

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.⁶⁶ 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;

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

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

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

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

CHAPTER 14

Can we afford the New Social Europe?

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

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

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

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 macro-economic 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 2025.⁷⁵ 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.⁶⁰ 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
- 2 "Acting together and simultaneously: Higher Growth and More Jobs", adopted by PES Leaders and Prime Ministers, 26th October 2005
- 3 Cf Annex II: "Increasing growth potential"
- 4 Cf. Annex 1. Figures as yet unavailable for Bulgaria and Romania
- 5 Cf Annex 2
- 6 "The "Flat Tax(es)": Principles and Evidence", Michael Keen, Yitae Kim, Ricardo Varsano, IMF Working Paper, September 2006
- 7 Cf Annex 3
- 8 Cf Annex 4
- 9 Cf Annex 5, showing the pattern of job creation and destruction in industrialized and developing countries
- 10 Cf Annex 6, demonstrating the unequal distribution of Foreign Direct Investment inflows to developing countries
- 11 Cf Annex 7
- 12 Cf Annexes 8 and 41
- 13 Cf Annex 9
- 14 Cf Annex 10
- 15 "The economic impact of ageing populations in the EU25 Member States", Directorate-General for Economic and Monetary Affairs, European Commission, December 2005
- 16 "The European Environment - State and Outlook 2005", European Environment Agency, 2005
- 17 Eurobarometer, Pew and Trans-atlantic Trend surveys
- 18 Cf Annexes 11-12
- 19 Cf Annex 13
- 20 Cf Annex 14
- 21 Cf Annex 15
- 22 Cf Annex 16
- 23 "One Social Model or Many?" in "A European welfare state? European Union Social Policy in Context", Kleinman, Mark, Palgrave MacMillan (2001), pp. 28-58

- 24 "World Development Report", World Bank, 2006
- 25 Cf Annexes 16 and 44
- 26 "The new Lisbon Strategy: An estimation of the economic impact of reaching five Lisbon targets", G. Gelauff and A. Lejour, Enterprise and Industry Directorate-General, European Commission, January 2006
- 27 "Working time and work-life balance a dilemma?", European Foundation for the Improvement of Working and Living Conditions, October 2006
- 28 "Acting together and simultaneously: Higher Growth and More Jobs", adopted by PES Leaders and Prime Ministers, 26th October 2006
- 29 Cf Annexes 17-18
- 30 Cf Annex 19 for Member State variations in employment and Annex for variations in unemployment
- 31 "The new Lisbon Strategy: An estimation of the economic impact of reaching five Lisbon targets", G. Gelauff and A. Lejour, Enterprise and Industry Directorate-General, European Commission, January 2006
- 32 Cf Annex 20
- 33 Cf Annex 21
- 34 Cf Annex 22
- 35 Special Eurobarometer on Future of Europe, May 2006. 47% of Europeans see globalization as a threat against 37% who see it as an opportunity
- 36 "The Evolution of labour law (1992-2003) Volume I: General Report", Directorate-General Employment, Social Affairs and Equal Opportunities, European Commission, 2005
- 37 "Assessing the reassessment of the OECD Jobs Strategy, eppu si muove?" in European Economic and Employment Policy Brief, Andrew Watt, ETUI, 2006
- 38 "Employment Outlook", OECD, 2006, p 85
- 39 Cf Annex 24
- 40 "Promoting a European Framework for Corporate Social Responsibility", European Commission Green Paper, July 2001
- 41 Cf Annex 25
- 42 Community Innovation Survey, Community Research and Development Information Service, European Commission
- 43 "The new Lisbon Strategy: An estimation of the economic impact of reaching five Lisbon targets", G. Gelauff and A. Lejour, Enterprise and Industry Directorate-General, European Commission, January 2006
- 44 Cf Annex 26
- 45 "Impacts of Europe's changing climate change", European Environmental Agency, 2004

- 46 "Stern Review on the economics of climate change", HM Treasury, 30th October 2005
- 47 "Learning: the Treasure within", Report to UNESCO of the International Commission on Education for the Twenty-first Century, Unesco, 1996
- 48 Gosta Esping Andersen, "Putting the Horse in Front of the Cart: Towards a Social Model for Mid-Century Europe", Universitat Pompeu Fabra, November 2005
- 49 Cf Annexes 27-28
- 50 Cf Annex 29
- 51 "Programme for International Student Assessment": three-yearly surveys, organized by the OECD, of 15-year-olds in the principal industrialised countries, which assesses how far students near the end of compulsory education have acquired some of the knowledge and skills that are essential for full participation in society
- 52 "Education at a Glance", OECD, 2006 edition
- 53 Cf Annex 30
- 54 "Education at a Glance", OECD, 2006 edition
- 55 Adults have individual rights to learning in the Nordic countries, which has helped entrench public provision. Cf Annex 30 for statistics on participation in lifelong learning per country
- 56 "Fourth European Working Conditions Survey", European Foundation for the Improvement of Working and Living Conditions, November 2006
- 57 "Report on Social Inclusion 2005: An analysis of the National Action Plans on Social Inclusion (2004-2006) submitted by the 10 new Member States", European Commission, February 2005
- 58 Ministerial Declaration, approved unanimously in Riga, Latvia, at the EU Presidency conference on "ICT for an inclusive society", 11th June 2006
- 59 Cf Annexes 33 and 34
- 60 Cf Case study in Annex I: Progressive urban time policies in Italy "Tempi della città"
- 61 Cf Annex 35
- 62 "Sustainable and Equitable Retirement in a Life Course Perspective", Gosta Esping-Andersen and John Myles, published in the Oxford Handbook of Pensions and Retirement Income, ed. Gordon L. Clark, Alicia H. Munnell, and J. Michael Orszag, Oxford University Press, January 2006
- 63 Cf Annex 36 on the risk of poverty rate and most frequent activity status
- 64 Cf Annex 37 on poverty rates for children by family type, showing far higher rates of poverty amongst single mother families
- 65 Cf Annex 45. Public sector as measured by total government expenditure

- 66 Part III, Article III-122
- 67 Cf Annex 38 showing the wide variations in GDP per head in the EU-27
- 68 See the full text of the EU's Basic Common Principles in Annex I
- 69 "Europe and a new global order", 2003, Report by Poul Nyrup Rasmussen to the PES "Europe 2004: Changing the Future", Political Declaration of the PES High Level Group on Globalization, February 2004
- 70 Cf Annex 6, The lion's share of FDI goes to Asia and the Pacific
- 71 Paragraph 47: *"We strongly support fair globalization and resolve to make the goals of full and productive employment and Decent Work for all; including for women and young people, a central objective of our relevant national and international policies as well as national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. These measures should also encompass the elimination of the worst forms of child labour, as denied in the ILO Convention N°182, and forced labour. We also resolve to ensure full respect for the Fundamental Principles and Rights at Work"*
- 72 Global Civil Society: An Overview, by Lester M. Salamon, S.Wojciech Sokolowski and Regina List, The Johns Hopkins University, 2003
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- 74 Cf Annex 39
- 75 Cf Annex 40
- 76 Cf Annex II "Increasing growth potential" for further macro-economic calculations on the macroeconomic impact of the New Social Europe
- 77 Cf Annex II "Increasing growth potential" for further macro-economic calculations on the macroeconomic impact of the New Social Europe
- 78 "The new Lisbon Strategy: An estimation of the economic impact of reaching five Lisbon targets", G. Gelauff and A. Lejour, Enterprise and Industry Directorate-General, European Commission, January 2006
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- 80 Cf Annex 42

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 – Kunskaflslyftet – 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 Luís 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.e. 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.

ANNEX II

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*		Employment	
	Increase, real terms		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.

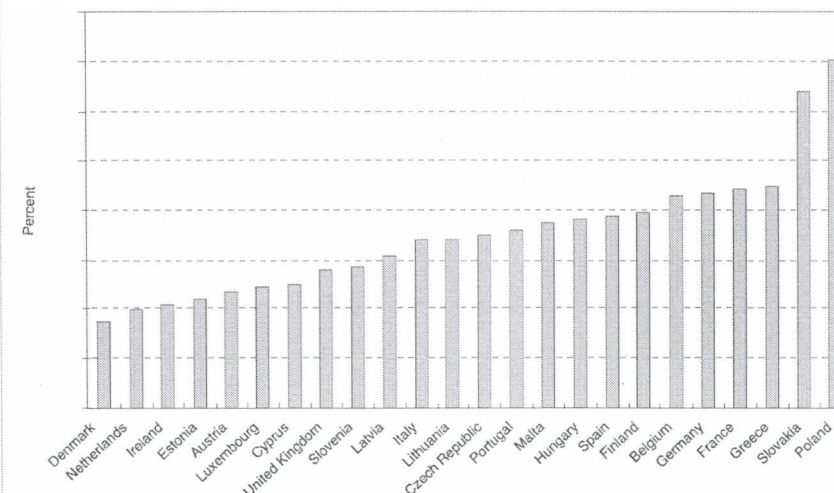
Generating resources, as detailed above, can be done in several ways – and each European country will have to find its own way and pace depending on fiscal developments, the nature of the changes required and the current status of relevant parameters.

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.

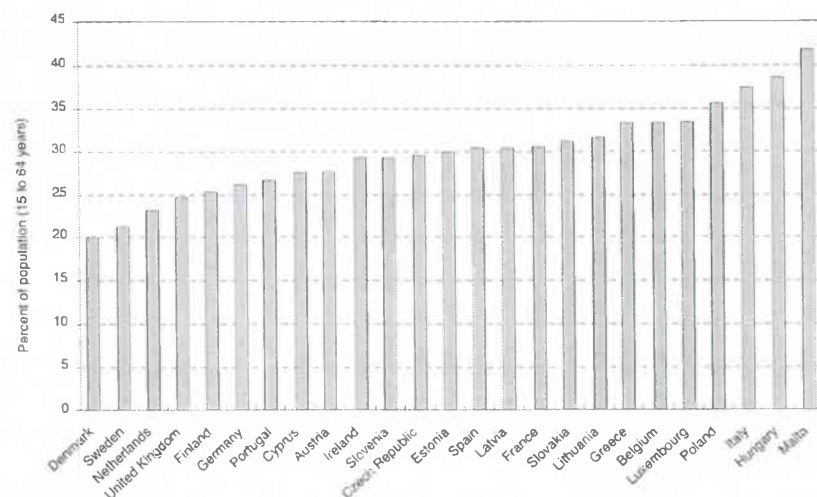
Chart 1: Total unemployment rate, EU countries, September 2006



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.

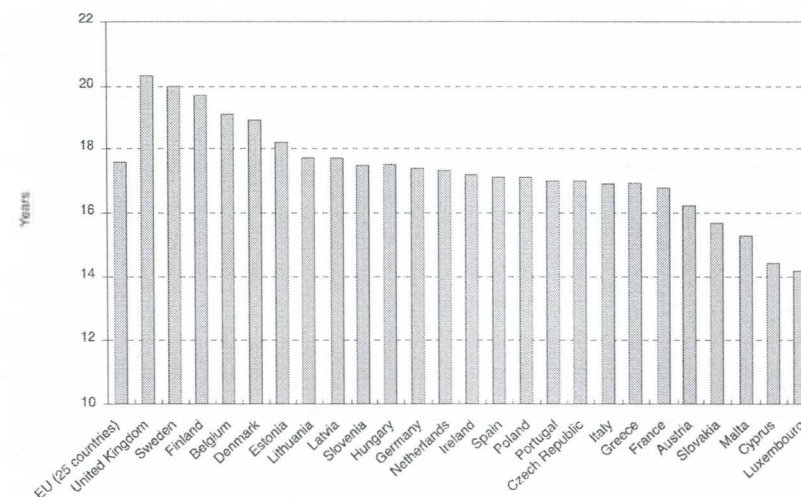
Chart 2: Inactive in the labour market, 2005



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" ¹ 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.

¹"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.

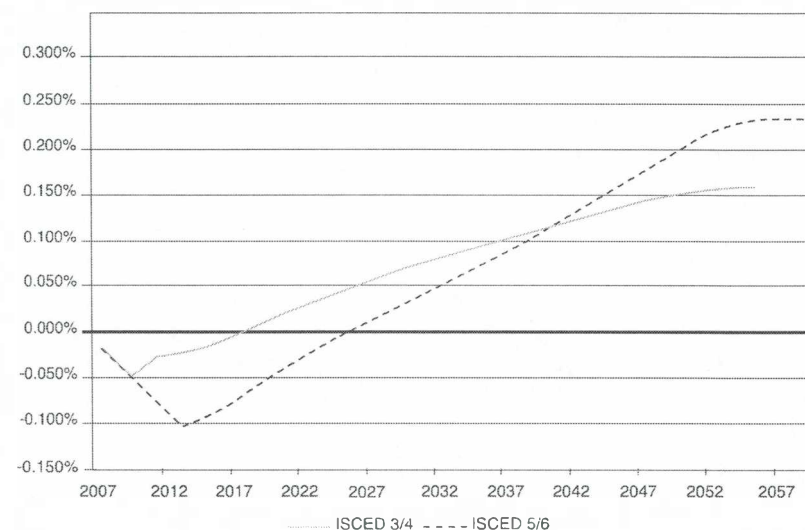
Investment in education must be seen in a long term perspective as educating young generations will cost money in the short run but will generate resources in the long run.

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



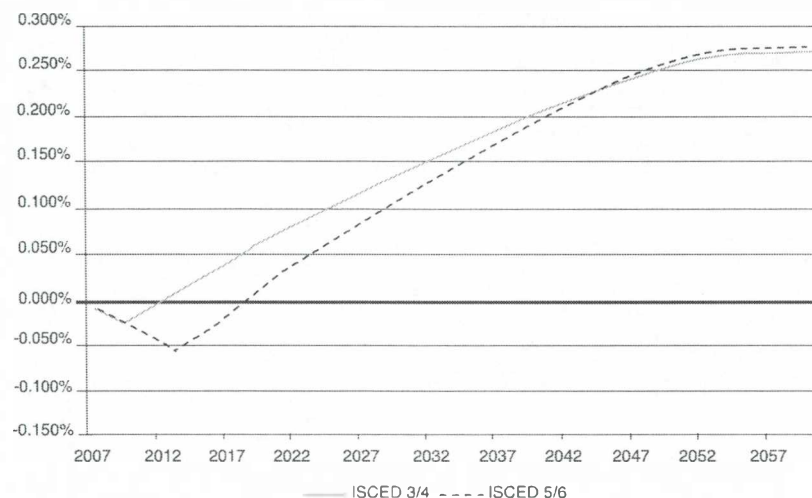
Note: This is an illustration which is based on a number of assumptions specified in box 2.

Source: ELCM 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: ECLM 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 \$ 5.2 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

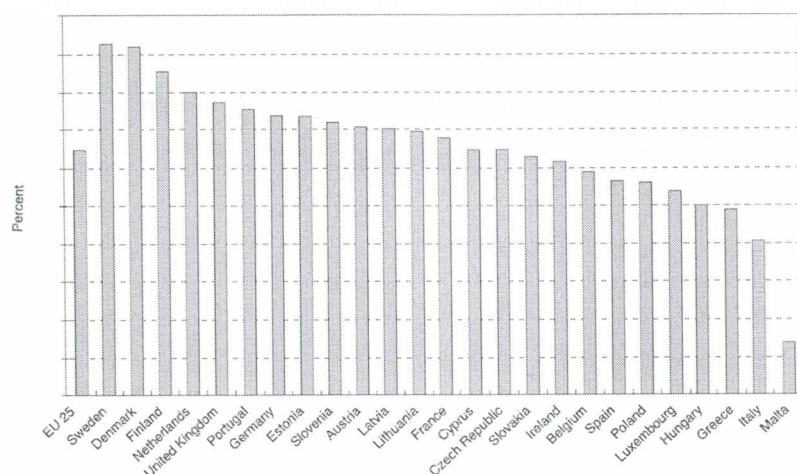
2c. Dynamic effects of public expenditure

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%.

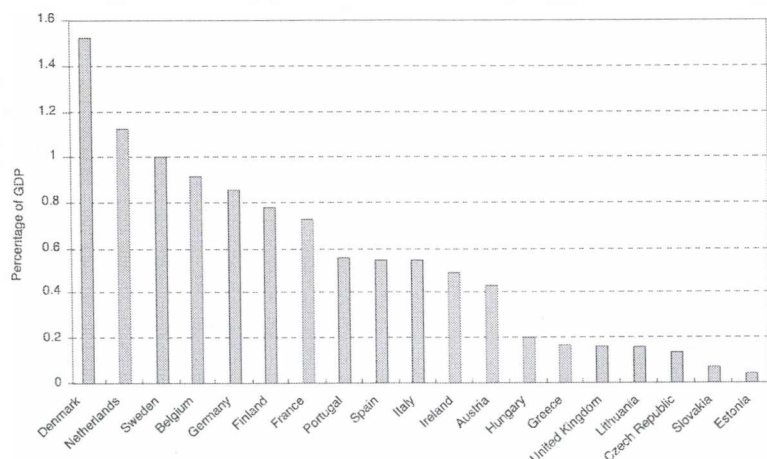
The last row shows the net gain for female participation rates by offering an additional 100 day care vacancies. The number varies according to the kind of offer given – but is in all circumstances positive and significant. The calculation illustrates that there are significant effects of public spending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

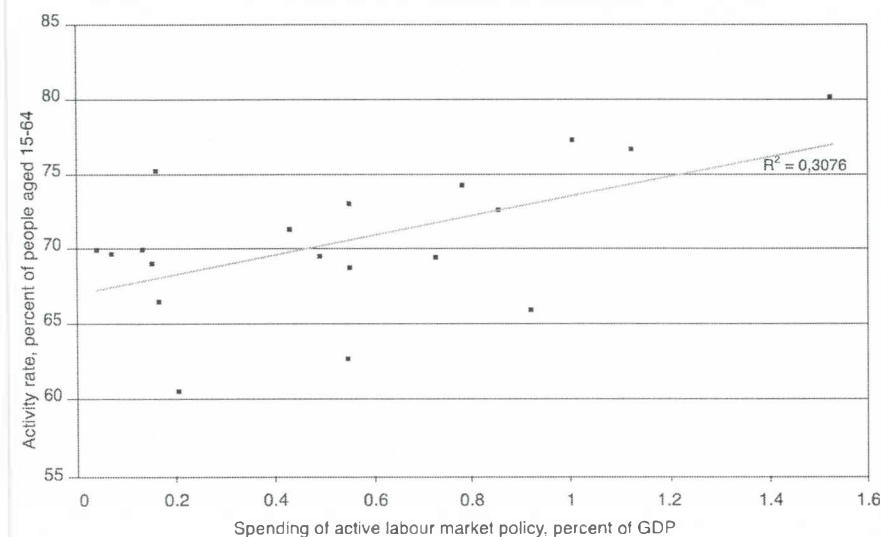
Source: Eurostat

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.

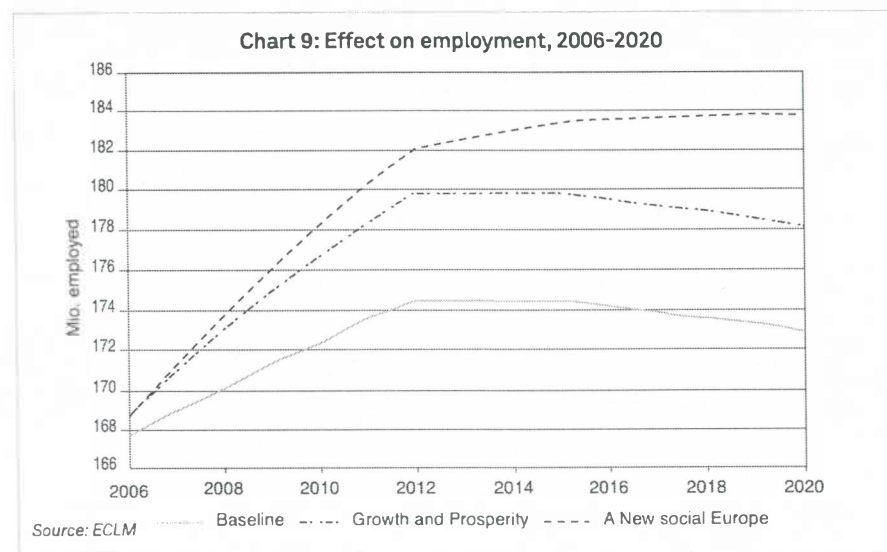
Table 6: Total employment EU15, 2007-2020

	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

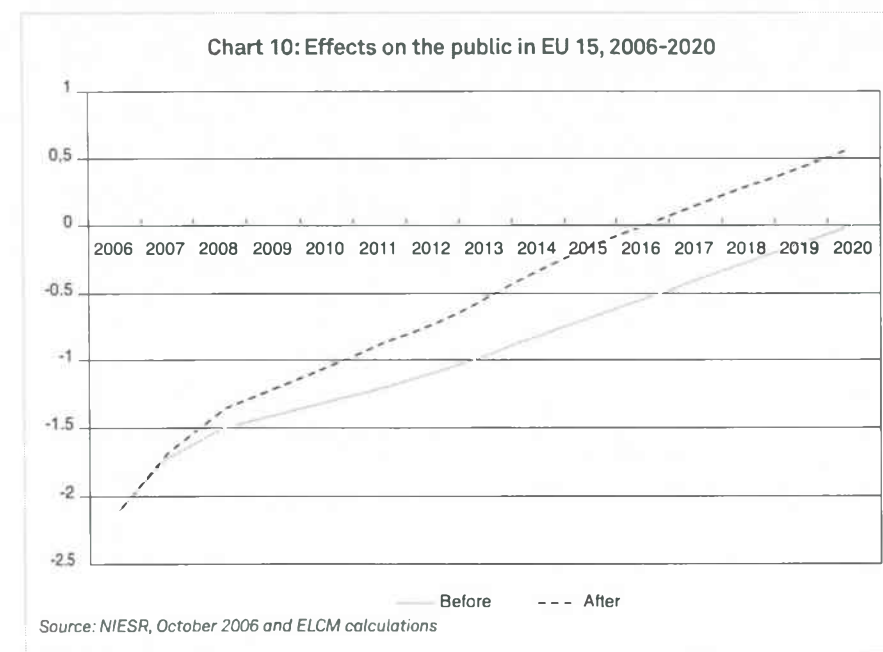
	Public budget Percent of GDP		Current account Percent of GDP	
	2015	2020	2015	2020
Germany	0.8	1.0	-0.7	-0.6
France	0.4	0.4	-0.2	-0.3
Italy	0.6	0.1	-0.7	-1.0
United Kingdom	0.3	0.4	-0.1	-0.1
EU15	0.5	0.6	-0.4	-0.4

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.

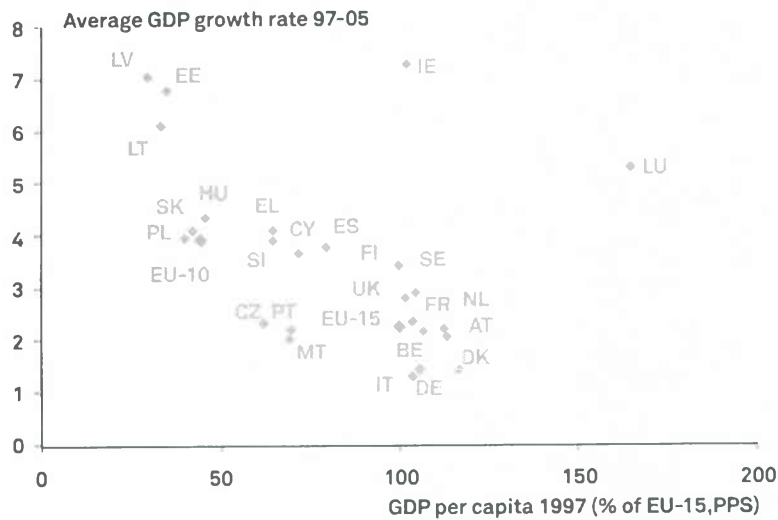


ANNEX III

Statistics

Annex 1

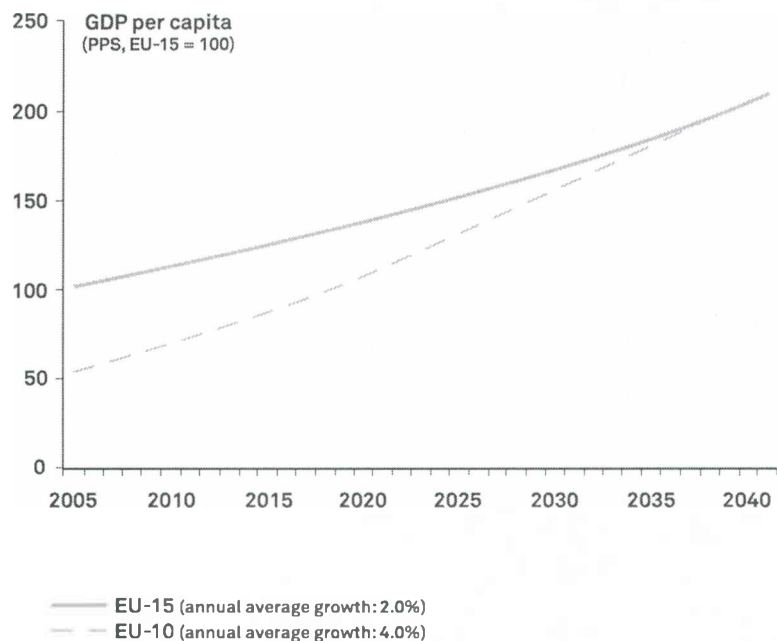
Real convergence and initial per capita income



Source: Eurostat

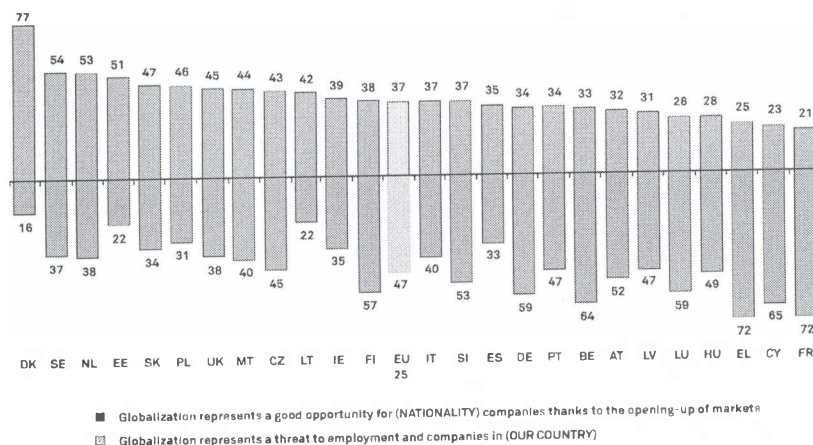
Annex 2

A long road to convergence



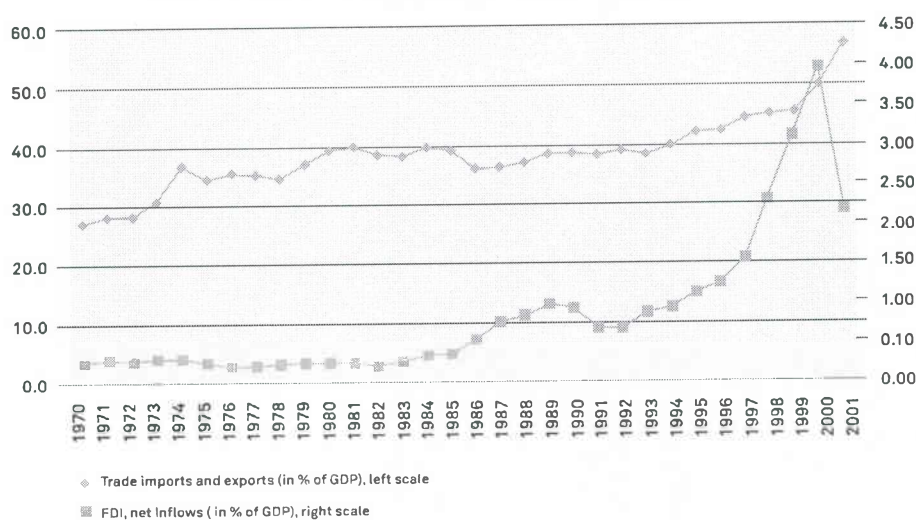
Source: Commission services

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

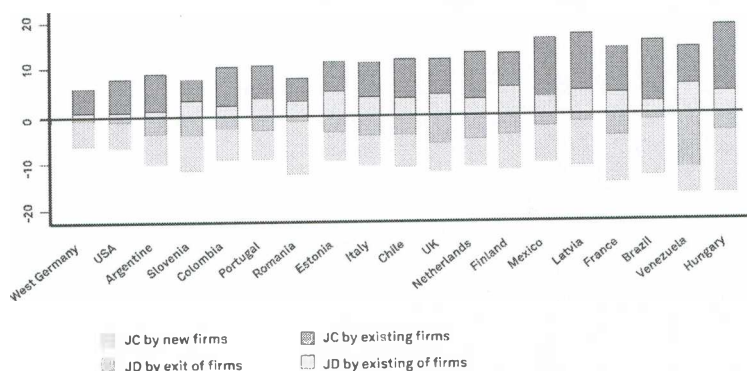
Trade and net Foreign Direct Investment (FDI) inflows as percentage of GDP, 1970-2001



Source: World Bank, World Development Indicators 2003 (online version)

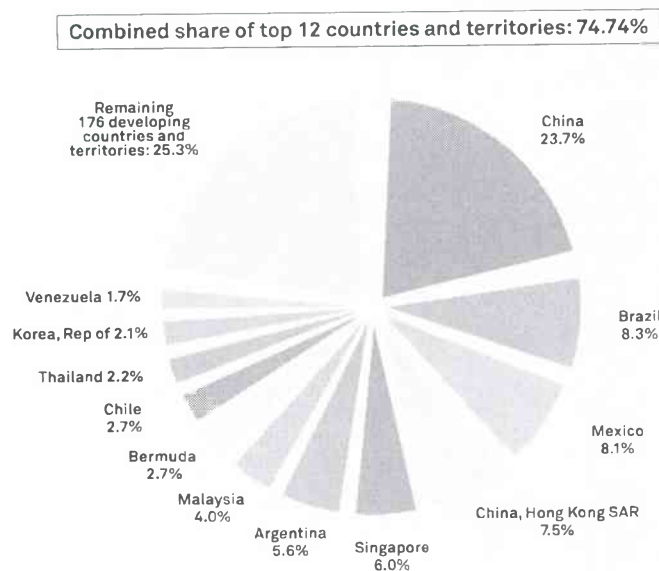
Most countries experience large job creation and job destruction

Manufacturing, annual job flows, 1985-2000



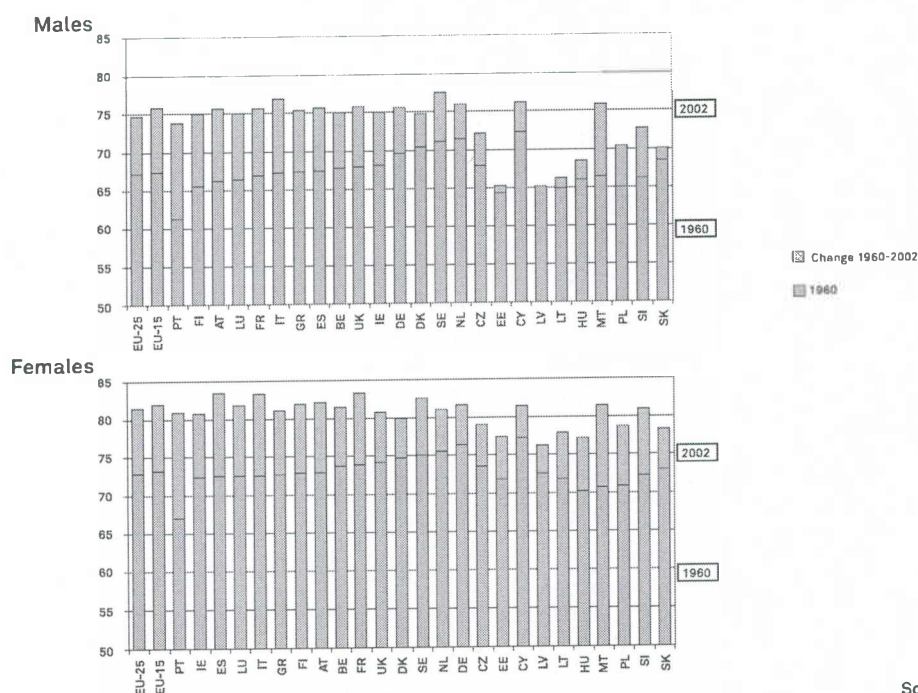
Source: World Bank 2003

Distribution of FDI inflows to developing countries, total for 1990s (in %)



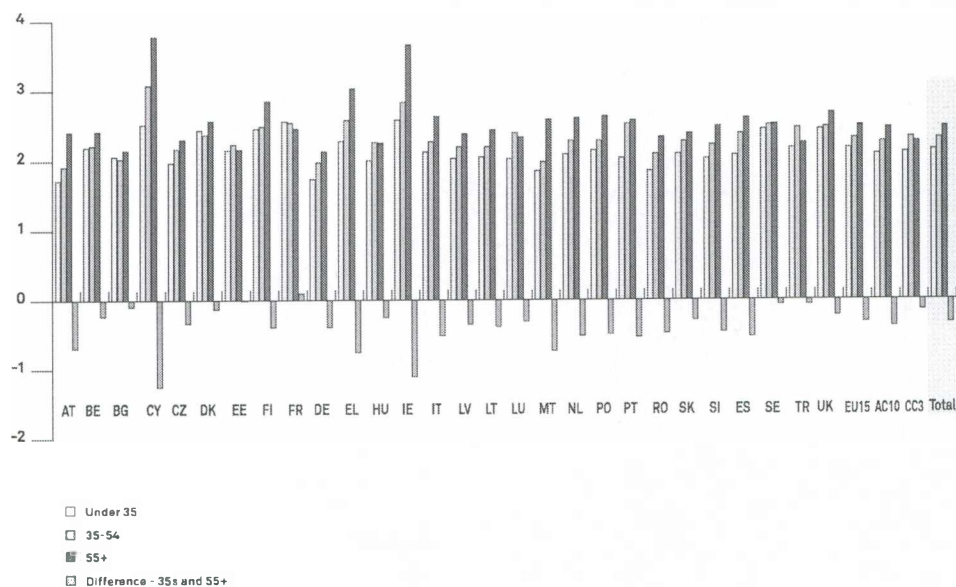
Source: UNCTAD, Handbook of Statistics 2002 (on CD-ROM)

Trends in life expectancy at birth



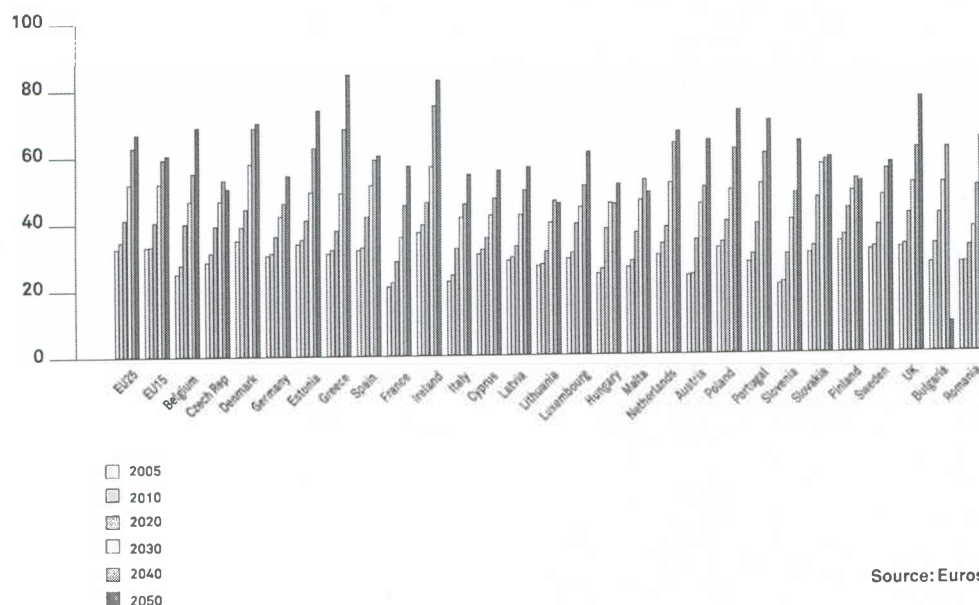
Ideal family size amongst women

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?"



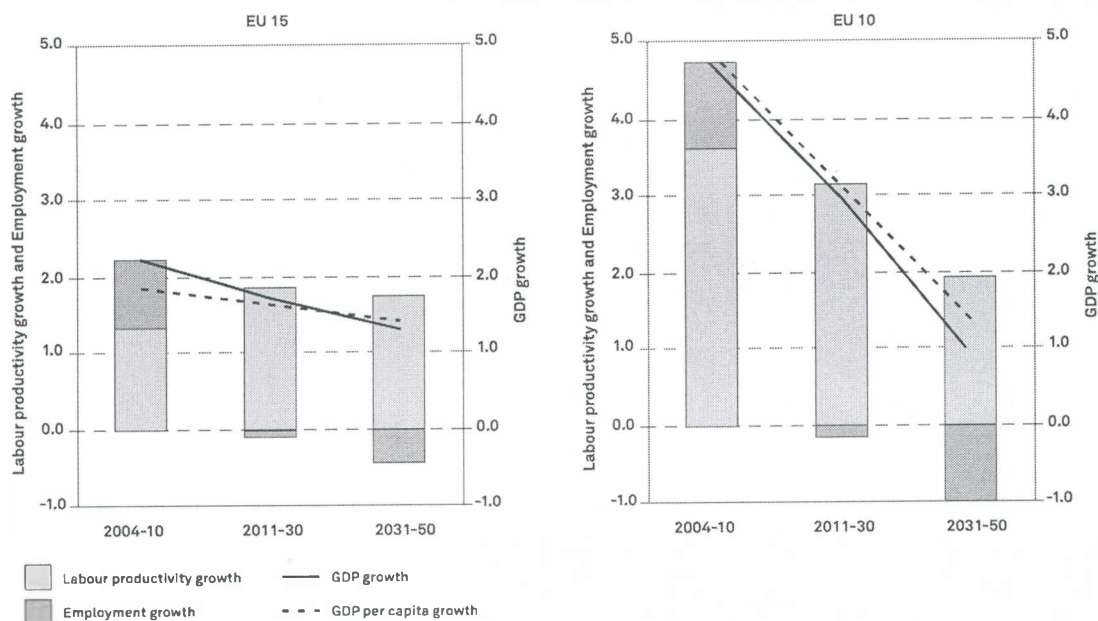
Present and projected old age dependency ratio

The ratio of total number of over-65s in relation to the working age population (15 to 64 years of age)



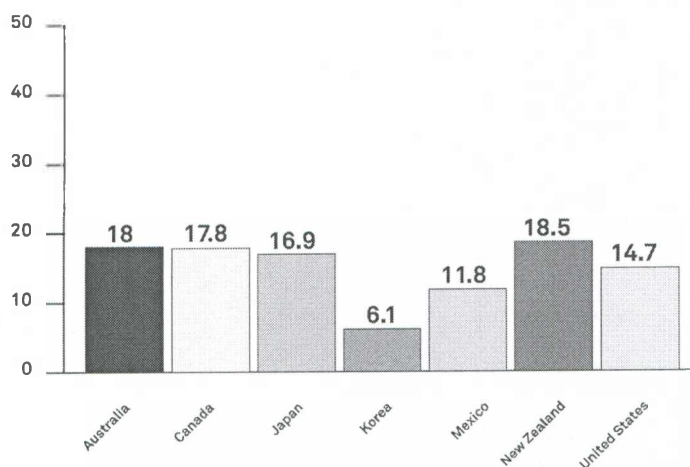
Source: Eurostat 24.10.2005

Projected (annual average) GDP growth rates in the EU15 and EU10 and their determinants (employment/productivity)



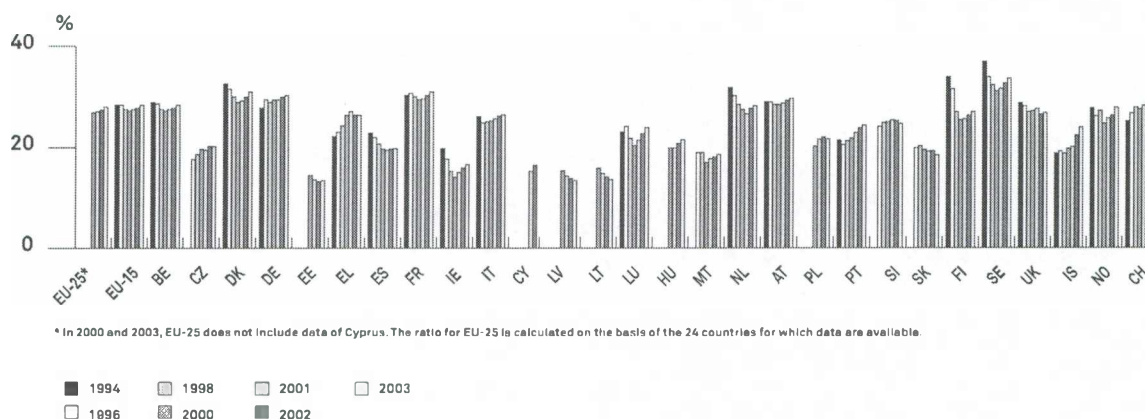
Source: EPC and European Commission (2005)

Total public social expenditure, in % of GDP, 2001



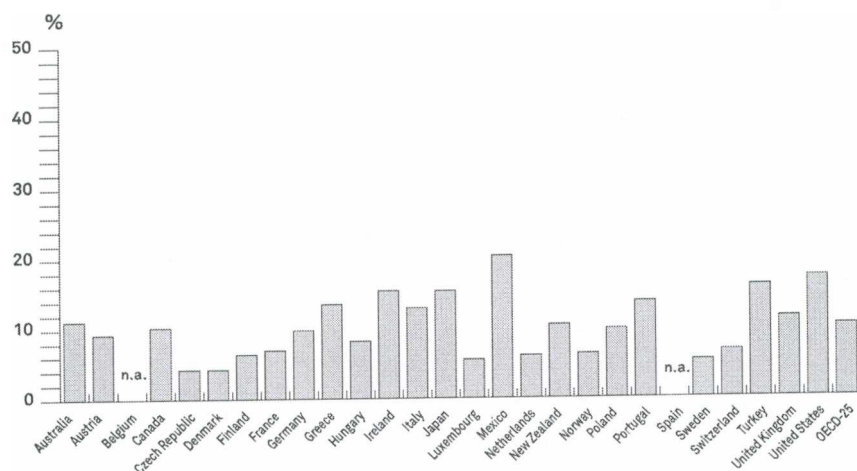
Source: OECD (2004), Social Expenditure Database (SOCX, www.oecd.org/els/social/expenditure).

Expenditure on social protection (as % of GDP)



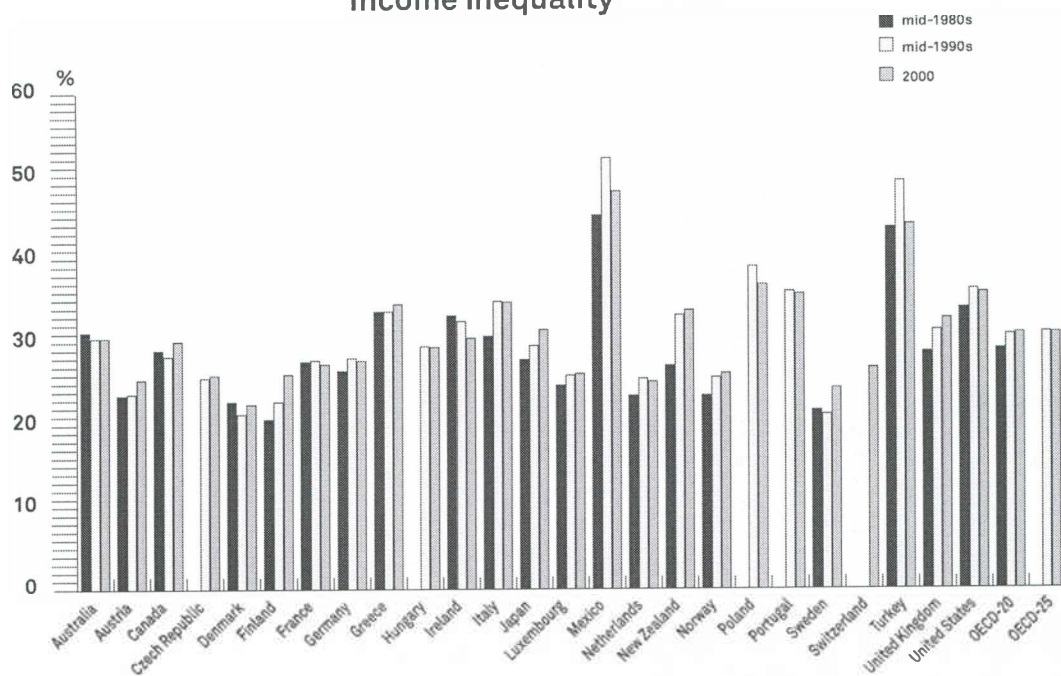
Source: Eurostat-ESSPROS

Poverty 2000: Proportion of population as a percentage of 50% median income



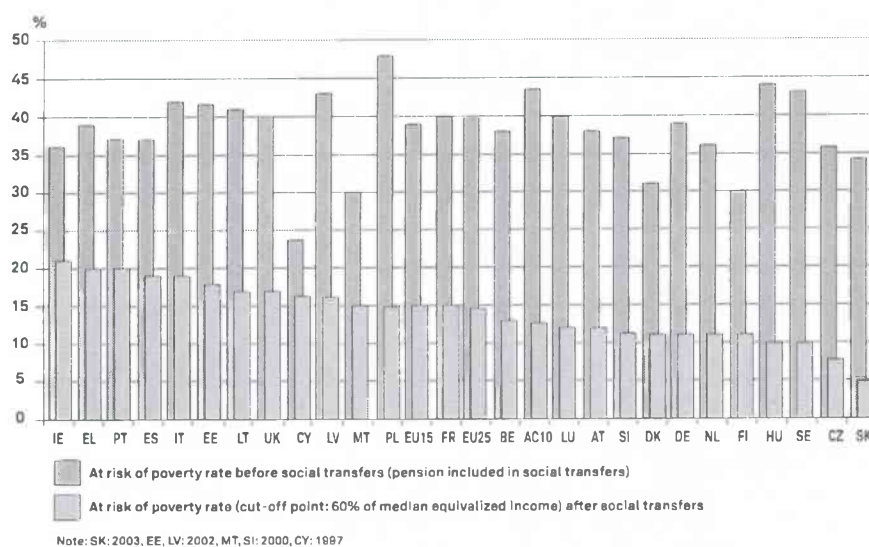
Source: Society at a Glance: OECD Social Indicators - 2005 Edition

Income inequality



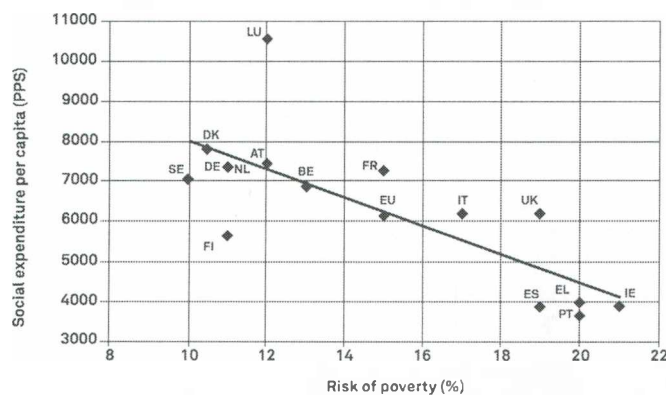
Source: Society at a Glance: OECD Social Indicators - 2005 Edition

Population of the EU-25 (2001) at risk of poverty before and after social transfers

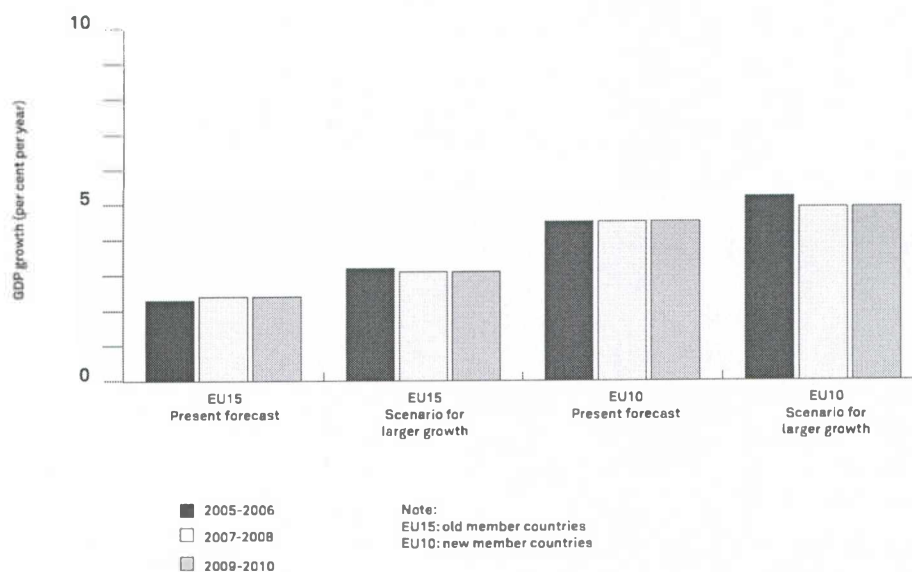


Source: Eurostat Structural Indicators, New Cronos Database

Correlation between risk of poverty and per capita social expenditure - 2000

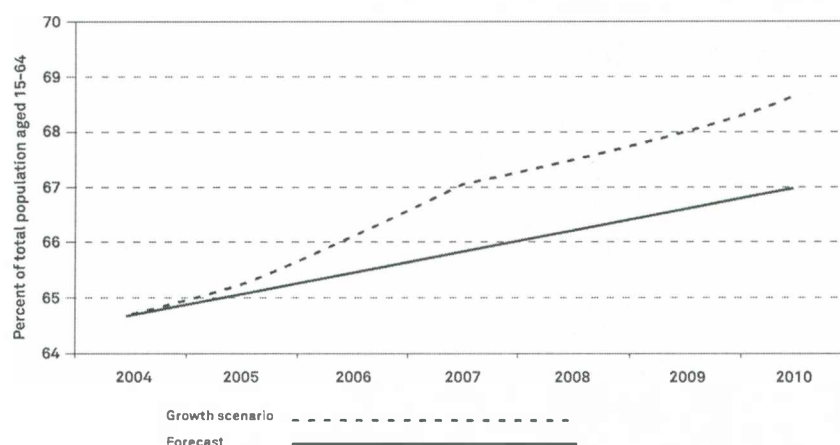


European growth and investment strategy Effect on member countries



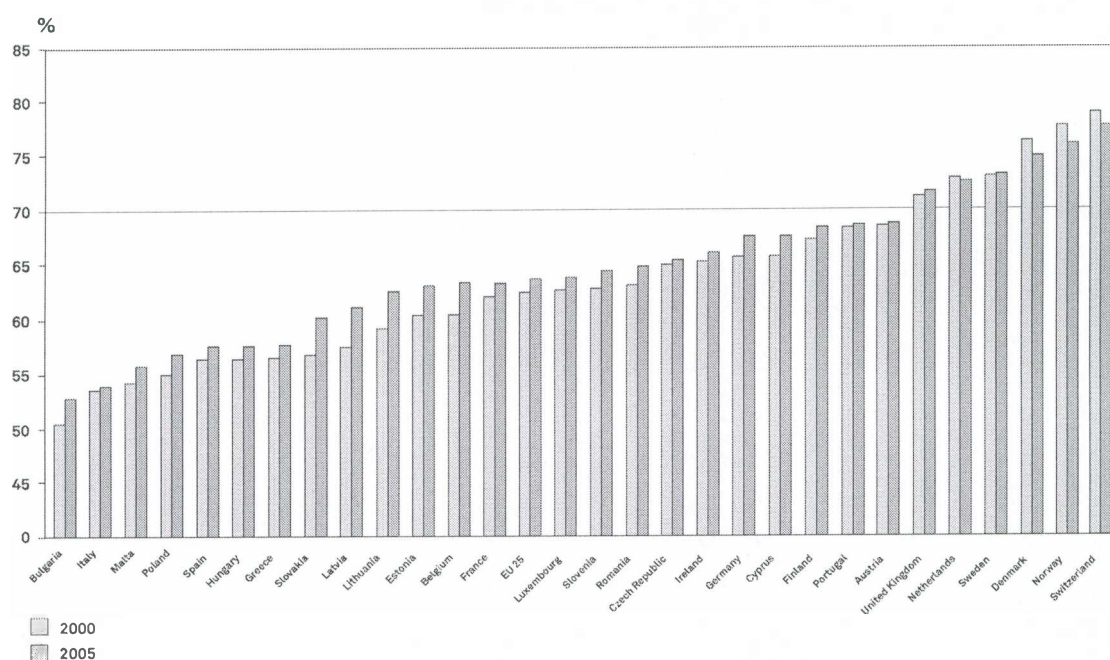
Source: European Commission, economic forecast autumn 2004, NIESR October 2004 and calculation by ECLM based on the international model "HEIMDAL".

Development in employment rate, 2004-2010



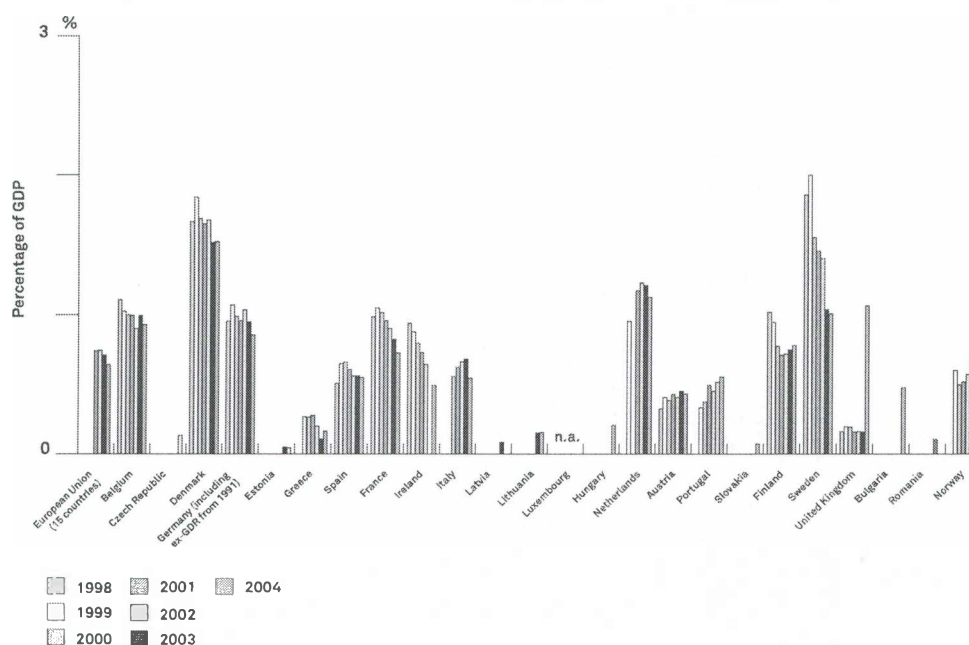
Source: The European Commission, economic forecast autumn 2004 (forecast: 2004-2006) and ECLM (forecast: 2007-2010) and calculation based on the international model "HEIMDAL"

Employment rate - total



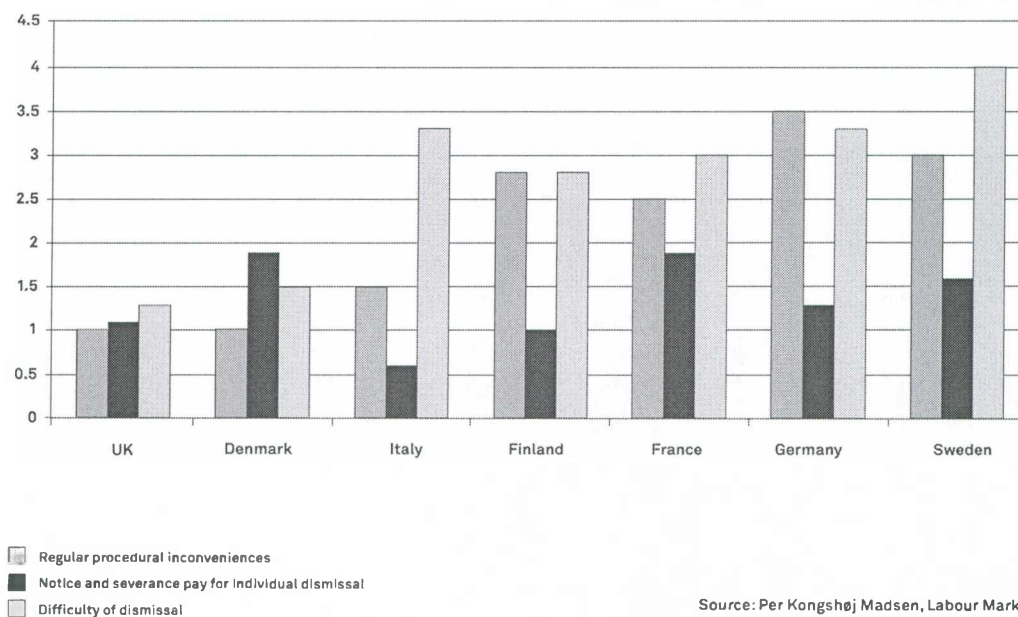
Source: Eurostat

Investment in active labour market policies



Annex 21

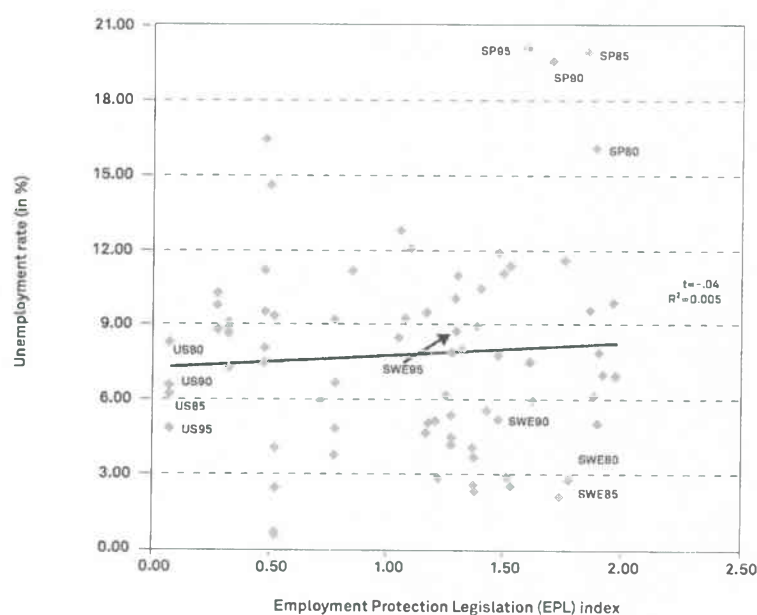
Employment Protection Laws (EPL) and Unemployment, 1980-1999



Source: Per Kongshøj Madsen, Labour Market Flexibility and Social Protection in European Welfare States, 2005

Annex 22

Unemployment rate and EPL index



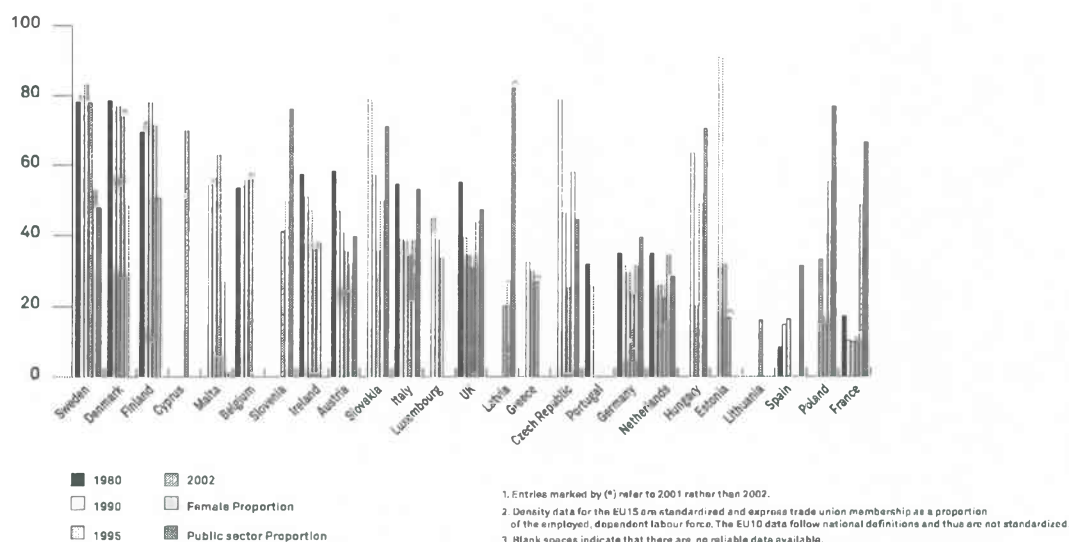
Source: Glenn, Howell, Baker (2005)

Annex 23



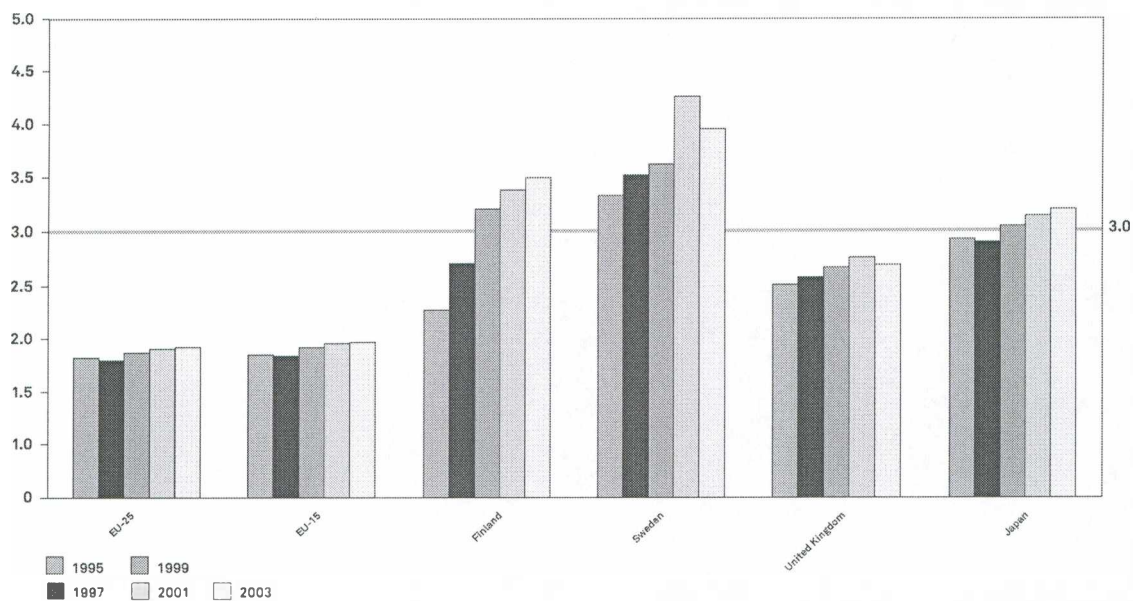
Annex 24

Trade union density rates and indices of membership composition (in%)



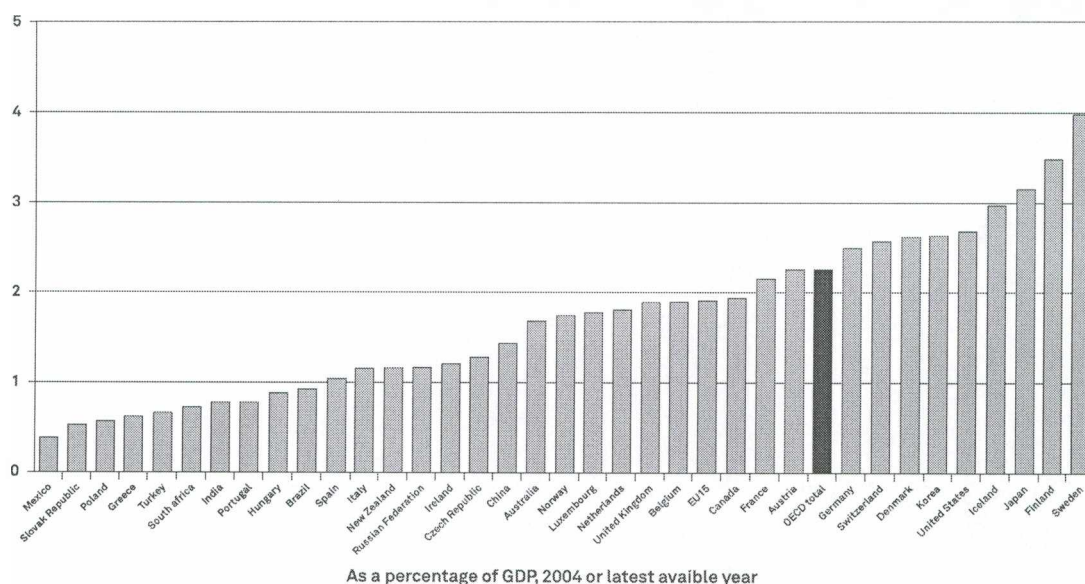
Source: EC 2004 (for data 1990-2002) and Ebbinghaus and Visser 2000 (for 1980 data)

Gross domestic expenditure on R&D (GERD) As a percentage of GDP



Source: Eurostat OECD

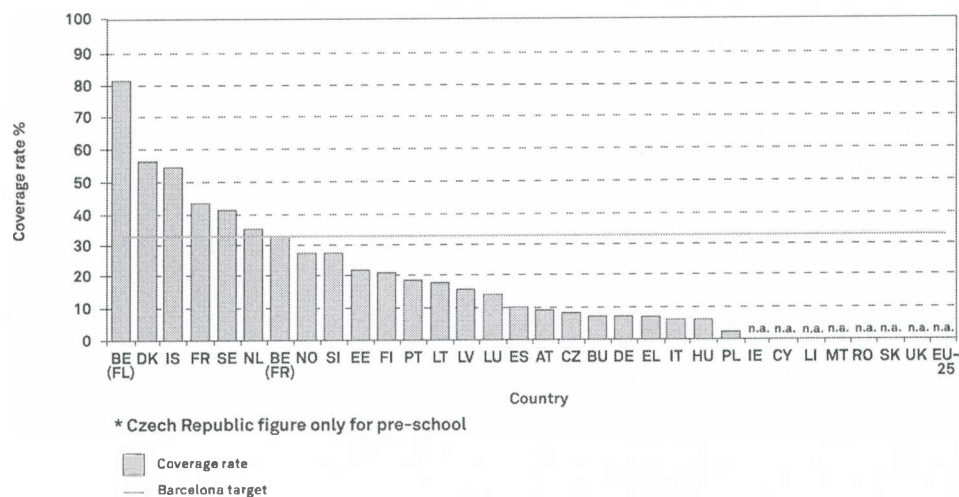
Gross domestic expenditure on R&D



As a percentage of GDP, 2004 or latest available year

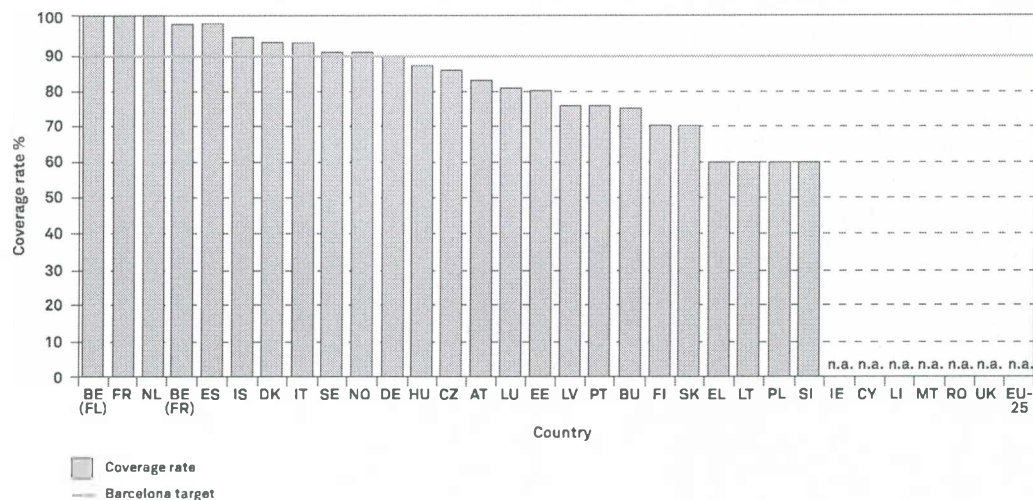
Source: OECD Factbook 2006 - Economic, Environmental and Social Statistics

Estimated child care statistics:
Child care coverage rate (0-3 years): recalculated and harmonized



Source: European Child Care Strategies, Statistical Annex

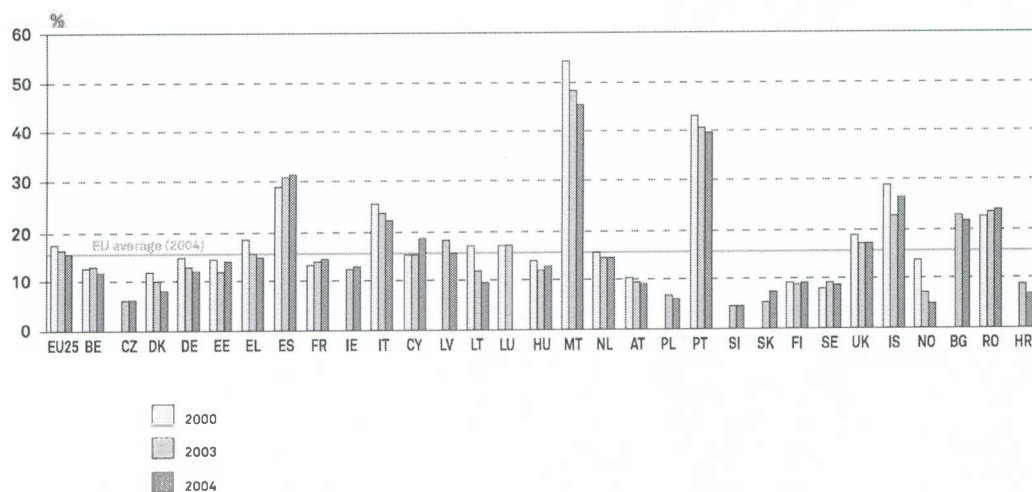
Estimated child care statistics:
Child care coverage rate (3-compulsory school age): recalculated and harmonized



Source: European Child Care Strategies, Statistical Annex

Annex 29

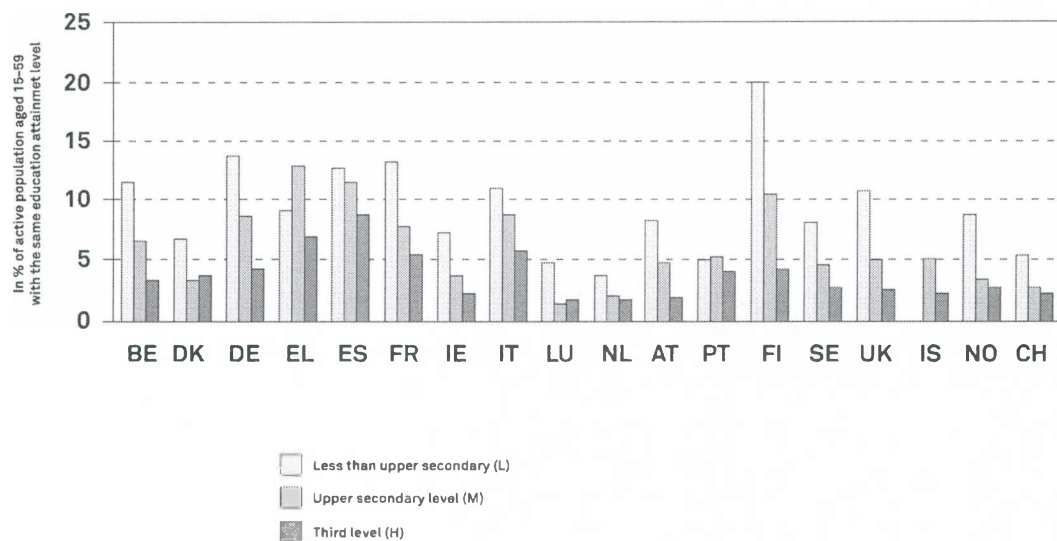
Share of the population aged 18-24 with
only lower-secondary education and not in education or training, 2000-2004



Source: Eurostat (Labour Force Survey)

Annex 30

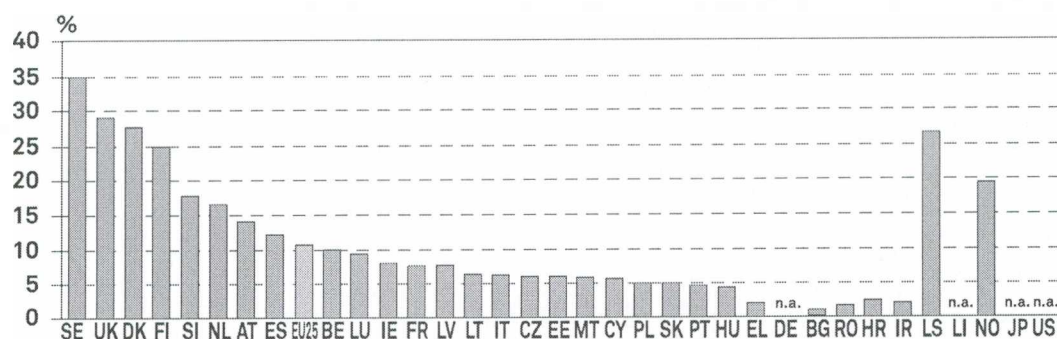
Unemployment rates of population
aged 15-59 years by educational attainment level (2002)



Source: Eurostat (Labour Force Survey), 2002

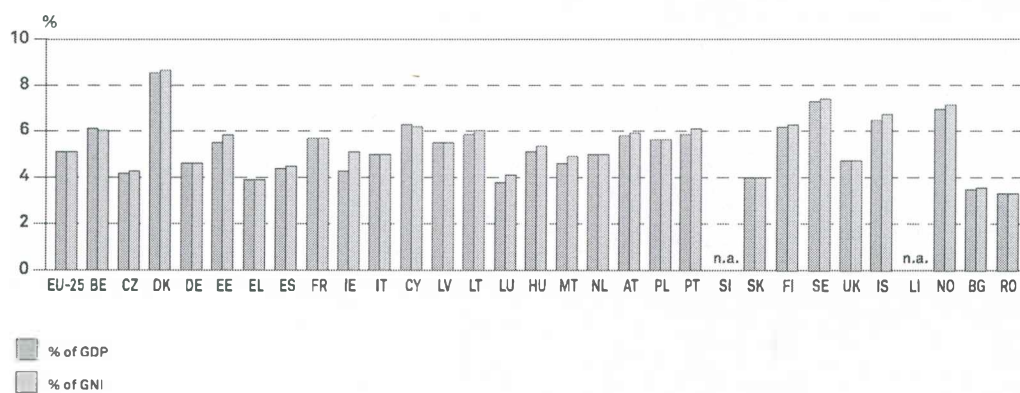
Participation of adults in lifelong learning (2005)

(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

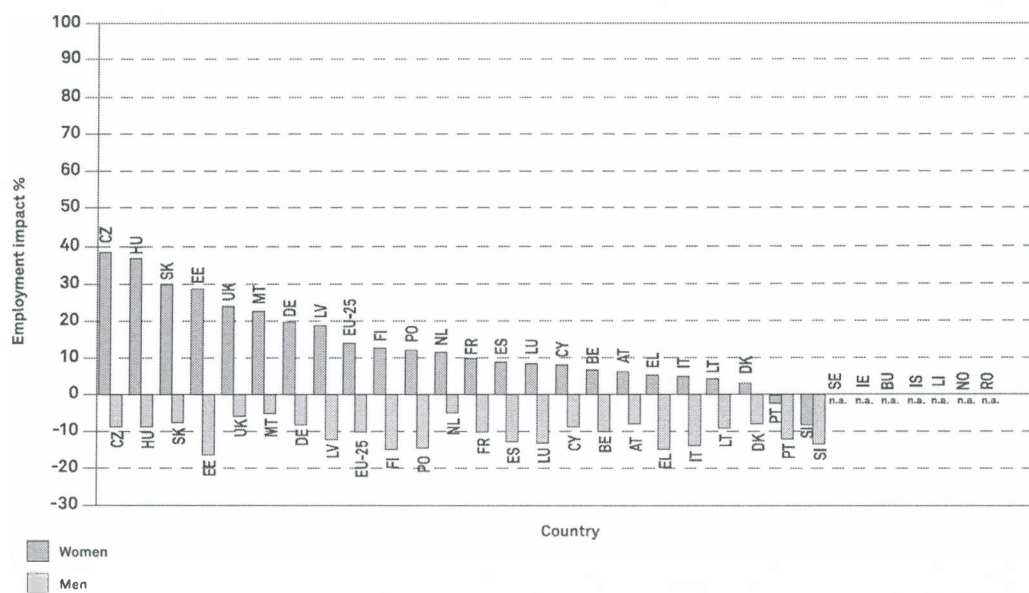
Source: Eurostat (Labour Force Survey)

Total public expenditure on education (ISCED 0 to 6)
as a percentage of GDP and GNI, 2001

Source: Eurostat, UOE and National Accounts

Annex 33

Employment impact of parenthood on men and women 2003

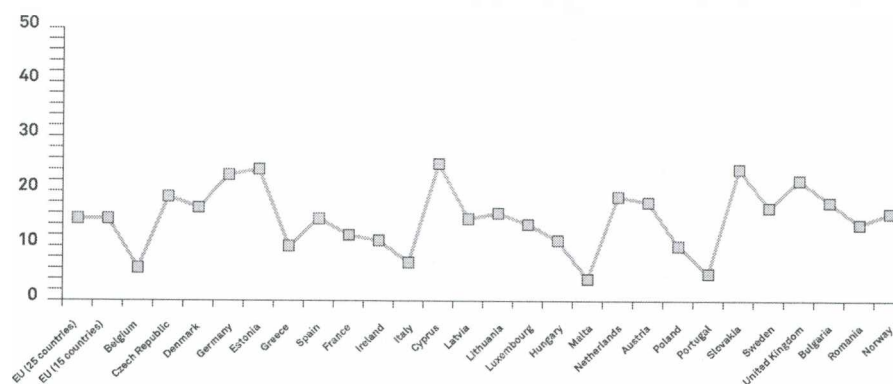


Source: JER 2004/2005 (annex 2)

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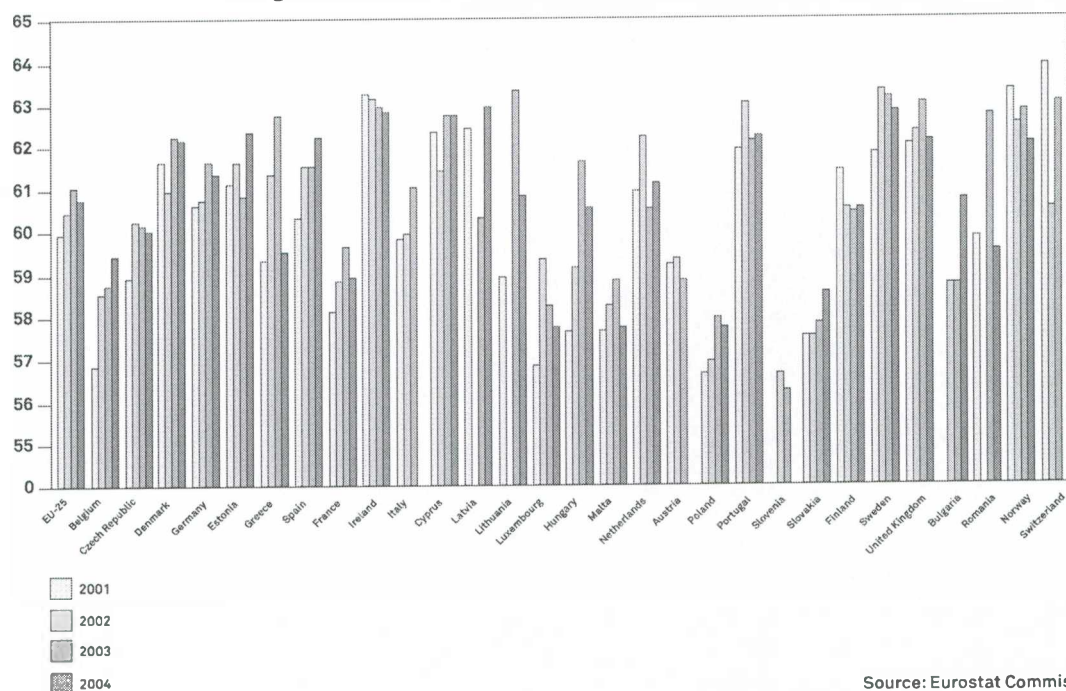
Gender pay gap, 2004

Difference between men's and women's average gross hourly earnings as a percentage of men's average gross hourly earnings



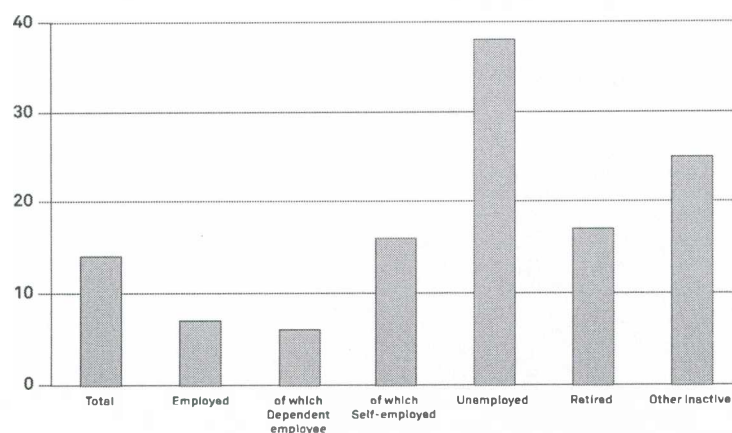
Source: Eurostat

Average exit age from the labour market
(Weighted by the probability of withdrawal from the labour market)



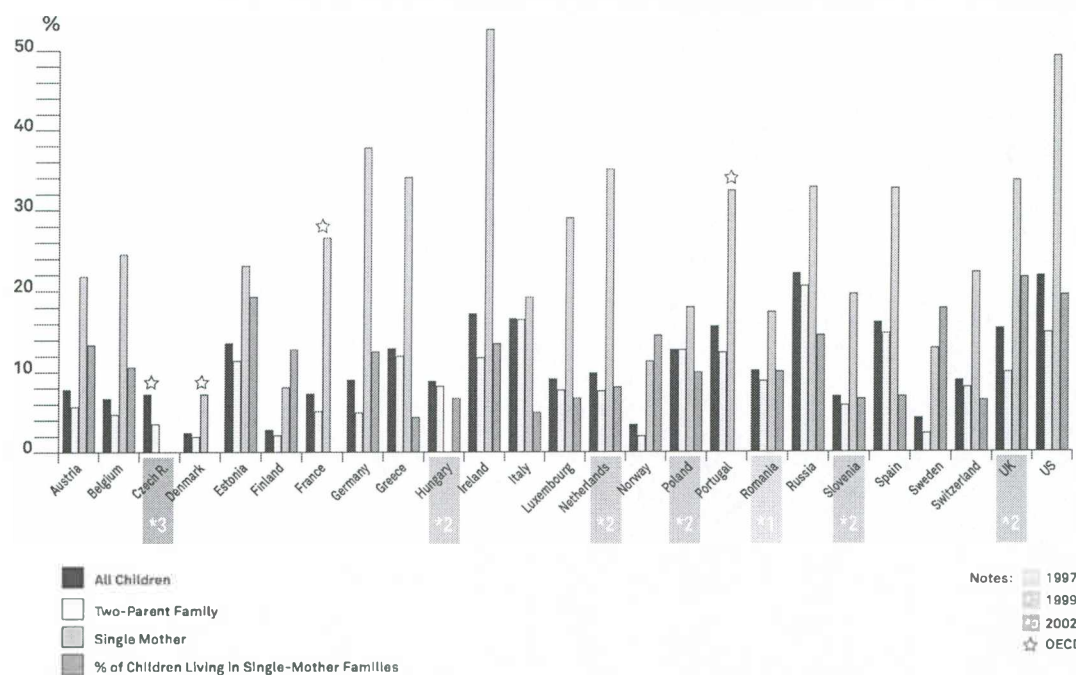
Source: Eurostat Commission services

Risk of poverty rate and most frequent activity status (in %), 2001

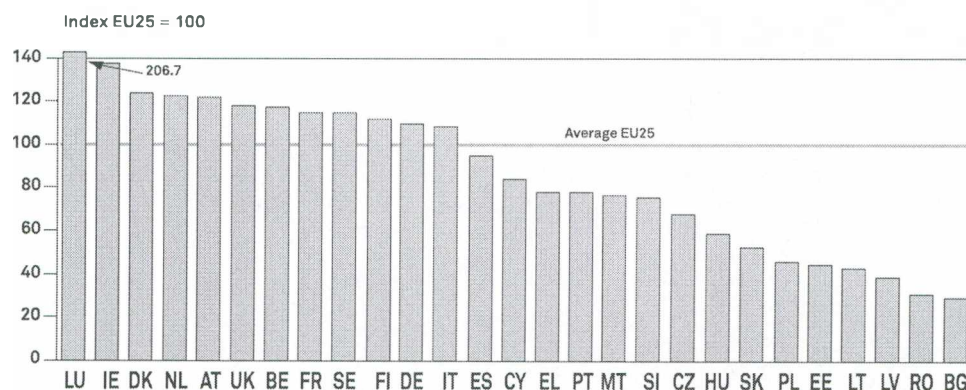


Source: The European Community Household Panel

Poverty rates for children by family type in 2000

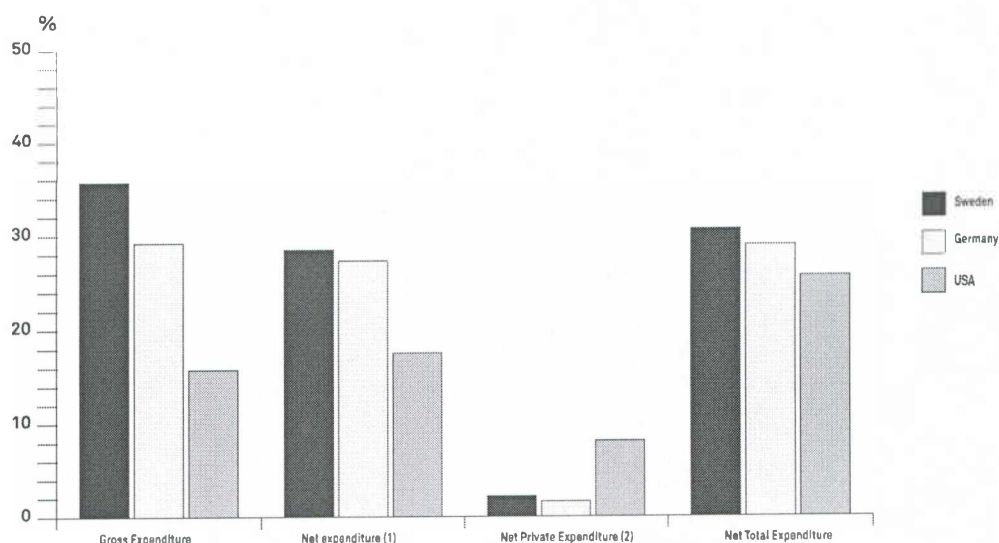


GDP per head (PPS), 2002



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

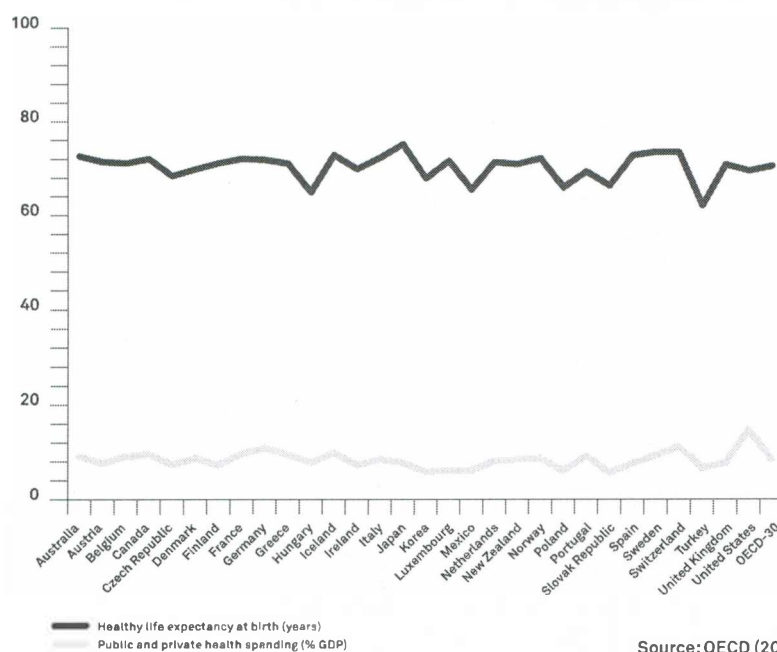
1) after tax claw-backs and other indirect taxes, plus tax subsidies

2) includes mandatory and voluntary plans, but excludes out-of-pocket payments

Source: W. Adema, Net social expenditure.

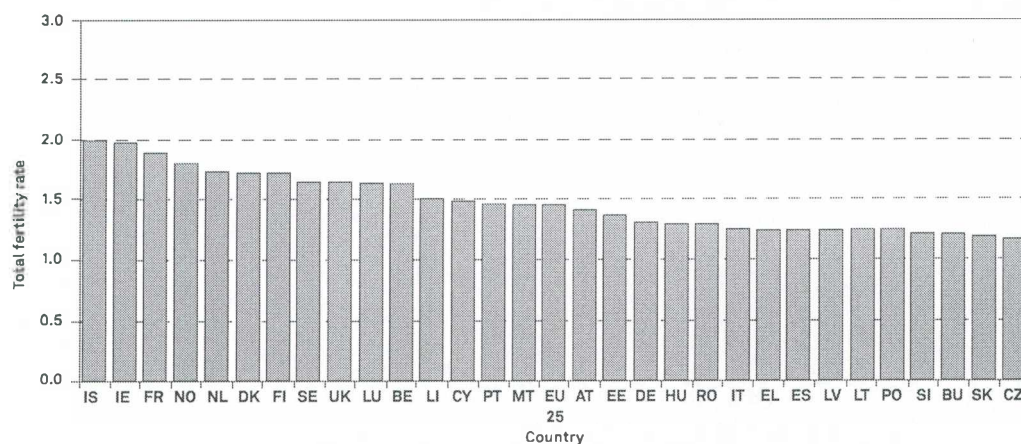
Labour Market and Social Policy-Occasional Papers, no.52. OECD (August, 2001).

Health care spending in percentage of GDP and healthy life expectancy at birth, 2002



Source: OECD (2004) Social expenditure database

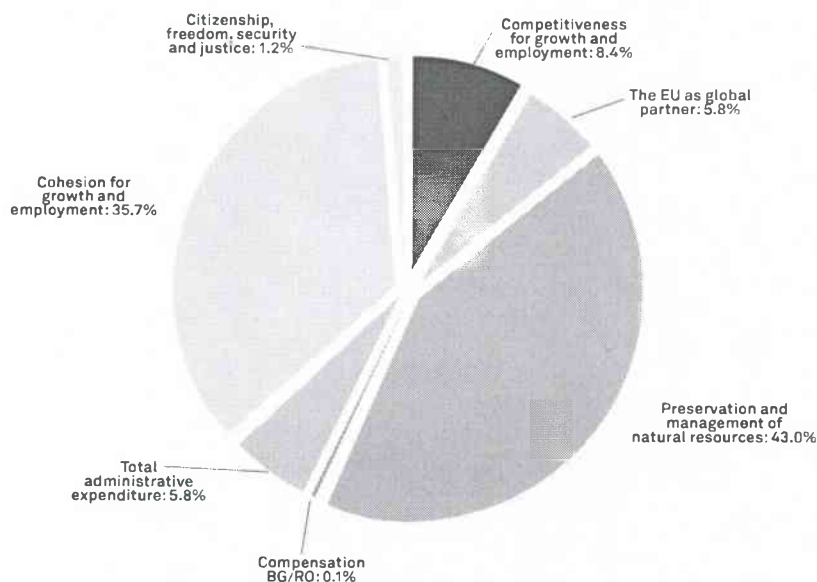
Fertility rates 2002



* Fertility rates in Iceland, Norway and Romania for 2003

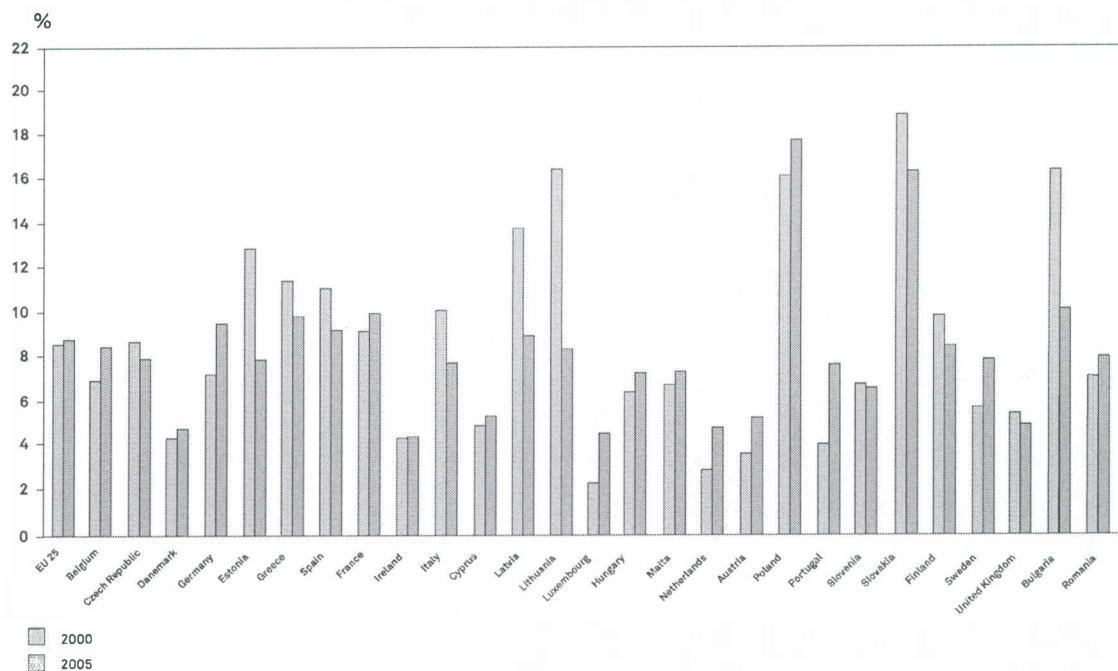
Source: Eurostat Population Statistics 2004 and national reports Iceland, Norway, Bulgaria, Romania, Liechtenstein

EU budget 2007-2013 How the money will be spent



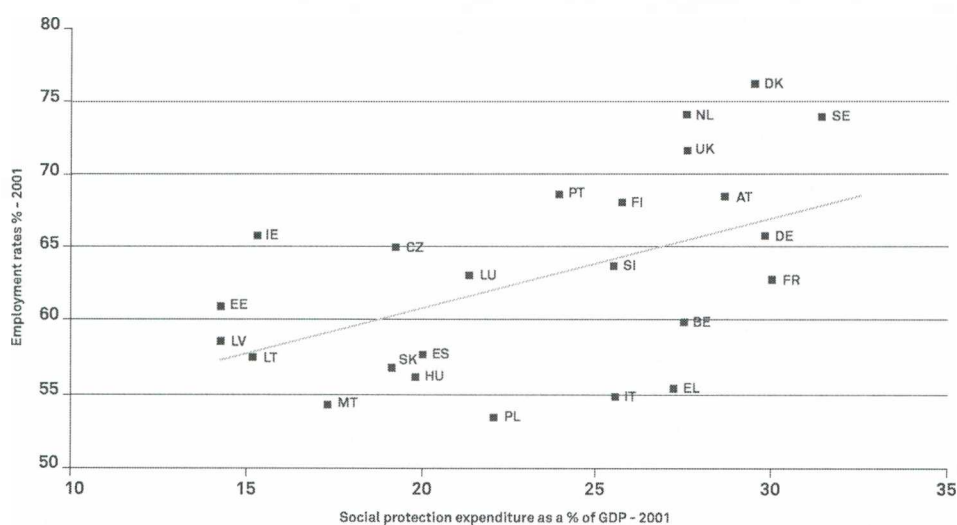
Source: European Commission

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