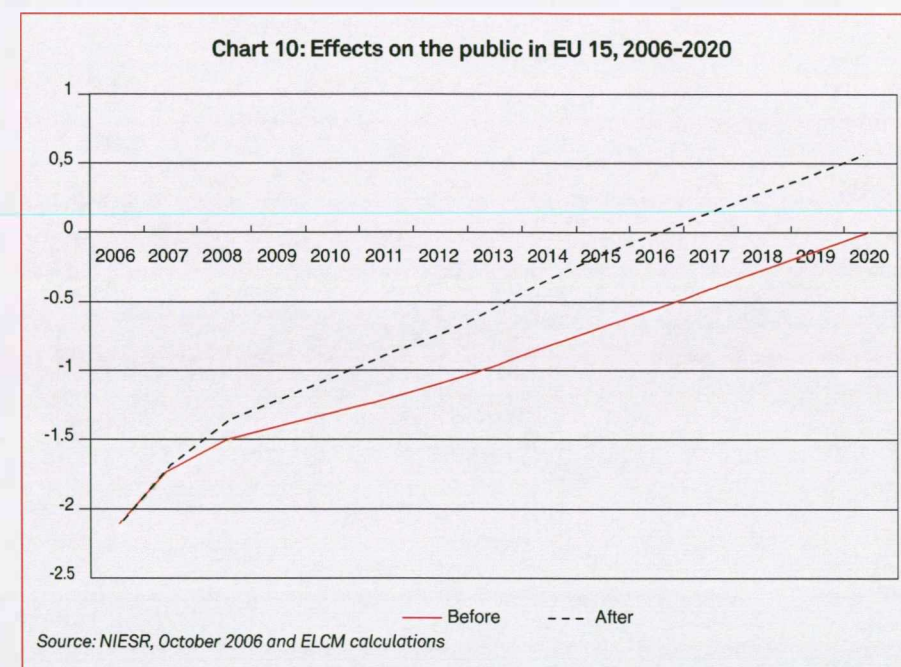
	Public budget		Current account	
	Percent of GDP		Percent of GDP	
	2015	2020	2015	2020
Germany	0.8	1.0	-0.7	-0.6
France	0.4	0.4	-0.2	-0.3
Italy	0.6	0.1	-0.7	-1.0
United Kingdom	0.3	0.4	-0.1	-0.1
EU15	0.5	0.6	-0.4	-0.4

Note: The table shows the isolated, additional effect of the increased labour force and reduced structural unemployment cf. box 5.

Source: ECLM calculations on the international model, HEIMDAL

The effects on public budgets vary between countries due to their different structures; some countries need less growth and demand to increase employment, some get a larger tail wind from external demand (exports) and the sensitivity of public budgets due to changes in employment and unemployment vary. The main point to note is that the effects are positive for all countries.

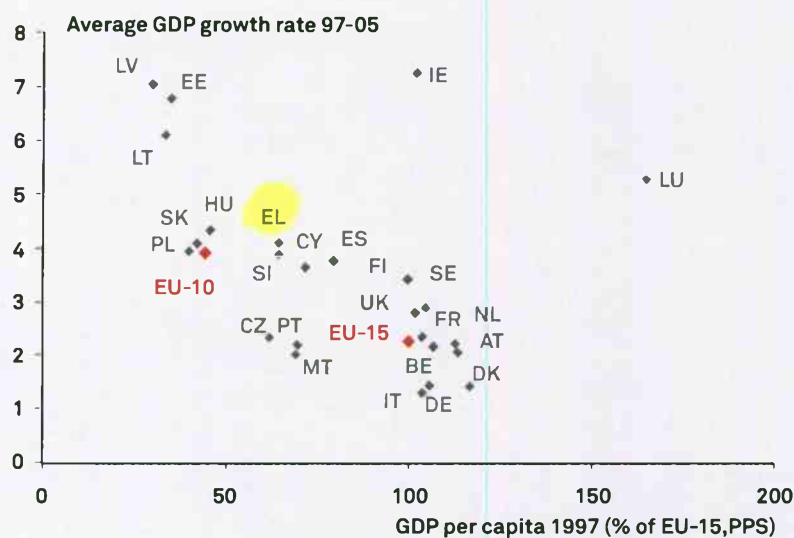
Chart 10 shows the forecasted development of the EU15 average public budget from 2006 to 2020 and the public budget after implementing "The New Social Europe" according to the description in box 5. In the long run it must be expected that public budgets in the EU will balance in accordance with the Stability and Growth Pact. As employment rises and unemployment decreases in the New Social Europe the public budgets will improve as illustrated in chart 9.



ANNEX III

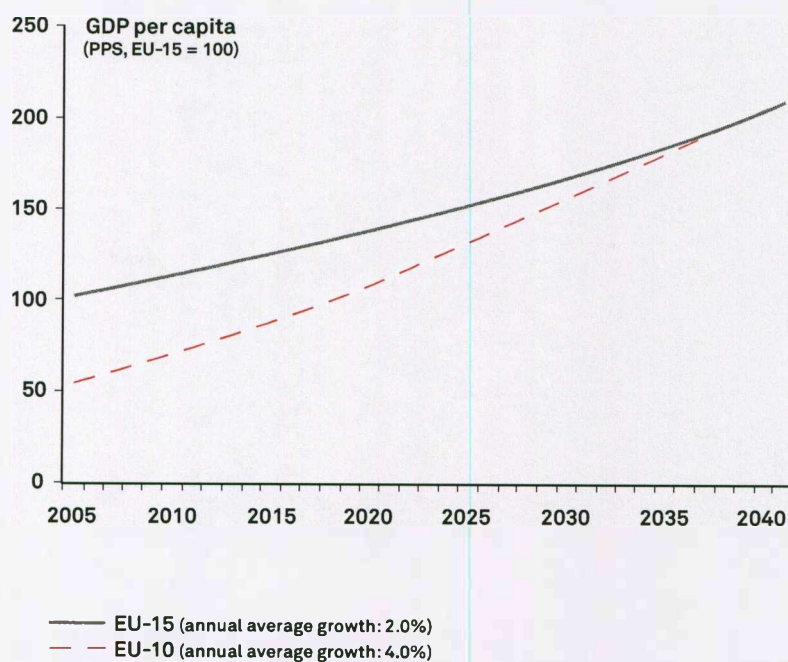
Statistics

Real convergence and initial per capita income



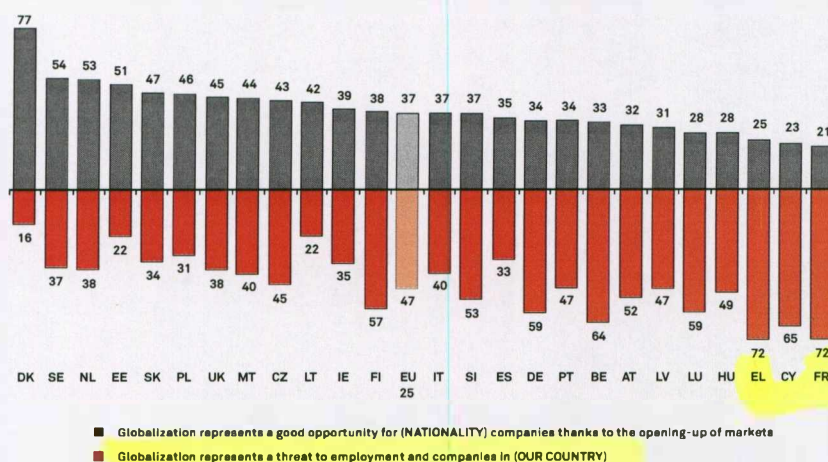
Source: Eurostat

A long road to convergence



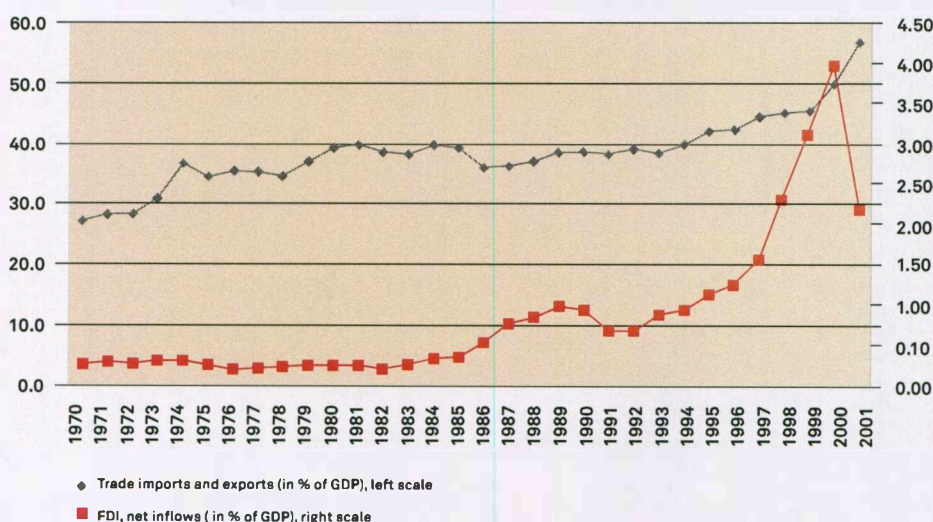
Source: Commission services

Which of the following two propositions is the one which is closest to your opinion with regard to globalization?



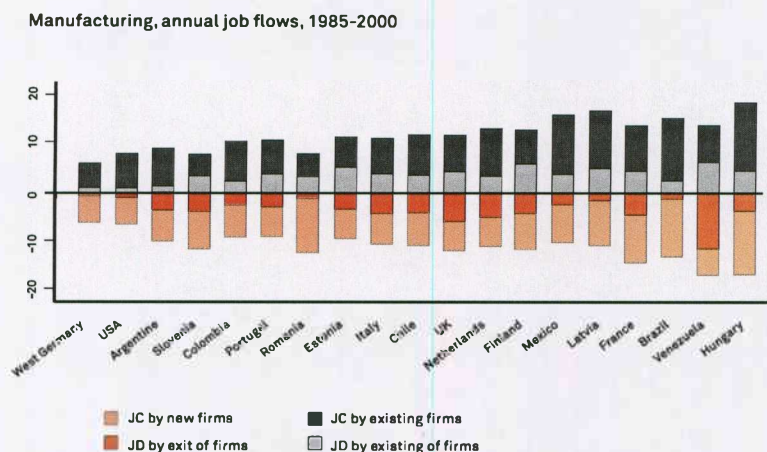
Source: Eurobarometer Special Issue "Future of Europe", May 2006

Trade and net Foreign Direct Investment (FDI) inflows as percentage of GDP, 1970-2001



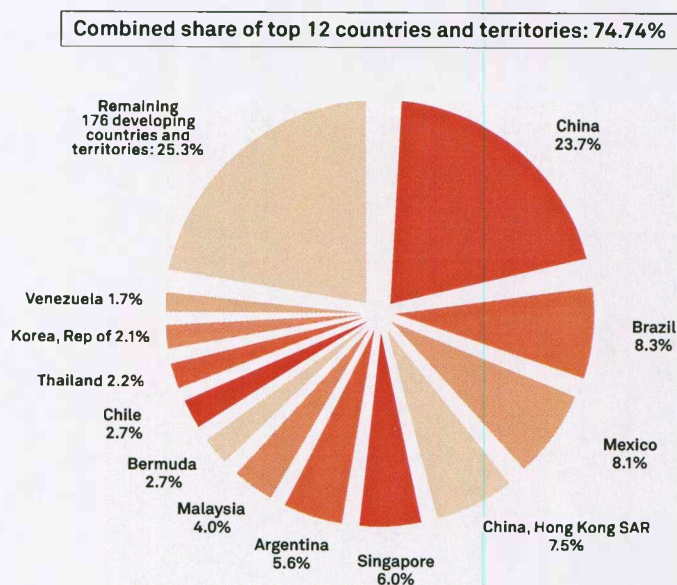
Source: World Bank, World Development Indicators 2003 (online version)

Most countries experience large job creation and job destruction



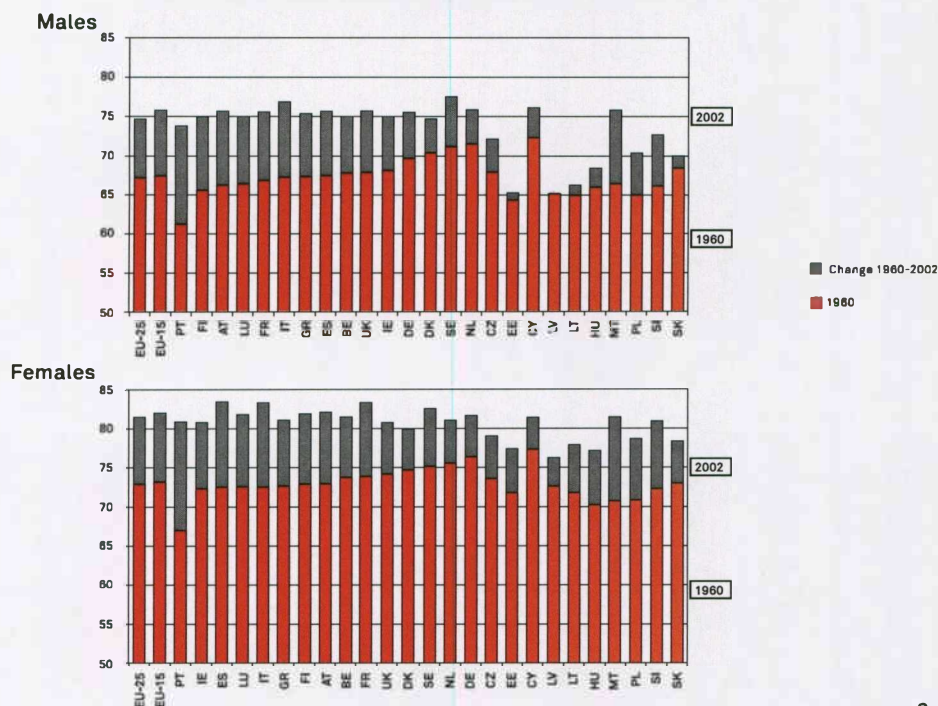
Source: World Bank 2003

Distribution of FDI inflows to developing countries, total for 1990s (in %)



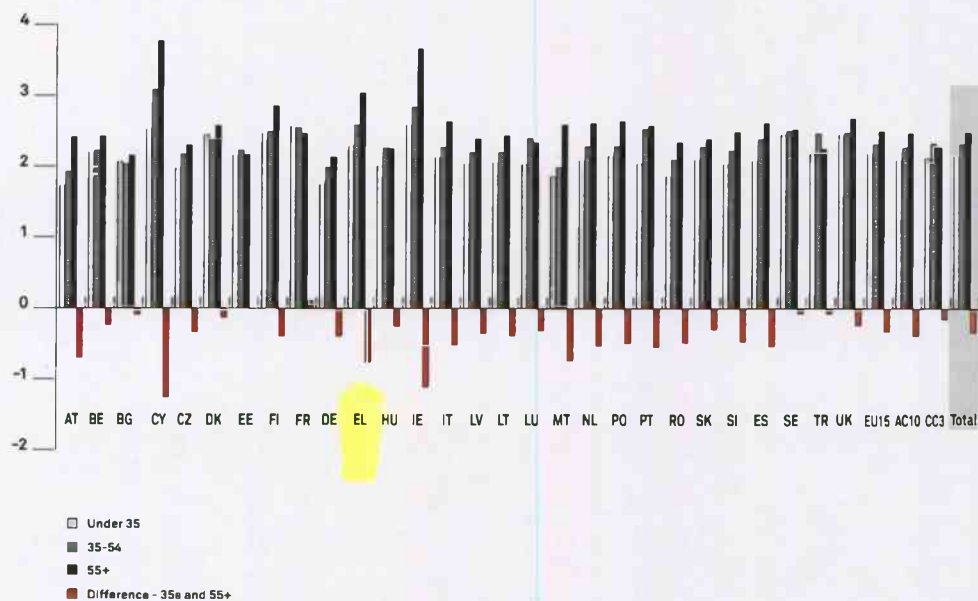
Source: UNCTAD, Handbook of Statistics 2002 (on CD-ROM)

Trends in life expectancy at birth



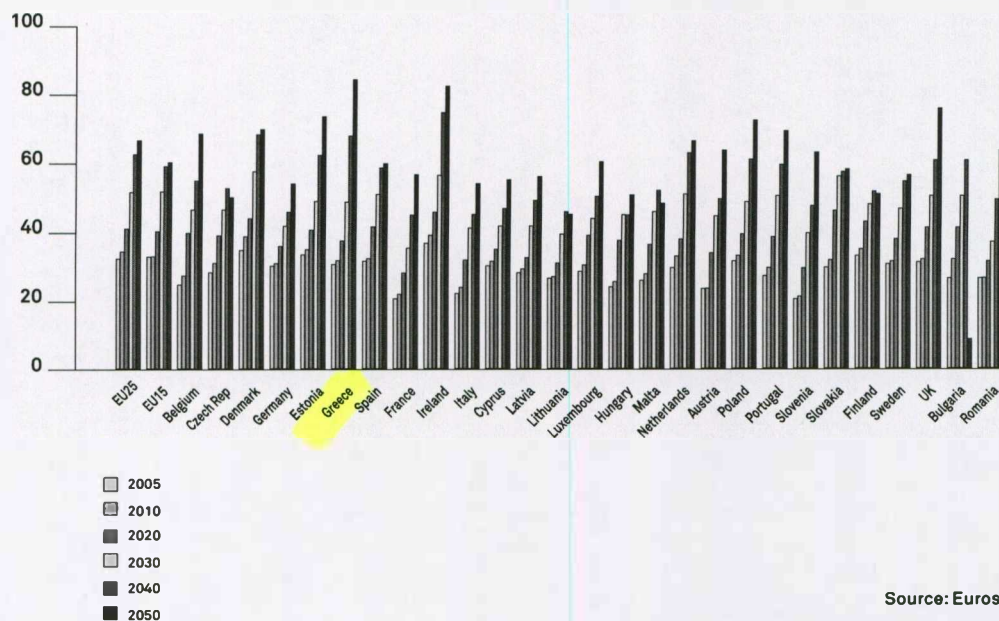
Ideal family size amongst women

Response to question: "For you personally, what would be the ideal number of children you would like to have or would like to have had?"

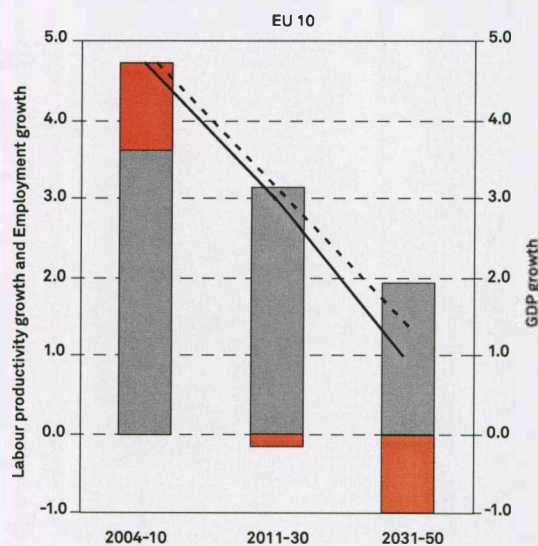
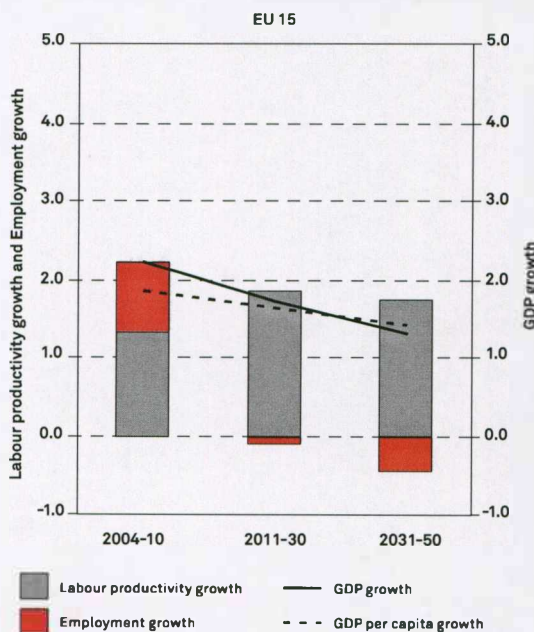


Present and projected old age dependency ratio

The ratio of total number of over-65s in relation to the working age population (15 to 64 years of age)

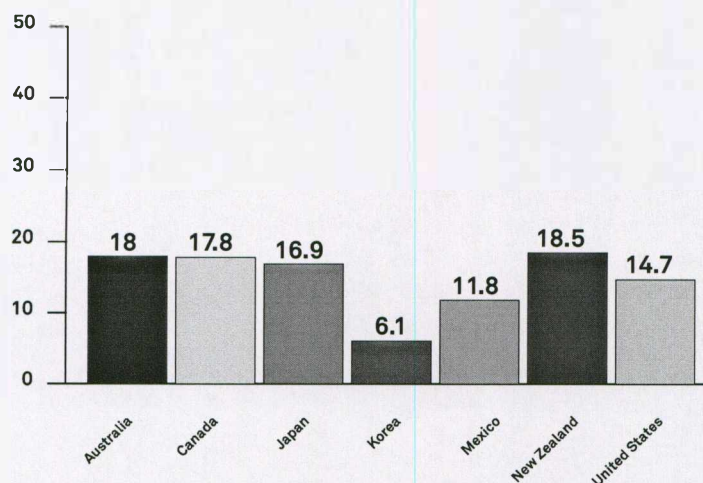


Projected (annual average) GDP growth rates in the EU15 and EU10 and their determinants (employment/productivity)



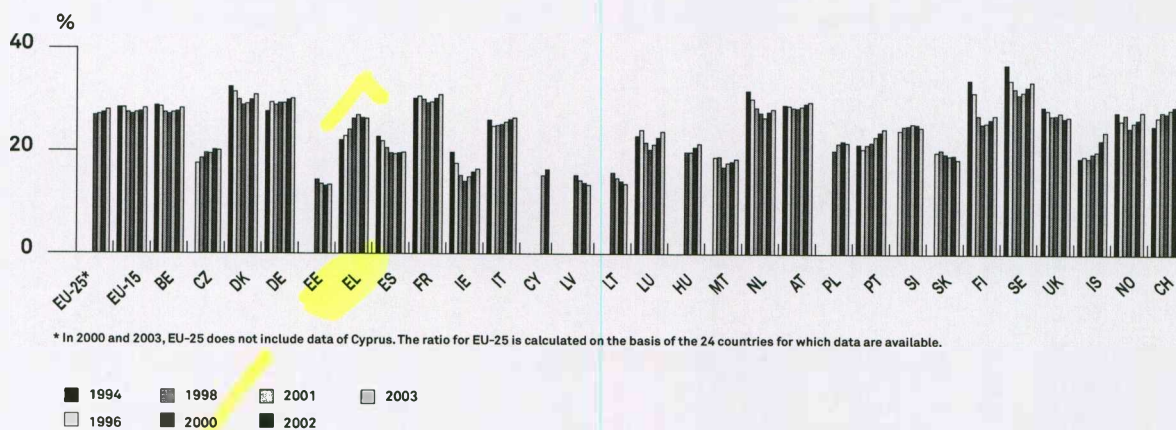
Source: EPC and European Commission (2005)

Total public social expenditure, in % of GDP, 2001



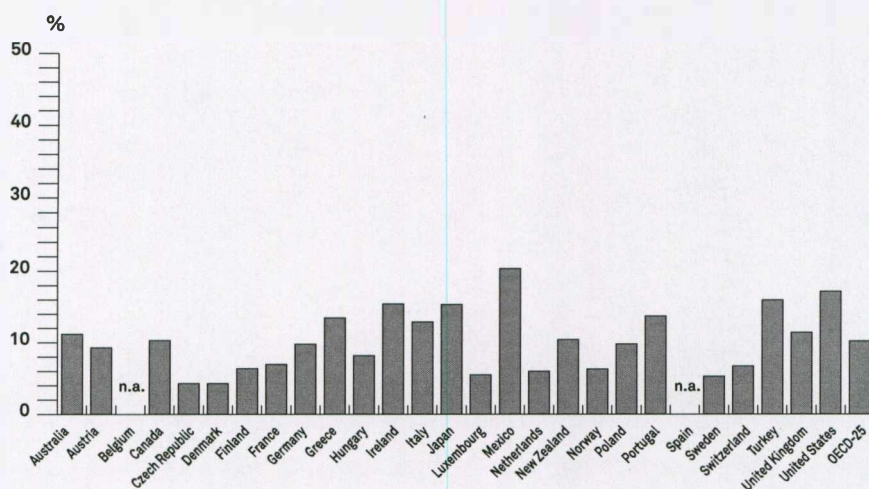
Source: OECD (2004), Social Expenditure Database (SOCX, www.oecd.org/els/social/expenditure).

Expenditure on social protection (as % of GDP)



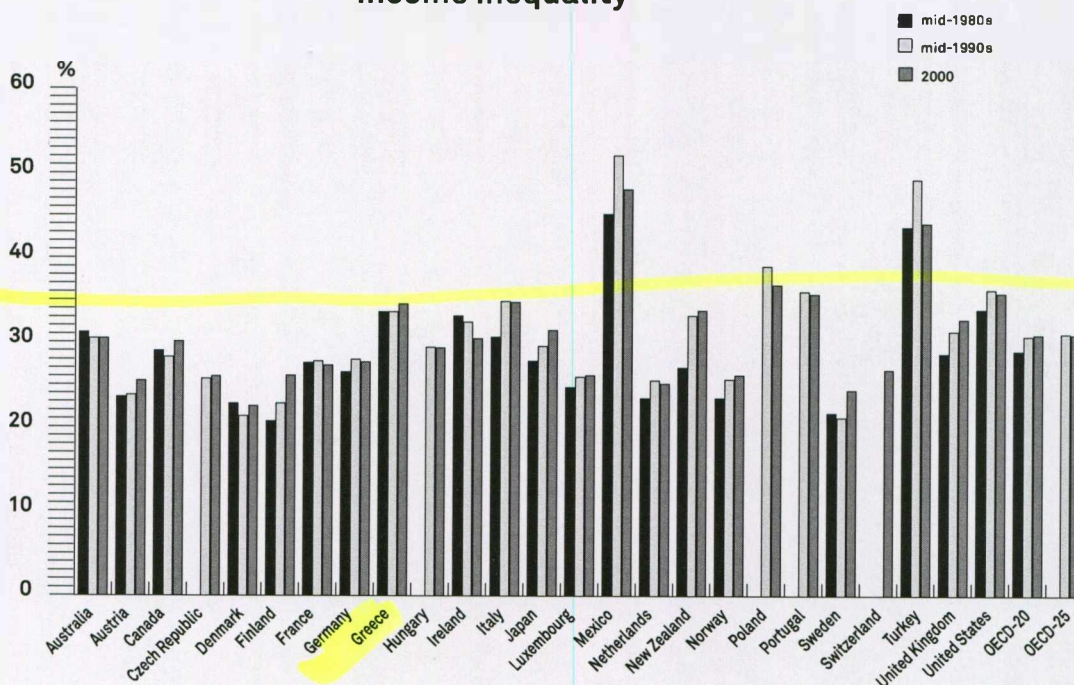
Source: Eurostat-ESSPROS

Poverty 2000: Proportion of population as a percentage of 50% median income



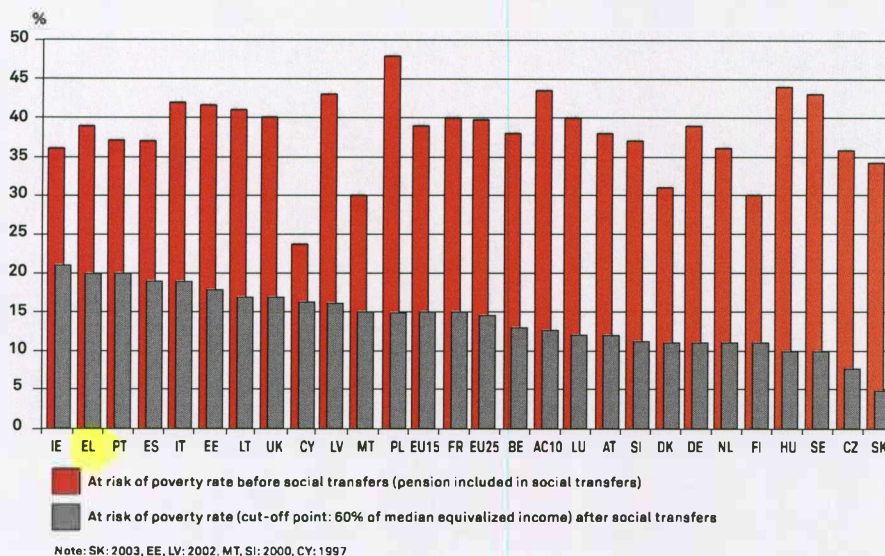
Source: Society at a Glance: OECD Social Indicators - 2005 Edition

Income inequality



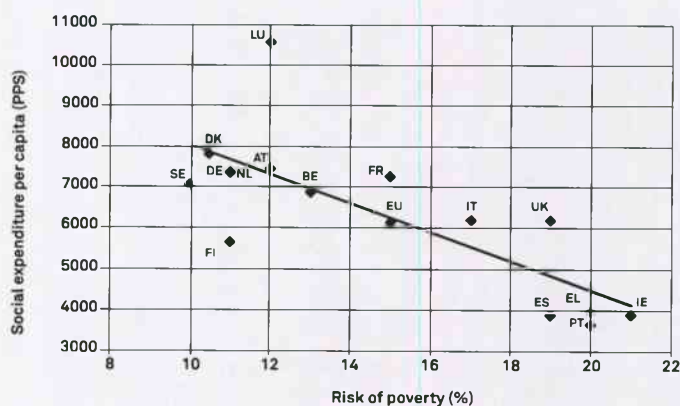
Source: Society at a Glance: OECD Social Indicators - 2005 Edition

Population of the EU-25 (2001) at risk of poverty before and after social transfers

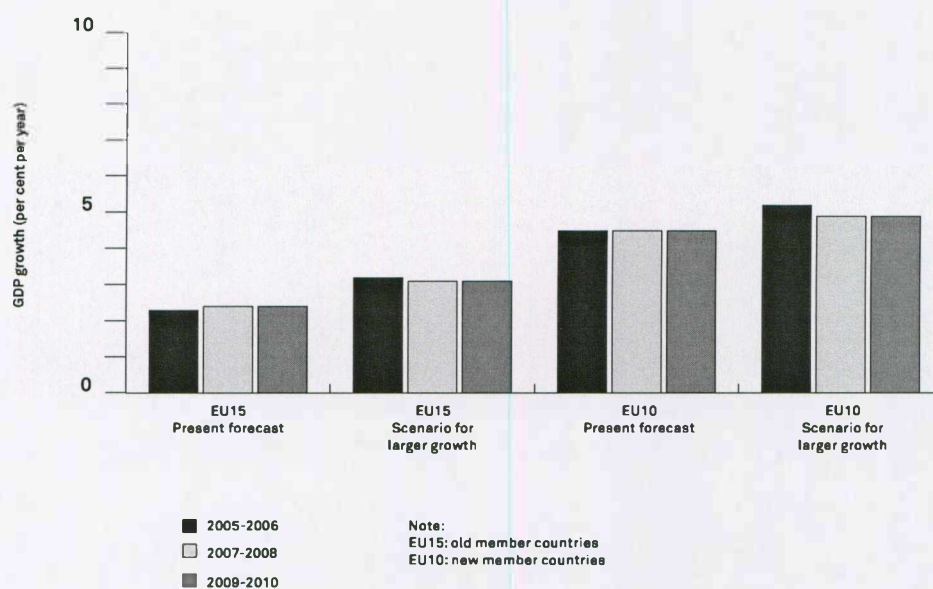


Source: Eurostat Structural Indicators, New Cronos Database

Correlation between risk of poverty and per capita social expenditure - 2000

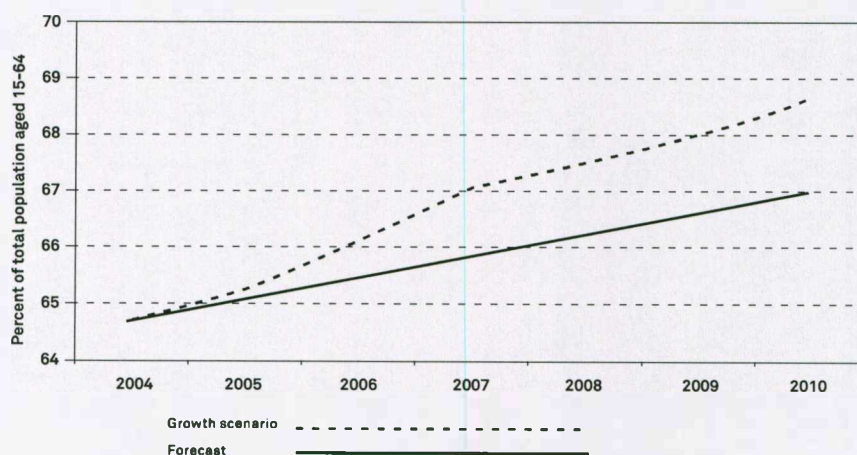


European growth and investment strategy Effect on member countries



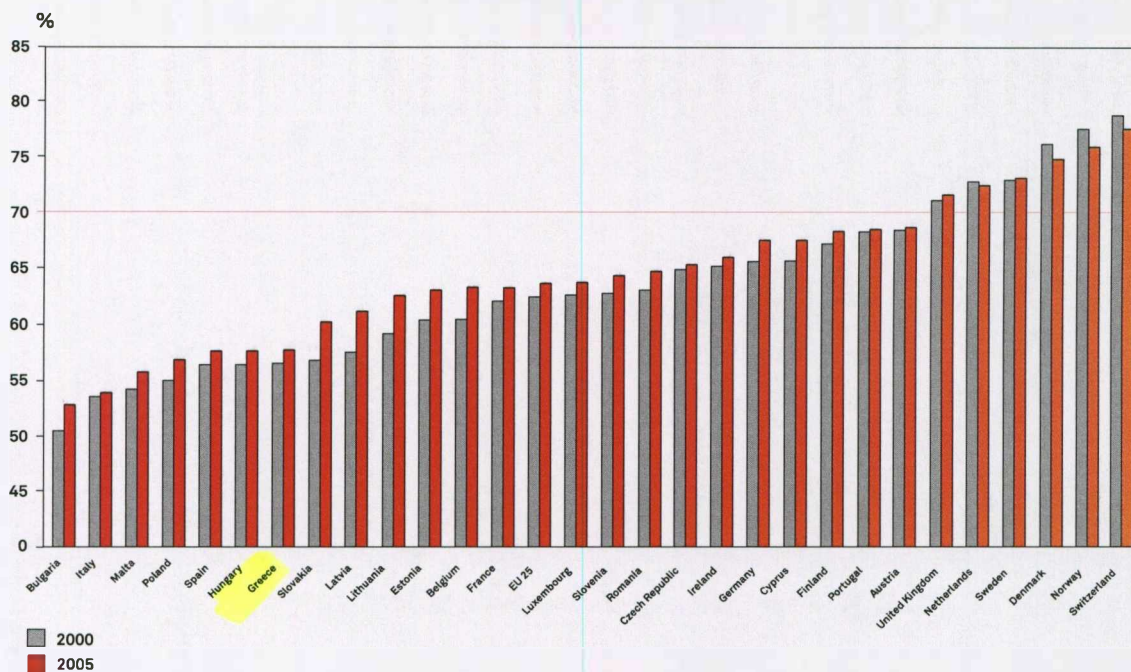
Source: European Commission, economic forecast autumn 2004, NIESR October 2004 and calculation by ECLM based on the international model "HEIMDAL".

Development in employment rate, 2004-2010



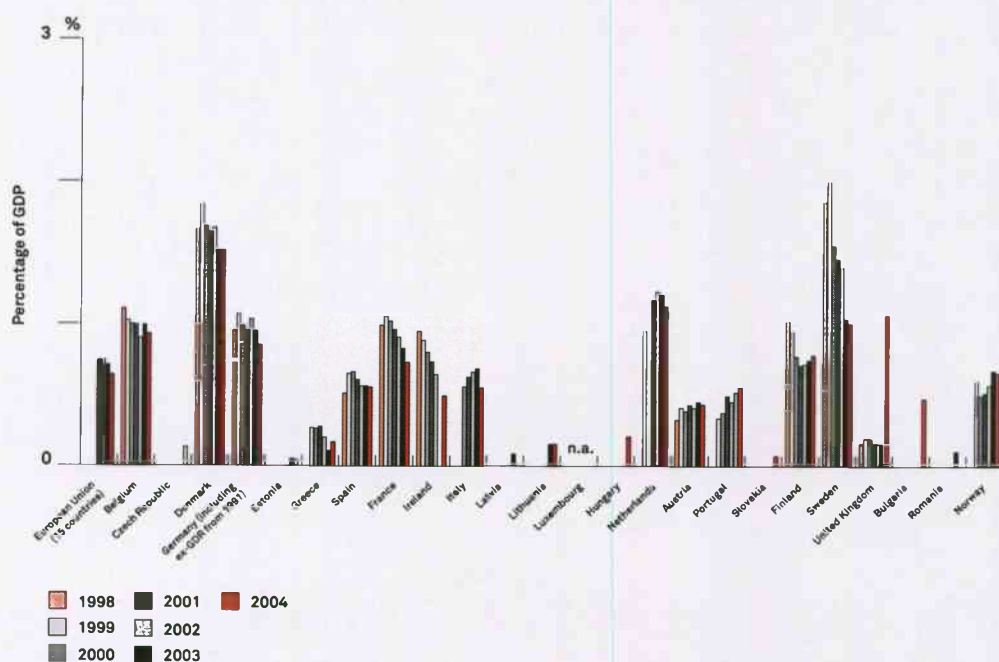
Source: The European Commission, economic forecast autumn 2004 (forecast: 2004-2006) and ECLM (forecast: 2007-2010) and calculation based on the international model "HEIMDAL"

Employment rate - total

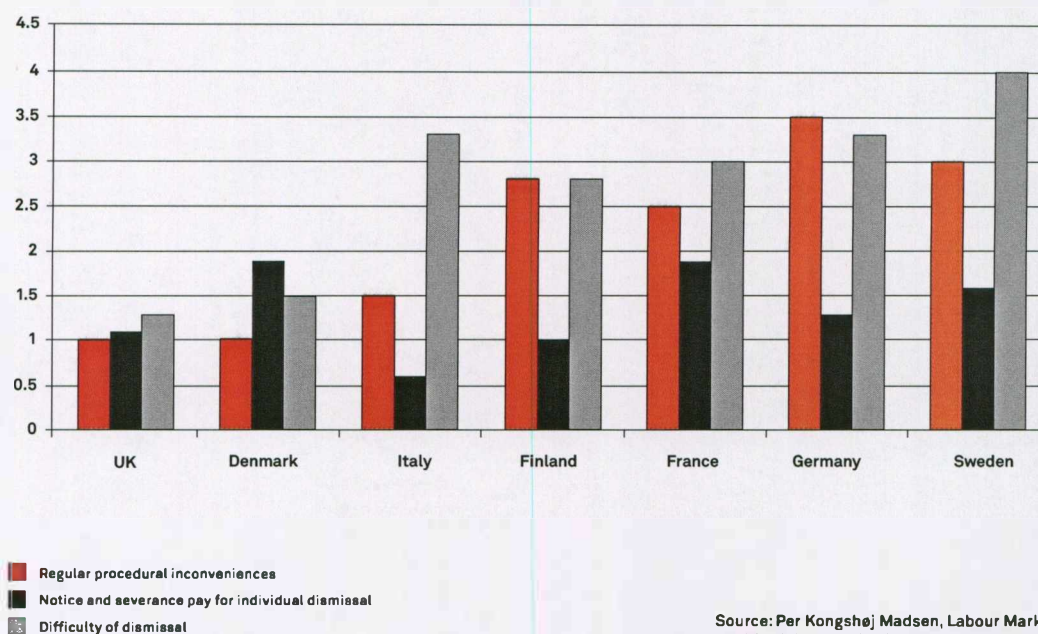


Source: Eurostat

Investment in active labour market policies

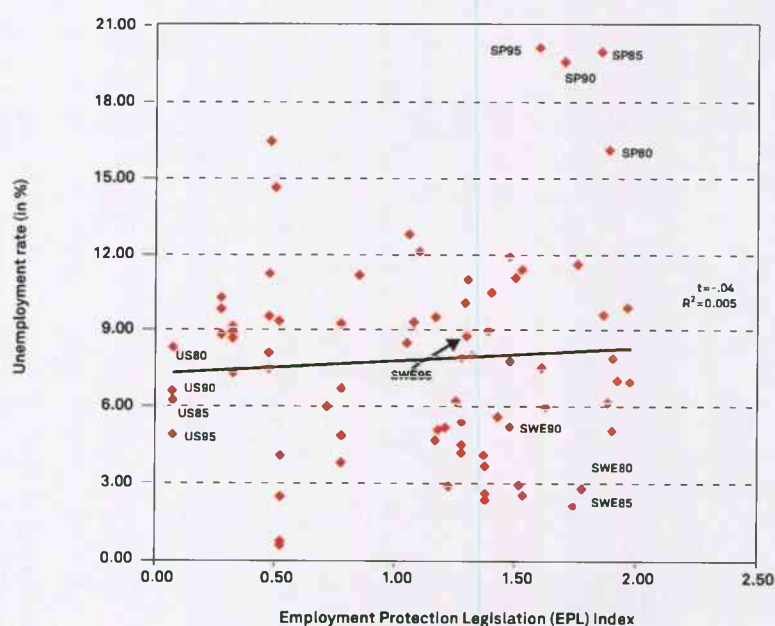


Employment Protection Laws (EPL) and Unemployment, 1980-1999



Source: Per Kongsbøj Madsen, Labour Market Flexibility and Social Protection in European Welfare States, 2005

Unemployment rate and EPL index



Source: Glenn, Howell, Baker (2005)

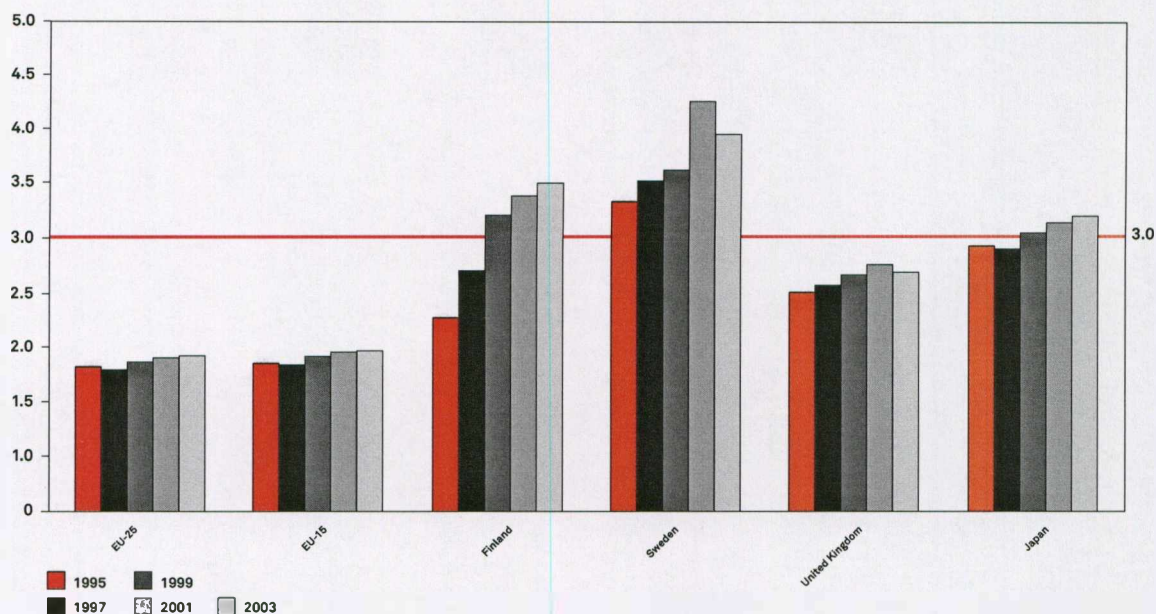


Trade union density rates and indices of membership composition (in%)



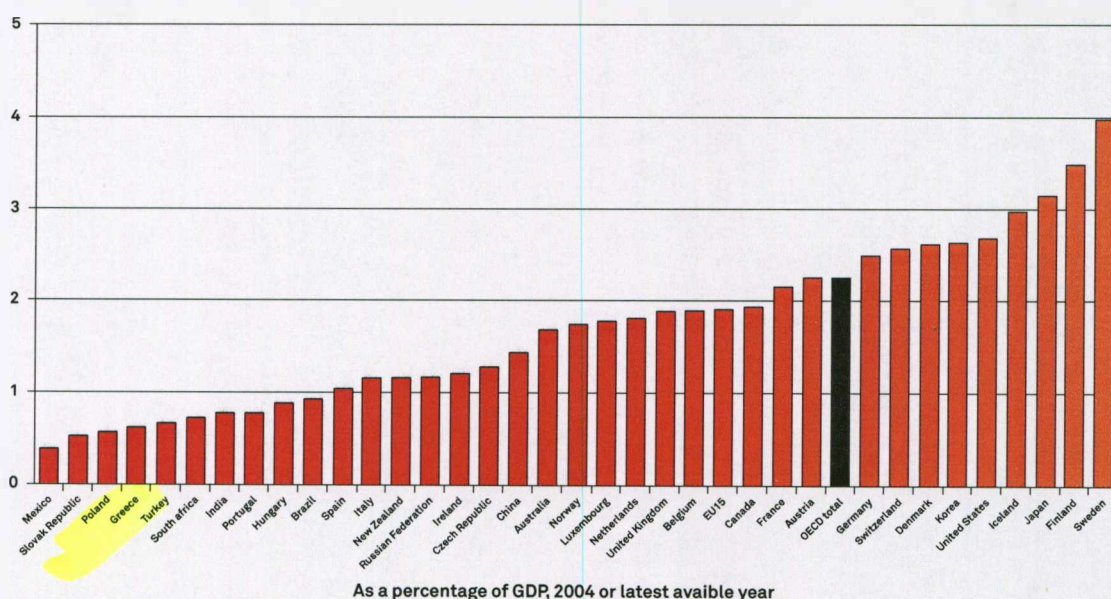
Source: EC 2004 (for data 1990–2002) and Ebbinghaus and Visser 2000 (for 1980 data)

Gross domestic expenditure on R&D (GERD) As a percentage of GDP



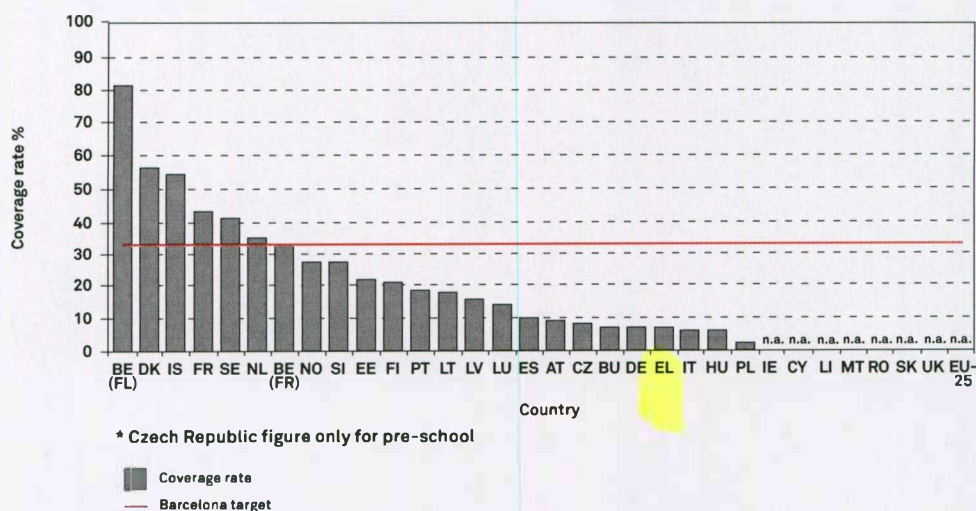
Source: Eurostat OECD

Gross domestic expenditure on R&D



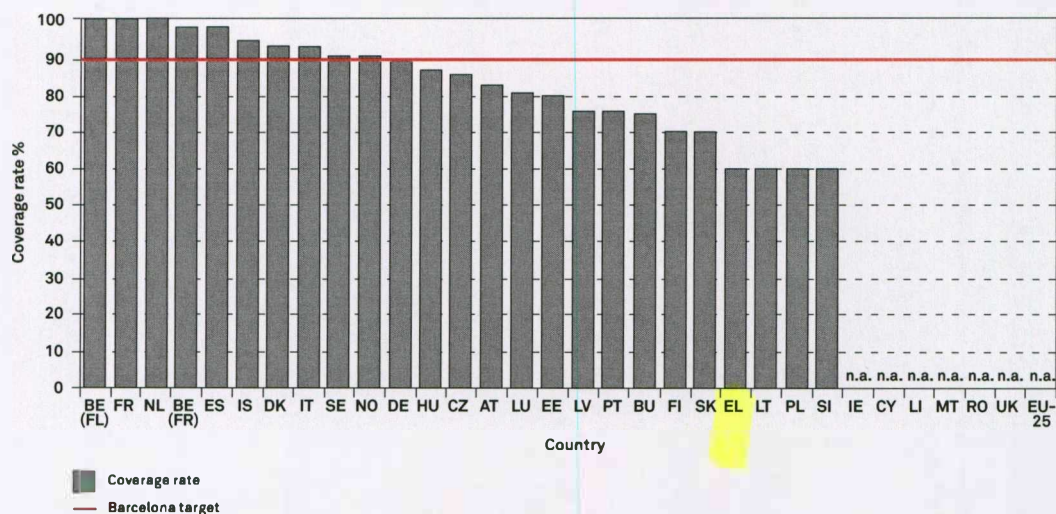
Source: OECD Factbook 2006 - Economic, Environmental and Social Statistics

Estimated child care statistics:
Child care coverage rate (0-3 years): recalculated and harmonized



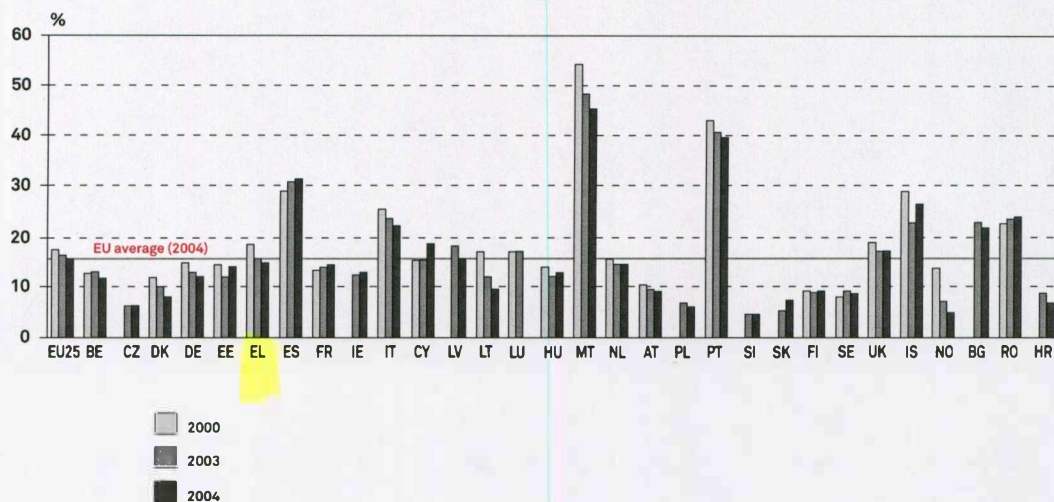
Source: European Child Care Strategies, Statistical Annex

Estimated child care statistics:
Child care coverage rate (3-compulsory school age): recalculated and harmonized



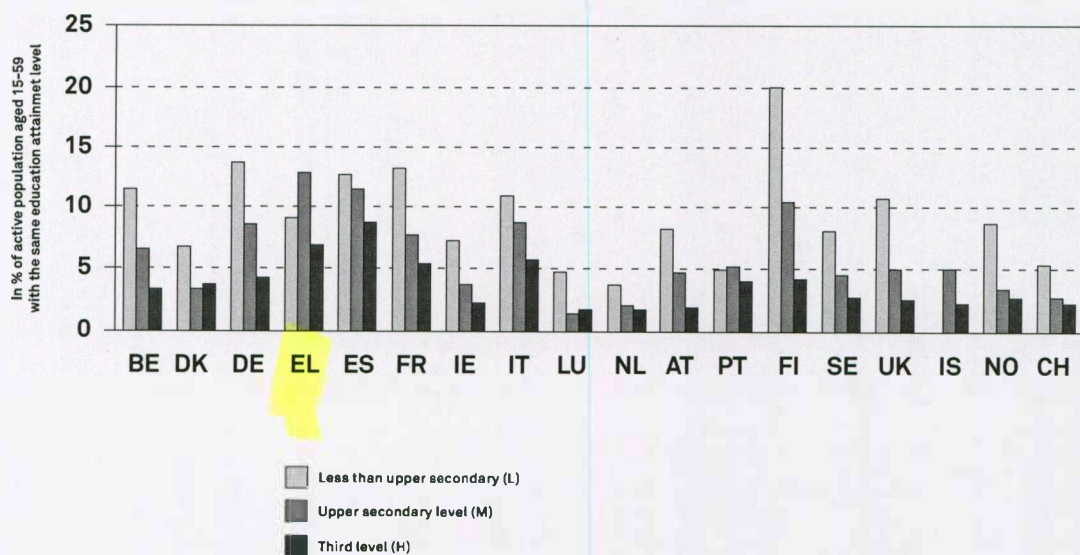
Source: European Child Care Strategies, Statistical Annex

Share of the population aged 18-24 with
only lower-secondary education and not in education or training, 2000-2004



Source: Eurostat (Labour Force Survey)

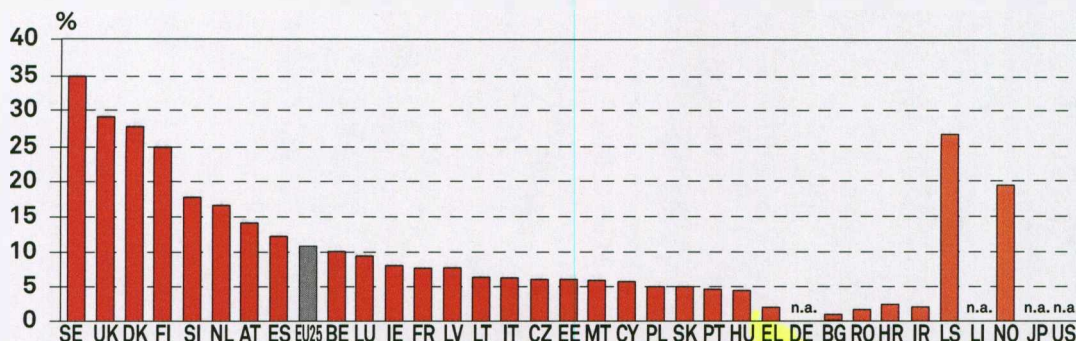
Unemployment rates of population
aged 15-59 years by educational attainment level (2002)



Source: Eurostat (Labour Force Survey), 2002

Participation of adults in lifelong learning (2005)

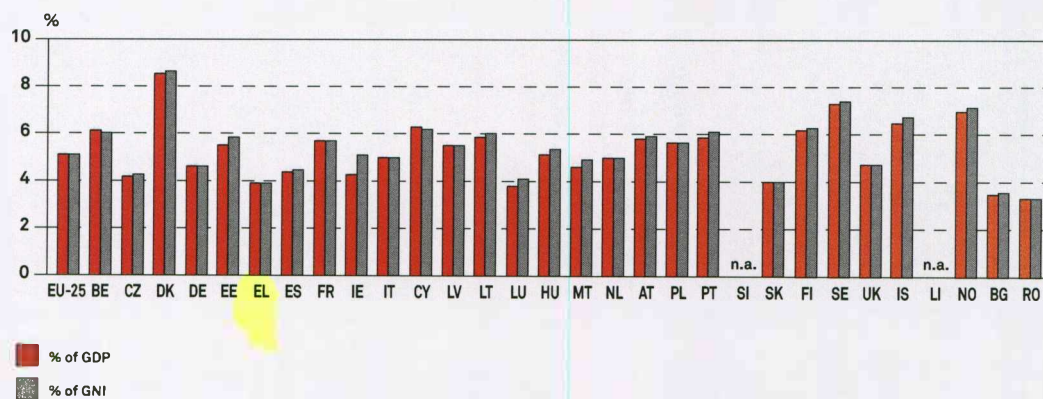
(Percentage of population aged 25-64 participating in education and training in four weeks prior to the survey, ISCED 0-6)



Additional notes:
DE: data for 2004
LU, MT and UK: provisional data

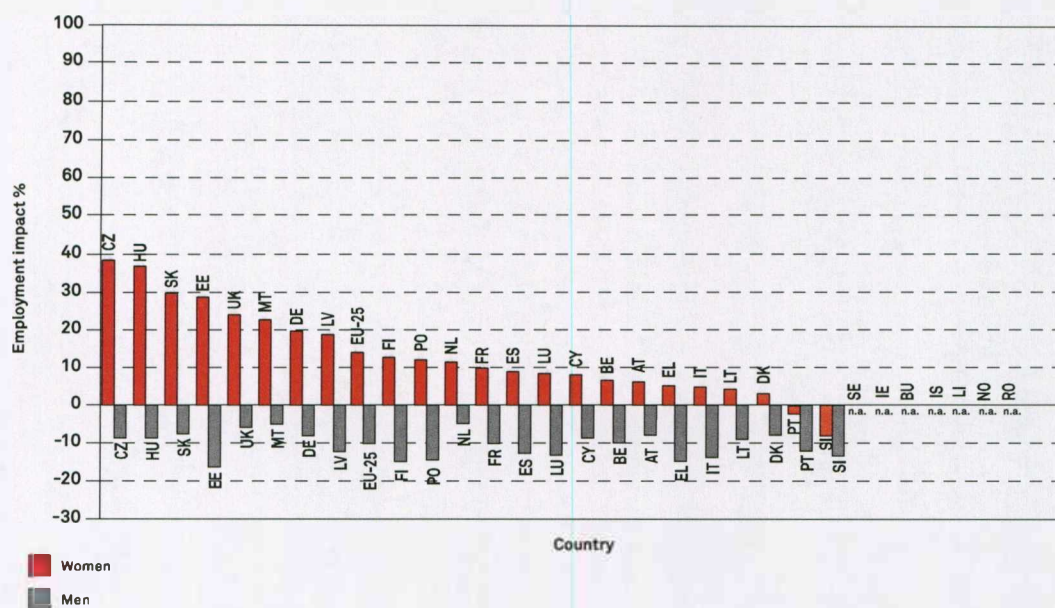
Source: Eurostat (Labour Force Survey)

Total public expenditure on education (ISCED 0 to 6) as a percentage of GDP and GNI, 2001



Source: Eurostat, UOE and National Accounts

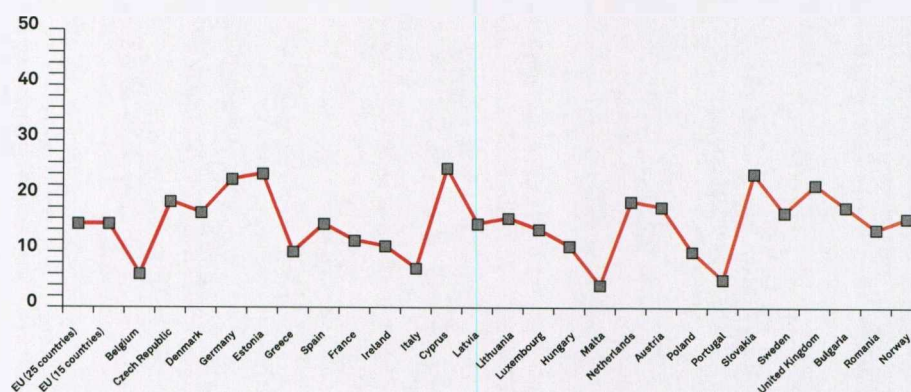
Employment impact of parenthood on men and women 2003



Source: JER 2004/2005 (annex 2)

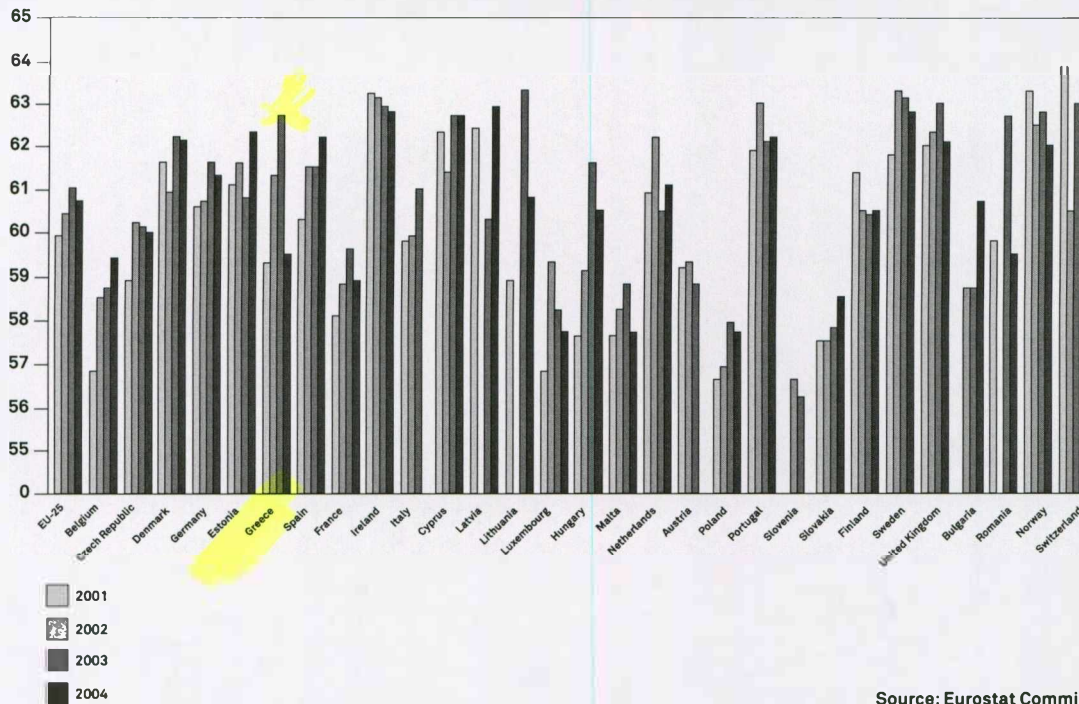
Gender pay gap, 2004

Difference between men's and women's average gross hourly earnings as a percentage of men's average gross hourly earnings



Source: Eurostat

Average exit age from the labour market
(Weighted by the probability of withdrawal from the labour market)



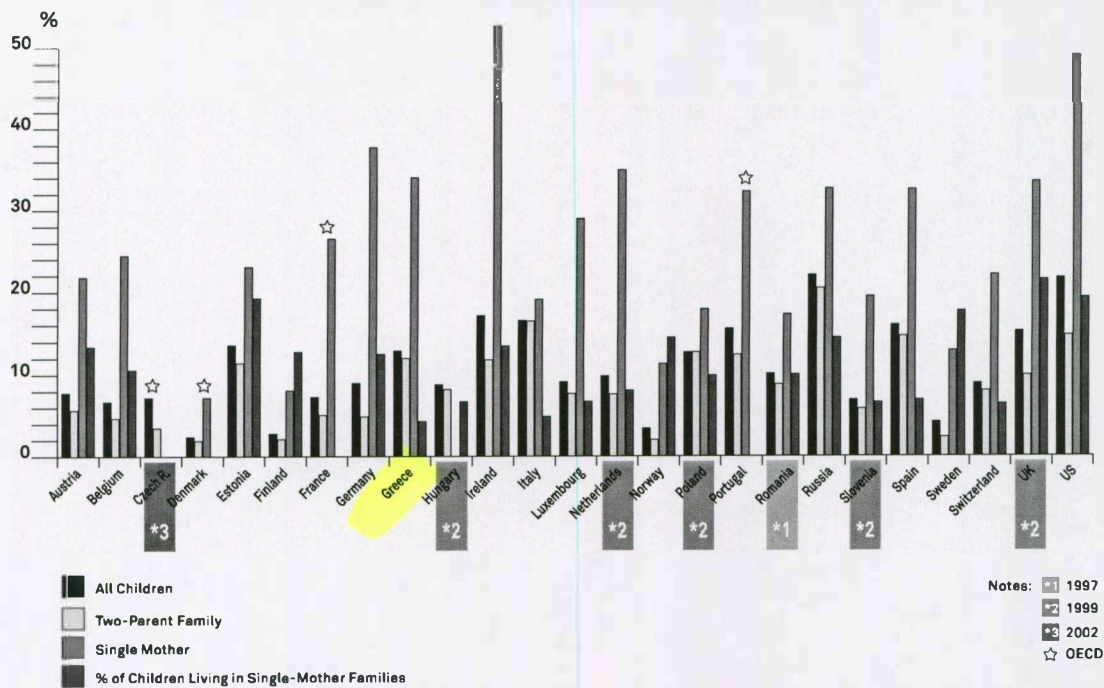
Source: Eurostat Commission services

Risk of poverty rate and most frequent activity status (in %), 2001

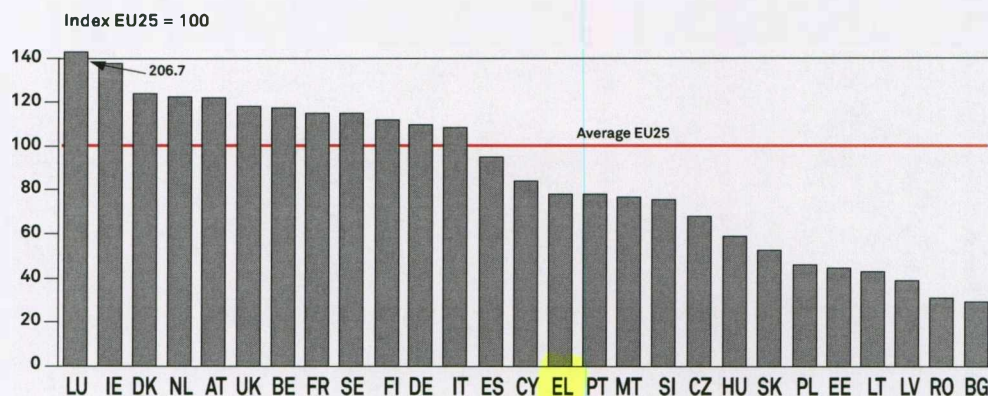


Source: The European Community Household Panel

Poverty rates for children by family type in 2000

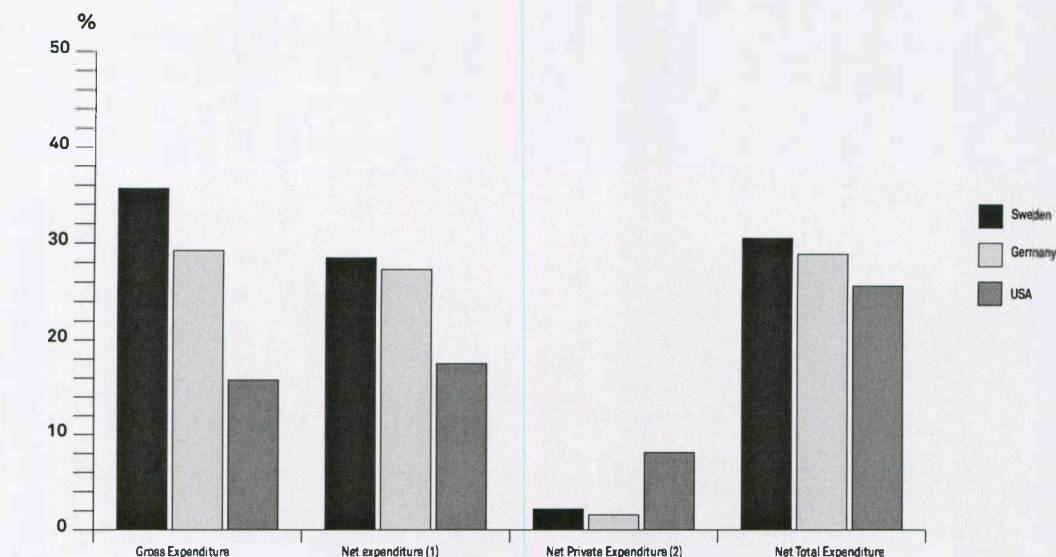


GDP per head (PPS), 2002



Source: Eurostat, National accounts. A new partnership for cohesion, convergence, competitiveness, cooperation: Third report on economic and social cohesion, European Commission, 2004, pp.1

Total GDP use for Social Protection



Notes: Total GDP Use for Social Protection

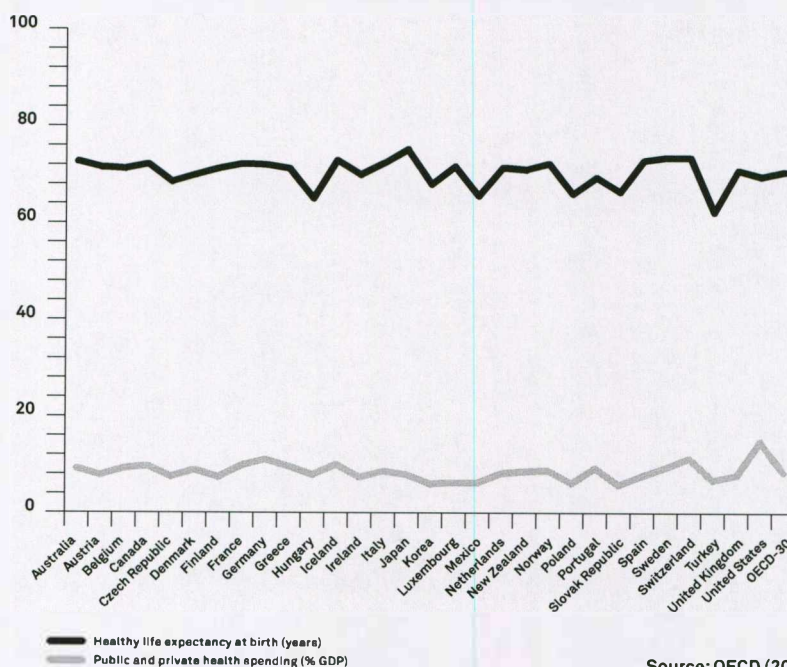
1) after tax claw-backs and other indirect taxes, plus tax subsidies

2) includes mandatory and voluntary plans, but excludes out-of-pocket payments

Source: W. Adema, Net social expenditure.

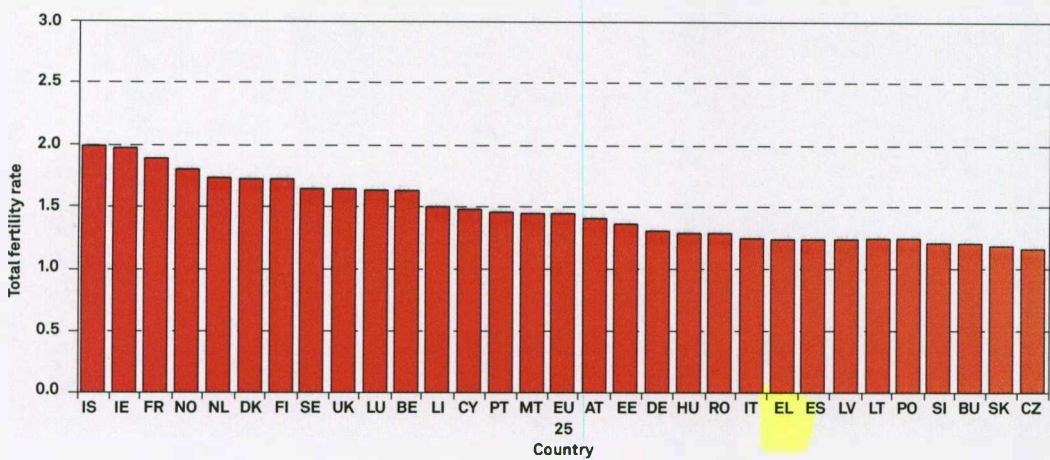
Labour Market and Social Policy-Occasional Papers, no.52. OECD (August, 2001).

Health care spending in percentage of GDP and healthy life expectancy at birth, 2002



Source: OECD (2004) Social expenditure database

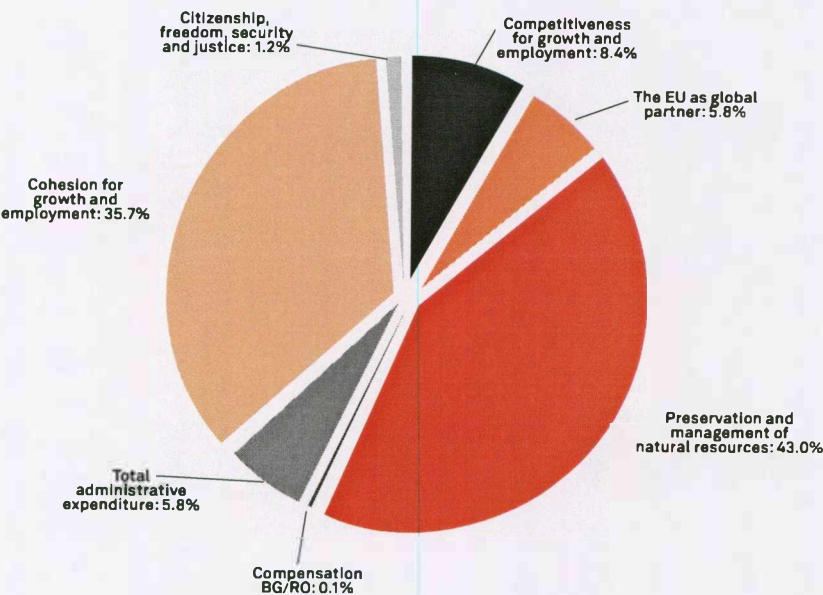
Fertility rates 2002



* Fertility rates in Iceland, Norway and Romania for 2003

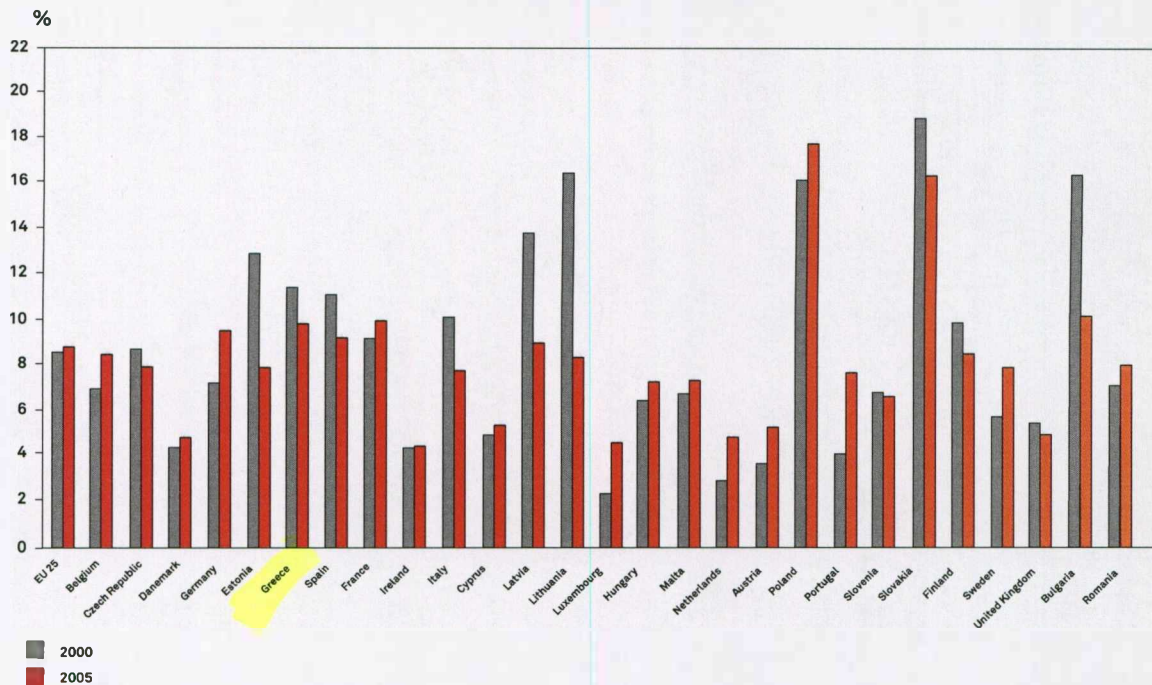
Source: Eurostat Population Statistics 2004 and national reports Iceland, Norway, Bulgaria, Romania, Liechtenstein

EU budget 2007-2013
How the money will be spent



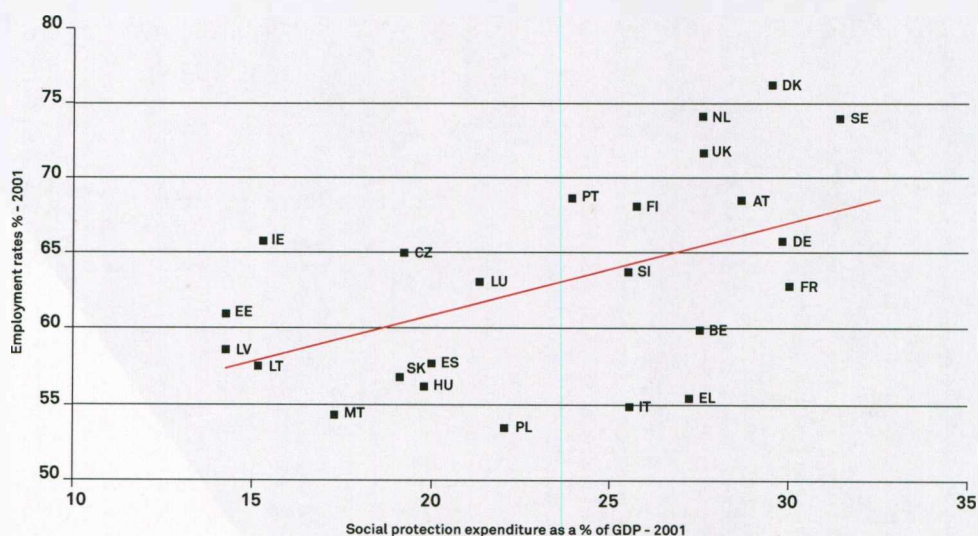
Source: European Commission

Unemployment rate - total



Source: Eurostat

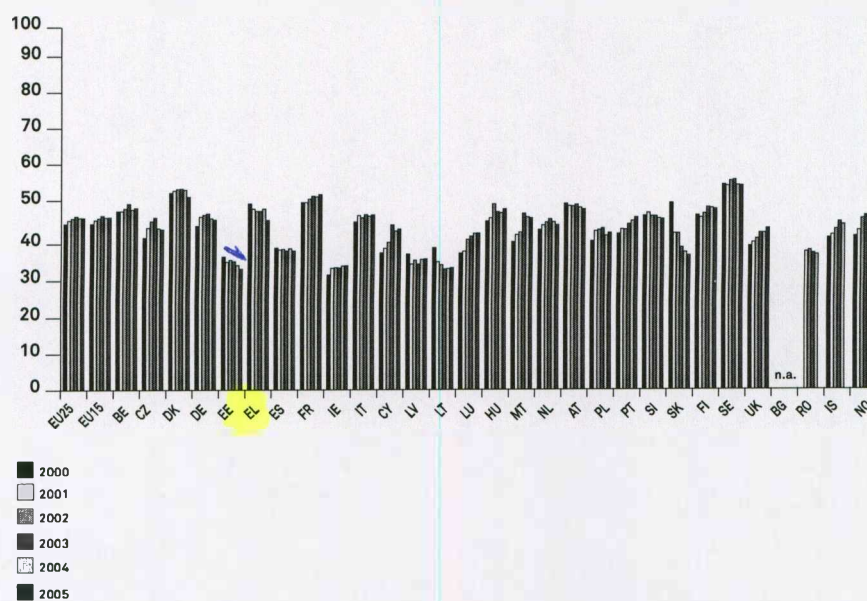
Social expenditure and employment rate, 2001



Data for Cyprus are not available

Source: Eurostat - New Cronos databank and ESSPROS

Total general government expenditure in percentage of GDP, 2000-2005



Source: Eurostat