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SUSTAINABLE SOCIAL JUSTICE AND « OPEN CO-ORDINATION » IN EUROPE

In March 2000, the European Council held a special meeting in Lisbon, at which a new and ambitious strategic goal was assigned to the European Union for the next decade. In the broadest terms, this goal is "to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion." The modernisation of the European social model was part and parcel of this new strategic goal: "Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty."

The Lisbon Summit not only promoted social policy as a distinct focus of attention for European co-operation; at the same time it laid the methodological foundations for a new Europe-wide approach to social policy, called "open co-ordination". Succinctly stated, open co-ordination is a mutual feedback process of planning, examination, comparison and adjustment of the social policies of Member States, all of this on the basis of common objectives.

Expectations ran high after the Lisbon Summit. The next step was to turn these solemn declarations and new principles of co-operation into practice. One immediate challenge was to make "open co-ordination" operational and effective in the field of social inclusion and pensions, two areas singled out as priorities for co-operation. This was a key ambition during the Belgian Presidency of the European Union in the second half of 2001. We were able to finalise a first round of effective open co-ordination on social inclusion, which was launched in December 2000, with a set of common conclusions drawn from the first Member States' National Action Plans on Social Inclusion. And we reached a political agreement on common quantitative indicators to monitor the Member States' performance with regard to social inclusion. We also reached agreement on common objectives for our pension systems, and a procedure for applying open co-ordination to pensions from 2002 onwards.

In order to put the pension challenge into a broader perspective, I asked Gosta Esping-Andersen, together with Duncan Gallie, John Myles and Anton Hemerijck, to present a scientific report on the evolving architecture of the European welfare states to a conference organised by the Belgian Presidency in Leuven in October 2001. Their brief was to reflect upon the *Gestallt* of social policy at the beginning of the new century, both from the point of view of desirability and feasibility. Admittedly, such a brief encompasses difficult and far-reaching questions. The report had to be explicit on the underlying issues of social justice (what are common European objectives of social policy) and on issues of political methodology (how can European nations co-operate to enhance their performance, in view of these common objectives?). This book is based on their excellent conference report.

The analysis of this book strongly supports the idea that open co-ordination of social policies in the European Union, if applied judiciously, can contribute significantly to the achievement of sustainable social justice for Europe's citizens. In this Foreword I would like to comment briefly on the idea of sustainable social justice and on the role of open co-ordination.

Sustainable social justice through an active welfare state

The Lisbon conclusions refer to "an active and dynamic welfare state". The Belgian government coined the expression "active welfare state" in 1999 to capture the combination of three ideas. First, it refers to a goal, viz. a state of *active* people. We want to enable all citizens to participate in the mainstream of social and economic life. Second, it is no coincidence that our objective is still called a *welfare* state: the traditional ambition of providing adequate social protection for those who cannot participate actively, or who have reached the age of retirement, is entirely preserved. Third, the notion suggests that we need an "*intelligently active state*", i.e. it refers to the way in which government should conduct and manage its social policy.

The idea of the active welfare state builds upon some widely shared convictions with regard to social policy that came to be accepted during the 1990s in most European countries. These boil down to four main points.

First, welfare policy cannot be reduced to questions of employment and unemployment, but employment is nonetheless the key issue in welfare reform. Moreover, the nature of the employment objective has changed. Full employment as it was conceived in the past in most European countries, was employment for men. The social challenge today is employment for men and women. This is linked to the transformation of family structures and our changed conception of women's role in society. It points to the need to rethink both the architecture of the welfare state and the distribution of work over households and individuals as it emerges in the labour market.

Second, during the nineties there was growing consensus that active labour market policies should be higher on the agenda and made more effective, both in quantity and in quality, by tailoring them more effectively to individual needs. Active labour market policies presuppose a correct balance between opportunities, obligations and incentives for the people involved. Hence, taxes and benefits must not lead to a situation in which the poor (or their families) face very high marginal tax rates when their hours of work or their wages increase, or when they take up a job. More generally, mechanisms in the current social security systems that discourage people from being active should be discarded as much as possible.

Third, the welfare state should not only cover traditionally defined social risks (unemployment, illness, disability and old age), but also new social risks, such as single parenthood or a lack of skills causing long-term unemployment or inferior employment. And it should respond to new social needs, such as the reconciliation of work, family life and education, and the need to be able to negotiate changes within both family and workplace over one's entire life cycle. This is crucial. Yes, the traditional ambitions of welfare policy still remain and are subject to greater pressures than ever, as a result, for example, of demographic change. But now they co-exist with new challenges. It should therefore be obvious that rolling back the welfare state is the worst conceivable option: we don't need less, but more welfare.

This brings me to the fourth point that is now accepted by most policy makers. The traditional welfare state is, in a sense, predominantly a passive institution. It is only once an undesirable outcome has occurred, that the safety net is spread. It is surely much more sensible for an active state to respond to old and new risks and needs by prevention.

An intelligently active state recognises the individual vulnerability that is the result of social dependency. But it recognises at the same time that this dependency can often be avoided. Increasing dependency is no law of nature but the result of socio-economic changes, which in turn react to human intervention. What is needed, in addition to social spending, is social investment, such as in education and training. I concur with the authors that social investment is not a substitute for social spending. The idea that the "social investment state" can replace much of the traditional welfare state is unrealistic, especially given that we live in an ageing society, with ever more people dependent on benefits and social spending because of age. For that reason, the term "active welfare state" is to be preferred to the notion of a "social investment state".

What I have said, so far, about the active welfare state is probably not controversial. Certainly, most people would agree that "getting people back to work" is an important ambition. Let me nevertheless ask a question that, at first sight, seems redundant: why does this matter? Why should we aim at more "active participation" in our society?

A first possible answer is that of a macroeconomic book-keeper with a social conscience, pointing to the ageing of the population. If demographic ageing increases the ratio of non-working to working members of the population, then the ratio of the average social security benefit of the inactive population to the average wage of the working population can be maintained only by increasing the financial burden on those who work. Those who want to keep social benefits at the same level as wages without increasing the financial burden on the latter, have to counteract the ratio bias between the non-employed and the employed. This argument of sustainability, which people on both the right and the left of the political spectrum accept, is valid and important. But it is rather limited in scope. What if there was no such demographic shift? Would a low activity rate then no longer be a problem?

There is a subtler argument as to why participation matters. Encouraging active participation, it is said, is the best weapon against poverty and the best guarantee for a fair income distribution. However, this argument too is not really sufficient. Obviously, for many individuals access to the labour market is crucial to escape from poverty. Yet, a cross-country comparison shows that promoting labour market participation is no substitute for income redistribution and the fight against poverty: more work does not necessarily mean less poverty. In the United Kingdom and the United States, for example, more people are at work, and for longer hours. But there is more poverty – in the active age bracket – than, for example, in Belgium. By contrast, countries such as Denmark succeed in reconciling extensive social protection with high participation. It is necessary and possible, therefore, to aim at both high levels of employment *and* social protection.

My defence of participation consequently stems neither from the concern of the macroeconomic book-keeper nor from the belief that we have discovered a substitute for social protection. What justifies fundamentally the importance I attach to participation is a conception of equality.

Since participation in social life is crucial for gaining respect from others and self-respect, the opportunity to participate actively in society is one of the basic opportunities that should be the right of everyone. Borrowing some terminology from John Rawls, the argument may be developed as follows. Rawls considers self-respect as perhaps the most important of his "social primary goods" (social primary goods are what social justice should distribute fairly). Rawls takes it that in a well-ordered society self-respect is secured by the public affirmation of the status of equal citizenship for all. But, he adds that self-respect requires that there should be "for each person at least one community of shared interests to which he belongs and where he finds his endeavours confirmed by his associates." In Rawls' conception of social justice "the social bases of self-respect" are to be distributed *equally*. If I am right to include the opportunity to participate in the social bases of self-respect, then justice requires that the opportunities to participate be shared equally too. Or, at least, an unequal distribution can only be just when it works to the greatest benefit of the least advantaged.[1]

This normative rationale necessarily refers to participation in society in the broadest sense, rather than participation in the labour market. Indeed, if the defence of more active participation draws its strongest argument from the postulate that participation is a Rawlsian "social primary good" for every individual, it cannot be narrowed down to merely participation in the labour market. In that case, participation should also include other activities that can be used to build up respect and self-respect. These may include caring for a friend or a family member, voluntary social or cultural work or education. From this point of view, the growing number of women in the labour market may equally lead to policy measures aimed at activating men in the household, and social participation may also stand for active ageing, where the elderly are no longer regarded as dependent but rather as productive people who can make valuable contributions to society.

This normative justification directly feeds back into labour market policy. If participation is seen as a social primary good, the quality of jobs becomes as important as the quantity, as rightly emphasised in Duncan Gallie's chapter. Also, this broad interpretation of participation implies new rules for the organisation of tomorrow's full employment of both men and women. I am, for philosophical reasons, no supporter of a universal, unconditional basic income. But I do support a labour market in which it is easy to enter and exit on a temporary basis, perhaps to care for children or parents or to take refresher courses, or perhaps just simply for a battery recharge. The existing enterprise culture, which drains people's creativity and energy between 25 and 40 and considers those above 55 often as increasingly unproductive, is not compatible with the "full employment" model of the future.

My egalitarian argument for the importance of participation has yet other consequences, notably for the way in which we have to integrate the idea of "individual responsibility", an expression often used in the context of activation. Let me elaborate upon this, with specific reference to my own social-democratic stance. Responsibility can be a slippery notion, and social democrats are sometimes hesitant about referring to responsibility in the context of social policy: they fear it is a euphemism for the sort of mindset which holds that benefit recipients are guilty of sloth until they provide proof to the contrary. But as a simple matter of fact, the increasing emphasis on individual responsibility is not only the result of the popularity of such a dislikeable ideology; it is also nourished by sociological developments, namely the nature of new risks (such as skills shortages and single-parent households) and the link that is made, rightly or wrongly, between these risks and personal behaviour. These developments cannot be ignored. The traditional social security approach of insurance against unpredictable risks was mechanistic and based on supposedly objective statistics and probability theory. Judgements about individual behaviour were pushed into the background. That is now changing, also for the sociological reasons I mentioned.

But apart from this sociological observation, we owe it to ourselves to clarify what we mean by "personal responsibility", at least if we assume that real equality of opportunity is the essence of social democracy. Indeed, one cannot explain what equality means if one doesn't

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[1] My summary of Rawls' complex argument on self-respect, developed, for instance, in §67 and §82 of his *Theory of Justice*, is so brief that it cannot do justice to his theory. Moreover, Rawls does not explicitly refer to "participation" in the sense in which I use it, and the relation I assume between equal opportunities to participate and "self-respect" requires a more elaborate argument than I can present here. One should also note that Rawls raises the issue whether or not "maximin" might apply to the social bases of self-respect (thus deviating from the equality benchmark) but does not develop it.

make clear what individual responsibility, on the one hand, and societal responsibility, on the other, really stand for.

Allow me to give a trivial example. Suppose that we lived in a world without social security. Two sons inherit from their father. Although they have had the same education, they are very different. The elder brother is very sober and fully satisfied with what life has to offer. He is much ‘happier’ than his younger brother who needs champagne and caviar each day to be happy. If their father splits his inheritance exactly in two, the eldest will be happier with his share than the youngest. Yet nobody doubts that the equality principle has been adhered to. Now suppose that the two brothers have the same consumption patterns but that the eldest is perfectly healthy and the youngest has been paralysed since birth and requires all kinds of medical equipment. If their father divides his inheritance in two equal parts, we may find that the equality principle has been violated. Why? Because we generally regard a difference in taste as a matter of individual responsibility – for example, because we classify it as produced by “free will” - whereas no one would ascribe an innate physical impairment to an individual’s responsibility.

My egalitarianism is based on the conviction that it is unfair that individuals should be put at a disadvantage by characteristics or circumstances for which they cannot be held responsible. Two conclusions follow. First, pursuing equality is by definition responsibility-sensitive. Otherwise we end up with absurd implications (holding, for example, that equality requires the father to bequeath more money to the son with luxurious habits). Second, since the equality principle is the very cornerstone of social democracy, the principle of individual responsibility requires a context of full solidarity with those who have become victims through circumstances beyond their control.

Viewed in this way, the pursuit of equality is not a question of equal outcomes, such as equal pay, independent of personal choice and effort. Yet it requires more than what is usually understood by “equal opportunities”. Individual choices are not determined solely by formal social institutions, but also by natural gifts and talents which individuals received at birth and through their early childhood. Those who want to give everyone the same opportunities but ignore such differences hold a narrow, meritocratic view of individual responsibility. In the view I am committed to, people cannot be held responsible for differences in talents, only for what they do with those talents. Here again, our philosophical stance has clear policy implications: even in a situation of formally equal opportunities (an objective that has so far not been attained) and full employment, there is still a case for income redistribution.

So a social-democratic commitment to participation and responsibility affects the shape of the welfare state. For a social democrat the active welfare state must meet four tests. First, the government’s task is not simply to invest in people in order to prepare them for confrontation with the market. A meritocracy, which offers equal opportunities but ignores any differences in talents, is no ideal goal. Even if opportunities are formally perfectly equal, differences in reward by the market do not necessarily reflect individual responsibilities. There is a fundamental argument for giving income redistribution (notably progressive taxation) a role of its own for the purpose of social justice. Second, society as a whole – including the government – is responsible for ensuring that the labour market can actually offer a sufficient number of opportunities. Third, the plea in favour of participation as a social primary good gives rise to a broad definition of “active participation” in a labour market that is positively flexible from the point of view of individual and family needs. And fourth, it continues to be the duty of social democrats to make provision, in addition to the easy rhetoric about the moral responsibilities of the poor and the powerless, for a more difficult rhetoric about the social obligations of the rich and the powerful.

My account of the normative rationale for active welfare states is certainly not complete. If we were to pursue the reference to the Rawlsian basket of "social primary goods", which social justice aims to distribute fairly, we would have to include not just participation (as a social basis of respect and self-respect), but also income and wealth. How should we treat such a multidimensional basket of primary goods in a conception of social justice? I will not enter into this complex discussion. Moreover, if we were to stick to a literal interpretation of Rawls' *Theory of Justice*, we would be confronted with ambiguity concerning citizens' individual responsibility.[2] Let me however conclude by adding a qualification to my own emphasis on responsibility, or rather by raising a problem. Not all the dilemmas we face when implementing social policy can be reduced to 'equality with responsibility'. Some consequences of individual choices – choices for which people are responsible – are so dramatic, and the ensuing vulnerability so overwhelming, that we want to correct these effects anyway. Intensive care units admitting two critically wounded drivers will not ask themselves, for example, which of the two violated the traffic regulations and which one did not. The same applies to a great number of decisions where the question 'how did you get in such dire straits' is simply not asked. This is compassion – a notion which some think has no place in the rigorous field of justice but rather supplements it. But surely protecting the vulnerable can claim an independent place as a requirement of justice when we speak about the welfare state? Protecting the vulnerable, sometimes irrespective of the cause of their vulnerability, is a positive responsibility which society should assume.

Where are we to draw the line? Which principle should we appeal to in concrete situations? This is not an easy question since the two starting points I mentioned earlier — responsibility-sensitive egalitarianism on the one hand, protecting the vulnerable on the other — do not arise from one key principle; they may even be at odds. We must dare to admit that this is probably inherent in any such philosophical reflection. Some will stress the first basic principle rather than the second. Perhaps social democrats differ from others in that they want to take both principles explicitly on board.

The life-cycle, financial sustainability,and justice

Gosta Esping-Andersen and his co-authors explicitly refer to a broadly Rawlsian conception of justice. Their highly interesting "life-cycle approach" also fits well into a broadly Rawlsian framework, since Rawls explicitly reasons in terms of citizens' "life prospects", or "expectations of well-being".[3] I fully support this innovative search for an explicit normative

[2] There is ambiguity in Rawls's theory when it comes to the question whether or not people are to be held responsible for their effort at work, as G.A. Cohen and others have pointed out. (Rawls writes "*That we deserve the superior character that enables us to make the effort to cultivate our abilities is also problematic; for such character depends in good part upon fortunate family and social circumstances in early life for which he can claim no credit. The notion of desert does not apply here.*", *A Theory of Justice, Revised Edition,* p. 89. However, when it comes to differences in "taste" Rawls' approach to character is rather different, and contradicts what he writes about character here.) I think differences in "effort" can legitimate differences in result, without violation of the principle of equality: what we equalize are opportunity sets. Elsewhere, I use the expression "responsibility-sensitive egalitarian justice", borrowed from Stuart White, John Roemer, and others, to denote the ensuing conception of justice. However, this conception is not a textbook Rawlsian approach to social justice. Yet, it is possible (albeit with some difficulties) to apply Rawls's "difference principle" (i.e. the maximin criterion) to a conception of justice based upon opportunity sets. What we take from Rawls, then, is not his whole theory, but rather the "difference principle".

[3] I write that the authors' approach is *broadly* Rawlsian, since, in comparison with the pension question Myles focusses on, Rawls examines a larger and somewhat different question when he discusses intergenerational justice and introduces his "just savings principle".

position, which is often lacking in social policy analysis. The life-course dynamics perspective is also highly relevant from a practical policy point of view. Indeed, we should firmly keep in mind that good pension policies – like good health policies – begin at birth. Investment in real equality of opportunity for children and the concomitant welfare policies that are needed, should be at centre stage, as Gosta Esping-Andersen argues.

John Myles moreover raises issues of intergenerational justice, and so ventures into a domain where the political and philosophical issues at stake are extremely complex. Formulating an unambiguous, philosophically justifiable standard for intergenerational justice that is politically acceptable for the various (European) actors involved is everything but easy. The living conditions of different generations can be as different as chalk and cheese, which makes reasoning in terms of *equality* (which is our benchmark for intragenerational justice) rather precarious. Also, a satisfactory forum for discussion does not exist. However "a-historical" our conception of social justice may be, it still is our view and we use it to think about the problem "here and now". By definition, other – possibly more sophisticated - future views on justice may evolve but this does not help us decide today.

Myles provides an extremely useful input into this complex normative discussion, by drawing attention to Richard Musgrave's proposal for intergenerational risk sharing. Let me introduce the argument as follows: a basic precondition for any pension system is that it must be "time-consistent". A pension system must be robust and flexible enough to avoid that some generation would one day feel entitled to abandon the prevailing implicit intergenerational contract. In other words, we must construct pension systems so that they will be considered "fair" by successive generations; time-consistency in this sense requires an accepted notion of fairness, which leads us to the realm of social justice.

Now, financial sustainability and social justice are often seen as uneasy friends at best, sworn enemies at worst. This is a mistake. Financial sustainability is not an "external" constraint befalling our pension systems independently from their internal logic. On the contrary, intergenerational (and intragenerational) fairness is a precondition for their sustainability. Consider the budgetary debate on pensions expenditure: the sustainability of the public pension system will be jeopardised, so it is assumed, if essential future government spending is crowded out by the costs of ageing; or if the system is sustainable only on the basis of unacceptably high taxes. "Crowding out other essential spending" and "unacceptably high taxes" are statements that signal problems of fairness towards future generations.

Musgrave suggested a conception of intergenerational fairness by proposing a solution for optimal risk sharing based on the *relative income position* of the working age population and pensioners: an implicit contract between generations based on a stable and "fixed" definition of relative living standards. Musgrave's point was that this divides the demographic and economic risks between the actives and retirees.

Admittedly, a "fair" spread of risks between generations on the one hand and intergenerational social justice on the other hand, are two different things. Or, as the Dutch Scientific Council for Government Policy put it in a report on "Generationally-aware Policy": "It is not so that sustainable solutions per se are either just or not, and that just solutions per se are either sustainable or not."[4] But there is common ground in the two approaches: creating a

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[4] Wetenschappelijke Raad voor het Regeringsbeleid, *Generatiebewust beleid*, Den Haag, Sdu Uitgevers, 1999, p. 89.
I discuss the problematic relationship between stability and justice (in a different context) in F. Vandenbroucke (2001), *Social Justice and Individual Ethics in an Open Society: Equality, Responsibility, and Incentives*, Springer Verlag, Berlin.

situation that is unsustainable in the long run is unfair to the generations to come. We want sustainable social justice in Europe. In that perspective, the Musgrave condition is an interesting reference point, but not necessarily an absolute and immovable criterion. Yet, although I endorse the relevance of Musgrave's "fixed relative income position", I would immediately like to amend his point slightly by introducing the dimension of care. When we focus on the relative income position of pensioners, we may neglect potential expenditure differences between the working age population and pensioners, such as expenditure differences related to health care and care for the elderly.

It is safe to assume that spending on care is relatively more important in pensioners' budgets. William Baumol's *unbalanced growth theory* would help us predict the likely long-run consequences. If, like Baumol, we were to divide the economy into two sectors: the care sector on the one hand, and the non-care sector (that is, all the other sectors) on the other hand, no doubt productivity would grow more slowly in the former. If we don't want wages in the two sectors to diverge, the cost "per unit of care" will probably increase more than the cost "per unit of product" in the rest of the economy. If the "price per unit of care" increases faster than the "price per unit of product" in the rest of the economy, the cost of living will increase relatively faster for pensioners, because the share of care is relatively larger in pensioner's budgets. Pensioners and the working age population have as it were, different consumer price indices: given our assumptions the real value of the euros of pensioners will decline faster than that of the working age population. If we were to base our reasoning purely on nominal income, we would therefore do pensioners an injustice in such a context. However, the argument that care will inevitably become more expensive for consumers crucially depends on the extent of public investment in the care sector: public intervention may protect the consumer's budget, by increasing subsidies for the care sector, by higher levels of reimbursement of care expenditure, etc.

This issue is obviously connected with the increasing professionalisation of care and, inevitably, also with the increasing employment of women (and of both men and women over 55). Since we now prioritise the goal of raising female activity rates, we must simultaneously recognise that this has enormous consequences for the provision of care to the frail elderly. I believe our analyses of Europe's social future have failed, so far, to integrate the challenges posed by the family-work-pension nexus with the challenges posed by the care nexus.

Obviously, the significance of all this requires empirical assessment. But, whatever the outcome, it makes more sense to require a "fixed relative position" between the generations (if that is the yardstick) in terms of *well-being* than to require it in terms of income. Depending on public investment in the care sector, it may well be that unchanged relative incomes yield a fall in relative well-being for the elderly.

Since the pension challenge is compounded by the increasing cost of health and elderly care in our societies, an adequate assessment of the future of social protection requires an integrated approach. After launching open co-ordination on pensions, preparing open-coordination between the European Union Member States on the challenge of health and care for the elderly may well be the next step to take.

These summary and incomplete reflections on rather abstract problems of social justice may appear surprising, coming from someone whose *métier* is politics. Yet, I firmly believe that politics and policy making need normative debate. Being a somewhat reconstructed Rawlsian myself, I am obviously pleased with the authors' reference to a broadly Rawlsian framework. To say, as the authors do, that "the European debate is quite close to the Rawlsian ethos", seems an overstatement; a Rawlsian conception of social justice would entail far more redistributive efforts than are currently undertaken in most European nations. Yet, I believe there is such a commonality of social values in the European Union, based on solidarity and the rejection of social exclusion, that it makes sense to reason in terms of a "European social model" (and to probe it along Rawlsian lines), notwithstanding the variety of institutions and social traditions in the Member States. However, it is high time to specify this rather vague notion of a European social model by means of more precise definitions of our common social objectives. That is, I believe, the principal role of "the open method of co-ordination", to which I turn now.

Open co-ordination and the definition of the European social model

Open co-ordination is a process where explicit, clear and mutually agreed objectives are defined, after which peer review enables European Union Member States to examine and learn from good practices. The method respects and is in fact built on local diversity; it is flexible, and aims to promote progress in the social sphere. To do so, it requires that we use comparable and commonly agreed indicators in order to monitor progress towards the common goals. The exchange of reliable information aims at institutionalising "policy mimicking", at least to a certain extent. Intelligent policy mimicking needs to be actively managed and "contextualised", as Anton Hemerijck emphasises. Well thought-out "benchmarking" requires three elements:

- firstly: reliable information on social policy and its results;
- secondly: evaluation of this information in the light of the commonly defined objectives;
- thirdly: evaluation of this information in the light of the local context of policies.

The latter is important, because otherwise benchmarking would easily appear "compulsive" to actors who find themselves in a completely different local situation. If we are insensitive to context, the "open method" will lose credibility and the whole exercise is unlikely to be successful.

This "open" approach is pragmatic, and this is why it can be an *effective* instrument for social progress. Thus, we have found a way that implies a credible commitment to a social Europe. This signals an important message to the European citizen, namely that Member States will defend our welfare states against a possible retrenchment, as a result of intensifying competition in an integrated European market and a globalising economy. Or, to use more popular terms, it is a signal that we will counteract "social dumping". With regard to "social dumping" there is, however, a need for nuances. Firstly, economic and monetary integration is only one of the many challenges. Today, adjustment is necessary because (a) the traditional fields of social protection, such as pensions and health care, will require more resources and (b) because new social risks and needs have emerged. Secondly, experience, so far, does not suggest that European integration necessarily leads to welfare retrenchment. To the contrary, in many countries the single market has reinvigorated the formation of broad social pacts and the need to rethink - rather than roll back - welfare state programmes.

Nevertheless, it would be naïve to just extrapolate from current experience. Increased factor mobility within the Union will undoubtedly affect welfare states in the long run. We should not forget that we are still at the dawn of a long process of European Union enlargement. In light of these developments, the need for an explicit definition of the European social model is now greater than ever. This brings me to what I consider to be the principal added value of the open method of co-ordination.

This added value is far greater than, simply, the fruits of policy learning or a defence against a competitive "race to the bottom". Common objectives are *essential* because they allow the much discussed but rarely specified "European social model" to be translated into a tangible set of agreed objectives, to be entrenched in European co-operation. For the first time, thanks to the open method of co-ordination, the rather vague idea that the European Union embodies a distinct social model, based on common social values, is given content by means of precise definitions.

Open co-ordination is both a cognitive and a normative tool. It is a "cognitive" tool, because it allows us to learn from each other. This learning process is not restricted to the practice of other Member States; national policy makers can also learn a lot from the underlying analyses and normative views within other Member States. Open co-ordination is a "normative" tool because, necessarily, common objectives embody substantive views on social justice. Thus open co-ordination gradually creates a European social policy paradigm.

The "soft" character of open co-ordination is often met with scepticism. Yet by means of "soft" co-operation and consensus building we can go far beyond solemn but vague declarations at European Summits. This is, at this stage, the most promising way to give concrete shape to "social Europe", as a large region in the world in which sustainable social justice will thrive. Open co-ordination can fulfil that ambition if it is used in a judicious way.

Open co-ordination is not some kind of fixed recipe that can be applied to whichever issue. The methodology we have now applied for the first time in the field of social inclusion differs from the open co-ordination that, via the so-called Luxembourg process, has been developed already since 1997. The methodology with regard to pensions will again be somewhat different. In December 2001 it was agreed that Member States would be invited to present a "national strategy report on pensions"; the European Commission and the Council will then agree a joint report at the European level "to analyse the national strategy reports with regard to the broad common objectives and to identify good practice and innovative approaches of common interest to the Member States". Common conclusions on pension policy should be integrated into the Broad Economic Policy Guidelines, drawn up by the European Union every year. Thus the methodology in the field of pensions, agreed upon at the end of 2001, envisages a fairly "light" process in comparison with the other existing open co-ordination processes.

To ensure a successful application of the open method of co-ordination, five key principles have to be met:

Firstly, this is only one method amongst others. It is no panacea we can apply to all European social issues. We cannot rely solely on open co-ordination to reach social Europe. Legislative work is important, as is evident in the need for the portability of social security rights when we move within the European Union

Secondly, we must not mix up the objectives and instruments of social policy. Mixing up these elements goes against the spirit of subsidiarity that is fundamental to the open method of co-ordination. But that is not the only reason why I emphasise this. *How* we achieve something is undeniably important, but thinking ahead about *what* we want to achieve is obviously what matters most. This may seem a trivial point, but in practice it is sometimes forgotten. For instance, the debate on the future of our pensions has been dominated for a long time by elaborate comparative analyses of the relative efficiency of pension *instruments*, that is, of pay-as-you-go systems versus funded systems. This involves definitely important questions but the debate should not get bogged down in a debate on instruments. When we apply the open method of co-ordination, we must focus first on the objectives.

Thirdly, all possible instruments should be included in the analysis. "Comprehensiveness" is particularly important in the field of pensions, as John Myles's analysis in this book illustrates very convincingly. Let me elaborate a little on this.

In discussions on the demographic transition and financial sustainability, it is often assumed that countries with a relatively strong first (public) pillar have a particular disadvantage. But this may well prove to be an optical illusion.

According to the basic rules of macro-economic accounting, pensions represent a claim on the output of services and goods. For any pension system, the real cost of the retirees boils down to their expenditures on services and goods that have to be provided for by the people who are active at that given time. So conceived, the demographic problem is one of an increasing share in spending. From this angle, it makes no difference whether these expenditures are accounted for within the public ledger, or not.

As Myles argues, adequate benchmarks and indicators must therefore be based on the total social cost of pensions, and not only on public expenditures. Such a comprehensive approach requires the establishment of reliable, and indeed comprehensive, social accounts. A shift of costs to the private sector lightens the budgetary burden, but offers few solutions to tricky questions like intergenerational equity and intragenerational justice – it may even lead to less equity and justice. A comprehensive approach to the pension challenge requires us to revisit not only our public pension pillars, but also the regulation of our private pillars.

Shifting to private systems under budgetary pressure is no solution in itself: it does not require less government, but a different kind of government, capable of regulating the private sector. Thus we are far beyond the primitive stage where the question was "for or against" the second pillar, or alternatively "for or against" pay-as-you-go. With reference to the reform of the second pillar that is currently underway in Belgium, I would say the crucial question is: to what extent can private systems provide a supplementary *social* protection, which is easily accessible for the many, not just the few? I am pleased that such a comprehensive approach, including all the relevant pension vehicles, is an agreed feature of the process of open co-ordination that will be launched in the field of pensions.

The *fourth* principle concerns the choice of "benchmarks" used to put objectives into practice: when we define our standards, we have to be realistic and ambitious at the same time. We definitely need *best practices* in the learning process: feasible "standards of excellence" instead of already acquired standards of mediocrity.

The *fifth* principle for a useful application of the open method of co-ordination is eminently practical. Progress cannot be measured in the field of social exclusion and poverty without comparable and quantifiable indicators. For this reason, developing a set of common EU indicators with regard to social inclusion was a top priority for the Belgian Presidency, and we were very pleased to reach a political agreement on this by the end of 2001.[5]

This fifth principle is the actual litmus test for the political readiness to engage in open co-ordination. However, I should emphasise that the purpose of a common set of indicators is

[5] Atkinson, T., Cantillon, B., Marlier, E., Nolan, B. (2002) *Social Indicators: The EU and Social Inclusion,* Oxford University Press, Oxford.

not a naming and shaming exercise. If there is a "rank order tournament" at some stage of the process, it should exclusively serve the purpose of improving the overall record of all European welfare states through, amongst other things, the identification of best practices. Indicators are not a vehicle for defining any pecking order among Europe's nations, but a tool to preserve and reinforce the quality of social protection for the benefit of all Europe's citizens.

A final question, raised at the Leuven conference where we discussed the content of this book, is about the relation between open co-ordination and democratic decision making in Europe. One of the potential gains of open policy co-ordination is that it requires all national governments to prepare and discuss their policy reforms "in public", and this, moreover, simultaneously. Open co-ordination definitely implies "openness" in that sense too. On the other hand, the intergovernmental nature of open co-ordination, without formal involvement of the European Parliament, points to a democratic deficit. In my opinion this constitutes an important question for the debate on the future of Europe's institutions that will be prepared by the Convention, decided upon at the December 2001 Laeken Summit.

Let me conclude by emphasising again that open co-ordination is not a panacea, let alone a magic formula. Yet, an effective open method of co-ordination is more than an intelligently managed learning process and a defensive instrument. If we employ it judiciously, open co-ordination is a proactive and creative method that allows us to define "social Europe" in more specific terms and to anchor it firmly as a common collective good at the heart of European co-operation. This method can provide the key for people to be able to identify Europe with sustainable social justice. At this stage of European co-operation, open co-ordination is clearly a promising way to realise this ambition. We should sail thoughtfully, but we should embark on the voyage with all due speed.

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