

to design their own knowledge investment boosting policies: through public funds in high income tax Member States or through the design of appropriate incentive schemes to raise more private funds in others. The broadening of the knowledge concept to education would also enable Member States to address particular weaknesses in their education systems as an integral part of their knowledge and innovation investment strategy.

Second, we should undertake a major concerted policy at opening research and higher education to private funding. There is a strong argument to be made, given the significant impact of R&D tax credits on 'incentivising' private R&D efforts to evaluate whether there would be merit in contemplating a broader EU wide framework of R&D tax credits. Tax policy is obviously a Member State's competency, but as the EU has noticed,<sup>3</sup> the effectiveness of Member States' tax credit regimes could be improved by identifying good practice compliant with Community law, and promoting more consistent approaches across the EU to common issues such as cross-border outsourcing of research, expansion of young research intensive firms, or synchronisation of national support to large European research projects. Extending them to other forms of innovation such as design or process engineering can also be explored.

The Commission only funds pre-competitive research through its various funding programmes. R&D tax credits do not have this constraint. It is interesting that Germany had an R&D tax credit policy which it ended, while countries like Canada use tax policy as a fundamental driver of their Innovation Strategy.

Similarly, we should prioritise the reform of universities in Europe. European universities are under-funded and fragmented, they lack 'critical mass' with only a couple of exceptions. The EIT (European Institute of Technology) launched by President Barroso, as a concept is an attempt to create more critical mass in research, not by building a new bricks and mortar institution, but by linking up key institutions and creating several 'Centres of Gravity' in Europe. The Bologna Process and the European Credit Transfer System (ECTS) were examples of how a voluntary coordination could be achieved across Member States in a very short time. We can get fundamental changes under way

in our universities. However, these initiatives should get additional focus and funding.

One way to do this would be to strengthen universities specialising in specific areas and with sufficient buy-in from industry. Indeed we will need the help and support of private industry. We then need to foster competition between those universities: competition to attract the best professors, competition to attract the best students, competition to attract funding. This competitive aspect has been one of the key reasons for the dynamism of the US higher education system.

Given the wide diversity in the institutional set up of higher education systems across Member States, we can achieve the best results if we succeed in convincing our universities to concentrate their resources in a certain direction tied to a clear outcome. There are obviously difficult policy and political choices that will need to be made between policies that drive concentration and excellence and those driving accessibility to higher-education, but we need to be prepared to address those if we want to open the door to private investment. Business models of universities need to change, a fee structure similar to that developed in the UK should be implemented and gradually moved towards market rates while taking care to avoid a situation in which higher education becomes unaffordable for lower and middle income students. But what better European ideal than to support lower income talent through education grants and loans?

Third, I would argue that the Lisbon Agenda's interpretation of 'knowledge and innovation as engines of sustainable growth' represents a too segmented policy approach. The vision put forward here of 'activating knowledge' forces one to deal with a much broader spectrum of policies than just research policies: education policies, competition policies as I argued here, but also social policies.

Maybe it is time for a fundamental rethinking of the 'universality' of social security systems as they were developed in Europe over the last century in a variety of ways, in broad synergy with the emerging industrial society. Such a rethinking should recognise the duality in the labour force between work involving *labour*, a physically or mentally wearing activity, and work involving *satisfaction*, activities providing self-satisfaction in terms of recognition, realisation and creativity.

Workers involved in the first sort of activity will consider past social achievements as important achievements intrinsically associated with their quality of life. They will consider any change in those conditions as a possible deterioration in their quality of life and reject it. Workers, which I would call knowledge workers, involved in the second sort of activity, are less in need of such social measures. Obviously they too will appreciate social 'security' guarantees to their employment, but these will be used as a substitute rather than as complement to their own life long learning efforts and investments. You might even say that today, knowledge workers are 'free riding' on social 'security' guarantees designed in another industrial age, aimed at a different category of workers. The extension of social rights to knowledge workers appears from this perspective not only unjustified, undermining the financial sustainability of the European social model, but could also explain the lack of dynamism of knowledge workers in Europe.

Fourth, given the increasingly global nature of the social, economic, environmental and demographic problems Europe is facing, a unilateral focus on strengthening knowledge and innovation activities carried out within Europe with the aim of improving our competitiveness reflects increasingly, I would argue, a rather outdated 'Eurocentric' approach.

A research strategy that is limited geographically no longer fits today's global, knowledge-based economy. Our policies can be rooted in one geographical jurisdiction but their scope and perspective must be global. In a growing number of research fields, European welfare will in the long term be directly influenced not so much by the development of 'our' knowledge, its international commercial exploitation and intellectual appropriation, but by global access to such knowledge, and by the development of joint global standards and the rapid world-wide diffusion of new technologies to other, non-EU countries. Think of energy saving, environmental sustainability, but also health and security.

The revised Lisbon Agenda following the mid term review offers new opportunities to revitalise knowledge and innovation capacity building in Europe. I have outlined here what the major challenges are

before us in 'activating knowledge'.

European society with its high level of social welfare has undoubtedly more difficulties in managing change. It is, however, not alone in having to deal with this challenge. We will have to convince our fellow European citizens that change is part of life and that the best form of security and employment protection is the development and preservation of skills through an active investment in knowledge. Stakeholders in society (trade unions, firms, governments, educational institutions and most importantly individuals) all have a role to play in making this change a reality. Let us challenge them.

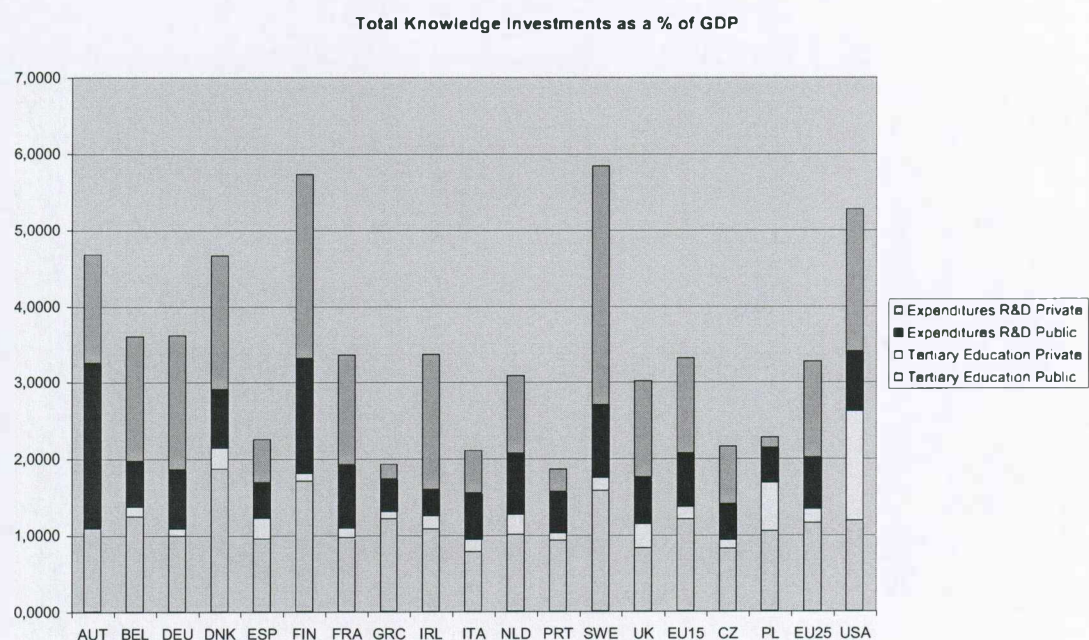
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1 For definitions and details on data sources see the Appendix

2 With another 6 to 7 per cent from business, 7 per cent from individual states and the rest from own funds (own endowments, large foundations, and so on.)

3 see [http://europa.eu.int/invest-in-research/pdf/comm\\_native\\_com\\_2005\\_0488\\_4\\_en\\_acte.pdf](http://europa.eu.int/invest-in-research/pdf/comm_native_com_2005_0488_4_en_acte.pdf)

# Appendix





## Why We need a Globalisation Adjustment Fund\*

LOUKAS TSOUKALIS

More than 50 years after it all began, regional integration in Europe has developed into a complex system with no precedent in history and no rival in other parts of the contemporary world: a peaceful revolution for which we Europeans have every reason to be proud.

Stripped down to its bare essentials, this new European system is characterised by open borders, joint management extending to many aspects of the everyday life of citizens, and solidarity among its members.

Regional integration has served as an instrument - surely not the only one - for peace and security in a crowded part of the world with a long and turbulent history. This was done mainly in an indirect fashion, concentrating on low politics at least in the earlier phases. Some would call it functionalism at its best and at its most ambitious. Regional integration has also contributed to greater prosperity. Economists agree on this, although nobody can completely isolate the welfare effects of increased economic interdependence through European integration. After all, on the big questions economics provides imprecise answers at best.

Since the turn of the century, this European political system has delivered a common currency, replacing 12 national currencies with a long history behind them, opened its doors to ten new members, and negotiated yet another revision of the treaties, this time called a constitution. Whatever the difficulties encountered - and they are, surely, many - it is not a bad record by any standards, especially for a political system usually criticised as being extremely slow, inefficient

\*This chapter draws heavily on my recent article: 'Managing Diversity and Change in the European Union' published by *JCMS*, Vol. 44, No. 1, March 2006.

and overly bureaucratic.

The European political and economic map has changed radically, and for the better. Yet, Europe is now going through a phase of self-doubt and pessimism about the future. Has the European project reached its limits - or perhaps worse, are we already in reverse gear? The problems we are currently facing have much to do with the poor economic situation and the growing feeling of insecurity among many of our fellow citizens in times of rapid change. They also have to do with the weakening of the old consensus about the main objectives of European integration.

### **Lessons from Lisbon**

Regional integration started basically as an economic affair, though with strong political undertones. Economics remains today the backbone of it all. For many years, integration helped to sustain a succession of virtuous circles, which helped strongly growing national economies while also bolstering the essentially permissive consensus of European citizens about further integration. Love of Europe has always had a strong pecuniary dimension, and it has depended on the ability of European and national institutions to deliver the goods. It was fine as long as it lasted. The performance of several European economies, most notably the three biggest economies in the eurozone, has been disappointing for a long time. Stagnating economies with few jobs and ageing populations are a recipe for disaster, not only for generous national welfare systems but also for the European project more generally.

We need more growth and more jobs, especially at the upper end of the knowledge scale - it is worth remembering that Europe is losing thousands of post-doctoral researchers to America every year and most of them never come back. And we need to adjust our policies to meet those goals. Neither the internal market nor EMU have so far succeeded in injecting much needed dynamism to many of our national economies. For some time, there has been broad agreement among economists and, judging from official rhetoric, also among politicians that Europe needs economic reform, mostly in the direction of supply-side measures, in order to generate more growth and jobs; and this

should go beyond the further implementation of the internal market programme.

Economic reform has been on the agenda for several years: it constitutes a key element of the Lisbon agenda agreed by our political leaders back in the year 2000. But unlike earlier experience with economic integration, the so-called Lisbon process does not rely on common laws and regulations, which have been an integral part of the internal market programme, or on the centralization of policies, as happened with monetary policy, for example, in the context of EMU. And rightly so, it can be argued, since the Lisbon process touches on many aspects of labour market and welfare policy among other things where diversity and subsidiarity remain the name of the game; hence the emphasis on the role of the European Union as an external catalyst and facilitator rather than a law-maker.

Five years later, there are lessons to be drawn. Peer pressure, benchmarking and soft coordination, which are all distinguishing features of the Lisbon process, have shown their limitations. The consensus on the general direction of economic reform has proved fragile: when the external catalyst collided with domestic political realities, it was the latter that almost invariably prevailed. Naming and shaming of those countries lagging behind in the implementation of measures solemnly agreed upon at the European level, through the publication of indicators by the Commission, does not work unless the shaming part is internalised by national political systems - and this has hardly happened until now.

The EU can and should provide a useful forum for debate as well as a basis for comparing national experiences and possibly also a soft version of benchmarking. At the same time, it can and should provide a broad policy framework. It is important, however, to recognise the limitations of such an exercise in which the final responsibility lies with Member States, while the role of the EU is limited to 'soft' coordination at best. There is a huge difference between the Lisbon process on the one hand, and the internal market and EMU on the other. It would not be wise for Europe to be seen by citizens as having responsibility for things it has no real power to deliver. Having said that, we may want to explore the use of financial incentives through



the common budget as a way of strengthening the Lisbon process.

### **A Globalisation Adjustment Fund**

For the European Union to be an effective agent of reform, it needs a stronger caring dimension. Technological change and increasingly global markets, combined with the rise of new economic powers, such as China and India, are rapidly changing the world economic scene. Many people expect to benefit from the new opportunities created: from higher growth, better jobs and cheaper goods. But there are also those whose livelihood is threatened by new technologies and stronger competition. While the benefits are diffuse and usually take time to materialise, the costs are more immediate and concentrated. This is hardly an easy combination in political terms.

Poor economic performance, social *Angst* and failure to develop a credible political discourse for reform have created a vicious circle in several European countries. Nowadays, there is widespread fear of change and pessimism in many parts of Europe. An increasing number of people consider themselves as losers, potential or imaginary losers as well; and they, of course, resist change. They are also the ones who are now turning against European integration perceived by them as a vehicle of change and the dreaded globalisation.

In recent years, European institutions have often served as a convenient scapegoat for unpopular decisions at home. We are paying the price for this shortsighted behaviour. Confidence in common institutions and the role of regional integration as a key factor of stability and prosperity for all Europeans has suffered as a result.

We need a new political discourse that breaks the vicious circle, while also recognising that we all have a stake in the European project. And we need concrete measures at the EU level in order to convince citizens that Europe is willing and able to support those negatively affected and help them to adjust to a more competitive environment.

The face of European solidarity is already familiar to those living in the less developed countries and regions of the Union. Structural and Cohesion Funds have played a crucial role in this respect, and they should continue doing so in the future. But European solidarity should

also become more visible to other parts of the EU. This is crucial in times of rapid change and painful restructuring affecting significant numbers of people in the labour market.

The proposal of the European Commission to set up a Globalisation Adjustment Fund is a good example of the kind of action that the EU should adopt to help the process of restructuring by concentrating on the employment consequences of large scale redundancies. The aim is to soften the negative impact of globalisation on laid off workers and to improve their chances of finding new and better jobs by providing money for training and relocation. The emphasis is on protecting and empowering people: helping redundant workers move, set up new businesses, acquire new skills, and undergo on-the-job education and training. And this is, of course, very different from trying to protect jobs.

It will be a new fund open to all Member States. This will make it more visible and thus help to deliver a stronger political message. On the other hand, it will not require new bureaucracy, since the Globalisation Adjustment Fund should be able to use existing instruments. The obvious candidate is the European Social Fund operating in a decentralised manner through Member States and with a long experience in providing money for training, outplacement and relocation. The European Social Fund concentrates on long-term preventive actions, while the new fund will be called upon to react to crisis and help people who have lost their jobs because of international competition. The line of demarcation between the two will need to be made as clear as possible.

Since the EU is responsible for external trade policy and hence for decisions that lead to market opening for all Member States, there is a logic in also undertaking part of the responsibility for restructuring caused by international competition. In practice, it will be, of course, difficult to isolate the effects of globalisation on worker dislocation. To what extent are job losses due to extra-European or intra-European competition, or due to many other possible causes? If the criteria for selection are defined too narrowly, there will be a risk of marginalising the new fund; if too widely, available resources may not prove sufficient. As always, it will be largely a question of money. But we

shall also need strict and precise criteria to evaluate the requests for EU support.

The European Commission has proposed that the new fund will not have an annual budget inside the financial perspectives and that resources will only be called upon when required and subject to an annual ceiling. It will therefore operate as a kind of crisis mechanism to deal with significant economic and social shocks caused by a shift of production outside the Union or by import competition. The final decision will rest with the Parliament and the Council, following a Commission proposal.

The Commission refers to certain thresholds that will be necessary to justify European intervention: the number of workers hit by redundancy in the sector and the region concerned as well as the rate of regional unemployment. It proposes to employ resources only for training, outplacement and relocation expenditures, which suggests that there will be no provision for daily allowances for people who have lost their jobs. In this respect, the proposal is different from the trade adjustment facility already operating in the United States for many years. Presumably, the Commission wants to stress that the aim is to help workers find a new job, while the rest remains the responsibility of national welfare systems.

The proposal to set up a Globalisation Adjustment Fund has many merits. It is addressed to those who suffer from globalisation and economic restructuring, thus also providing yet one more answer to those who criticise European institutions as being exclusively concerned with market liberalisation. It is backed up by real money and not just declarations, which has been so often the case with European social policy. It is intended to promote change, instead of trying to resist it, thus allowing for greater openness to international trade. Last but not least, the measures proposed will be complementary to action already taken at both national and regional levels, thus going beyond sterile discussions about centralisation and subsidiarity.

In other words, Europe is trying to combine the language of reform with measures of solidarity, and in so doing it will be heeding the message sent to it by citizens who clearly want to see a more caring

Europe. The setting up of the Globalisation Adjustment Fund could have an important symbolic value in this difficult phase of European integration. It should not, however, be limited to symbolism. There is a real problem that needs to be addressed.

Criticism of the proposal can come from many different angles and political quarters. Some will point to the risk of rewarding failure, meaning failure to adjust on time to a rapidly changing environment. This criticism can be answered by pointing out that the Union will be helping workers to find new and better jobs and not supporting companies. Others will warn of the danger of mismanagement and hence the wastage of scarce resources: heavy bureaucratic procedures, overlapping responsibilities and imprecise criteria for the selection of worthy projects. The devil always lies in implementation, even more so when European institutions are concerned. Therefore, defining a flexible, effective and transparent framework for the new fund will be of essence. The preventive management of economic restructuring could also be strengthened through the new programmes of Structural Funds.

Criticism is also likely to come from representatives of the two extremes of the spectrum: those who argue that restructuring should be left to institutions at the national level or below - perhaps only to the market - to take care of, and those who believe that the scale of the problem for the EU-25 is so big that action at the Union level can make no real difference. The EU will need innovative policies to deal with problems originating perhaps outside the conventional framework of EU competences and also to make the most of limited resources. It will be a difficult challenge, but it is one worth taking.



# A Flexible Framework for a Plural Europe

PATRICK WEIL

European Immigration Policy is at a crossroads. Obviously, in the fields related to migration control and asylum where convergence existed prior to the Amsterdam treaty (with the Schengen agreement and the Geneva Convention), convergence is reinforcing itself, directive after directive.

Harmonisation is complete for visa policy between the countries of the Schengen zone. It has achieved a great deal for all the Member States of the European Union in the area of asylum. The most recent project related to the repatriation of illegal immigrants is a sign that in the field of control, the Member States of the EU have a common framework, common interests and objectives, and are therefore making continuous progress towards harmonisation.

This is not the case in the area related to the admission of legal immigrants through family ties, but also - and particularly so - in that of labour market demands. In the field of family reunion, harmonisation is minimal: the European directive of 22nd September 2003 is in many ways the formalisation of the pre-existing gap between national policies. In the field of labour migration, the adoption of a directive on the admission of non-EU nationals working in the EU has been postponed. European States find themselves either in competition with one another (to attract the most highly skilled) or in the position of producing potentially undesirable side effects (for example, in the case of the legalisation of all illegal immigrants, or on the contrary, in the case of refusal to bring in any legalisation at all). Legal immigration remains subject to unanimity and the Member States retain a considerable margin of manoeuvre to adopt their policies according to diverging necessities<sup>1</sup>.



These divergences can be explained by the permanence of numerous differential factors including:

First, the respective demographic situations of each of the countries of the Union are very different. A report published in 2000 by the Population Division of the United Nations clearly demonstrated that immigration can be a realistic solution to combat the decrease of the total population or the active population of developed countries. The report also shows that in regard to this second consideration, European countries occupy vastly different situations; to maintain their total population, Italy or Germany need a level of immigration far more numerous than in the past; whereas France or the United Kingdom need less. It is to maintain - for the stability of their retirement systems - an active population at the same level that countries would need to increase their net immigration flow. However, a country such as France, where the birth rate is still relatively high and immigration quite a long-established phenomenon, is in a very different situation to that of its European partners: between 2000 and 2050, the net immigration needed to maintain the active population at its current level in France would be 5.459 million (110,000 people per annum), 25.2 million in Germany (500,000 per annum) and 19.6 million in Italy (a little less than 400,000 per annum).<sup>2</sup>

Second, European states are also in different situations with regard to the migratory cycle. If all the 15 'old' Member States of the Union are from now on countries of immigration, the oldest countries of immigration (Germany, France, the United Kingdom, Belgium and the Netherlands) - having had immigration of workers for a longer time now have a majority of legal migrants joining their labour market (more often than not unqualified) indirectly through family reunion.<sup>3</sup> In the more recent countries of immigration (Spain, Italy, Portugal or Greece), flows are still principally composed of direct labour migration.

Third, the techniques and regulations linked to the management of immigration can equally vary. We find, for example, significant procedural differences in admission to the labour market (systems of quotas or individual criteria). It is interesting to note that those EU countries who have decided to fix an annual quota of admissions for legal migrants are the same ones who have witnessed the largest

inflow of illegal immigrants.

The challenge here is to coordinate action between the Member States whose needs for legal migration will remain divergent for a long period of time. In the future, how can we allow Italy, Germany and Spain to attract three or four times more immigrants than France or the UK without undesirable side effects potentially coming from all sides?

Thus, I am convinced that with a frank and open exchange of experience, and an assessment of different methods and strategies, we can anticipate the adoption of a common framework in the following areas: *admission* (individual versus quota, opening or closing of the market to new Member States' citizens); *renewal of permits*; *treatment of foreign students*; and the *treatment of long term illegal migrants*.

A new impetus in favour of a more common legal immigration policy is necessary because legal admission and illegal migration can be linked: some national legal admission systems favour illegal migration while others deter it.

*In the medium term*, the impact of different legal admission systems on illegal migration should be assessed. The absence of a common and efficient statistical framework prevents any comparison based on credible data, and therefore its adoption should be a priority. Last, but not least, to avoid collective, massive and continual legalisation of long term illegal migrants, a mechanism of continued and individual legalisation (as opposed to 'exceptional' and 'collective') that exists already in some Member States, should be studied. Yet, without delay, some *short term proposals* should also be considered:

- *Opening our borders to the new European citizens*

Since May 2004, the citizens of the 10 new Member States of the European Union have been subject to 'transitional arrangements' with regard to the free movement of workers across the majority of the 15 'old' Member States.

The UK, Ireland and Sweden are the only countries that have opened their labour markets to the new citizens of Europe. Some other Member States have created a quota for EU-8 citizens (Austria, Italy, the Netherlands, Portugal). In the eight other Member States, the

restrictions apply to eight of the ten new Member States (Cyprus and Malta are exempted) and will last from two (2006) to seven years (2011).

Data collected especially in Britain, Ireland and Sweden, show that labour flows from the new Member States have been both manageable and beneficial. In Sweden, workers arriving from the EU-8 states increased the active population by just 0.07 per cent between May and December 2004. In Italy the quota of 79 000 in 2005 set for the new European citizens has not been fulfilled: Italy has only attracted 48 000 immigrants.

The countries who continue to close their labour markets find themselves in a counter-productive situation; with new European citizens immigrating anyway and working illegally.

In the EU states that have opened their labour market, the new European citizens fill the jobs that are filled in the rest of Europe by illegal migrants, either from the new Member States or non EU countries.

### Proposal

Rapidly lifting the transitional periods currently placed on citizens from the new Member States will contribute to the reduction of the number of illegal workers coming from non Member States and will therefore deter illegal migration from outside the EU. Restrictions to the movement of workers from the new Member States should be removed immediately under certain criteria (that is, following checks on the affects to levels of salary, and so on). At the very least, all restrictions on new European citizens with a university degree should be removed.

- *Brain Drain vs. Brain Circulation*

Within the EU, a space of free circulation, there is no risk of brain drain thanks to the possibility of brain and labour circulation. The risk exists when North-South migration of skilled workers is at stake.

In some Member States, strong reservations with regard to skilled migration exist. It has sometimes racist or corporatist roots: the wish to reserve the most valuable professional positions in society for the natives. It can be based on 'third-worldism': in the name of

development or co-development, they encourage foreign graduates to return to their country of origin.

This is both incoherent and absurd. African, Asian, South American, or other non-EU citizens should from the moment they receive a degree from a European university, enter the world market of graduates. If they do not want to return home, they will not do so. If Europe refuses them residency, they will receive a job offer from the United States, Japan, Canada, or Australia and will be 'lost' both for their country of origin and for the country where they received their training.

Europe should therefore have its own third way policy on qualified foreign workers: neither closing the door to the potential they offer nor falling into the North American trap: the brain drain, (that is attracting skilled immigrants who never return home). Rather Europe should favour brain and labour circulation. Often, foreign graduates seek employment on the European labour market because they wish to gain the resources or the professional experience necessary to launch themselves into a career in their home country. They should not be prevented from choosing this path, on the contrary. If they later balk at the idea of going home, it is often because they fear losing the cultural, scientific, or entrepreneurial environment necessary to maintain or enhance their skills base. It is essential, therefore, to accompany the liberalisation of the recruitment of the most highly qualified, with a better 'offer' that is both closer to the wishes of these high skilled workers and more respectful - case permitting - of their home countries' interests. It is necessary to facilitate voluntary 'recirculation' between their country of origin and their country of training. Thus through the development of intellectual exchanges and a flow of business, they will become the private agents of co-development.

### **Proposal**

Foreign graduate students from European universities could receive the benefit of a permanent visa<sup>4</sup>. It would permit them to return and recirculate from their country of origin without fear that any exit would be final.



### Proposal

When an EU university or hospital recruits foreign professors or doctors, they should be offered the possibility of a joint recruitment. They would work alternatively in a EU institution and an African or Asian one, keeping their salary and their European job. Their salary in the sending country could be funded by the EU as a concrete and pragmatic action in favour of development.

### Conclusion

The facilitation of 'circulation' and 'recirculation', according to a regime adapted to suit each category of migrants - for highly skilled workers, but also for seasonal workers<sup>5</sup> - will be one of the new tasks for immigration policy in the 21st century. Through this approach, the EU could better satisfy the wishes of the migrant, the need for cooperation with the exporter states in the management of immigration, and of economic development. This will demand the most radical innovations in immigration administration. The inert state of the 19th century liked stable populations and quotas. It did not mind whether an immigrant was either here or elsewhere, provided that the situation was durable and controlled. The 21st century state must learn how to regulate immigration and seek not only to 'control' it with rigid and inflexible instruments. We must become increasingly comfortable with managing the rights and the status of nationals abroad, and of foreigners within our own territory.

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1 See: European Commission, Green Paper on A Community Approach to the Management of Economic Migration, COM (2004) 811 Final, 11 January 2005.

2 United Nations, Population Division (2000), 'Replacement Migration: is it a solution to declining and ageing populations?' New York, (ESA/P/WP.160).

3 Jean François Léger distinguishes thus between direct entries onto the labour market and the more important indirect entries, of political refugees, and the beneficiaries of family reunion or the partners of citizens or of permanent foreign residents who have - in the majority of the European Union - the right to work immediately after the delivery of their permit. Therefore all permanent residence permits provide access to the labour market. J-F Léger, 'Les entrées d'étrangers sur le marché de l'emploi de 1990 à 2001', *Revue européenne des migrations internationales*, vol. 20, no. 1, 2004, pp. 7-20.

4 Technically their visa could be refused by EU consulate except under written justifications.

5 Seasonal workers could get the benefit of multi-annual permits: they would get the guarantee to get a permit the next three, five or 10 following years, if at the end of their season, each year, they return to their country of origin.



# Debating the Social Model: Thoughts and Suggestions

ANTHONY GIDDENS

This chapter is a contribution to the debate now happening across Europe about the future of the social model. It is intended as a thought-piece, not a detailed set of policy prescriptions. On 23rd and 24th March 2006 the European Council will review progress made since the re-launch of the Lisbon strategy by the Commission last year. The Council will also take stock of work the Commission was asked to undertake following the Hampton Court Summit last October. Among the first fruits of these endeavours is the green paper on energy policy produced by the Commission on 8th March 2006.

I do not intend to provide either a direct commentary on these developments or a specific critique of them. Rather, I seek to open up some of the questions involved in modernising the social model and suggest policy avenues to explore. At the Hampton Court Council the Commission presented an analysis of the challenges facing Europe, concentrating heavily upon the theme of globalisation. However, this analysis does not seem to be enough and we should be more ambitious in re-thinking the Lisbon agenda.

The main points I shall stress are the following:

1. The Lisbon agenda emphasised the extraordinary transformations sweeping through the economies of the advanced societies. A few years ago it was controversial to assert the existence of a knowledge economy. Now - quite rightly - it has become generally accepted that the new economy is a reality, and that it is here to stay. But little analysis was provided of the social transformations that went along with these radical

- changes. But the wider society, and with it people's everyday lives, are changing just as dramatically as the economic order. We have to identify these changes and ponder their implications for policy.
2. We must introduce the concept of social justice into the core of the debate about Lisbon. It is not enough to make airy statements about reducing social exclusion. The lack of a developed analysis of the changing forms of social justice is one of the main reasons the Lisbon agenda has proved so hard to implement. Those who have opposed it on a national level have often done so on the grounds that it promotes markets at the expense of the less well-off. We have actively to make the case - with evidence - that reform could promote social justice, not undermines it.
  3. The Lisbon agenda recognised that welfare risks are changing. For instance, there has been a rise in poverty among children in many countries. However, this rethinking has not been far-reaching enough. We have to transform the very idea of welfare and with it some of our preconceptions about the welfare state too. Welfare is not just about the avoidance of risk. Increasingly it is about positive life-style change. To deal with this question we need a notion of *positive welfare*.
  4. The issue of multiculturalism has to be brought into the centre of welfare debates. It is a basic element involved in reform of the social model. However, the idea of multiculturalism has been widely misunderstood. It does not mean leaving immigrants or minorities alone to get on with their own lives as they see fit. Almost the opposite: it means looking for ways of directly relating diversity to mainstream values.
  5. Developing R&D is clearly highly important to the Lisbon agenda. But the traditional way of looking at this problem may not actually correspond to the needs of the knowledge economy. Science and technology are vital to competitiveness, but so also is their creative application, and beyond that the capability to generate new markets through influencing tastes and habits. These observations in turn have implications for how we should

look at the nature of higher education - as far more than just a 'factory' for the new economy.

6. This is the time for the environment! We are encountering a double shock - the shock of the fact that climate change is already here, not a remote future possibility; and the energy shock of elevated oil and gas prices and novel forms of geopolitical vulnerability. The EU has led the world in promoting environmental issues. But we have not so far succeeded in integrating fully the environmental agenda with that of welfare; the two proceed as if in separate compartments.

### **The Debate on the Social Model**

In June 2005 the British Prime Minister Tony Blair gave a speech in the European Parliament. His words stimulated a great deal of attention around Europe. The Prime Minister spoke passionately of his faith in the European project and his belief in the importance of the European social model. But the social model, he argued, needs reform. Most of those who voted 'no' to the constitutional treaty in the referenda in France and the Netherlands did not do so for constitutional reasons as such. They voted 'no' because they were unhappy about Europe's socio-economic progress, or lack of it, and because of worries about jobs - or the lack of them.

What kind of social model is it, Blair asked, that leaves nearly 20 million people unemployed? In such circumstances, how can we speak of effective social protection? We have to modernise the social model, especially against the backdrop of the intensifying global competition which the European countries now face.

Many were enthusiastic about Blair's speech, but six months after were asking: where is the follow-up? It is one thing to talk about reforms, it is another to actually develop a programme for identifying what they are and how they might be mobilised. Others from the beginning were rather more hostile. Prior to the vote on the constitutional treaty, political leaders announced that there was no 'plan B' in the event of its being rejected by voters. After Blair's speech, some said - yes, there was another agenda, and it was that of creating a looser, market-oriented Europe which gave up upon Europe

as a political project, and settled for what would essentially be a free-trade area. The British, it was asserted, wanted a Europe that conformed to their own Anglo-Saxon model of how things should be run, allowing markets to take the primary role.

Neither of these reactions is valid. There has been a great deal of follow-up, much of it spontaneous, some of it more highly directed. Many debates are now going on around Europe about the future of the social model - in universities, think-tanks, and in more directly political contexts. Not all of this by any means has been in reaction to Blair's speech, of course - the European social model has been the subject of lively and continuing discussion in a more or less continuous way for many years. But his intervention did reintroduce a new liveliness and topicality into the debates.

The *Policy Network* project on the future of the European social model, to which this booklet is a contribution, is one of these very reactions. A large range of seminars with intellectuals and political leaders has been held around Europe over the past eight months. The contributions included in the booklet were among the products of these seminars. They were edited and presented as materials of the British Presidency at the Hampton Court Summit in October 2005.

Some people have said that the Summit itself was an empty exercise, but in fact much potential for new policy thinking has flowed from it. The Commission set up a number of working parties to report on key issues in how the European social model should be best reformed; these will influence discussions held and decisions reached at future meetings of political leaders.

The results of the *Policy Network* project will be folded into some of these future events. The project has a number of aims: to consider the structural origins of the dilemmas faced by the EU countries today, as they try to reconcile competitiveness, social cohesion and inclusion; to identify best practice in the European states over the past ten to 15 years, and to study how far it can be generalised from one country to another; and to look in a more radical way at the looming issues all the EU countries will have to face in the near future.

The point is very definitely not to advance a scurrilous Anglo-Saxon plan B. We do not in any sense seek to suggest a 'British' point of view

for the rest of Europe to follow. On the contrary, we want to contribute to a neutral and objective assessment of the problems and opportunities Europe has as it confronts future uncertainties. We write as supporters of social Europe, which we think can in fact confer competitive advantage in the world now unfolding - if we can reach some sort of overall agreement across Europe about the most fruitful directions of reform.

The term 'European social model' is a kind of shorthand. Obviously there is no single European social model. What holds the idea together is a set of values - a belief in the importance of social solidarity, a sense in which everyone pulls together for the common good; in limiting social and economic inequality; in protecting the more vulnerable members of society; and in cooperation between the social partners.

In practical terms there is much diversity. The Danish social scientist Gøsta Esping-Anderson famously recognised three basic types of European welfare system. These were the Continental type (approximated by Germany or France), the Scandinavian type (such as Denmark or Sweden) and the Anglo-Saxon type (such as the UK and, outside Europe, Canada or Australia). Most would add a fourth: the Mediterranean type, including Spain or Greece. In the EU-25 we would have to add now a fifth type: the countries, such as Hungary or the Czech Republic, making a transition from a Communist welfare system to a Western-style one.

Thus - five types at a minimum. But we are not sure that this typology, useful as it was at one time, has great value today. It implies that these different types of social model are impossible to reconcile when there is in fact quite a lot of evidence of mutual borrowing and adaptation. Rather the picture is one of a mixture of diversity and synergy. In other words, the welfare systems of Europe are changing or evolving and at the same time learning - at least in some ways - from one-another. Consider, for example, the UK. The proportion of GDP given over to taxation is now approaching 42 per cent - about the same as Germany. The UK is seen by many as market-driven, but it has the most 'socialistic' system of health-care in Europe in the shape of the National Health Service - the largest single employer in Europe. Very



large further investments are being made by Tony Blair's government in both health and education. The new Labour government has not only introduced a national *minimum wage* but raised it year on year. Labour market reforms have been inspired more by Sweden and Denmark than by the United States. The same goes for the planned devolution of both the health care and education systems.

The need for reform of the social model(s) is plainly driven in some part by economic globalisation - this was the prime theme of the Hampton Court Council. Social and economic change is accelerating in other parts of the world - as is evident in particular by the rise of India and China as economic competitors, both of them having more than one billion people. The rise of India and China, and more generally the other Asian tigers, gives the lie to the idea that globalisation is simply another name for the continuing world domination of the US, Europe and the West.

Two decades ago the countries in the developing world produced 10 per cent of the world's manufactured goods. That proportion has risen to 25 per cent and if present trends are maintained will reach 50 per cent by 2020. China has recently overtaken Japan to become the second largest economy in the world as measured in terms of purchasing power. In less than five years it will surpass Japan's economy in terms of market exchange values as well.

In 1980, the EU-25 countries as they now are produced 26 per cent of world manufacturing output. By 2003 that proportion had become reduced to 22 per cent and is likely to be no more than 17 per cent by 2015.

Larger companies no longer *source* their goods and services nationally, but world-wide, intensifying both trade and local specialisation. In 2003-04 world trade grew twice as quickly as global output. Trade in services is advancing rapidly, with India in the lead. India's service exports in real money terms have grown from a value of \$5 billion in 1990 to \$40 billion in 2004.

Competition from the developing economies is no longer concentrated only in low-cost goods. China and India have made large-scale investments in technology, especially ICT, and are producing four million graduates a year. No one knows how far the outsourcing of

services will go, given the fact that it is driven by developments in computer technology and by the deepening of access to such technology. However the complexity of the services that can be outsourced is rising rapidly. Financial, legal, journalistic and medical services are among those most likely to be directly affected.

### **The External and the Internal**

These are all challenges to which Europe can and must respond. They have some clear potential implications for the social model. However, it is a mistake to understand the changes to which Europeans must react only in terms of globalisation - as the Hampton Court Council tended to do. For this suggests that the need for reform or modernisation arises solely from events happening in the external world. Such is not the case. Some of the core problems faced by the social model are primarily internal - they are at most loosely connected with globalisation. Moreover, in some degree they are actually influenced, or actively produced by, the social model itself. Consider the ageing population. In the EU-25 today, some 70 million people are aged 60 and over, making up 20 per cent of the population. Over 30 per cent are aged 50 or more. One factor producing the ageing population is that, on average, people are living longer. But the main reason is the low birth rate.

This fact is easily understood if we compare the EU with the United States. Following its expansion, the EU has a population of 455 million, compared to 295 million in the US. Yet if current trends were maintained, by mid-century the US will virtually have caught up<sup>1</sup>. In America birth rates are at replacement level. In the EU-25 they average 1.5, and in Spain and Italy the rate is 1.2. If nothing changes, in Italy the numbers of those of working age (19-65) will decrease by 20 per cent by 2035.

The radical decline in the population working in manufacturing has of course been influenced by the impact of the developing countries. But the main reason again is not external, and has little to do directly with globalisation. It is the impact of technological change, which in many core parts of manufacturing has either reduced the need for human labour power, or has simply rendered some more traditional

industries obsolete. For instance, car manufacturing has been very largely automated; the coal industry in most countries has gone into sharp decline largely because of transfer to natural gas.

One further example: changing patterns of poverty and social exclusion, although certainly affected by economic globalisation, are much more influenced by endogenous changes. These include in particular changes in the structure of the family. In most EU countries, rates of divorce are higher, and rates of marriage lower, than they were in the past. Families are more mobile, and may lack the extended kin relations that were once a source of social support. There is also the rise of the 'non-conventional family' - women having children on their own, same-sex partners and so forth. These trends are complex and often difficult to interpret, but they have definitely influenced the nature of poverty. Women and children make up a high percentage of the 'new poor' in most EU countries.

We do not lack for reports suggesting what should be done to get the under-performing parts of Europe back on their feet again, and generally to make the EU states more competitive. They stretch back well before the proclamation of the Lisbon Agenda in 2000 (for example, the Delors White Paper on jobs of 1993). There is a good deal of unanimity on policies to be followed. André Sapir's six points would be agreed upon by many:<sup>2</sup> 1) Make the Single Market more dynamic; 2) Boost investment in knowledge; 3) Improve EU macroeconomic policy; 4) Reform policies for convergence and restructuring; 5) Achieve more efficiency in regulation; 6) Reform the EU budget, cutting back on agricultural spending and deploying the resources elsewhere.

The Single Market has certainly benefited Europe. It is estimated EU GDP in 2002 was 1.8 per cent higher than it would have been without the progress that has been made. However the Lisbon Agenda has proved much harder to implement, and the ambition of making Europe the most competitive knowledge-based economy in the world by 2010 has come to seem remote indeed. The EU countries are supposed to reach an average employment ratio of 70 per cent by that date, but at the moment the target looks unrealisable. There are still states where the level of employment is below 60 per cent of the available labour force, including, Greece (59.4 per cent), Italy (57.6

per cent), Hungary (56.8 per cent), Poland (51.7 per cent), and Slovakia (57.0).<sup>3</sup>

Although the Lisbon Agenda, Sapir report, Kok report and other similar contributions all talk about the ESM, social exclusion and so forth, they have little to say about them in a direct way. They lack a systematic discussion of how the innovations they propose can be reconciled with *social justice and welfare*. One could even say that these missing dimensions are part of the reason why their prescriptions have been so hard to realise<sup>4</sup>.

It is accepted in all of these reports that revolutionary changes have happened in the economy, with the emergence of the knowledge economy, and in the wider society. The knowledge economy - or as it should now properly be called, the knowledge and service economy - is real. Only a generation ago, close to 40 per cent of the labour force in the industrial economies worked in manufacture or related industries. In some such countries, over 10 per cent of the labour force still worked in agriculture. Now these proportions, in the EU-15 countries, are down to an average of 15 per cent and just over 2 per cent respectively. Over 80 per cent of the workforce, in other words, have to get their livelihood from knowledge or service-based industries. It is surely correct to say we need very different strategies of investment and economic policy from the industrial age.

However, in terms of the implications for social justice, most discussion retreats to a more abstract plane. Consider for example the 2005 Commission statement on 'The Social Agenda'. As part of the Lisbon Strategy and the Sustainable Development Strategy, the document says, 'The Commission is fully committed to the modernisation and development of the European social model as well as to the promotion of social cohesion'.

But how much *analysis* is offered of changing patterns of class, inequality and social division? In point of fact in the document there is none at all. What concrete *recommendations* are made about how to coordinate the Lisbon Strategy with social justice in the EU countries? Very few. The Agenda 'aims to modernise the European social model by improving collective capacity to act, and to offer new chances to all'. But what is offered is only a few comments on the need to provide



'decent work' as 'a global objective at all levels'; increasing the adaptability of workers; and 'implementing inclusion measures in the labour market'.

This is surely not good enough. Worries about social protection and social justice lie at the heart of the anxieties many citizens feel as they live through the changes associated with the knowledge/service economy, and the wider transformations helping create it.

### **Social Justice and Positive Welfare**

Social justice is a notoriously elusive concept. We need to look for a formulation that is down to earth, and easily operationalised. Such a formulation must be consistent with the dynamics and nature of the knowledge/service economy and the differentiated society that it has helped to bring into being. It must also be compatible with a society in which aspiration, ambition and entrepreneurialism necessarily have a central place.

A definition has been suggested by the German political scientist Wolfgang Merkel. He lists five priorities of social justice in post-industrial social conditions:

1. The fight against poverty - not just because of economic inequality itself, but on the grounds that poverty (above all, enduring poverty) limits the individual's capacity for autonomy and self esteem.
2. Creating the highest possible standards of education and training, rooted in equal and fair access for all.
3. Ensuring employment for those who are willing and able.
4. A welfare system that provides protection and dignity.
5. The limiting of inequalities of income and wealth if they hinder the realisation of the first four goals or endanger the cohesion of society.

Obviously the devil is in the detail, especially in respect of point five. But the formula provides a down-to-earth scheme that is both simple and luminous. It recognises that equality of opportunity must take precedence in a differentiated society, against the backdrop of



current economic imperatives. It quite rightly gives priority to the struggle to reduce levels of poverty. It follows from the formula that targeting child poverty is of especial significance. The higher the proportion of those who suffer poverty as children, the more likely it is that all five goals will be compromised. In one recent study, cognitive development tests sat by children at age 22 months were found to be accurate predictors of educational attainment by age 26. Children of equal ability early on fared quite differently according to the socio-economic status of their families.

When one mentions social justice in an EU context, most people immediately think of the welfare state. Defending social justice seems more or less the same as defending the welfare state. For the existence of developed welfare systems appears to be what distinguishes a 'caring Europe' from the harsher social environment of the US (see Ferrera).

'Welfare' is an ambiguous term. The Oxford English Dictionary gives two prime meanings. One is 'economic assistance to people in need'. The other is more general, and refers to a 'state of being happy and healthy', as in 'well-being'. Early on, the welfare state was conceived of by its founders mainly as a system of insurance or risk management, hence using the narrower definition of welfare. William Beveridge, for example, saw the welfare state as a way of attacking the 'five evils' - Want, Disease, Ignorance, Squalor and Idleness.

But today we should start to think in more positive, rather than only negative terms, and we should develop a more nuanced view of risk. We should start to understand 'welfare' more in the wider sense, as well-being or as the positive pursuit of life-goals. We could term this a move from protective risk-management towards *positive welfare*.

Each of Beveridge's negatives could be replaced with a positive. In place of Want, personal autonomy; not avoidance of Disease, but active health; instead of Ignorance, education, as a continuing part of life; rather than Squalor, prosperity; and in place of Idleness, initiative. Turned into positive, the five make up a core of positive life-goals, to which social policy should be oriented.

The traditional welfare system sought to *transfer risk* from the individual to the state. Security was defined as the reduction of risk,

and was presumed to be the main goal of the welfare state, alongside the search for increasing social justice. But this view is again too negative, especially in a world where many people are bent on exploring new life-style opportunities. Risk in fact has many positive aspects to it. People often need to take risks in order to improve their lives, in personal life, in work, and in financial affairs. In a fast-moving social environment it is important for individuals to be able to adjust to, and if possible actively prosper from, change. This statement is as true of the labour-force as it is of entrepreneurs; it is as valid for those affected by diverse or other social transitions as it is for the economic world

The creative use of risk does not imply the absence of security - far from it. Knowing there is help when things go wrong often may be the condition of entertaining the risk in the first place. This is part of the logic of the move from passive to active labour markets, for example. 'Flexicurity' is designed to shift the balance between risk and security; security comes not from accepting the status quo, but from providing the resources to help people move on to new job opportunities.

Rather than 'the welfare state', we should speak of a society of positive welfare, in which the state plays a central, but not a dominating, role. The state is primarily a *social investment* and *regulatory* agency. Many over recent years have talked of the welfare state as an enabling force, but it is better to speak of the *ensuring state* in the positive welfare society. An ensuring state is one that enables - one that uses social investment whenever possible to help people to help themselves.

The idea of the enabling state is flawed, since it suggests that, once given the resources, people are left alone to sink or swim. The ensuring state seeks to influence outcomes in the public interest, or even occasionally to guarantee them. The ensuring principle applies in such areas as minimum wages or income guarantees, child benefits, or a floor for pensions commitments.

The founders of the welfare state defined benefits primarily, in some contexts exclusively, in terms of rights - the right to a job, the right to unemployment benefits, or to free education. However, in a

society of more open life-styles, rights normally also involve *obligations* - often obligations that have to be precisely spelled out, or sanctioned in law.

The traditional welfare state, moreover, developed in a society where scarcity was a main social problem, especially in the context of the immediate post-war period. Scarcity, of course, in many areas does not go away, and in some situations is embedded, as in the case of positional goods like houses and apartments in desirable neighbourhoods.

But in many circumstances today we are dealing with problems of 'post-scarcity' or abundance. Consider the example of obesity and other eating disorders. About 25 per cent of adults in the US are rated as obese as of 2004. There are only two states in the US where the prevalence of obesity is under 20 per cent. According to the World Health Organisation, the proportion in the EU15 is not far behind, standing at 18 per cent - and the gap with the US is closing.

Most ecological issues, including global warming, are essentially problems of abundance rather than scarcity. This is true, for instance, in the case of traffic congestion and traffic pollution. Los Angeles once upon a time looked like the city of the future, maximising the effective use of space in relation to individual mobility. But with the multiplication of car ownership, it has become a social and ecological dead end. The main freeways are choked with cars for much of the day, and are often almost at a standstill. In spite of rigorous control measures, levels of air pollution are high. European cities, which were not designed for car travel, are in many cases just as clogged up with traffic and polluted.

There is a more or less direct connection between abundance and the level of car ownership. In the US in 2002 there were 765 cars per 1000 people; in Luxembourg, also one of the richest countries in the world, there were 629 per 1000 people. In both countries, along with most other developed states in the world, the proportion of cars per citizen is still rising.

The solutions to post-scarcity problems nearly all depend upon behaviour change on the part of individuals, change that cannot easily be imposed authoritatively from the top. The role of government and

other concerned institutions is to find a mixture of incentives and sanctions that will have real purchase on behaviour. The imposition of rationing is one means that can be effective in certain situations, such as where road-pricing schemes are introduced, petrol taxes increased, or as happens in some cities, people are only allowed to use their cars on alternate days of the week.

Although sanctions, incentives, and the distribution of public information can help, in many post-scarcity situations motivated behaviour change provides the only lasting solution. Change in *life-style habits*, in other words, is what is required. The evidence on obesity suggests that government programmes favouring healthy eating, especially where they are backed with sanctions (for example, banning vending machines that contain junk food in schools, or giving schools rewards for offering healthy school meals). In Finland such programmes have had a dramatic impact on obesity levels.

Evidence from seat-belts to smoking and AIDS suggests that the citizens are responsive to public campaigns. Change in attitudes can occur even when there are very powerful groups lined up in opposition. For example, the giant tobacco companies vociferously opposed the curtailment of smoking in public places, but in some countries a total ban has been successfully instituted.

It is important to notice that life-style issues overlap heavily with social divisions. Some of the biggest dilemmas for social policy lie here. Obesity, habitual smoking, alcoholism, mental illness and other destructive life-habits are far more prevalent among lower class groups than among the more affluent. In the UK, average life expectancy for unskilled male manual workers is seven years less than for men from professional backgrounds. The difference is six years in the case of women.

Most of the issues are however still post-scarcity ones. In the developed countries, there is no longer much direct connection between overall living standards and disease. The relation between ill-health and class is in fact the reverse of what used to be the case until some point into the twentieth century. The so-called 'diseases of affluence', including obesity and heart disease, a century ago were most prominent among the wealthy. For most of history, and in most



cultures, being fat was always a sign of affluence; but now the more affluent are mostly thinner than the poor.

Some scholars argued that the most embedded differences in levels of health do not come from living standards as such, but from *relative* differences in income and social stature. Some of the most important psychosocial risk factors influencing health are those that directly reflect social exclusion - feelings of powerlessness, having few friends, and experiencing stress in early life.

One of the problems is that those who most need to be reached by public health messages are least likely to be influenced by them. Somewhat perversely, public health campaigns can have the effect of shoring up rather than reducing social divisions, since more educated and literate groups tend to be the most responsive to publicly and privately disseminated health information. Following Wilkinson's analysis, the psychological factors that link unhealthy or self-destructive life-styles to social exclusion need to be dealt with at source.

These considerations suggest the need for a more radical reshaping of welfare systems than has occurred in Europe - or elsewhere - so far. But how much first of all can we learn from best practice - from the best-performing European countries in terms of a combination of economic success and success in relation to social justice?

### **Good Performers, Poor Performers**

Comparison of those countries in Europe which have done well with those that have fared poorly over the past ten to 15 years yields some interesting results - with some clear policy conclusions. As measured in terms of economic criteria, such as levels of GDP growth, inflation and economic sustainability, the three best performers in the EU over that period have been the Scandinavian countries, Denmark, Finland and Sweden. The three worst have been the large Continental economies, Germany, France and Italy.

Average growth rates in the 1990s and early 2000s in the Scandinavian countries were 2.9 per cent, close to the US level. Germany, France and Italy managed an average of only 1.6 per cent. The performance of the Nordic countries (matched also by Norway and



Iceland outside the EU) affirms that high levels of overall taxation are compatible both with economic growth and job creation. Those on the right of the political spectrum who argue that only low-tax economies can prosper in a world of intensifying competition are not correct. In the Scandinavian countries over the 1990s productivity increased by 2.4 per cent, compared to 0.5 per cent in Germany, France and Italy. The employment rate in 2002 among the high performers averaged 71 per cent, compared to 62 per cent in the second group. Budgets in Scandinavia have been in surplus, while the three Continental countries have been running large deficits.

Unlike the three large economies, the Scandinavian countries are highly open and market-oriented. Finland and Denmark have regularly topped lists of the most business-friendly countries produced by the World Economic Forum and similar organisations.

A variety of factors have probably influenced the Scandinavian success. The prime one, however, seems to be the patterns of social investment that the countries have followed. All three countries invested heavily in innovative forms of technology and education. In Denmark, a strategy was followed involving diffusing IT and building successful technology clusters. Finland made even more extensive use of IT, both in economic restructuring and in government. The country has a higher degree of IT penetration than the US.

In Sweden, the production and diffusion of telecommunications was so advanced that it was for a while rated the number one information society in the world (succeeded by Finland). Expenditures on R&D in the Scandinavian societies by the turn of the century were twice as high as in the three large Continental countries. Expenditure on education in general, and higher education in particular, was considerably higher in the Scandinavian group. The Scandinavian countries were also rated very highly in the OECD Pisa rankings of educational attainment. They have the lowest levels of inequality in Europe ) although the Gini coefficient has been increasing) and levels of child poverty are very low. They also fare well on most other indicators of well-being and health.

These results have been achieved not by *refusing reform*, but by *embracing* it. All three societies have restructured their labour

markets - flexicurity has its origins in Sweden but, in somewhat varying guises, has been adopted by Denmark and Finland too. If job search is unsuccessful after a certain period, the unemployed are obliged to undertake retraining, and to accept jobs that they are offered.

In order to achieve balanced budgets the Scandinavians did make cut-backs on state expenditure in the early 1990s, but without producing large-scale increases in either poverty or overall economic inequality. A crucial part of the Scandinavian adaptation to change has been the promotion of family-friendly policies - far more so than in most other EU states. The Scandinavian experience shows that business-friendly and family-friendly policies are not necessarily incompatible, especially as long as part-time work preserves much of the status and privileges of full-time work. Although the level of gender segregation in Scandinavia is quite high (partly because many women work for the state), in general both women and children fare particularly well. Unlike the three Continental states, there is more investment in children and young people than there is in older age-groups.

Work has been made a priority - in order to have a high employment rate, but also because having a decent job is the best route out of poverty. This statement applies to women as well as men; in Denmark, for example, 90 per cent of single mothers are in work. Post-school education and training have become extremely widespread. Since so many have become trainees or students, the definition of working age has been upped to 24 years of age in Denmark.

So far as public (state-based) services are concerned, the Scandinavians have been prepared to be both reformist and experimental - considerably more so than the less-well performing societies. (Many of the policies involved were initially highly controversial.) Education and health-care have been radically decentralised and incentives introduced to improve efficiency. Foundation hospitals - non-profit organisations having a high degree of control over their budgets and their programmes of health-care - were pioneered in Denmark and Sweden.

Some have suggested there is little for the rest of Europe to learn from Scandinavia. The Scandinavian countries are small - smaller

countries might be different from larger ones generically, and in any case are probably easier to change. Tax revenues are higher in Scandinavia than in most other EU countries. (See Palme).

One of the main lessons from the more successful countries over the past few years is that economic and social policy must always be kept closely connected. The Scandinavian countries have succeeded because they have maintained good levels of growth and consistently high job creation, as well as welfare reform, each being in large part the condition of the other. More or less everyone agrees that Europe's top priorities for the next decade must be economic growth and job creation, but rather than these happening at the expense of effective welfare system, they are the condition of achieving them. The welfare system contributes to the creation of jobs while economic growth sustains effective welfare transfers and investments.

The Austrian economist Karl Aiginger has identified ten main drivers of medium-term economic growth in the knowledge/service economy<sup>5</sup>. According to him 'the importance of investment into growth drivers is presently very low on the European agenda and particularly absent from the economic discussion in the big Continental economies'. The big three are investing considerably less than either the Scandinavians or the Americans in most of the growth drivers, and over the 1990s these differences actually increased.

It cannot be accidental that all the EU countries that have employment ratios of over 70 per cent in Europe (including the UK and the Netherlands) have active labour market policies. They are not all of a piece. For example, labour markets are more deregulated in Denmark than is the case in Sweden. The key thing is that an appropriate balance of incentives and sanctions is found such that the job destruction produced by economic change does not have adverse consequences for workers obliged to move on to other jobs.

Birth rates in Scandinavian remain quite high, certainly by EU standards. Interestingly, such is also true in France. Why? Because France, like the Scandinavians, has invested in child-care and provides a system of benefits that supports mothers regardless of whether they are married or in a relationship (it has not done nearly as well at getting them into or keeping them in work). The benefits system in

Italy and Spain is organised on the presumption that the traditional family is intact and will pick up the pieces when financial hardship or other problems loom. Very often it is not in fact intact, and in any case provides no real support for unmarried mothers or divorced women.

Decentralisation of education and health-care appears to have borne fruit in the Scandinavian countries - as does strong investment in higher education. These moves have gone along with effective cost controls and some elements of charging in health care. Health care does not need decentralisation in a social insurance system. All three larger states, but especially France and Germany, have high-class health care. However, effective cost-controls are lacking, and all saddled with debts that are unsustainable even in the relatively short-term.

A basic move in Sweden, followed to some degree by Denmark, has been the introduction of choice into the state school system. In policies introduced in Sweden in 1992, independent profit making and non-profit making schools were set up alongside orthodox state schools, founded on equal per pupil financial terms. Vouchers are available to parents to select the school of their choice. Studies indicate that the introduction has been successful so far. Overall performance in the school system has improved, with fewer pupils leaving without qualifications. There is no evidence that the 'independent' schools have creamed off the best students; the social background of their intake does not differ from that of pupils in the rest of the school system.

Today's success can become tomorrow's failure, so the lessons of current best practice in the EU should be treated with some caution. After all it is not that long ago that Germany's 'consensus capitalism' was widely perceived to be a way forward for Europe as a whole; now it is at the other end of the acceptance scale. However, it would be perverse to say that there are no lessons to be learned by the more poorly performing countries from those that enshrine what we know of best practice at the moment.

Not just the policies but some aspects of the *mechanics* of change may be relevant. The union movement in the Scandinavian countries has played an important role in facilitating change and reform. When the social partners do in fact act as social partners, looking for



constructive reform rather than seeking to defend sectional interests, the results can be positive for the labour force.

### **Beyond Best Practice**

The reasons why we cannot depend wholly on best practice are not just its intrinsic limitations, or the difficulties of transferring policies from one type of welfare system to another. More crucially, they depend upon the fact that there are issues and problems that even the best performing systems do not deal with adequately; and that, difficult though it may be, we must make some attempt to consider what future changes might bring.

Factors involved include the following:

1. Even those countries that have high levels of employment have not fully overcome underemployment, if that term is understood to mean everyone who can work finding a job. Most such countries have rapidly increasing rates of long-term sickness and disability, a trend that flies in the face of wider health statistics. By 2004 absence from work through sickness in Sweden, for example, had doubled since 1999. The reverse trend would have been expected, because the decline of manufacture, and of industries like mining, should have reduced levels of sickness coming from accidents with machinery, or coming from a life of manual toil.

It is not clear how much the rise in sickness absence is 'real' and how far alternatively it is a masked form of unemployment. The issue overlaps with that of disability, which is now normally registered separately from 'sickness'. In the case of disability, it is clear that disabled people able to work should have the right to do so. In most countries there is a long way to go before such a situation is realised.

2. A successful economy and a well-functioning welfare system do not guarantee the ready assimilation of immigrants or ethnic minorities. Right-wing populism and anti-immigrant sentiments have gathered strength in Denmark and Finland (although less so



in Sweden). The Netherlands saw the rise of the movement led by Pym Fortyn, with its catchphrase, 'the Netherlands is full'. Following the murder of the film-maker Theo van Gogh, the reputation of the country for social peace and for tolerance has been shattered. These happenings, and the broader fears and anxieties they both reflect and have helped produce, clearly influenced the outcome of the Dutch referendum.

Immigration has a clear post-modern tinge to it today. Because of the availability of instantaneous communication, plus global satellite channels, migrants can keep in continuous touch with others, either in their country of origin, or spread across the world. Not only do diasporas become more important, and self consciously so; members of minorities are much more aware than before of global events influencing their culture or their signal homelands.

3. The most successful societies in the EU at the moment are those that have high levels of employment and good growth rates. But how well protected are these societies against times of recession, when there are not enough jobs to go round? Moreover, according too much primacy to work could arguably bring other problems in its train. The rising rates of absence through sickness, for instance, could in some part reflect the psychological strains of a life built around labour. No country could be said wholly to have resolved issues of work-life balance. There is evidence that some forms of mental illness have increased significantly over recent decades.
4. Equality of opportunity is higher in the Scandinavian countries than any others in Europe (and probably in the world). While they fall short of Scandinavia, the other EU countries are also quite fluid. However, mobility in the post-war period has been based mainly upon structural change. That period has seen a more or less continuous expansion of white-collar and professional occupations at the expense of agricultural and industrial ones. Thus many people coming from manual or blue-collar class backgrounds have been able to move into higher level jobs. However, these structural sources of mobility are

drying up. The proportion of the workforce in manufacture in the UK is now 12 per cent and other EU countries are not far behind. The figure cannot go very much lower. And the proportion working in agriculture in the EU-15 is less than 3 per cent. So the chances of mobility are likely to decrease for the up-and-coming generation.

5. There seems to be a decline in aspects of everyday behaviour in public places in countries right across Europe - giving rise to a new political issue dubbed 'respect' in Britain and '*incivilité*' in France. It is not just that citizens trust their political leaders less than they used to do. They also trust each other less, at any rate if the findings of opinion surveys carry any weight. As a government study published in the Netherlands recently puts it: 'the decay of public space is everywhere visible: bus stops and station platforms have become places where it is better not to linger, where billboards are destroyed and lighting doesn't work'. The report speaks also of 'offensive behaviour' [of citizens] toward one another; disposing of garbage in public places; dog's do on the street; aggressive driving, ignoring traffic lights, bicylists riding on sidewalks, fare dodging on public transport ...

Obviously we have to be careful not to romanticise the past. It is possible that these problems have simply moved out of poorer areas, where they need to be concentrated, and have become more visible to the affluent. However, research tends to indicate that the decline in civil culture is real and quite pervasive.

### **The Social Problem (of today)**

The 'social problem' was once class division and class conflict. Today arguably it is plurality of cultures. The EU countries have long been ethnically and culturally diverse, with the exception of some of the smaller states. Also, what we now accept as relatively unified nation-states were built in some large part through the suppression of minorities and of minority languages. But the recent arrival of millions of immigrants, sometimes from very different cultures from those of

most Europeans, has put things on a different plane. Many European countries were used to sending emigrants elsewhere; they are much less used to receiving them in such large numbers - and in a quite short period of time. The implications for the welfare system, solidarity and citizenship are large.

So far as the welfare state is concerned, solidarity can most easily be defined as tolerance of transfers of income or wealth from the more to the less affluent. Of course, solidarity defined in this way only captures one part of what the welfare state has traditionally been about. The bulk of welfare spending has been about collective responsibility for risk and redistribution across the life-cycle. However, the welfare system as a whole could not function were there not basic elements of redistribution of resources.

Several possible grounds exist for supposing that cultural diversity might affect willingness to redistribute to the less fortunate, where the less fortunate include substantial proportions of minorities. Cultural diversity might undermine the willingness of the better off to support those poorer than themselves, because they are no longer defined as part of the same group or social community. The more alien the cultural minorities are, in their beliefs and their actions, to the majority, the greater this effect. Another possibility is that cultural diversity makes it more difficult to express their interests and fight for them, because of linguistic handicaps and other barriers. Studies across a number of countries seem to show an inverse relationship between cultural diversity and strength of union organisation and representation.

The third possibility is that the welfare state itself tends to promote segregation. Philippe Van Parijs gives the following illustration from his home country, Belgium. In Brussels the rate of employment among Belgian citizens is 64 per cent. But it only averages 33 per cent in local immigrant communities - a result in some part, he argues, of the generosity of the Belgian welfare system, which gives high child benefits, unemployment benefits without time limits and so on. This situation shelters immigrants from the labour market. Because it is reinforced by low skills and poor knowledge of the language, it tends to become self-perpetuating. This circumstance in turn perpetuates

poor linguistic and cognitive skills, and provokes hostile attitudes from the native population. In particular, and most dangerously, the minorities become seen as feckless and sponging off the welfare state.

There are some important policy implications. If European assertions about solidarity are to mean anything, we must avoid the situation that has developed in the US, where 'welfare' for most people, including recipients, has become a pejorative term. When Bill Clinton spoke of the need for welfare to be a 'hand up rather than a hand out', he touched a real nerve in the American psyche, but one relevant to Europe too.

Overcoming *divided labour markets* is one way forward. Where such labour markets are found, they all too easily lock out those from minority or immigrant communities. Another is the *contributory principle*. One of the most frequently heard complaints about immigrants is that they are getting something for nothing - receiving 'hand outs' that others have paid for. A 'hand up' is a much more effective principle. Tax credits, for example, do not arouse the same feelings of resentment among those whose taxes pay for them as benefits simply felt to be 'free gifts' to the poor. And of course the more job vacancies there are around, the more readily immigrants - or those from new member states - become direct taxpayers. The now-celebrated Polish plumber is a feared figure in countries with high levels of unemployment, but a welcome one in those where unemployment is low.

### **Immigration and Multiculturalism**

Multiculturalism has recently come under attack in Europe. It is said to keep cultures apart where we need to keep them together. Some have declared that we should abandon the concept altogether. However, what multiculturalism is has been widely misunderstood. Multiculturalism has never meant a policy that looks to keep cultural groups separate, each free to develop its own identity as it wishes.

The 'home' of multiculturalism is Canada, both in terms of policy practice and intellectually, since some of the leading scholars in the field are from that country. In Canada it has long been accepted that language tests, citizenship ceremonies and oaths are axiomatic for



immigrants. As Will Kymlicka points out, the ceremonies are welcomed by immigrants as a sign of acceptance and mutual commitment. They are wholly uncontroversial, among the host population as well as immigrants. Becoming Canadian does not demand renunciation of one's previous identity. Hence few migrants see becoming Canadian as a betrayal of their country or culture of origin.

According to Kymlicka, the use of public money is a core test of whether the rules of citizenship function as a basis of inclusion or not. This factor might be important for economic solidarity - taxpayers do not mind paying for programmes that demonstrate the active involvement of immigrants in the society to which they have come. Canadian policy may stress citizenship and national identification, but it is openly and transparently multicultural. Pre-existing ethnically biased policies that prevented non-whites from feeling Canadian have been publicly and thoroughly repudiated.

In most EU countries, citizenship is seen as a reward that depends upon a lengthy period of probation. In some states, such as Germany until recently, it has not even been on offer for those of non-Germanic background. Immigrants in Canada can apply for citizenship after only three years if they have resided in the country for most of that time. Moreover, citizenship is not seen as an end-process, but as a half-way stage - as part of the way towards becoming a more effective member of Canadian society. There are policy lessons for Europe here. As Kymlicka points out, there is no visible public policy commitment to multiculturalism, or attempt to promote a sophisticated understanding of it.

What has happened in Canada has not yet happened in Europe - but it is high time it did. This is the development of policies that are aimed at changing the identities of the host population, specifically to disown historic forms of racism and prejudice. When a report on multiculturalism produced in the UK a few years ago came out (the Parekh report) it was furiously attacked from all sides of the political spectrum for daring to suggest that British citizens should be encouraged to rethink some of their attitudes towards minority groups. It says something about the distance to be travelled in Europe that the UK is arguably the country that so far has done the best job of



absorbing immigrants of any EU Member State.

### Immigration

We shall not trace out the arguments pro and con immigration in any detail - they are well-known, even if some issues remain highly controversial. There can be no going back on pluralism, and immigrants will keep coming legally or illegally - although in most countries there is a good deal of outflow too. At the moment the proportion of people born abroad varies a lot between different countries, especially if we look at the OECD countries rather than only the EU. The proportions in 2002 ranged from 5.3 per cent in Spain, 8.3 per cent in Britain, 10 per cent in France and the Netherlands, through to 12.4 per cent for the US, 19.3 per cent for Canada and 23 per cent for Australia (Weil, below).

Not just cultural acceptance, but economic integration is crucial. During the first phase of large-scale migration into Europe, in the 1960s and 19670s, labour force participation was very high - at that point immigration was actively encouraged in Western Europe because of high levels of job vacancies. In Germany, for example, 75-80 per cent of workers from Turkey, Yugoslavia and Portugal were economically active. Most found jobs in manufacturing or building industries. By the mid-1990s, these proportions had declined. In 1995 the employment rate of Turkish men in Germany was only 61 per cent, and their rate of unemployment was high. By 2000 the unemployment rate of men and women born abroad had reached 20 per cent in France, Belgium and Germany. There are clear differences here with countries such as the UK and Sweden where employment rates of immigrants, on average, are higher and unemployment rates much lower.

Although disputed by some, it is widely accepted that immigration tends to have overall net economic benefits for the host society. In the US, the National Research Council's panel on immigration, in an exhaustive study, specified the reasons. Immigrants increase the supply of labour, and most are highly motivated to work. They help to produce new goods and services. As they are paid less than the total value of these new goods and services, domestic workers gain. Immigration also makes it possible for domestic workers to be used in a more productive way, but specialising in the production of goods and

services at which they are more efficient.

Such a situation only pertains, however, if the employment levels of immigrants are reasonably high. Where there are substantial levels of immigrant unemployment, as is true in some countries in Europe and regions within them, the theorem no longer applies. The point at which a society loses out is lower in the EU countries than in the US, because benefit levels are higher.

Nor is immigration necessarily beneficial to local native workers. The overall national economy has a net gain, but workers in specific localities might find their jobs threatened. Since this situation is especially true of unskilled native male workers, locally there can be losers. It is not difficult to see why such situations can provoke conflict that is not wholly irrationally-based on the part of the native workers.

Circumstances are different of course with skilled workers, especially in the high-tech and knowledge-based industries. Most EU states, even those with high levels of unemployment, have labour shortages in these categories of work. In countries with low unemployment, there is also insufficient labour in other trades. Thus in the UK, construction companies report shortages of skilled workers three times the national average in other categories. There are also shortages in some types of unskilled or semi-skilled work. For instance, many farms depend upon migrant seasonal labour.

Most countries (rightly) want to limit the numbers of unskilled workers coming in, and at the same time increase the numbers of skilled ones in the relevant sectors. Quotas have been widely introduced. Those for unskilled workers, however, are always exceeded - legally or illegally - while those for skilled workers are rarely if ever achieved. The annual quota for unskilled or unqualified workers in the US is 10,000; 50,000 visas are also granted by a world-wide lottery, and many of those selected by this method lack qualifications. Eleven million enter for the lottery each year, but illegal immigration vastly exceeds the numbers who get in by this method. On the other hand, countries that have tried to increase their numbers of well-qualified workers, in Europe at least, have not succeeded even when they have made the offers attractive. The green card system introduced in Germany, for example, fell well short of

expectations in terms of numbers recruited.

Quotas seem to have a rebound effect - the effect of increasing illegal immigration of the unskilled. The countries in Europe that have sought to regulate unqualified immigration through quotas have been obliged to have recourse to regularising later the flood of illegal migrants who come. Spain and Italy are two such countries. 800,000 such applications were made in Italy in 2004, and about the same number in Spain in 2005. These very large numbers have only been exceeded once before anywhere in the world - in the process of legislation that took place in the US in 1986.

There is no single or simple policy framework for dealing with questions all this raises. But several avenues for moving towards a more effective economic balance can be explored. Most countries are tightening rules on family reunification. When family reunification is interpreted liberally, it has the effect of bringing in large numbers of unskilled individuals, or women who stay outside the labour force. Some are parents, who choose not to join the workforce even when they could. If such new entrants are supported economically by the original immigrant or immigrants, no overall cost to the host society accrues. Often, however, they do not receive such support, and for the more elderly significant medical costs might be incurred.

It is surely appropriate policy to follow the examples of the US, Canada and Australia, where family reunification has been limited to nuclear family members, giving priority to spouses and children under 18. Parents of those who have become citizens can be admitted, but only if those who petition for them to come can show that they can provide full financial support. There is to be an end to chain migration created by the free admission of siblings.

It will not be possible to stop all illegal immigration, but there is hope that it can be contained. Border management is one way, although the stricter it is the more likely it is to produce tragic situations in which those trying to enter illegally suffer hardship or loss of life. Interior management can include penalties for employers who hire illegal migrants and deportation; and the effective sorting out of genuine asylum seekers from others.

Country-of-origin policies certainly have to play a part. What

happens in North Africa and the Middle East, as well as in central Asian countries such as the Ukraine, Moldova and Belarus, will certainly have a medium-term impact on pressures for immigration into the EU. It is far too early to know how the new EU Neighbourhood Policy for these regions will work, but at least it is a beginning. EU policy towards its near neighbours is in general much more enlightened than that of the US towards poor countries in Central and Southern America. The US is a point of gravitation for immigrants from these areas, but does not offer the countries involved concrete means of improving their social, economic and political circumstances. Even though enlargement has become controversial among many EU citizens, the Union does offer just such a prospect. The lure of eventual membership of the EU may be seen by some to be counterproductive in terms of immigration, because it might cause many to 'jump the gun' by moving before accession negotiations are finalised, or even opened. But the opposite seems closer to the truth. There may be fewer migrants coming from countries that have a realistic prospect of membership, because such a possibility provides an economic impetus within the country or countries concerned.

Some brief policy recommendations can be summarised in conclusion:

1. Multiculturalism should be reaffirmed not abandoned (whatever that would mean). It is entirely compatible with a stress upon the importance of language learning, acceptance of overall national identity and recognition of the obligations of citizenship obligations. The problem with the European countries is not that they have been too multiculturalist, but that they have not been multiculturalist enough.
2. Progress on 'the' social problem of today will depend in a fundamental way upon wider social and economic reforms, especially in those countries that have high unemployment, and have allowed neighbourhood ghettos to develop, or both. However we cannot reduce the problem of reconciling pluralism and solidarity to socio-economic considerations.
3. Immigration is a highly complex subject, where there are few



general formulae to be followed. Restrictive policies are certainly needed at this point in the EU countries, if only to forestall right-wing populism. Demand for unskilled labour is drying up; it will be difficult to absorb or find jobs for unskilled immigrants, especially when there are significant linguistic or cultural barriers to be overcome. International policies and agreements become just as important as domestic ones.

4. Topics once thought separate from questions of welfare have moved to the centre of the agenda. They include those of freedom of speech, enquiry, and action. Policy initiatives can help mute clashes that might occur around these, but there are irreducible problems whose solutions will always be partial and contextual.

### Life-style Change

The very notion of positive welfare implies life-style change, whether or not such change comes primarily from the efforts of individuals, or is primarily the result of intervention from outside agencies. 'Life-style' shouldn't be understood in terms just of consumption - the sort of ideas that crops up in glossy magazines. It refers rather to the habits and orientations people follow in their everyday life - and how these relate to their sense of self, goals and aspirations. Lifestyle becomes important in postmodern societies because of *everyday democratisation*. Most of what we do today is in some sense *decisionable*: not only that, but there is a sense in which we are forced to take decisions each and every day, not against a relatively stable background of engrained tradition or custom, but one of shifting information. The decision, 'what to eat', for example, may for many operate against a backdrop of scarcity (what a budget can afford), but is not *driven* by scarcity.

Life-style issues cover work as well as consumption. They have dominant position in decisions surrounding labour markets, for example, now there is no longer a clear division of labour between gender roles. Decisions have to be taken by partners about paid work, domestic labour, when life transitions will occur and why. Of course, they are not always deliberative decisions, often just a particular

course of action adopted among options.

Promoting life-style change in the area of health care is now a first priority for the population as a whole. Without it there is the serious possibility that the gains that have been made in average longevity could be reversed. The policy options may be wider than seem possible at the moment. After all, who would have thought a few years ago that there would be widespread acceptance of smoking bans in all public places?

Some of the policies that can be adopted to foster healthier life-styles are well-known. Pressure can come from within schools, or from education authorities. Schools in many countries pay little attention to nutrition in the meals they offer, and tolerate the existence of slot machines on the premises selling junk food. National and trans-national campaigns in relation to the large food corporations have already shown that they can have considerable effect. There have been major shifts in the way in which companies both produce and distribute food products - a shift of consciousness that can in principle proceed hand in hand with public education and changes in taste. Perhaps these policies should be more draconian than at present. One way of making this move might be through the insurance principle. Foods that contain large, and unnecessarily large, amounts of salt and sugar, for example, have known outcomes in terms of harmful effects on health; companies that refuse to alter their products could be brought within a framework of liability laws. The environmental principle, 'the polluter pays' is still very far from being implemented in any society. But it should be the basis of policy reform well beyond the environmental field narrowly defined. Food products that do not observe basic principles of nutrition - that would have to be specified in law - could be subject to insurance claims, as happened with smoking.

Of course, medical experts have always in some sense promoted active health. Keep fit exercises, physical training lessons, participation in sports, were often on the agenda - although more especially stressed in times of war. Fifty years ago, however, the health horizon was different from now. The relative proportion of illnesses known to be related to life-style was far less, and the same for those

associated with ageing. Hence health-care systems evolved much more as concerned with the aftercare of illness than with preventative medicine, a perspective that needs substantially to be reversed.

How free should we be to abuse our own bodies when no one else is involved (as they are in the case of passive smoking)? The answer is self-evident: we must be free to do so. But that freedom must be *substantive* or real rather than just formal. And here the issues are far from straightforward. Why is heroin consumption banned in many countries? It is not (necessarily) because of an inherent authoritarianism, it is because of the inference that the addicted person, the individual with the drug habit, is less free because less autonomous - than someone who stays away from any such habit.

A second reason is that the drug-user potentially creates costs for others. Drug-users may turn to crime to support their need, may become violent, might be incapable of forming stable social relationships and might build up medical costs that fall on others. No one today talks of banning alcohol, although the consumption of alcohol, especially when it turns addictive, is destructive for those involved, to others around them, and imposes large costs on the medical system. But it is widely accepted, even by those who succumb to it, that excessive consumption of alcohol is harmful. There are in fact very few sorts of bodily abuse that do not impose costs on others. Hence the idea that those who engage in heavy alcohol consumption should be encouraged to break the habit receives very general public support. Not only public programmes but self-help groups play a substantial part in seeking to limit the phenomenon. Alcoholics Anonymous, in fact, was one of the first world-wide self-help organisations, and has proved highly successful in changing life-habits.

Perhaps such tactics could also be extended into some areas of environmental practice too? Massive advances are needed here, but there are signs that they might come. Change in environmental practice is likely to require a shock to get off the ground. The shock is probably already happening, and might be enough to stimulate a step-change in everyday attitudes. Consider for example recent disasters. No one knows whether hurricane Katrina was influenced by global warming, but it seems likely it was, especially as the annual number of

hurricanes in the Caribbean area seems to be increasing - a happening in line with predictions from global warning models. Hurricane Katrina made a big impact in Europe, no matter that it was far away in terms of geographical distance. It showed that a major coastline city, in the richest country in the world, could be devastated by flooding in a few short hours. And it demonstrated how much more destructive such an event could be for the poor than the better-off.

Unusual flooding incidents have recently occurred in several areas in Europe, such as in Boscastle and Carlisle in the UK. Citizens in the Netherlands are alarmed, as they should be, since even with existing sea-levels so much of the country lies below sea-level. Was the exceptionally hot summer in Europe in 2003 the result of climate change? All the signs are that it was, since over the past 20 years the proportion of exceptionally hot summers has risen steeply. What is sure is that some 75,000 people lose their lives in the EU countries as a direct result of the episode - and the fact that health services were ill-prepared to cope.

Local climate patterns appear to be changing, also in line with global warming computer predictions. London in the average year is now drier than Barcelona. Providing more water supply has become a matter of some urgency. When one thinks of an environmentalist, the first person that comes to mind is not a water engineer. But more water engineers is precisely what is required, because in spite of the proliferation of degrees in environmental studies, engineers and water scientists are in short supply. One of the main challenges is to ensure that scientists concerned with terrestrial, marine and freshwater ecosystems work closely together, because of the intimate connections between these.

Environmental shock is converging with a similar shock about fuel supply. Mr Putin probably did Europe a service by reminding Europeans of its large-scale dependency on Russian gas. Gazprom is now essentially a nationalised industry, and hence can lend itself to geopolitical deployment. Moreover, the pipelines that bring oil and gas into Europe come through countries that are unstable and subject to domestic conflicts.

Surveys seem to show a decisive change in public attitudes towards



environmental and energy issues. A poll taken in south east England in August 2004, for example, showed that 95 per cent of respondents said they were willing to recycle more and 84 per cent were prepared to take specified steps to reduce water use. Four in five were in favour of other proposed modes of lifestyle change, and 82 per cent were willing to act on prescriptions to cut pollution. Only five per cent of those interviewed said it was not their responsibility to take notice of environmental problems. In Euro-barometer surveys of EU countries, 73 per cent of Europeans now think that the state of the environment is having a harmful effect on their quality of life.

The three main challenges facing Europe - the shock of high oil prices, security of supply and adapting to climate change - are interconnected. As Dieter Helm points out, they will require major new investment, as well as life-style adaptation, and this investment will have to be made in such a way, as far as possible, to enhance European competitiveness rather than reduce it<sup>6</sup>. Higher oil prices, provided they are sustained, could be a blessing in disguise because they not only might motivate change in energy practices, and make non oil-based alternatives more competitive. Such a change in market conditions could be very consequential because many electricity producers in Europe are dependent upon fossil fuels; most power plants are ageing and are due for replacement over the coming decade. This situation includes nuclear power, since the current generation of nuclear power stations are also coming to the end of their lives.

How could one bind the various issues involved in environmental policies together? How can such policies also have an output for social justice? The most obvious way is to tie them closely to key concerns of the social model, most particularly *security* and *welfare* - defined as positive welfare - in the context of citizenship. The risks from environmental change are no longer abstract or only long-term. They have an immediate character and mesh with risks that the welfare has more traditionally been equipped to cover (such as health risks, risks to property and so forth). They relate closely to economic concerns too - to productivity and competitiveness. Some of the main growth and job-creating possibilities will be in sectors closely related to, or

directly involved with, environmental concerns.

The consultancy company Accenture recently produced a report on where jobs in Europe will come from over the next few years. By targeting what the report calls 'critical industry sectors', the authors argue that hundreds of thousands of net new jobs can be created. Structural reform is the necessary but not sufficient condition to achieve this target. Their approach would imply a return to industrial policy, although only within a few selected areas. They list in fact 15 such areas, only two of them involving manufacture (aerospace and pharmaceuticals). All the others are IT based, and all would imply energy reduction if they became as significant parts of the economy as is projected. Environmental modernisation itself would be one area among the 15.

Following the Hampton Court Summit a group on research and innovation was set up under the chairmanship of the former Finnish Prime Minister, Esko Aho. The group emphasises the need to create an innovation-friendly market, in which businesses can launch new products and services.<sup>7</sup> It advocates a 'pact for research and innovation' and suggests strategic interventions in areas including pharmaceuticals, e-health, energy, transport and logistics and security.

### **At the Level of the EU**

As described so far, the modernisation of Europe has to proceed mainly at the level of Member States, since most decision-making in these areas continues to remain within their purview. Some of the laggards among the EU states have a good deal of catching up to do, and the new member states even more. 'Catching up', or jumping ahead, does not mean having to pass through a distinct series of stages. If Latvia is successful in becoming a centre of high-tech, for example, it could in principle quickly get ahead of most other countries in Europe.

Nevertheless, few decisions taken today are purely national, either in their backdrop or their implications. Thus if structural reform in Germany were to revive economic growth there, the consequences would be felt throughout Europe, and beyond. On the other hand, socio-economic change initiated at the EU level has consequences for national welfare systems and the decisions national leaders take. Some

have even spoken of Europe's 'semi-autonomous' welfare states for this reason.

The Sapir report is the most-quoted survey of how the EU might renew itself economically. Some reforms at the EU level, the report accepts, have to be macroeconomic. Quite rightly, the report rejects the ideas of the 'Euro-Keynesians', who hold that the source of Europe's low growth rates lies mainly in the policies of the European Central Bank. Keynesian policies that no longer work at a national level would not work at a European level either. Any macroeconomic changes made have to make sure that the hard-earned gains of price stability are not thrown into jeopardy. Possible inflationary expectations on the part of the public need to be contained and potentially destabilising economic situations defused.

Pro-cyclical policies on the part of the Member States have to be reined back. The objective should be to improve incentives for countries to develop a surplus in times of economic upswing, allowing some freedom of action when the economic climate is more difficult. '*Rainy day*' funds could be accumulated by Member States to assist in this process, involving the allowance of some leeway in national accounting rules. The report suggests that the rules governing the Stability and Growth Pact should be revised to add more flexibility in severe downturns. The 'exceptional conditions' that allow a country to breach the three per cent of GDP deficit rule should be specified as simply a negative growth rate rather than two per cent. All these suggestions are sensible.

The report impinges most closely on the social model where it discusses *restructuring policy* and where it concerns itself with *education*. The first concerns situations of mass redundancy. Across the EU each year several hundred thousand workers lose their jobs as a result of the shutting down of plants or restructuring. Most of the responsibility for helping workers to find new jobs rests with the Member States, but at the EU level intervention is also possible. Part of the EU restructuring fund, Sapir suggests, could be used to support a direct assistance scheme for displaced workers. The scheme would allocate vouchers to workers in the EU losing their jobs through a collective lay-off. It would be worth six months of the minimum wage

in their country of residence, and could be used for three purposes - retraining, compensation for relocation costs, and the setting up of a new business. It would cover farmers as well as other workers.

Much the same idea was picked up and received official Commission support under the name of a *globalisation adjustment fund* (See Tsoukalis). The term is misleading, because economic globalisation is not the only source of mass lay-offs, as discussed earlier. But the idea is a worthwhile one. It could be one element in re-legitimising the Commission, since it would give it at least some direct role in mixing economic programmes with a policy driven agenda of social justice and welfare. According to current proposals, it would be a 'crisis mechanism', used only to cope with significant economic and social changes related to globalisation. It would be used only if a certain threshold is reached, defined in relation to the proportion of workers who are made redundant in a sector and region, bearing in mind the unemployment rate. The funds will be delivered through existing structural fund arrangements, making use of the same basic rules. The amount of money available would be set at about €500 million a year.

The proposals have met with criticism from some quarters, on the grounds that it is more important to concentrate upon increasing competitiveness. Yet if properly used the funds will contribute to competitiveness anyway, since workers involved will be re-skilled and will find better jobs than they would otherwise have done. The most important provision is that the fund should not be used to prop up uncompetitive industries; but this will not happen if the rules proposed are strictly followed.

### **The Lisbon Agenda (again)**

What of the endlessly debated Lisbon agenda? There have been so many assessments and reassessments that I shall keep further comments relatively short (See Maria João Rodrigues). Few dispute the agenda's goals; most debate has concentrated upon Europe's lack of progress in getting closer to realising them. The date given for achieving them, 2010, is now less than four years off, and what was already a gulf between aspiration and achievement has widened



with the entry of the new Member States.

The open method of coordination was invented precisely because the EU institutions lack the power to intervene in most aspects of fiscal and social policy. The publication of indicators on the part of the Commission, supposed to be a naming and shaming, has had little impact, since the shaming never really happened. We have to ask three questions. Why has the Lisbon process stalled, in spite of constant attempts to revamp it? Why has it been least effective in the large eurozone countries, which most need reform? And: how can one build in a more effective concern with social justice and welfare?

Jean Pisani-Ferry has suggested that benchmarking is much less effective than might appear at first sight. Politicians and voters can compare and contrast the overall economic performance of the EU countries, such as their rates of growth or their unemployment rates. However it is much less easy to compare policies and reforms, as the impact of any specific reform processes depends upon a multiplicity of factors, many of them particular to the country in question. Also in order to grasp trade-offs - for instance, between high employment and the existence of poorly-paid service jobs - more information is needed than just the publication of economic indicators.

These observations suggest that the Lisbon criteria need to be more strongly contextualised, and tailored to particular countries or groups of countries. The conclusion of the European Council of March 2005 to focus monitoring or programmes more specifically geared to Member States' 'own needs and specific situations' thus should in principle represent a step forward. Pisani-Ferry proposes that some - although only some! - proposed reforms should be concentrated on the eurozone, since the countries within it have some particular common needs. Where there is a monetary union, a country that, for example, reforms its labour markets and lowers its unemployment rate exerts a medium-term externality on another country that does not. As a consequence of reforms in country A the aggregate structural employment rate goes down and aggregate productivity goes up - in both cases lowering inflation. The central bank can as a consequence lower interest rates, boosting domestic demand in country A as well as in B, which has not reformed. For country A the interest rate reduction

is lower than it would be if each had control over its interest rates, for country B the reverse holds.

Suppose now other governments beside B hesitate to undertake reforms, in a situation where reforms impose short term costs for longer-term gains - as they quite often do. Here macroeconomic policy might be utilised. What such policy can do is to alter the distribution of costs and benefits through facilitating convergence to a new equilibrium. Hence it can render reforms less costly in the short term and make it easier for national politicians to take reform-minded decisions. Monetary policy inside a currency union can only support the reform endeavours of a particular government to the degree to which it makes a contribution to aggregate performance. Hence for any government acting on its own, especially where there are constraints like high indebtedness, the incentive to reform is reduced. Without coordinated efforts at reform, this situation produces a deadlock in which no government makes needed reforms.

Politically the main reasons for the relative failure of the Lisbon agenda are certainly to do with social justice and welfare. As part of the Lisbon strategy, Member States have been encouraged to implement 'social exclusion strategies' since 2001. But as mentioned earlier, they appear very much as an add-on to the main business of market integration and improving economic competitiveness. At the European as well as at the national level we need to get over problems that have haunted efforts at reform. Defenders of social justice see themselves as having to block efforts to make some of the less well-performing states to become more competitive and generate more jobs. The argument needs to be made and sustained at European level that Lisbon-style reforms *promote* social justice and welfare rather than *undermine* them. And this argument cannot just be an abstract or value-driven one: it must state chapter and verse. We have set out the issues earlier. All is not for the best in the best of all possible worlds, and compromises and adjustments that need to be made have to be pointed out. Where there are losers, the fact needs to be clearly indicated, coupled to specific analysis of what can be done to improve their lot.

### **Cohesion and Convergence**

One main concern of the EU since its inception has been the existence of economic disparities between member states and regions. 'Cohesion' and 'convergence' have long been spoken of as goals on the European level as a whole. The Treaty of Rome stated that successful progress of the EU could be attained only by 'mitigating the backwardness of less favoured regions'. While convergence is sometimes presented as a simple process of poorer member-states and regions drawing closer to the richer ones, the processes involved are more complex than that. Once the EU has been established, and as it expands, new dynamics are introduced within nations and across borders.

The EU has undergone six successive expansions. The level of economic inequality, both between nations and between regions has increased with virtually all of these, the exception being in 1995 when Austria, Finland and Sweden joined. Following each expansion, up to the latest one, economic disparities overall tended to decline quite rapidly.

On a national level, the process of drawing together has been successful. Of the four poorest states in the EU-15, Ireland has performed far the best. From a per capita GDP measure of 56 per cent of the EU average in 1973, the country had moved to 110 per cent by 2002. Portugal moved from 56 per cent on accession in 1985 to 72 per cent in 2002. Spain has made very large progress politically, but less so in relative economic terms - it moved from 74 per cent to average EU GDP in 1985 to 77 per cent in 2002. However the gap between the wealthiest and poorest regions has grown over the past 30 years. The least wealthy region in 1977 was four times poorer than the most affluent one. By 1996 it was more than five times poorer. The regional stretch in some countries is large. Some of the most affluent regions in the EU is in Germany, but the poorest areas in that country are poorer than most other regions in the Union as a whole, including regions in Spain, Portugal and Greece.

The latest round of enlargement has substantially increased regional variations. About 92 per cent of the population of the new Member States lives in regions where GDP per head is below 76 per cent of the EU25 average. 66 per cent live in regions where it is lower

than 50 per cent of the average. GDP per head in Bulgaria and Romania is less than 30 per cent of the EU25 average. If and when those countries join, the number of people living in regions with income below 75 per cent of the EU average will more than double from the current figure. It will grow, in fact, from about 73 million to some 153 million. The disparity between the EU average and their average GDP per head would also double, arising from about 30 per cent below average to 60 per cent below.

The structural funds and the cohesion fund are the main community resources available to help reduce disparities between regions and states in the EU. The cohesion fund was introduced in 1993 to help improve economic development in the EU's poorest countries. Countries with a GDP of less than 90 per cent of the EU average are eligible for the funds. Transfers from the structural and cohesion funds add about three per cent to investment in Spain, and eight to nine per cent in Greece and Portugal. They contribute about four per cent in what was East Germany, and seven per cent in southern Italy. These funds are supplemented by loans from the European Investment Bank - totalling €20 billion in 2002.

According to some analyses at least, the use of these various funds has contributed to economic development both in regions and in nations. GDP in Spain in 1999 was estimated at 1.5 per cent higher than it would have been without intervention. Comparable figures for Ireland are three per cent and for Portugal 4.5 per cent.

The enlargement to 25 Member States did not go along with increased budget contributions from existing Member States. Hence the numbers of regions qualifying for assistance was reduced, and the structural funds were targeted more towards the poorest regions. However this may mean that the reductions of disparities between regions is even more difficult to achieve. Why are regional variations apparently so deeply entrenched? It may be simply that, in relative terms, the funds involved are so small - the structural funds amount to less than 0.5 per cent of EU GDP. Policies followed within countries have much more potential and actual impact - and they do not always act to reduce regional disparities. A study covering the EU-15, for example, found that some key national policies devoted to improving



competitiveness - such as those promoting R&D - were slanted towards the richer regions within their particular countries. The more affluent a region is, the more the government spends on facilitating R&D within it; the poorer the region, the less is spent. Given that such investments should spur economic growth, the result is likely to increase the regional disparities that already exist.

Poor regions are so for different reasons. In the more affluent states, they are regions of industrial decline - visible expressions of the decline of manufacture and the rise of the knowledge/service economy. Such decline is often accompanied by urban dilapidation - for example, in some northern towns in the UK, property in certain streets or micro-neighbourhoods has become to all intents and purposes valueless. In the Scandinavian countries, the poorer areas by contrast are rural - they consist of sparsely populated regions in harsh climatic zones. In southern Italy, poor regions span the urban and the rural - their poverty comes from their lack of economic development, coupled to traditional familism. These differences are recognised in the allocation of structural funds, but given the breadth of the problems and the thinly spread nature of the resources, their impact is perhaps necessarily limited. Of all the regions in the EU, southern Italy seems most impervious to change. In 2002 only 43 per cent of the population aged 18-65 was in work, the lowest rate not only in the EU15 but in the EU25.

The large discrepancies in income level between nations, and especially between regions, means that one of the ideas sometimes offered for more levelling across the EU - a Europe-wide *minimum wage* - is a non-starter. Some have suggested that a European minimum income could be calculated in each state. However such a proposal would not in any sense be a true minimum wage, since the variations would be so large. Imposing a universal minimum wage would be a tactic insensitive to the large institutional differences between countries, and variations in the nature of their economies; and the regional issue would be exacerbated, since a one-size-fits-all policy there would be actively counterproductive.

What policy conclusions can we draw from the above considerations? Some suggestions are:

1. Policy-makers both within nations and at the European level should give more attention to the EU as a *source* of economic divergence. Not just EU-level policies, such as the development of the single market, but the interaction of policy and socio-economic change can affect the goals of social justice within nations and between regions. The EU, everyone agrees, is not a state, and neither is it simply a free trade area. Its identity is contentious, because it is in the nature of an ongoing experiment. But this means its dynamics as a system are not well understood, since they do not necessarily parallel those of large nation-states. The regions, for example, are no longer just part of nations, but of a supranational entity. Might it be, for example, that the imperviousness of southern Italy to development is something to do with pan-European dynamics rather than just those of Italy as a nation?
2. On the European, like the national, level we should remember that poverty is diverse, not a simple and single phenomenon - as the above example again indicates. As in the case of poverty of individuals, it will not do to concentrate only on the poor regions themselves. Some policies might be concentrated on influences external to those regions - and also if we look at their micro-dynamics. A new orientation of policy on the EU and national levels seems urgent, given that there has been such little progress in reducing inequalities between poorer and richer regions. Part of the problem is that we simply do not have the research materials. The study of individual and local poverty was transformed once time series and international data became available.
3. The use of structural funds should be linked to *good governance*. In less developed countries, long experience has shown that large sums of money can be absorbed with no visible change happening. Without improvements in governance no amount of external aid or investment is likely to have any effect. Good governance does not only mean effective and non-corrupt political leadership, it means also a lively civil society - active and effective third-sector organisations. Much the same applies

to regions, and cities and subdivisions within them. An instructive example is the success of some of the autonomous regions in Spain, some of which have also created regional identities where none existed before. Self-esteem is not only important on the level of the individual. Regions and localities that have pride in their identities can both leverage change and promote themselves externally.

4. Good governance is likely to be crucial in breaking through cycles of regional advantage that can otherwise build up. Although there have been some widespread fear of social dumping, foreign direct investment tends to go to the more affluent countries and regions rather than the poorer ones - let alone the poorest. Ireland has become much richer than it was partly because of foreign investment it has attracted; but investment continues to flow in the country. In 1999-2001 investment inflows made up about 21 per cent of GDP in Ireland, a country that has now the second highest level of GDP per head in the EU. The figures are 15 per cent for Denmark, and 13 per cent in the Netherlands. The countries with the smaller inflows were poorer ones: Spain (1.5 per cent), Italy (one per cent) and Greece (under one per cent).

An almost identical pattern is found among the regions. The lowest inflows are into the regions that need direct investment most. The former East Germany - if one includes Berlin - received only two per cent of the total inflows into Germany between 1998 and 2000. In Italy, less than four per cent (of a very small sum in any case) went to the South. The logic is that some poorer regions, like 'backward' nations will be able to leapfrog directly into advanced sectors of the knowledge/service economy.

#### **R&D**

The Lisbon strategy, of course, placed much emphasis upon education, especially higher education, plus research and development, in its programme for Europe's economic regeneration. The mid-term review of the strategy continues to talk forcefully of 'knowledge and

innovation - engines for sustainable growth'. As elsewhere, the formal targets set are currently not being met. Research and development budgets in the EU are supposed to reach three per cent of GDP by 2010. Business R&D spending is to rise to two thirds of total investment, as is already the case in the US; at present it lags well short.

As critics have pointed out, setting a percentage target is a questionable approach. It is not focused in terms of results: why should firms have any interest in increasing proportional expenditure on R&D for its own sake? If they do make increases, it is because they believe that new technological findings or new concepts are required for continuing business success. Moreover if they can firms will apply the same economic reasoning to R&D that they use in other areas of their activity. They will reduce expenditure on R&D as far as they can, and perhaps outsource it to small high-tech companies.

There are other reasons too to have reservations about the Lisbon interpretation of R&D to the knowledge/service economy. Soete (below) argues below that the relationship between research, innovation and socioeconomic development is changing as the knowledge/service economy matures. 'Old style' R&D is no longer as relevant as it was; and it is not as important that R&D is produced endogenously. How innovation processes are understood has changed significantly over the past ten years. Although presented as radical, the Lisbon approach to R&D is actually based on an approach that is coming more and more into question. That approach is based on an industrial model, with incentives for firms to invest in upgrading their workforce internally, and a close relation between firms and universities or their higher education establishments.

Hence discussion is concentrated on technological aspects of knowledge creation, shortages of scientists and engineers, and the requirement to develop European integration in research. These may be desirable objectives but they miss some core components of what kinds of 'knowledge' the knowledge/service economy needs. The 'knowledge' in the new economy is certainly in part scientific and technological - as the very impact of information technology shows. But even more important are creativity, the testing of new ideas, and the opening up of new markets according to taste. For example, there



is nothing especially technological about the success of Starbucks, which either catered to a latent taste, or helped develop that taste, or a bit of both. Most successful enterprises or new services are in some sense technologically dependent, but technology is rarely if ever the sole driving force of their market success. Ipods make use of major technological advances, but they have carved out a new market in some large part because of stylistic appeal, clever design and effective marketing.

There is an additional consideration of great importance. How far should we depend on R&D that is specifically confined to a European setting? It is not clear that national or EU R&D percentages have any significance. As companies develop more complex trans-national divisions of labour, the R&D and other sources of new ideas will come increasingly from around the world. With a more global patenting regime, permitting widespread use of innovations - and the immediate assimilation that today's communication systems permit - relevant R&D is much more likely to come from elsewhere. By the same reckoning, home-grown R&D input have little impact on the domestic economy within which it takes place. Firms will consider their investment not from a local but from a global perspective.

The Commission has recently suggested that spending on R&D within the EU countries is only likely to rise on current trends to well under three per cent by 2010. More worrying is the fact that R&D is still mostly geared to old-style thinking and practice. China is increasing its investment in R&D at double digit rates from 1.31 per cent in 2003, and on current trends will overtake the EU in proportional terms by 2010. This circumstance is not especially disquieting in itself, since China will be busy making up gaps that existed previously. The country will to some extent be competing in areas that the advanced economies have largely abandoned, although for reasons given earlier this situation is changing fast. The EU countries have to keep ahead by building on more established research innovations, but more crucially by keeping ahead in terms of product development and market creativity. The disquieting thing is that these processes in many cases and many countries seem less well-developed than traditional R&D.

### Universities

R&D implies higher education. The president of the European Commission, José Manuel Barroso, in a speech given in Glasgow April 2005 stated that 'universities have never featured so high on the Commission's agenda'. The Commission followed through on that remark by publishing a communication on universities sent to Member States. It confirms the central role of higher education in the Lisbon strategy, and specifies areas for improvement (of which there are many). Comparisons with the university system in the US show a higher number of prestigious institutions at the top end, and much greater diversity in the system as a whole.

It is widely accepted that universities in the EU at all levels lag behind their American counterparts. Few European universities make it into the top hundred as measured in terms of research criteria. In many countries in the EU universities are overcrowded, the faculty unmotivated and poorly paid. For these reasons there is a continuous seepage of some of the best scholars and researches to the US. Most do not return. There are manifest contradictions in the policies of some EU states about universities in relation to the knowledge/service economy. The numbers of students in university have increased rapidly everywhere, as is necessary in a society where there is much requirement for symbolic skills. But funding has remained largely static; and the quality of education is often poor. Moreover, surveys show that the regular links between universities, research institutes and business in R&D are on average weaker than in the US.

Universities do not just exist as an adjunct to business, or as a resource for the economy. We have to think about the wider mission of universities and also about their governance. Europeans have become too used to the admonition that American universities are superior to their own that it is worth pointing out that all is not well in higher education in the US. The last few years have seen a spat of critiques of the state of universities. It has been observed that American higher education 'has remade itself into a vast job-training programme', which tends 'to promote the need for a productive citizenry rather than a critical, culturally responsive, reflective individualism'. One author has spoken of 'the university in ruins'.

Universities have to preserve their autonomy from the state at a time when governments are wanting to turn them to national economic advantage. One way of doing so is by reinstating the values for which universities stand. The expansion of higher education is not just about responding to the demands of the knowledge/service economy. It is also about preparing citizens for a world of diversity and change. Non-vocational subjects should continue to fill their fair share of the curriculum; and the disinterested pursuit of knowledge should be the prime function of the research-based university. The problems faced in the US show that there is no easy route to resolving all of these issues.

Various implications follow for Europe. In many EU countries, higher education can no longer be funded wholly by the state, or almost wholly by the state. What made sense when a small percentage of young people went to university - and no older ones did - does not do so when over 40 per cent do and the target proportion is even higher. The contributory principle must be brought into play. Students must pay towards the cost of the education they receive. So long as the money goes directly to universities, it helps support their autonomy as well as providing resources to pay better salaries and provide more developed research environments for faculty; the problem is to ensure that those from less privileged backgrounds do not suffer. The systems introduced in the UK and Australia are geared to try to ensure this. Payment of fees is not upfront, as it is in the US, but deferred until after graduation; those earning below a certain level pay nothing back. The extra resources generated by fees are also used to set up scholarships and other sources of help for students from less privileged origins. In effect, there is redistribution from better off students towards the less well-off.

The EU has no power to ensure that moves towards more comprehensive funding for higher education are made within the Member States. But it could least attempt to stimulate debate. Pension reform and reform of health care systems are universally agreed to be necessary. The same should be true of higher (and further) education, where turnover now in economic terms is gigantic. It would be a mistake to concentrate only on science and technology. The proposal to set up a *European Institute of Technology*, which has received the

endorsement of the Commission, is worth supporting - if the resources that can be put are sufficient to allow it to compete with world leaders, and the thorny question of where it is to be located can be resolved.

In the best scenario there would be a coming together of: 1) the need for creativity in the knowledge/service economy; 2) the preservation of the university as ranging across the arts, humanities and philosophy as well as science and technology; 3) restoration of leading European universities to world-class status. Creativity cannot be taught as such, but is surely one of the products of a first rate university education.

Some policy conclusions, therefore:

1. It does not make much sense to set an overall target for R&D, potentially where most growth towards the target is supposed to come from business.
2. Old-style R&D - focused on science and technology, connecting businesses (and also public institutions) with research institutes and universities - remains of great importance. But attention has to be concentrated almost as much on the conditions under which the take-up and market exploitation of technology occurs. Both larger and smaller companies are increasingly able to exploit technology on a global level, given the right conditions.
3. Universities and colleges have a pivotal role in the knowledge/service economy. Some indeed have referred to them as 'the factories of the knowledge economy'. However they are not factories, if this term implies routinised production. Adaptability and a cosmopolitan outlook, as well as in many contexts being numerate, take on a fresh importance. It makes perfect sense to expand higher education - and the EU goal of 80 per cent of younger people in post-secondary education is not excessive.
4. Steps to improve the position of universities in the EU countries are imperative, although most have to be taken on a national or



regional level. It is especially important to up-grade institutions at the top end, not because of elitism, but because the leading universities tend to set the tone for the rest, and because of their essential role in attracting world-leading researches and providing innovative research.

5. The EU can learn a great deal from higher education in the US, and must strive to reverse the flow of leading researches who crossed the Atlantic and are lost to Europe. However, there are major stresses and strains in US higher education, and the lessons of these should not be lost upon Europe. Some in fact centre upon the increasing ties between universities and business, others are funding. There is no silver bullet answer to the question of how higher education on a mass level should be funded. It is surely obvious, however, that student contributions must be involved.
6. The expansion of higher education poses significant problems of social justice. It should provide greater avenues of social mobility for students from poorer backgrounds, but evidence suggests that this is not happening. Measures are needed to bring higher education within the horizon of those who would not otherwise think of the possibility; and to provide support for those who are especially needy. We must also seek to reduce the gap opening up between those who experience higher education and those who do not.
7. Higher education is itself a very large business, which increasingly brings in independent revenue of its own - such as that from students from outside the EU. Such revenue-generation must be factored in to any overall assessment of the costs and benefits of its expansion.

### **The Environment and Energy**

One technological area where Europe could lead the world is in the further development of ecological modernisation. It is possible that rather than further reducing competitiveness, the development of new ecological technologies - and just as important, styles of life - could be a spur to its renewal (although very little will happen in Europe alone).

Information technology has transformed our economies and our lives over the past 30 years. Perhaps there will be a key discovery, or set of discoveries, that will change our lives just as much over the next 30 years in the environmental/energy field? 'Human beings only set themselves such problems as they can resolve', Marx once said. It does not seem a particularly appropriate motto for the twenty-first century, but it may well apply in the case of at least some environmental questions. As the supplies of fossil fuel become more problematic, and the manifestations of climate change more acute, the pressure for innovation will be well and truly on.

In February 2006 Swedish government declared its intention to become the first advanced economy to free itself from dependency on oil completely by 2020. Like Japan, Sweden reacted vigorously to the raising oil prices in the 1970s. Today virtually all of its electricity comes from non-fossil fuel sources (including at the moment nuclear power). Motor vehicles are the main consumers of fossil fuels. The country has reduced its oil dependency from 77 per cent in 1970 to 32 per cent in 2003. In the same year 26 per cent of overall energy consumed came from renewable sources - compared to our EU-15 average of only six per cent. The country aims to emulate Brazil in converting most of its motor vehicles to bio-fuels within a relatively short time.

When the Lisbon agenda was under development in the late 1990s, world energy prices were very low and there was actually excess capacity in most Member States. Higher energy prices came about at more or less the same time as the Lisbon strategy was published, in 2000 and thereafter. Oil and gas interact with issues of geopolitical security, as they always have done, but the nature of the security zones has altered. Russia and Central Asia have come much more into the reckoning as nations strive to reduce their dependence on fuel from the Middle East. The North Sea oil fields, which were useful sources of oil and gas, are becoming depleted.

One of the many ambiguities of the term 'sustainability' is whether or not it includes geopolitical security. It cannot be equated with internal self-sufficiency in an era of the global economy. Geopolitical security has moved way up the list of exigencies, along with climate

change. Responding to both will require large-scale investment as well as ingenuity and citizen involvement, plus effective international cooperation. The list of issues involved is long. Seeking to move away from dependency on the Middle East involves transmitting oil and gas across long distances, in pipelines that pass through territories that are as unstable as much of the Middle East. In many European countries oil refineries and power stations are ageing, while nuclear plants are reaching the end of their lives. The connections between energy grids across the EU are not well-developed. Few mechanisms are in place to coordinate investment and infrastructure or to manage security - in the face of new risks such as the threat of terrorism. Virtually all of these issues also bear upon climate change. Seriously confronting climate change coincides with a time at which a good deal of Europe's energy production plants need renewing anyway. In one sense this circumstance obviously provides an opportunity, but there are difficult issues of costs and priorities involved in virtually every country.

The energy market in Europe has now been widely liberalised and privatised, in line with EU policy. However, there is not really a unified market, but a range of bilateral agreements - a hangover from the time when energy was cheap and plentiful. Trading is limited and each country carries spare capacity. Within the EU, greater interconnection would bring greater security as well as lowering costs. Electricity provision functions as a network system, and it would be sensible to extend it Europe-wide. Each new investment in a source of power would benefit Europe as a whole. Electricity cannot be stored, but gas can. Storage of gas on a European level is worth thinking about seriously. Unlike oil, gas is a regional energy source and hence security should also be considered on a regional level too. Such a move need not mean a further ceding of power on the part of member nations - it could be organised in an inter-governmental way.

The sustainable development strategy quite rightly links energy issues and climate change, and in fact sets out to establish a 'road-map' for both. The EU has been the leading actor in generating support for Kyoto, and also is pioneering regional emissions trading as a means of meeting the Kyoto targets. So far as climate change is concerned, the road-map sets out short- medium- and long-term objectives. The

more immediate ones concern, in addition to Kyoto, meeting measurable energy targets. 12 per cent of domestic energy consumption across the EU is to come from renewable sources by 2010 and 21 per cent of electricity. Energy efficiency overall is to improve by 2.5 per cent per year and by 3.5 per cent in the state sector. The EU has staked out a prime leadership position in negotiating international agreement for the second stage of an international climate change regime.

How might the EU emissions trading system might be deepened? At the moment the system is only in place until 2008, with negotiations on under way to extend to 2012. Even the latter date is too close to be within the planning horizon of companies in terms of both investment and R&D. The post-2012 framework needs active consideration immediately. In this way the likely cost of carbon can be factored in by potential investors in new energy programmes.

Most of the initiatives taken by EU states within the existing directive on renewable energy are directed towards wind power. More impetus needs to be given to other renewables and how they might be interpreted in a partial way with emissions-reduction targets. Clean coal is a possibility of major importance, especially as the technology here is advancing rapidly. Investment in nuclear energy is likely to come about whatever objections might be made against it. It is worthwhile considering what the implications might be at a European level. Safety and security issues for nuclear stations do not concern only countries in which they are located. It would be advisable to establish pan-European licensing, taking into account safety standards and possible mutual help should a station suffer a terrorist attack.

To realise the aims the EU has set itself, ways will have to be found of stimulating the massive scale of investment needed, most of which must come from the private sector. Energy investments have some distinctive characteristics. They are mostly long-term, and vulnerable to unpredictable future changes, such as alterations in political ideology or technological change. Interested parties will not make investments until these risks are covered, or at least reduced to an acceptable level. This means drawing up new forms of long-term contract, in which investors and insurers collaborate, but within an



overall regulatory framework set both at the EU level and nationally. With the opening up of the single market, competition policy so far has concentrated mainly on short-term market competition. EU policy towards monopoly might have to be rethought - for example, mergers might be necessary for companies to be large enough to cope with the huge costs that energy investments involve.

The problem of competitiveness remains a large one, both in the context of liberalised markets in Europe and in terms of global competition. Several factors could influence this situation. One is that both governments and markets accept that oil and gas prices will stay high in the long-term. A vital development is that individuals and groups in society begin to place environmental issues at the forefront. In the case of Japan, for instance, it is already the case that citizens and organisations are prepared to buy goods that are environmentally friendly, even when the cost is higher than others. Japan has actually reduced its dependence on oil and gas over the past 30 years, even though the economy has grown three-fold. The more such behaviour develops, the greater the incentives for manufacturers to respond to it, and the greater the chance of creating economies of scale. National governments have a fundamental part to play by designing legislation and tax regimes that will favour behaviour change. Much can be done on the EU level, however, including particularly helping to improve the efficiency of the energy market and the physical interconnection of supply.

Policy conclusions in the environmental area of course reach well beyond the themes discussed here, at least in the way that 'environment' is ordinarily understood. Climate change, air pollution and energy security are plainly the most important ones, however, since their actual and potential consequences are so large. Some core policy implications of the foregoing discussion can be stated as follows:

1. Ecological issues, especially those relating to climate change, must at this point be brought into the core of the theory and practice of social welfare. The rights and obligations of citizenship can also no longer attach only to the classical

framework of the welfare state, in which the environment is an externality. A positive welfare approach, limited to life-style change, is the way forward - not only risk management after the event, but more proactive strategies to improve life quality.

2. Ecological modernisation provides an overall guiding orientation. It means seeking to generate profit-wielding opportunities for investors that have environmental benefits, either through technological change or through increasing competitiveness. However, government policies - at national and trans-national level - must play a central role. Policies include directly influencing life style change, providing favourable conditions for R&D, and setting up appropriate tax regimes for these, plus long-term investment. The medium- and long-term limits of ecological modernisation are imponderable, but they are visible at any one point in time, since investors will only take risks where there is a clear possibility of adequate return.
3. Environmental issues have to be taken out of the hold of the green movement, since otherwise they appear to be in the hold of a special interest group or groups. Green concepts and terminology in general should be regarded as suspect, particularly insofar as they concern a return to 'nature', hostility towards science and technology and competitive markets.
4. We cannot treat climate change any longer as just a possibility for the future. We should act on the presumption that it is already happening and that even in the medium-term its harmful effects will worsen. This means taking measures now against known or possible dangers - for example, protecting areas vulnerable to flooding and to more extreme weather conditions than those known in the past; and considering insurance and health implications. The EU should draw up a survey of vulnerabilities with national and pan-European plans of action, to be implemented as soon as possible.
5. There are clear opportunities to upgrade and revise energy policy, as far as possible within a framework of ecological modernisation. Much older plants in any case need to be

replaced. Creating the conditions for the investment needed will require initiatives at the EU level as well as national policies. The physical connection of the electricity grid and the establishing of a gas security and storage plan should play a major part.

6. The EU stated plans for coping with Europe's energy needs and responding to climate change are ambitious, especially in the longer-term. At the moment, they lack effective means of implementation, and a lot more detailed work will need to be done. But in the shorter term it might be asked whether they are in fact ambitious enough. Some countries in Europe are planning to move much faster and how far they succeed should be closely monitored.

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1 *The Economist*, Sept. 30, 2004.

2 SAPIR, André (coord.) with the collaboration of Philippe Aghion, Giuseppe Bertola, Martin Hellwig, Jean Pisani-Ferry, Dariusz Rosati, José Viñals and Helen Wallace, with Marco Buti, Mario Nava, and Peter M. Smith, *An Agenda for a Growing Europe - The Sapir Report* (2004), Oxford: Oxford University Press

3 Figures are for 2004.

4 The Lisbon Strategy has recently been supplemented by a new five-year Social Agenda. See European Commission: Communication on the Social Agenda, Brussels, 9 February 2005.

5 Aiginger, K. (2005), *Towards a New European Model of the Reformed Welfare State: An Alternative to the United States Model*, Economic Survey of Europe, United Nations, New York and Geneva, No. 1, 2005.

6 Dieter Helm, *European Energy Policy: Securing supplies and meeting the challenges of Climate change*, paper prepared for the UK Presidency, October 2005, p. 10.

7 *Creating an Innovative Europe*, Report of the Independent Expert Group on R&D and Innovation appointed following the Hampton Court Summit, January 2006, p. 30.