

European social policy

Is co-operation a better route than regulation?



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In the autumn of 2000, the British and Belgian governments exchanged views on social policy before a critical audience of academics and students in the university town of Leuven. Only a few years ago, such an open-minded cross-Channel dialogue on social policy would have been unthinkable, not least because it was deemed too difficult to compare national social policies given countries' very different historical and institutional backgrounds.

However, a few years ago, there was also an unbridgeable difference of opinion on a very basic question: namely, whether or not employment and social protection are mutually exclusive objectives. The conservative assumption that creating jobs and improving social protection are irreconcilable objectives eliminated any basis for discussion. European governments are now convinced that an intelligent welfare state is not a burden, but a productive input for society. Well-organised social protection creates social capital, which is an asset for a well-functioning society, not a liability.

European co-operation on social policy is

possible now because of a shared understanding of this fundamental idea. The twin goals of active participation in the labour market and social inclusion require all European decision makers to address the same set of commonly definable challenges. The expression commonly used to summarise

this is the 'active welfare state' and it points to three ideas:

- the goal is to create a society of active people
- in order to achieve this goal, an intelligently active state is needed
- this goal must be achieved without giving up the old ambition of the welfare state offering adequate social protection.

There is a Europe-wide convergence of views on the future of the welfare state.

Indeed, despite important national differences in practical policies, systematic comparison of social policies shows a number of fixed points on which many European governments agree. This was confirmed at the Lisbon Summit in 2000, where social policy as a distinct focus of attention for European co-operation was explicitly introduced along

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with the methodological foundations for a Europe-wide approach to it.

Social policy is first of all the responsibility of local, regional and national governments. No one advocates imposed uniformity or harmonisation for its own sake. Nevertheless, the EU should make active welfare states possible, support them and indicate policy directions for both employment and social protection.

The method proposed in Lisbon involves a mutual feedback process of planning, examination, comparison and adjustment of the social policies of member states. This should be done on the basis of common objectives – the so-called open method of co-ordination. With expectations running high, principles and solemn declarations must be turned into an operational and effective reality in the field of social policy.

The open method of co-ordination: fixing priorities

There is a strong and convincing precedent for the open method of co-ordination in employment policy. Contrary to the fears of sceptics when it began in 1997, the discussion of the National Action Plans (NAPs) on employment and the elaboration of European Guidelines for Employment Policies turned out to be a substantive exercise addressing both the quantity and quality of employment.

Similarly, a common European strategy on social protection should be a process where explicit, clear and mutually agreed objectives are defined, after which peer review enables member states to examine and learn from best practice in Europe. It should not be a process where the EU takes over national competencies. However, best practice should be taken literally here. What Europe needs is an exercise in ambition in social policy, establishing standards of excellence rather than mediocrity.

In 1999, the Council of Ministers for Labour and Social Affairs identified four key objectives that may underpin increased co-operation:

- to make work pay and to provide secure income
- to make pensions safe and pension systems sustainable
- to promote social inclusion
- to ensure high quality and sustainable health care.

Since not everything can be done simultaneously, priorities have to be set. At the 2000 Lisbon Summit, two chief issues emerged: social inclusion and pensions.

Social inclusion: objectives in the process of being defined

Member states have been invited to develop their national priorities within the framework of the following objectives:

- facilitating participation in employment and access for all to resources, rights, goods and services
- preventing the risks of exclusion
- helping the most vulnerable
- mobilising all relevant bodies.

It is important to stress that these general objectives have been specified in more detail, referring to decent income and housing, access to health care and education, and so on. This broad scope is not surprising: social exclusion is a multidimensional problem.

Each EU member state should present a National Action Plan, including a description of the nationally determined indicators and follow-up methods. On the basis of a first analysis of the Plans, the open method of co-ordination can then really get underway, with the first common conclusions drawn by the end of 2001.

The need for indicators

It is impossible to monitor progress with regard to social inclusion without comparable, quantitative indicators on outcomes – a complex and sensitive issue. The six indicators in the box have been proposed by the European Commission. Although there is political agreement that appropriate indicators are needed

EC indicators

- *The distribution of income or income quintile ratio, which compares the share of a country's income received by the top 20 per cent of its population with the share of the bottom 20 per cent*
- *The number of people below the poverty line (before and after social transfers) where the poverty line is defined as 60 per cent of the median equivalised income*
- *The persistence of poverty, where the indicator measures the share of the population consistently living below the poverty line for three years*
- *The number of jobless households defined as working age households that have no person in employment*
- *Regional disparities: variation in regional GDP per capita across regions, measured in terms of purchasing power parity*
- *The proportion of those aged 18-24 with only lower secondary education and not in further education or training*

to monitor developments in social policy across the member states, there is still a long way to go with detailed discussion of particular indicators likely.

Establishing a link between indicators and objectives

Social exclusion is a multidimensional problem, and a set of indicators that truly reflects the various relevant dimensions of national policies is needed. To arrive at an intrinsically adequate and politically acceptable set, both a top-down and bottom-up approach is required. The top-down approach can be based on general structural indicators such as those developed by the EC. The driving force behind the bottom-up approach should be the National Action Plans. To be submitted by June 2001, these will use national indicators, those that nation states themselves find the most appropriate for the diagnosis and follow-up of their own social policy.

It is perfectly feasible for the two approaches to meet at some point, preferably by the end of 2001. Achieving consensus in this field is a major ambition of the Belgian presidency of the Union. The result would be a set of shared indicators linking ambitions and progress in fighting poverty and social exclusion in member states to the objectives agreed by the Nice

European Council. This way of proceeding carries the promise of making subsidiarity work, and to everyone's benefit.

A good example of a set of national indicators is contained in the British government's document *Opportunity for all* (2000). As an example of the consistent, even uncompromising use of indicators in assessing certain policy choices, it may serve as best practice in its own right, a prime example for all governments wishing to monitor their own policy choices with indicators of success.

The Belgian government has also committed itself to ambitious quantitative targets: to halve the number of people living in poverty by 2010 and to decrease drastically the number of minimum income beneficiaries within five years. Highly innovative labour insertion policies, based for instance on partnerships with interim employment agencies in the private sector, are to be complemented by increases in the minimum income guarantee. This usefully illustrates the twin goals of increased active participation in the labour market and better social protection for those who need it.

Pensions: a decisive issue for the European social model

Progress in co-operation on pensions in 2001 is imperative as the length of time an indi-

vidual spends in retirement and dependent on pension income increases. The privilege of having a good pension will become even more important and the drawback of not having a decent one more distressing. At the same time, the decreasing number of working-age people per pensioner will make meeting that social challenge more difficult. Population ageing will be on such a scale that, in the absence of appropriate action, it risks undermining the European social model.

It is for member states to decide what pension system they want and how they will ensure its financial sustainability. However, the fundamental challenges are shared by all countries. Whatever the decision, the pension issue cannot be divorced from the existing dynamics of economic and monetary integration. For example, if a member of the eurozone were to resort to massive deficit spending in order to finance pay-as-you-go public pensions, all other members would be affected. Conversely, massive liberalisation in the domain of supplementary pension funds would not be without impact on national social security systems.

In Belgium, the objective of the first pillar of the pension system is to guarantee access to a decent pension for all. To safeguard financing for this when the baby-boomers become pensioners, a silver fund is being created – a budgetary or disciplinary device using earmarked debt reduction to build up a demographic reserve. New legislation on the second pillar aims to make adequate supplementary social protection via sectoral pension funds a privilege for the many, not the few. Pension funds will have to meet a number of social criteria if they are to benefit from a supportive tax regime. Obviously, a liberalising European competition policy over supplementary pension funds should take such social objectives into account.

The debate on the future of pensions is often one-sided. It focuses on the issue of ensuring the financial stability of systems to the exclusion of other equally important

issues related to ensuring the positive social impact of pensions. A broad perspective, ensuring that the long-standing social objectives of systems can be taken into account fully as member states prepare their systems for demographic ageing, is required.

The first task is to establish consensus on a number of common social objectives. These revolve around the adequacy of pensions, intergenerational fairness, solidarity within pension systems, gender equality, sustainability and so on. A start must be made on co-operative action to learn from the good practice of member states and progress should be apparent during the Swedish and Belgian presidencies in 2001.

The challenge: turning principles of co-operation into co-operation

The ultimate objective is to make Europe a place of active welfare states, where employment and social protection go hand in hand. Stripped from all jargon, the distinctive European social model is a prosperous society that does not tolerate poverty, a creative society that also offers security and confidence in the future. Important and wide-ranging as it is, reform of the institutions of the EU hardly appeals to most of Europe's citizens. The political news created in Brussels, the messages which inform public opinion in Europe, should not only be about institutions or monetary and economic matters, but also about social matters, in a way that is genuinely supportive of what best practice has to offer.

Fortunately, this inspiring project is already under construction, with the notion of a European social model coming to play an important role during the Portuguese presidency in the first half of 2000. Now flesh and bones must be added to that abstract notion, with a practical approach that is both ambitious and feasible. Despite different national policies, this will be possible if based on the shared fundamental conviction that employment and social protection are twin goals ●