

Report of the High Level Group on the future of social policy in an enlarged European Union

Employment & social affairs

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The content of this report reflects the opinion of the High Level Group only and does not necessarily reflect the opinion or position of the European Commission.

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Introduction

The current social policy agenda of the European Union, outlined in the Commission communication of June 2000 and approved by the Nice European Council in December 2000, covers the period until 2005. The next social agenda will cover the period 2006-2010 and will be implemented within the framework of an unprecedented and continuing enlargement.

The High Level Group¹ was established by the Commission to identify the main challenges, opportunities and pathways for action for the European Union over the period 2006-2010 in the field of employment and social policy.

The Group adopted a strategic approach, trying to identify key ideas for social policy in an enlarged Europe and to define some major policy orientations. If these policy orientations are to be adopted, it would be for the Commission to define the actions (legislative proposals, consultations of social partners, funding programmes, communications, coordination of Member States' policies, ...) necessary to implement them, taking into account the fundamental responsibilities of the Member States in social policy.

The Group has adopted a broad interpretation of its mandate. Even if the next social agenda will cover the period 2006-2010, the Group deemed it necessary to analyse patterns determining long-term trends, in particular concerning demography. Some of its recommendations go beyond social policy *stricto sensu*, regarding for example education or innovation.

The Group took for granted the definition of the European social model adopted by the Barcelona European Council in March 2002, according to which: "The European social model is based on good economic performance, a high level of social protection and education and social dialogue". This definition relies on the two basic elements of the social model in all Member States: a tradition of social dialogue and a high level of social protection against the risks of life. It also stresses the necessity to combine social cohesion with good economic performance.

The philosophy of this report is based on the necessity to keep the balance between economic and social policy.

Since the creation of the European Communities, social policy has always been lagging behind economic policy and it is probably one of the major achievements of the Lisbon Strategy to try to put them on an equal footing. It is today one of the main concerns of the European Parliament and of the ETUC that the balance between economic and social policy has been broken.

¹ See composition in annex 1.

The Group deems it absolutely necessary in an enlarged Europe to keep the balance between economic and social policy, even if the terms and conditions of this balance must move along with the world economy and the evolution of our societies in order to achieve a real synergy between them.

The Group worked for one and a half year and heard many experts². It conducted hearings of the social partners, E.T.U.C. and UNICE, and of the NGO's, and had a session with a delegation of the European Parliament.

The purpose of this report is not to present a comprehensive review of the Social Agenda but rather the policy orientations in need of development. We hope this report can make a useful contribution to the debate which will involve the various stakeholders in order to prepare the next Social Agenda.

² See annex 2 which contains the schedule of the work and the list of experts heard.

Key Messages

The High Level Group has identified three major challenges for the next social agenda (Chapter 1):

- Enlargement
- Population ageing
- Globalisation

It deems it necessary to design the next social agenda within the framework of the Lisbon Strategy, even if this strategy has to be updated (chapter 2).

It has defined five major policy orientations (Chapter 3):

- Focusing the European employment strategy on 3 objectives: to extend working life; to implement life long learning; to address economic restructuring;
- Reforming the social protection systems
- Fostering social inclusion
- Allowing European couples to have the number of children they desire
- Developing a European immigration policy

The Group proposes to combine all the European instruments to reach these strategic goals (Chapter 4). In another section, the report provides a summary of the policy recommendations in an operational context.

Beyond these policy orientations, the Group would like to convey five main messages which could inspire the next social agenda:

- **To improve the contribution of social policy to growth, competitiveness and social cohesion** by developing lifelong learning, modernising work organisation and reforming social protection
- **To extend working life** by increasing the employment rate not only of the senior workers and of women but also of the young. We can both extend and improve working life by offering men and women a more flexible pattern of life, combining working periods, training periods and periods dedicated to children and to the elderly. This implies the promotion of mobility over the life cycle both through working arrangements and social protection.
- **To foster social inclusion and invest in children and young people.** Even if social policy currently focuses on the elderly and the sustainability of pensions, we must not forget that many young people are today at risk of poverty in Europe and that they will play a key role in the future of our societies.

- **To create a new demographic dynamism.** History – the post war period – and geography – the example of United States compared to Japan – prove that demography is a key factor in the dynamism of a society: if we want to instil confidence and dynamism in our too often gloomy societies, then we should:
 - develop a more selective and better integrated immigration;
 - allow the young couples to have the number of children they desire.

- **To promote good governance in social affairs throughout Europe.** Taking into account the differences between Member States, especially in EU-25, European social policy should define common objectives and not try to harmonise the social systems, which is both impossible and incompatible with the European political framework. It makes it all the more important to promote good governance at EU level as well as in each Member State.

Through these different messages, the idea of **a new intergenerational pact** emerges. The present intergenerational pact is focused on the elderly and based on fears: fears of ageing and of its consequences on the pension system and on the labour force; fears of migrations...

The new intergenerational pact should be focused on the young and based on confidence: it is now time to turn all these fears into a win-win process based on a positive perception of the future and a new intergenerational balance.

The European Union could contribute through the next social agenda to the emergence of this new intergenerational pact which should involve the Member States, the social partners and civil society.

1. THE CHALLENGES

The High Level Group has identified three great challenges for the next social agenda.

1.1. Enlargement

1.1.1. What can we learn from past enlargements?

Southern enlargement teaches some lessons which are of great interest for the present enlargement:

- **Strengthening democracy as a major driving force for enlargement:**

The memory of authoritarian systems was still fresh. European Community membership was seen as helping to consolidate democracy and strengthen the rule of law.

- **Modernisation of the economy and catching up with the EU in terms of income and social welfare:**

The modernisation of the economy and society was a second important expectation in the new Member States. The economies of these countries were still fairly closed, exposure to trade was limited and economic structures were rigid. However, modernisation had started already prior to membership. Becoming a Member State was seen as instrumental in sustaining the pressure for further modernisation.

These expectations have broadly been met, in spite of timeframes differing widely. In some countries it took a long time until the benefits of the participation in the common market and the Community became measurable in terms of higher growth and productivity.

The initial economic situation and the business cycle immediately following enlargement have had a major impact on economic integration and thereby also on economic developments of the new member countries.

- **Foreign Direct Investment (FDI) and Structural Funds facilitate adjustment:**

The overall assessment was that both FDI and the Structural Funds helped adjustment. However, one should not forget that FDI flows were much greater in some countries than in others and that the composition of the structural funds differed greatly. There is evidence which suggests that countries which had put more emphasis on human capital and social development may have benefited more from the European financial assistance.

- **The fear of social dumping vs. too high standards:**

While some Member States were afraid of southern enlargement because of the lower levels of wages and social standards, there was also the opposite concern in the new Member States who feared a negative impact of Community norms on their competitiveness. Overall few of these concerns proved to be justified. FDI from the "old" Member States and the application of Community social and labour standards also helped to raise standards in terms of productivity and working conditions.

- **The fear of migrations:**

Before accession there were substantial concerns about major movements of people to "old" Member States, in particular to those which already had a core of migrant workers from these countries.

Overall, observed immigration remained limited and started to decline rapidly. The power of pull and push factors weakened. Unemployment grew in most "old" Member States while the economic prospects at home improved. The evidence suggests that differences in earnings levels do not necessarily lead to major movements, particularly if the situation in sending countries is improving and workers see prospects for economic and social development at home.

- **The importance of good governance:**

The experience of Southern enlargement emphasises the importance of a well functioning public administration. A solid institutional set-up for policy making and implementation is a pre-condition for successful integration. It also provides the basis for adjusting the legal framework.

As to the future, legislative and administrative reforms will continue to have a high priority in the ten new Member States after accession. An additional question is to what extent the EU-15 could see this process as a learning exercise to improve its own legal and administrative systems and institutional setting.

- **The key role of the system of wage bargaining:**

Not surprisingly, wage developments determined considerably the path of economic and social catching up in Southern Europe as they are of key importance for labour market outcomes. The systems reflect national circumstances and traditions. Little evidence could be found for social dumping ("artificially" keeping wages down), although country patterns differ. The situation observed was more one in which wage developments reflected overall performance.

The Group gave special attention to German unification. The hearings of experts underlined the importance of building the institutional architecture for wage bargaining at a moment of regime shift. The first wage negotiations relevant for the former Eastern German economy were held without having regionally based representatives of workers and employers in the new Länder. As a result, the final outcome did not take adequately

the expectations and needs of the local workers and enterprises into account and also resulted in a negative effect on the employment situation. This experience underlines the importance of representative and active social partners for a positive management of the adjustment process. This includes that the actual wages paid do not follow the collective wage negotiations in all cases and thus weakens the institutional architecture of collective bargaining. The migration of workers caused by low wage levels is a great challenge, not only for the institutions.

On a more general note, one can also learn from the situation of East Germany after unification that the necessary institutions and especially the difference and variety of societal organisations have to be developed (namely the political institutions like parties on all levels, the social partners; the NGO's and others). Otherwise the simplicity of the political and societal structure will not match with the complexity of the challenges of a developed economy and society. Public programs (legal and funding programs) should enforce such institution building.

1.1.2. We have to address the fears linked to enlargement

The experience of southern enlargement and German reunification shows that it is important to address the fears which either the people or the policy makers of the former EU-15 or of the new Member States may have.

The key issues for the EU-15 Member States are social dumping, defined as low wage competition and low labour and social standards, major migration flows from the East to the West, and the reallocation of investment and production, also commonly referred to as 'de-localisation'.

The key issues for the new Member States are how to cope with the challenges resulting from the continuous transformation of the economies, the modernisation of their societies, the full participation in the single market, and the application of the *acquis communautaire*.

Past experiences, including German re-unification, show that understanding expectations of the people and responding to them pragmatically are important for good management of the years after enlargement.

1.1.2.1. The fears of the EU-15 Member-States

- **Fear of migrations:**

Contrary to the popular discussion, there is little to fear from immigration from the new Member States. At the same time, there is little to hope in terms of solving the ageing problem.

The expected immigration impact of enlargement, if substantial, will be limited:

- partly because income differentials alone do not create mass migration ;
- partly because these differentials are not that high if calculated in Purchasing Power Standard (e.g. Czech Republic, Slovenia, Hungary);
- partly because the groups most likely to migrate will see new opportunities in their home countries because of the positive economic impacts of enlargement.

According to estimates of the DIW Berlin, initial migration would be around 300.000 per year in the first years and decline progressively to less than 50 000 per year within one decade. The overall effect may amount to 3% of the population of the Central and Eastern European countries or 3 million persons.

While overall interest in immigration will be limited in the new Member States, the young could be more active; and in border regions with strong labour demand commuting could become important. The Roma could also give rise to specific movements of population.

Moreover, the demographic structure of EU-25 Member States is similar: the median age of the Central and Eastern European countries was, at almost 37 years, slightly below that of western Europe in 2000 (39), but it will exceed that of Western Europe before 2035 ; the share of the 20-29 years age group, i.e. the age group with a high propensity to migrate, is declining in the new Central and Eastern European Member States (and other source countries).

Some new Member States are rapidly developing into host countries, receiving immigrants from the Eastern neighbours of the enlarged EU, which will have an impact not only on these countries but on the enlarged EU as a whole. This suggests that it would be more appropriate to speak of mobility into an enlarged EU than about immigration from the new to the “old” Member States.

Free movement of persons and non-discrimination on the basis of nationality for all EU citizens are fundamental principles underpinning European integration. But it appears that EU-15 countries have not used the possibility to liberalise access to their labour markets during the two initial years following enlargement for employees coming from new Member States.

Two years after membership, the Commission will present a report on the situation and the current Member States will have to announce whether they intend to continue with national measures for a maximum of three years or whether they intend to apply Community rules on the free movement of workers. If an EU-15 country can show (a threat of) serious disturbances on its labour market, it may continue to restrict access to the labour market for an additional two years, thus until 2011.

• **Fear of social dumping:**

The fear of social dumping is quite understandable as the new Member States join the EU of 15 with an average income level around 46% of the EU-15 average and a generally lower level of wages than was the case of the Southern enlargement. Average monthly gross wage levels amounted in 2000 to 40.6% of the EU-15 average³. Nevertheless, this wage level corresponds broadly to their productivity levels which were in 2000 just below 50% of the EU-15 average – measured as productivity per person employed. In all these countries wages increased substantially during the last decade as a result of economic growth which was on average higher than in the EU-15. Wages are likely to continue to grow faster than the EU-15 average. In the early stage of economic reforms administrative regulation of private sector wages was abandoned and wages are mainly resulting from collective bargaining, the main segment of which is at the plant level. All of the new Member States are bound by basic ILO Conventions guaranteeing freedom of association and right to bargain collectively. All of them are also party to the European Social Charter of the Council of Europe. Substantial modernization of the labour legislation and its adaptation to market conditions was an integral part of the reform process and its future challenges are similar to those in EU-15.

The Group cautions, furthermore, against too definite predictions about the short and medium-term development of the new Member States and the impact of enlargement on the economic and social situation in the enlarged EU. For example, it is not clear when the beneficial effects of full participation in the single market will become visible and whether there could be serious adjustments costs in some sectors or regions of the new Member States.

• **Fear of economic restructuring:**

The starting point for Eastern enlargement is different from the Southern ones concerning the gap in income per capita, but also the degree of integration of the new Member States' economies into the EU economy. While the gap is markedly higher, the degree of integration is also higher in terms of FDI and trade. The enlarged EU will not only be a bigger economic area but will also be immediately more integrated in terms of trade and FDI.

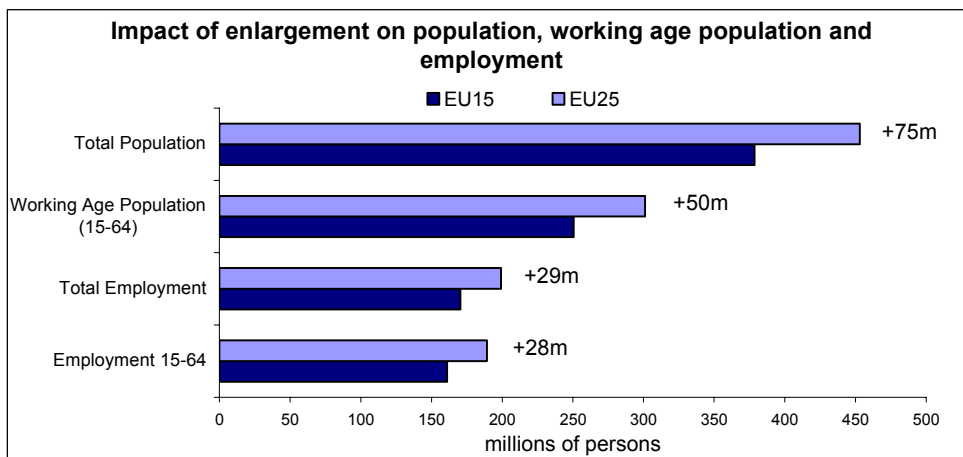
Catching up and convergence to the EU average will take a long time, even under the assumption of a straight path of convergence. The impact of enlargement on the aggregate employment rate will be limited, but will be marked on the overall unemployment rate.

So far, there is no particular evidence of any overall tendency for the new Member States to specialise in particular market or industries -i.e. inter-industry specialisation across countries. There is some evidence of growing intra-industry specialisation -i.e. product differentiation by particular companies in particular countries. This evidence implies that the economic and employment impact within the EU-15 countries will be seen more

³ All sectors but agriculture, education, health, social service and public administration.

through the relative performance of different companies in different countries than through some overall change in relative competitiveness between industrial sectors.

Globally, all these fears do not appear founded: **the impact of the 10 new Member States will only be of the order of 75 millions on population and about 30 millions on employment.**



Source: Demographic statistics and QLFD (comparable annual estimates based on LFS and ESA95), Eurostat 2002 data

1.1.2.2. The fears of the new Member States

- **Severe economic restructuring:**

Since 1990 most transition economies have undergone very substantial structural change with employment in agriculture and in manufacturing declining and with employment in services increasing. There are, however, big differences between the former transition economies and between them and the EU Member States. This reflects also different pathways of economic and industrial developments. The more advanced economies are moving towards the industrial patterns of the "Northern" EU Member States. Romania and Bulgaria are at much earlier stages of economic restructuring.

The potential of services remains tremendous with two thirds of the FDI concerning the sector of services (banking, water...). It is important to support the development of the services sectors to promote growth, absorb unemployment and to meet the demands of the population, as service sector development is essential to create new jobs.

One should not overlook the fears of further restructuring amongst the population in the new Member States, particularly given that the safety nets and unemployment benefits cannot mitigate the adverse effects of change.

- **The need for an effective catching up process:**

All enlargements have given rise to a catching-up process for the new Member States. In the present enlargement, the stakes are still higher because of the Economic and Monetary Union.

As regards real and nominal convergence, the audition of experts showed agreement on the following points:

- It is necessary to adopt a case by case approach: the situation of Estonia, Latvia, and Lithuania is, for example, very specific given their low public debt.
- In the long term, there is no contradiction between nominal and real convergence: they are in harmony.
- In the short term, a distinction is to be made between:
 - . nominal convergence, which is necessary to a certain degree;
 - . fixed exchange rates which may lead to severe real adjustments, as shows the experience of the European Union in the 90's after German reunification;
- One key condition for progress in catching up in terms of incomes and in promoting employment and social welfare is pursuing structural change in the economy and promoting reforms of institutions and policies. It seems appropriate to adopt economic policies which facilitate structural reform and provide for some flexibility concerning reducing inflation and the budget deficit.

1.1.3. One great challenge: the implementation of the “*acquis communautaire*”

- There are altogether *four gaps* to be taken into account:
 - the broad and integrated approach to social policies in the Lisbon Strategy and the somewhat narrowly defined understanding of social policies in the accession process;
 - less efficient social dialogue might cause some difficulties in implementation and enforcement of social *acquis* since social partners are still weak in most of the new Member States, especially on the employers' side and at the sectoral level ;
 - the character of social policies as a core of Union policies in the Amsterdam/Lisbon approach and the trend to a liberal neglect of social policies in some new Member States in the recent past;
 - the pronounced, strongly egalitarian expectations of major parts of the population in the new Member States concerning social policies in general, and the EU contribution in particular, and the economic and political realities in this respect.

Policy makers in the enlarged EU need to take account of these gaps to avoid serious difficulties in policy development and implementation.

- The EU-25 will face changes in the *priorities and complexities* in an enlarged EU.

There is little doubt that enlargement will add *complexity* in the fields of employment and social protection because of the wider diversity of situations and increasing cross country inequalities. There is rapid industrial restructuring in certain parts of the EU, mostly but not solely in the former transition economies and due to the inevitable decline in agricultural employment. If coordination works well, the potential gains through exploiting synergies for the EU as a whole and for individual Member States could be larger.

Whether enlargement will also *raise the profile* of these policies in a similar way, as is likely to happen for monetary and economic policies, is an open question and will depend to what extent the integrated approach of the Lisbon strategy will be strengthened or weakened in the EU policy making after enlargement.

Moreover, in certain areas of EU social and employment policies, *new conceptual efforts* will be needed, including quality in work, where we have in mind particularly health and safety, flexibility and security, migration and health.

The old stock of equipment in industry and the structure of the economy in many of the new Member States make the tasks of improving quality in work and health and safety in the work place difficult but also particularly important. Low quality working conditions are among the reasons for low life expectancy which also points to broader social policy issues including health and retirement.

The present system of work organisation and the restructuring needs cry out for more flexibility in working arrangements but there is a strong and legitimate desire for the provision of appropriate protection of the workers affected by these necessary changes.

Maybe the most striking new challenge emerges concerning EU policies towards ethnic minorities, an area in itself rather new to the EU.

- All aspects of the *social acquis* are not sufficiently *transposed and implemented* in the new Member States. It is important to distinguish between transposition and actual implementation of the acquis. Concerns arise in both respects but implementation is particularly weak in health and safety and equal treatment. Health and Safety in the work place was seen in the past as a trade union domain and not as a key element for modernising the economy and sustaining a high level of employment and participation over the working life. There are still strong inequalities in treatment between men and women.

The problems are multiple: SMEs have little understanding and capacity to adapt to higher standards; the administrative implementation structures should be further improved; social partners are often far from a modern understanding of health and safety issues. The modernisation of the existing industry structure is, because of the dated

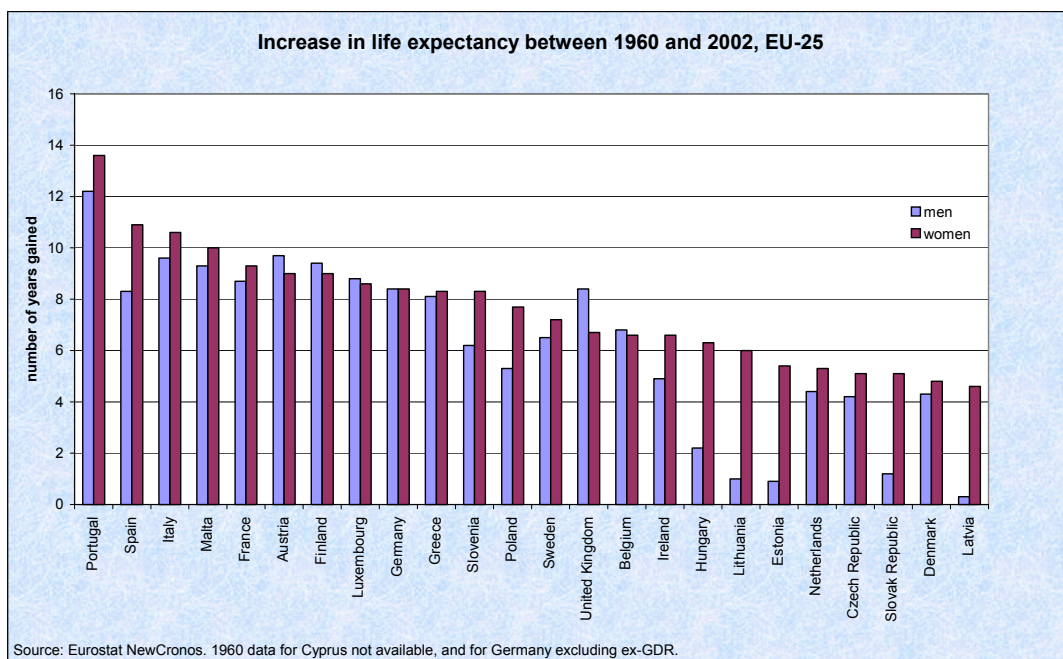
equipment, very costly. This requires a deep rethinking on the side of most actors: workers and employers, as well as public authorities.

1.2. Population Ageing

1.2.1. Demographic trends will change dramatically during the period 2010-2020

- **Population ageing** results from 3 cumulative factors

Increase of life-expectancy

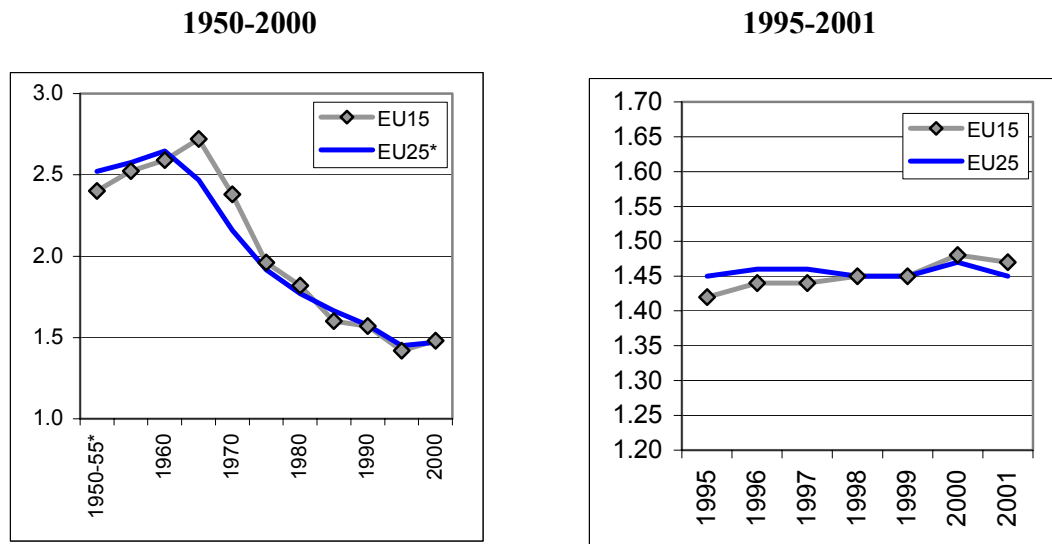


Life expectancy increased by 8 years from 1960 to 2000 – although much less than in the preceding part of the century, this is still an impressive increase particularly as mortality shifted to more mature ages. The new Member States have lower life expectancy (65-72 men against 73-78 in EU-15, 75-78 women against 79-83 in EU-15) and need to catch up.

Moreover, one may say that the 50-60 year olds of today are in the same good health as the 40-50 year olds of 40 years ago.

Low fertility

Graph 2: Total fertility trends in the EU-15 & EU-25, 1950-2000⁴ and 1995-2000



Fertility rates increased in most of Europe up to the mid-1960s and sharply declined afterwards. Trends towards some recovery in some Member States, most significantly France, had a limited impact on the overall rate which increased only marginally from 1999-2001 from 1.45 to 1.47. The new Member States had a sort of baby boom in the 1970s and 1980s (notably Poland) but the decline in birth rates afterwards was also very marked and they are now down to 1.1 to 1.3: i.e. levels similar or even lower than the Mediterranean Member States.

While one should not overlook the broader social and cultural context resulting in smaller family sizes, there is a gap in surveys between the actual number and the desired number of children women have. France and the Nordic Member States have higher fertility rates partly because of better provisions for combining child care and work, and partly because of family friendly policies.

The shock of papy-boomers

The ageing of the baby boom generation, originally an important source of economic growth, led to a level change in the age structure of the population and will lead to

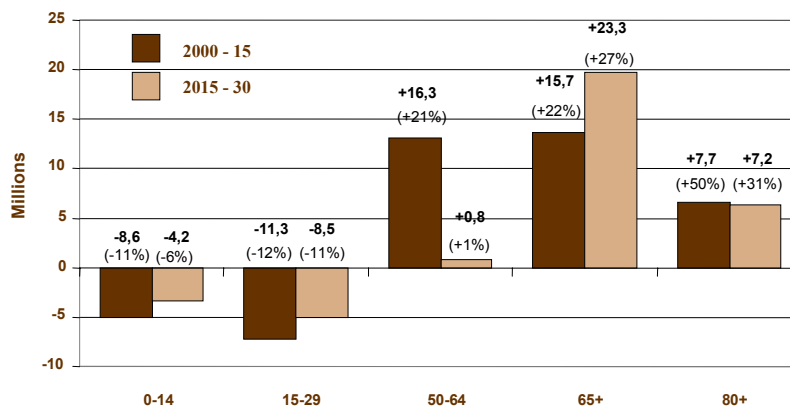
⁴ Eurostat does not provide fertility data for EU-15 that goes further back than 1960. In this graph Eurostat data have therefore been combined with data from the UN.

structural shift in the old age dependency ratio. In 2010-2020 the baby boom generation in most EU countries will be in the 55-65 year age bracket and in 2030 the totality of the baby boom generation will have passed 65. Germany and the Netherlands are the front runners, whilst Italy, Spain and Portugal are the last.

- **Changes in the age-structure**

The youngest age group will decline by 11% from 2000 to 2015 and continue to do so by 6% until 2030. In the short run this implies less demand for societal resources for education and childcare and the opportunity for substantial improvements in these areas.

Change in certain age groups between 2000-2015 and 2015-2030 - EU25



Source: Eurostat 2000 Demographic Projections, Baseline Scenario

The young age group in the labour market will decline at an even quicker pace and will particularly do so in the Southern and the new Member States. Structural change through better inflows of educated young people will be less frequent than in the previous 20 years of economic and social development.

The older age group in the labour market will increase from 22 to 28% of the working age population with obvious implications for labour market functioning, life-long learning and retirement policies.

The age group above 65 will increase by 22 and 27% respectively with a strong impact on the old age dependency ratio. The ratio of the population over 65 to the working age population will increase from 25% in 2002 to 27% in 2010, 30% in 2015, 32% in 2020, 40% in 2030 and 48% in 2040 and will remain at this level for the following years. Such a trend change will have a remarkable impact on pension sustainability for the over 65. It

is worth noting that the majority of the rising group of the retired are resourceful enough to be able to support their families and communities.

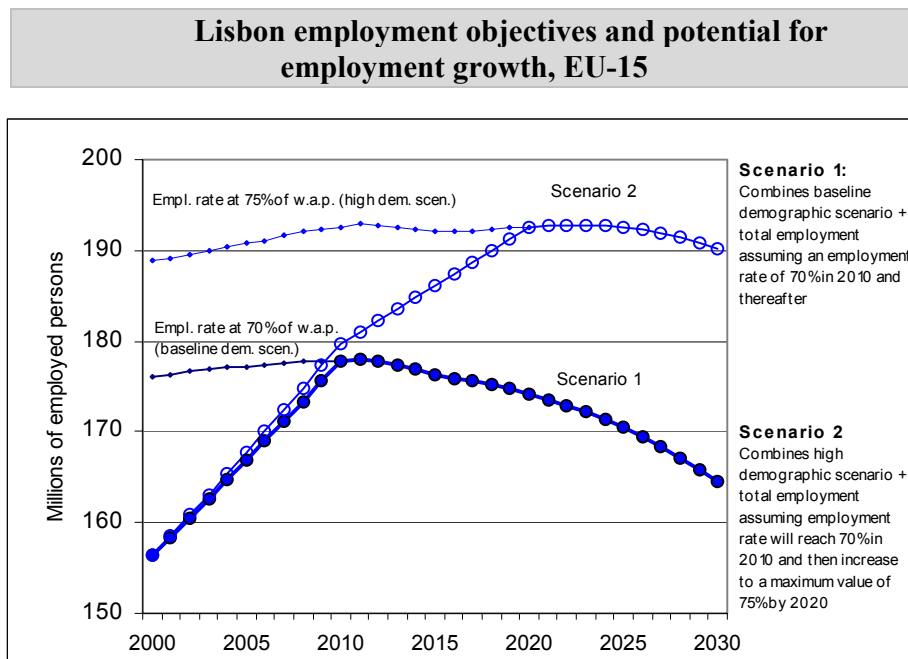
Finally, the age group of the 80+ will increase very strongly and will amount to 20 Millions people in 2015 and to 27 Millions in 2030 with new demands for health and care, as well as leisure services.

These basic trends underline the importance of the period 2006-2010 – last window of opportunity before the working age population begins to shrink- and of the period up to 2015 when the old age dependency ratio starts to increase sharply.

1.2.2. Impact of ageing

- **On the labour force**

The graph shows two scenarios, based on different assumptions on the employment rate and demographic trends. In the first scenario – baseline forecast scenario from Eurostat - immigration remains at the level of 620 000 per year; in the second it increases to 930 000 per year, a level observed in 2001 and 2002. At the same time, scenario 2 is based on higher fertility rates and a higher level of life expectancy at birth – the total fertility rate reaches 1.86 in 2015 in the high demographic scenario compared to 1.62 in scenario 1 and life expectancy for men increases with more than 2 years from scenario 1 to scenario 2 in the year 2015. In the second scenario the employment rate increases and reaches 75% in 2020, whereas it remains at a level of 70% in the first scenario.



Source: Eurostat demographic scenarios

Under the assumption of a constant employment rate this implies that the volume of employment will start to decline. Even if the EU reaches the “Lisbon” level of 70% by 2010, the total potential labour supply will shrink as the working age population shrinks.

Post 2010, employment can only increase further if immigration increases, the employment rate continues to rise, or both happen at the same time.

An increase of the employment rate to 70 and further to 75% is not impossible for the following reasons:

- There is, in several Member States, ample room for a substantial increase in female participation.
- There is pressure for delaying the exit age from the labour market clearly articulated at the Barcelona European Council asking Member States to delay the average age at which people leave the labour market by 5 years (from de facto around 60 to 65 years). However, the EU will need to overcome huge barriers to reach this target, notably: cultural and social attitudes, economic structures and prejudice which favour early exit.
- There is, in many Member States, ample room for a substantial increase in the employment rate of the young (under 26), compared to the U.S.A. for example.

A permanent immigration flow of 1 million per year as observed in 2001-2002 would increase the working age population and make it easier to face the immigration push from neighbouring and more broadly from developing countries. Higher levels of immigration are likely to have a positive impact on the economy in terms of labour supply but also of innovation capacity. It is often argued that recent economic trends in the US and Japan are partly explained by the totally different immigration dynamics leading to very different demographic dynamics. Success depends on labour market integration and social inclusion.

- **On potential growth**

The question on the volume of employment is crucial for Europe's future economic and social prosperity. A decline in the volume of the labour force in the course of the next two decades would lead to a slowdown in potential growth, unless compensated for by an acceleration in long-term productivity growth.

However, an accelerated long-term productivity growth may not be compatible with an ageing workforce, as the example in Japan shows. At the same time, an increase in the employment rate will contain overall labour productivity growth.

The two scenarios set out below show an order of magnitude for the development of potential growth over the next decade:

Potential growth projection

	1996-2000 (1)	2000-2010 (2)		2010-2020	
		Lisbon targets	Projection	Scenario 1 (3)	Scenario 2 (4)
Employment growth	1,6	(5) 1,3	1	-0,2	0,7
Productivity per employee	1,4	1,7	1,5	1	1,5
GDP growth	3	(6) 3	2,5	0,8	2,2
GDP per capita growth	2,7	2,8	2,3	0,7	1,8
population growth	0,3	0,2	0,2	0,1	0,4
Annual net migrants	836000	641000	641000	622000	933000

(1) Real situation.

(2) Based on the relevant baseline scenario. To be noted that real migration is most likely to be higher in the 2000-2010 period.

(3) Scenario 1: Baseline demographic scenario and 70% employment rate

(4) Scenario 2: High demographic scenario, higher productivity, employment rate reaching 75% by 2020

(5) 1.3% employment growth over a 10 year period would be sufficient to reveal the 70% employment target

(6) Lisbon concluded in paragraph 6 "an average economic growth rate of around 3% should be a realistic prospect for the coming years"

Given that a growth rate in per capita productivity of some 1.5% would be comparable to, or higher than, that attained at the peak of the most recent economic cycle (1996–2000), a one-point reduction in potential growth cannot be excluded in the next decade. Even in scenario 2, a 3% growth rate would imply an increase of productivity to 2.3%.

If the EU wants to sustain a good level of economic growth ($\geq 2\%$), a policy to increase the working life and the working-age population is imperative. Therefore, the EU should pursue scenario 2. Only such scenario could lead to a significant delay of the decline in the volume of employment, as opposed to undergoing this shock already in 2010.

Scenario 2 is moreover realistic in the sense that immigration is likely to be closer to 1 million people per year than 620 000 per year, in particular if the EU would embrace an economic immigration policy as recommended by the High Level Group. In addition, also the change in fertility is possible, considering that the high demographic scenario is based on fertility rates which are currently approached by the EU countries with the highest fertility level.

1.2.3. Social changes

- **The situation of younger generations**

Reviewing the long-term population trends almost naturally focuses on the rise in the older population and the implications for pension sustainability. However, one should not overlook that the risk groups in EU societies are not necessarily or not predominantly older people.

Three facts are outstanding:

- Single parent households and certain one person households have greater risks of poverty ;
- Young people are more at risk of unemployment and, if at work, of low income ;
- Relative distribution of income and property is not favourable to young people.

The reasons are many. Legislation sometimes provide for specific wage rules for young people. Wage structures often follow seniority rules. Recent tax and benefit reforms have not favoured younger people or the typical expenditures they have to undertake. There have been marked rises in the costs of the items on which younger people need to spend major parts of their incomes. Benefit reforms aimed at making public finances and the pension systems more sustainable had in some cases a strong impact on the incomes of younger people.

The intense debate about pension reforms should not hide the deteriorating income situation of the young generation, a trend the High Level Group considers as a main concern. First, younger generations need, for social policy reasons, more support (for some also with a view to reversing fertility trends). Secondly, the younger generations, as the key labour force of the next decades, need high quality education and training. Thirdly, because of the economic pressures, the younger generations perceive reforms, which may aim at the long-term sustainability of welfare systems, as a threat to them rather than as in their interest.

- **Role of the social partners and a new intergenerational pact**

All this suggests that our societies need to look for a new intergenerational balance. At present, reform of social policies, in particular pension reform, is based on fears. This applies also to the migration debate. Business fears losing its best people and a source of labour. People fear the impact of an increase in the number of migrants. The older generation fears for their pension income and looks for stability; and the younger generation feel that they face by far more pronounced uncertainties than previous generations.

There is a need for turning all these fears into a 'win-win' process based on a positive perception of the future and a new intergenerational balance. The social partners have a key role in this. The trade unions need to move from articulating the fears of groups of

the labour force to promoting change. The employers should invest more in the workforce, in order to increase people's capacity to adapt to new work organisations and circumstances. This would be facilitated by Governments presenting reforms as a response less to threatening scenarios, but to the opportunities arising from structural change in the interest of all.

1.3. Globalisation

Globalisation appears as a key driver of change

Trade is at the centre of globalisation: 20% of the world's GDP is exported; trade has also the strongest international regime through the WTO and the present WTO round will lead to a further increase in global economic interdependence. However, inequalities are enormous: East Asia success is matched by the total failure in Africa in terms of trade.

Increase in FDI has been particularly spectacular however, mostly within the developed world. Financial flows are of concern, in particular in the developing world where rapid movements have affected growth negatively.

Rising immigration push is another element of a more globalised economy induced by inequalities in income and growth between countries and regions.

It appears that Europe must choose between 2 scenarios:

- a passive scenario which involves high risks of delocalisation ;
- a proactive strategy to benefit from the opportunities of globalisation and to play a positive role in the development of the world economy.

1.3.1. Exploring new opportunities for job creation in a globalised economy

- **New areas of jobs creation:**

Globalisation is changing very fast the specialisation patterns of investment and jobs creation in each country, redrawing the map of the international division of labour. The European Union should reposition itself into new areas in this map in order to create more and better jobs. For this, it is necessary to develop a more pro-active strategy to benefit from the opportunities of globalization.

The Lisbon Strategy aims at giving a positive answer to globalization by redeploying investment and jobs creation to new areas. Therefore, it is very important to target these new areas and their opportunities by an enhanced coordination of the policies concerning trade, competition, industry, innovation, education and training, and employment.

The external markets create a wide range of new opportunities. The current WTO Round is bound to create more opportunities for trade and foreign investment not only among developed countries but also with the developing countries (i.e. the “Development Round”). The reform of the international financial system can play a key role to underpin this process, which will also be shaped by the European capacity to have a more co-ordinated voice in these arenas. After the failure of the Cancun Conference, it is very important to relaunch the negotiations in the multilateral framework, overcoming the bottlenecks by negotiating more “win-win” trade-offs.

A good combination of the policies for international trade, cooperation and development aid make it possible to foster new opportunities for investment and jobs creation in Europe by exporting products and services to developing countries. This is already the case, for instance, of European companies specialised in providing these countries with tailor-made technologies, services and consultancy for sustainable development, health or telecommunications modernisation. Also the bilateral agreement with Mercosur brings new possibilities.

European integration itself also creates new opportunities. First, there is the effect of enlargement: catching up process, managing real and nominal convergence, inter-sectoral and intra-sectoral specialisation, foreign direct investment, capacity building, the European policies and standards as a leverage, to name just a few components of the process. Second, regional development with its new priorities for economic and social cohesion policies play a role. Third, there is the benefit from the completion of the internal market with the opening of markets for goods and services, integrating the financial markets, and managing restructuring the process. Fourth, Economic and Monetary Union is instrumental in coordinating macroeconomic policies to promote sustainable growth and to enhance strategic priorities for public investment. Fifth, the European research area with its networks for excellence, integrated projects and coordination of national initiatives, and creation of high skilled jobs provide new incentives for development.

Societal changes also create new opportunities, where a wide range of combinations between private and public initiatives can be used as illustrated in Box:

New jobs opportunities due to societal changes

- adapting to environmental concerns
- developing of family care services
- expanding pre-schooling education
- spreading lifelong learning services
- diversifying health services
- diversifying social integration services
- developing business services
- regional development services
- urban management services
- cultural management services

- external cooperation services

All these sectors are labour intensive and tend to be knowledge intensive.

Opportunities are also created by a new economic dynamism based on innovation in (1) new products and services; (2) process technologies; (3) business concepts; (4) management and organisation.

These opportunities can be enhanced by improving the framework conditions for restructuring and for entrepreneurship. Partnerships for innovation and European networks for innovation gathering companies, education, training and R&D institutions should be launched in order to foster this process which is critical to renew both the competitive factors and the employment structure. Moreover, networks and measures to disseminate the new technological and management solution across SMEs can play a key-role in the same direction.

This focus on innovation, defined in broader terms, can lead to productivity gains which are more based on value adding as against labour saving. This can propel a growth path where higher levels of competitiveness are easier to combine with more and better jobs.

- **Equipping people for the new jobs:**

Investing in human capital and renewing skills is a central process for a knowledge economy. The Lisbon European Council and the subsequent Spring European Councils have defined a set of common objectives which should now be better specified by each Member State. Two different kinds of skill gaps should be addressed: the new basic competences to be embedded in all qualifications and the new occupational profiles to be targeted by education and training.

Most of the emerging jobs are requiring new basic competences such as:

- Personal competences: learning to learn; team working; networking; creativity; entrepreneurship; leadership; defining a project.
- Technical competences: PC user; Internet user; telecommunications user; environment-friendly behaviour.
- Theoretical competences: foreign languages; European and global citizenship; scientific developments; understanding cultural diversity.

Besides embedding these new basic competences in all qualifications, it is also necessary to address permanently the skills gaps regarding the new occupational profiles. For instance, in the information and communication technologies there are emergent occupational profiles such as software and applications development, software architecture and design, multimedia design, IT business consultancy, product design,

integration engineering, systems specialist, digital design, data communications engineering, communications network design.

It is necessary to define more ambitious education and training targets.

Cognitive education is fundamental to increasing performance in basic education and in lifelong learning. A first opportunity for cognitive education should be provided very early, during pre-school education. A second opportunity should always be available irrespective to the age.

Upper secondary education is considered the basis for a better performance in lifelong learning. High quality teaching as well as the involvement of the community and the family are critical to prevent drop-outs before this critical stage.

More ambitious targets should be defined for the higher levels of education and training. A permanent identification of skills should be provided by stronger interface between higher education and research institutions and companies. A very sophisticated knowledge management is required to train higher specialised workers. These should be some of the purposes of the partnerships for innovation and the European networks for innovation already mentioned.

The access to training activities should become a normal ingredient of the labour contract and the collective agreements, connected with working time and costs sharing between the company and the worker. Furthermore, the individual initiative should be fostered by learning accounts.

1.3.2. Adapting the European Social Model to globalisation

• **Despite the diversity between national systems, there is a distinct European Social Model** in that all national systems of EU countries are marked by the consistency between economic efficiency and social progress. The model requires a developed insurance component. At the same time, the social dimension functions as a productive factor. For instance good health or good labour law accounts for part of good economic results.

Three key compromises can be detected within the social model: between the state and the market; between labour and capital, requiring concerted action and a role for nation-wide agreements; and between the welfare state and individual responsibility.

In the 1960s, the conditions were excellent, with strong economic growth and low inflation. There is also a high level of training of the labour force. As a consequence, there was confidence in public affairs as well as in individual rights. Law and collective bargaining fulfilled a key role, the latter one through a truly credible commitment between employers' and workers' representatives. The strength of the European Social

Model was determined by the way in which competitiveness, solidarity and mutual trust interacted.

However, since the 1970s this model has become less effective. This is due to the fact that the appropriate conditions are not met anymore. The balance between economic efficiency and social progress has to be adapted to take account of changing economic environment and social context.

The fact that there is diversity between national systems means that the very substance can differ. This is clearly shown in the diversity of performance, as countries which have started adaptations and reforms earlier – such as the Netherlands or Denmark - score better than those where the re-definition of an appropriate balance is of a more recent date and important structural reforms to adjust the policies underlying the economic and social balance are still to materialise (such as Germany and France).

• **Globalisation**, like other key drivers of change, **puts the European Social Model under pressure and leads to the need to adapt it if it is to be sustained:**

-Social protection: the method of financing social protection is an area where adaptations are needed. The High Level Group considers a more equal distribution of the overall tax burden on all forms of revenues (capital revenues, profits, labour income, consumption, property, pensions....) to be important. Some Member States have made more progress than others in reforming the tax systems.

-Social dialogue: social partners should enlarge their field of negotiations and action to agree on new and more employment and innovation-friendly balances between flexibility and security. Social dialogue should also be developed at the international level using channels such as European Works Councils and international framework agreements.

-Social cohesion: globalisation may lead to social exclusion in the developed world by marginalising weaker groups and in the developing world by endangering the economic and social basis for their living. Social inclusion must be developed as a policy in itself, as the Program-law against exclusion passed in France in 1998.

-New securities: globalisation calls for new securities. Whereas after World War II, the welfare state was identified with social security, globalisation calls for new forms of security for the workers like lifelong learning and capital ownership.

Lifelong learning is a key policy instrument to protect people in the case of job loss or of even more fundamental changes in their working lives. With rapid technological change and a more global economy, people will need to change jobs and even their professions several times during their working life. This requires an education system which provides broad basic skills and the ability to adapt and learn. It also calls for an adult education system which makes life long learning a reality.

The labour market also depends on the capital market. Recent developments have proved the great vulnerability of companies whose capital is owned by Anglo-Saxon pension funds or hedge funds. If the EU wants to keep control of the economic centres of decision of its companies, it has to develop European pension funds as well as capital ownership by the workers themselves, which has already developed recently in many Member States in a very rapid and successful way.

It is crucial to embrace the concept that individual workers should show more responsibility. Declining responsibility on the grounds that more freedom provides a constraint, leads to a low quality work situation and thus also to low quality of life. In today's and tomorrow's economy, it seems difficult, if not impossible, to reconcile the economic and social dimensions in a successful way on both accounts if a worker cannot be convinced to take up individual responsibility.

To ensure that the benefits of a global economy are utilised and fairly shared, Europe has to play an active role in the international agenda to support economic growth and to ensure fair rules for trade and FDI. This requires action on international economic policies, support for structural reform and development, fair rules for trade and FDI and broad employment social policy initiatives including promoting core labour standards through trade. The Millennium Development Goals are particularly important in this context and the EU should play a key role in ensuring new flows of resources to ensure that they can be achieved.

One related question is also to what extent the EU as a model of regional integration with the European Social Model as an integrated dimension can promote cooperation with other countries, neighbouring Mediterranean, Eastern Europe and with developing countries with the aim of promoting some key economic and social elements of the European model. The merits of the European Social Model should be promoted in the framework of technical co-operation focused on the promotion of good governance.

2. THE FRAMEWORK: THE LISBON STRATEGY

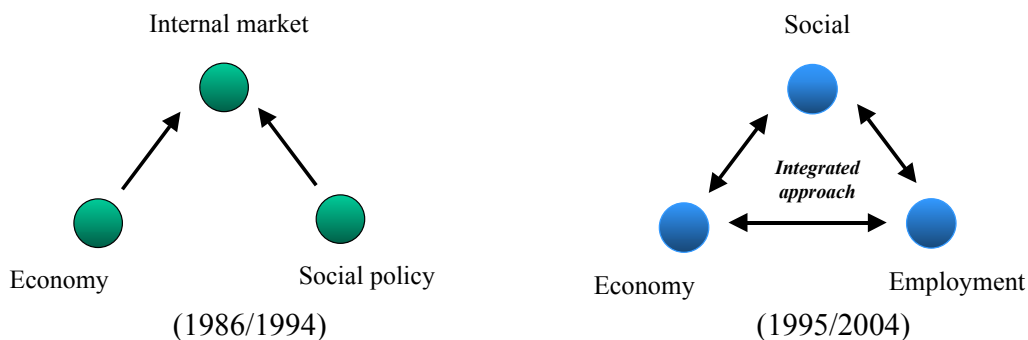
2.1. The implementation of the Lisbon strategy

2.1.1. The Lisbon strategy

Since 1957, we can observe a tremendous evolution of the substance as well as the instruments of European social policy. Four stages may be identified:

- Regulations for the free movement of workers after 1957 ;
- Directives for health and safety after the Single European Act in 1986: in these fields European legislation has played a major role;
- Agreements by the European social partners after the Maastricht Treaty in 1993 ;
- Open method of coordination to implement the European Employment Strategy after the Amsterdam Treaty in 1997.

The mid 90s were characterised by the arrival of new Member States in the EU and brought with Sweden and Finland the Scandinavian model of virtuous complementarity between economic, social and employment policy.



From the mid 90s, the EU and its Member States started revisiting their approach to social policy: affirmation of employment as an objective, and not only as an outcome of economic policy; increasing attention paid to social policy as an investment (and not only as a cost), and to the “productive” role of social policy within the framework of a virtuous circle combining flexibility and security, adaptability and employability. This led to a significant reinforcement of EU employment and social policy both in political terms and institutional provisions, first in Amsterdam with the Employment title and the incorporation of the Maastricht Protocol in the Treaty and secondly in Lisbon with the

affirmation of the integrated objectives and the launching of the open method of co-ordination as a new instrument to address social policy issues.

The analysis of the evolution of European social policies shows that, despite the great progress made, social policy has always been “running behind” economic policy development.

The High Level Group is convinced that the Lisbon Strategy has the potential to change this. The Lisbon Strategy aims at bringing together economic, employment and social policies by focusing them on the commonly-defined objectives of improving competitiveness, moving towards full employment and promoting social inclusion. The underlying assumption is that these policies are not in conflict but can reinforce each other. The economic and social situation in the Nordic countries are clear evidence to that effect.

The Group sees the Annual Spring European Council as a key mechanism for future progress. The Heads of State and government have the overall policy responsibility and are in a position to go beyond the conflicts of interest which may arise between Ministers of Finance and Social Affairs or Ministers of Labour and Education – to give two examples.

Given the uncertainties and complexities of policy making in the enlarged EU, the Group feels that a proper and coherent implementation of the Lisbon Strategy is key to success. Building on recent efforts, more attention will be needed to appropriately adapt Lisbon related policies to an EU-25 perspective and to ensure that all, new and old, Member States contribute to it and are on board.

The flexibility of the Open Method of Coordination will facilitate this task. The Group underlines that this is a two-way process in which all partners need to be involved and all Member States have something to contribute. The new Member States have made major progress in restructuring and important experiences from which everybody can learn.

2.1.2. The implementation of the Lisbon strategy

Regarding the Lisbon Strategy, many actors stress the gap between statement and reality. This raises the question of its implementation.

The implementation of the Lisbon strategy should be envisaged in different phases with the horizon of 2010.

- **A 1st phase of the implementation of the Lisbon Strategy is now almost completed.**

This phase was focused on:

- specifying the Lisbon Summit Conclusions into policy instruments of the European Union (directives, community programmes, action plans, recommendations, see annex 3)

- adding the environmental dimension and building the approach on sustainable development
- preliminary implementation in the Member States (still very imbalanced among areas and Member States)
- introducing the basic mechanisms for implementation (Spring European Council, reorganization of the Council formation and schedules, involvement of the European Parliament and the other European institutions, the social partners and the organized civil society at European level, development of the open method of coordination tools)
- introducing stronger mechanisms in the draft European Constitution (e.g. the General Affairs Council, the coordination between economic and social policies, the instrument mix in each policy, the basic tools of the open method of coordination)

• **With the Mid-Term Review in 2005, a 2nd phase should now begin**, putting the focus on the implementation at national level, including the new Member States. This new focus will require a stronger interface between the European and the national levels of governance with implications for the behavior of the main actors.

The Governments should be invited to increase the coherence and the consistency between the instruments they adopt at European level with the instruments they implement at national level (see annex 3). In this implementation they should enhance the involvement of the relevant stakeholders of the civil society at national level..

The European Commission should consider new ways of improving its internal coordination and its direct work with each Member State: a more comprehensive and holistic approach to each national case is now needed.

The European Parliament should consider new ways to develop the interface with the National Parliaments by more actively providing the relevant information on the European agenda as well as opportunities for joint discussion on their implications for the national policies.

In the organized civil society (social partners, NGOs, other bodies), the European organizations should be invited to develop a joint work of information, debate, implementation and monitoring with its counterparts at national level.

An information campaign should be launched at European level in order to inform the European citizens about the Lisbon agenda and its repercussions on their every day life.

The 2nd phase should also be used to clarify the financial basis of the implementation of the Lisbon Strategy, notably its relationship with:

- the Growth Initiative ;
- the current and the next Financial Perspectives ;
- the priority actions of the European Investment Bank ;
- the Stability Pact in order to make macroeconomic policies (budgetary and tax policies) bring a stronger contribution to structural change and growth potential, by redirecting the

public expenditure to key investments and by rewarding private investment in innovation and human resources.

The mid-term review in 2005 should also update the Lisbon Strategy to the new context, which is being shaped by factors such as new competitive challenges emerging in the world economy, the evolution of the WTO Round, the demographic trends (ageing, immigration), the prospects for sustainable growth, the evolution of the international governance, and the first period of membership of the new Member States.

2.2. The social agenda 2006-2010 must be designed within the framework of the Lisbon strategy

The Lisbon strategy is a top level political commitment which should be honored: it was designed by the Heads of States and Governments up to 2010 in order to provide a long-term dimension to bring about the necessary reforms.

The auditions with the European Parliament and other key actors - the social partners and representatives from civil society – revealed a high degree of consensus on the Lisbon strategy.

2.2.1. The long term objectives of Lisbon remain valid

All actors consider that the long term objectives of Lisbon:

- . competitiveness,
- . more and better jobs
- . social inclusion

remain valid even if each of them places the emphasis on different specific concerns.

• **ETUC**, the European trade union, supports the view that the Lisbon strategy, integrating better economic and social policy, “has been a major turning point”. Putting economic and social policy at the same level is the right approach.

The open method of coordination has proved to be an incentivating method looking more to the outcome than to the instruments. This “acquis” should be conserved and developed.

For the ETUC, one does not have to re-invent the main elements of the next social agenda: the Lisbon strategy is valid until 2010. Its objectives remain the ETUC’s main objectives. Particular emphasis, however, was placed on

- Integrating social and economic policy ;
- Social inclusion ;
- Development of knowledge.

- **UNICE**, representing European employers, underlined that the Lisbon agenda was not only the key strategy for the EU but also for the business community. It highlighted the competitiveness dimension while also underlining the importance of more and better jobs and sustainability.

It argued that social policy can only be financed through growth, and the employment strategy has to be fixed on the achievement of the Lisbon strategy, not only at European level but also at national level, taking account of national traditions, organisations and systems.

- **The Social Platform**, bringing together representatives from European Social NGO's, deems it necessary to re-boost the Lisbon process: the Social Platform places particular emphasis on the role of fundamental rights, non-discrimination and social protection in achieving the Lisbon goals.

In the drive to modernise social protection, the Social Platform stresses that social protection policies must be developed which guarantee decent living standards for all, on the basis of solidarity – this must be the overriding aim, rather than balancing the budget. Detailed and ongoing assessment of progress in achieving the Lisbon objectives is also crucial.

- The High-Level Group also met with a **Delegation of the Employment and Social Affairs Committee of the European Parliament**. The message received was clear. The Lisbon Strategy should remain the "road-map" for future European social policy.

The pre-eminence of the "competitiveness target" over the two other main lines of the Lisbon strategy is a main concern for Members of the European Parliament the High Level Group met. They are calling for a better balancing in favour of sustainable growth with full employment and better jobs for all and a greater social cohesion. In this respect, they mention that the organisation of flexibility should take place within a security approach.

The Members of the European Parliament delegation also drew attention to the enlargement process which necessitates a short- and medium-term approach to be combined with the long term dimension of the strategy.

Until now, the Lisbon Strategy has been diffused mostly among the elite. It should be widely diffused among all the stakeholders, so that the reality of the labour market does not contradict the Lisbon priorities. For example, early exits from the labour market are still common despite the fact that active ageing promotion has been a priority for the last 5 years.

It should be noted that the Member States are largely responsible for the implementation of the Lisbon strategy. When the EU agrees common targets in the context of the OMC, it

is up to the Member States and other actors, including enterprises, to take the necessary decisions that enable the fulfilment of these targets.

The legal dimension should not be overlooked: social matters cannot be treated solely on a voluntary basis. Legislation at European level is therefore a crucial instrument to be further developed. Moreover, the interdependencies between financial and economic decisions on the one hand and the state of the labour market on the other hand should be better taken into account.

The Members of the European Parliament Delegation called for a reinforced streamlining of the employment and social issues, in particular with regard to internal market and competition policies.

2.2.2. The Open Method of Coordination (OMC) fits well an enlarged Europe

Directly inspired by the European employment strategy, the Open Method of Coordination was introduced, as a complement to the existing instruments, by the Lisbon Summit in the following terms (Presidency Conclusions, 2000):

“Implementing a new open method of coordination

1. Implementation of the strategic goal will be facilitated by applying a new open method of coordination as the means of spreading best practices and achieving greater convergence towards the main EU goals. This method, which is designed to help Member States to progressively developing their own policies, involves:
 - fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
 - establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practices;
 - translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
 - periodic monitoring, evaluation and peer review organised as mutual learning processes.
2. A fully decentralised approach will be applied in line with the principle of subsidiarity in which the Union, the Member States, the regional and local levels, as well as the social partners and civil society, will be actively involved, using varied forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with different providers and users, namely the social partners, companies and NGO's.”

Following the Lisbon Summit conclusions, this method is now being implemented in different fields of social policy:

- In social inclusion, priorities and indicators were identified, after adopting common objectives, in order to prepare national plans, which are already in their second generation;
- In social protection, common objectives were defined for its modernisation and a regular joint report with the national strategies is being delivered.

O.M.C. has proved remarkably successful in employment policy and has had very positive effects in social inclusion (cf. last National Action Plans).

The open method of coordination is all the more important in the prospect of enlargement since it is based on catching-up and benchmarking. It can foster convergence on common interest and on some agreed common priorities while respecting national and regional diversities. It is an inclusive method for deepening European construction. But enlargement also calls for the implementation of the “acquis communautaire”.

Taking into account the differences between Member-States, European social policy should define common objectives and not try to harmonise the social systems, which is both impossible and incompatible with the European political framework.

During the Convention on the Future of Europe in 2003, an in depth discussion took place on how to introduce the open method of coordination in the draft Constitution. After considering different approaches, the final solution which was adopted consisted in introducing, not a general definition of this method but the reference to its main instruments in four policy fields, such as follows for the social policy:

Article III-107

With a view to achieving the objectives of Article III-103 and without prejudice to the other provisions of the Constitution, the Commission shall encourage cooperation between the Member States and facilitate the coordination of their action in all social policy fields under this Section, particularly in matters relating to:

- (a) employment;
- (b) labour law and working conditions;
- (c) basic and advanced vocational training;
- (d) social security;
- (e) prevention of occupational accidents and diseases;
- (f) occupational hygiene;
- (g) the right of association and collective bargaining between employers and workers.

To this end, the Commission shall act in close contact with Member States by making studies, delivering opinions and arranging consultations both on problems arising at national level and on those of concern to international organisations, **in particular initiatives aiming at the establishment of guidelines and indicators, the organisation of exchange of best practice, and the preparation of the necessary elements for**

periodic monitoring and evaluation. The European Parliament shall be kept fully informed.

Before delivering the opinions provided for in this Article, the Commission shall consult the Economic and Social Committee.

If the objectives of the Lisbon Strategy remain valid and the open method of coordination fits well on enlarged Europe, the economic and social context has much changed since the Lisbon Summit in 2000.

- Economic context: Europe has gone through a period of sluggish economic growth. The economic performance in 2006-2010 is hard to forecast.
- Social context: many Member-States are going through major social reforms.

Given this changing environment, it appears necessary to update the Lisbon Strategy.

2.3. It appears necessary to update the Lisbon strategy

More precisely, the Lisbon Strategy has to be:

- updated to the new economic situation;
- completed by an initiative to increase the active population;
- combined with the Stability and Growth Pact.

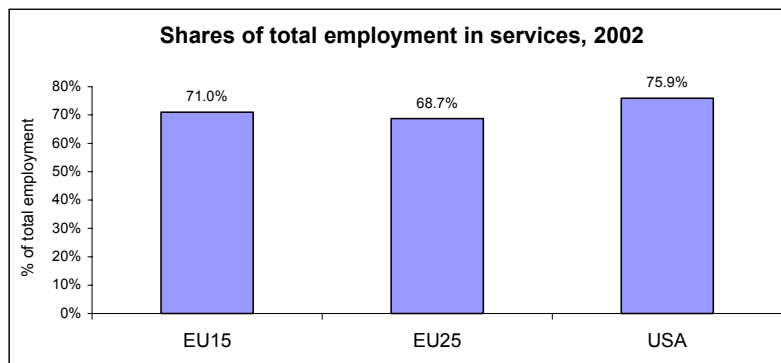
2.3.1. To update the Lisbon strategy to the new economic situation

Since 2000, the economic context has changed for three reasons:

- First, according to the Lisbon conclusions (§ 6), “an average economic growth rate of around 3% should be a realistic prospect for the coming years”. Since 2001, we are facing an economic slowdown: the European Union growth rate which has been of 3.5% in 2000, has only been of 1.6% in 2001, 1.1% in 2002, and 1.3% in 2003. The forecast for 2004 is 2.3%. Even if 3% remains a desirable goal, it does not look today as a realistic prospect for the coming years.
- Second, the bursting of the bubble of new technologies in 2000 does not alter the trend towards a knowledge based economy. The transition to the knowledge-based economy requires more than developing the ICT sector. The positive impact requires a long-term investment throughout the economy, which should be accompanied by a modernisation of work organisation and an appropriate human capital investment. The transition is a long process and requires continuity of focus: there is a general consensus that in the U.S.A., GDP growth was boosted by around 0.5% per year as a result of long-term investment in the transition to the knowledge based economy and that it took a decade or more for ICT’s to show up in growth. Europe is still at the

beginning of the process: 66% of the European Union population is expected to be on line by 2006 ; ICT's will dominate the way business is done; knowledge appears as a key factor of competitiveness.

- Third, ICT's no longer appear as the only or main reason of the jobs' gap between the European Union and the U.S.A.: services – both personal services and industrial services – appear as a major explanation of this gap. According to recent studies, the employment gap could be found entirely in services, not only in low wage services, such as distribution, but also in high wage services, such as education.



Source: EU figures from QLFD, comparable annual estimates based on LFS and ESA95, Eurostat; USA figures from OECD Labour Market Statistics database (total civilian employment)

2.3.2. To complete the Lisbon strategy by an initiative to increase the working age population

As mentioned in chapter 1.2., 2010 will be a pivotal year in which Europe will take a major demographic turn. The High Level Group recommends that the Lisbon strategy should be completed with new policy action to increase the working age population, hereby turning the new insights stemming from demographic data into policy action.

The Lisbon strategy launched a project for the long term, while delivering short-term and medium term results. The action on demography to be included in the strategy should also address both the short and the long-term.

In addition to the calls for increasing the employment rate of women, elderly workers and the young, as well as developing policies to enhance productivity, the High level Group recommends two new areas of action to complete the Lisbon strategy, which should increase the working age population itself:

- To develop in the short term a comprehensive and voluntary immigration policy;

- To allow European couples to have the number of children they desire, with a potential benefit on the labour force in the longer run.

Both policies are developed at length in chapter 3 of the report.

2.3.3. To combine the Lisbon strategy with the Stability and Growth Pact

The Lisbon strategy and the Stability Pact should be better combined in order to improve the prospects for growth and jobs creation in a framework of macroeconomic stability. It is possible to develop a more positive synergy between them. On the one hand, if the growth rate increases it would be easier to comply with the public deficit and public debt criteria. On the other hand, macroeconomic policies can give a contribution for growth in three different ways:

- by creating conditions of macroeconomic stability which facilitate decisions about investment and consumption;
- by providing incentives to positive behaviour such as innovative investment in companies or lifelong learning in adult people;
- by increasing accumulation and growth potential when promoting public investment towards education and training, R&D and important infrastructures.

Therefore, and taking into account the recent debate on this issue, some fine-tuning should be introduced in the Stability and Growth Pact focusing in the following three main points:

- to put more emphasis on the control of the long term sustainability of the public debt, taking notably into account the central problem of the sustainability of the social protection systems;
- to redirect public expenditure to key priorities of public investment aiming at increasing the growth potential, such as education and training, R&D, innovation and advanced infrastructures;
- if the two first conditions are respected, to introduce an additional margin of flexibility in the control of the public deficit, notably in periods of economic downturn.

This fine-tuning of the Stability and Growth Pact should be underpinned by further technical and political developments in the definition of indicators concerning the sustainability and the quality of the public finances.

3. POLICY ORIENTATIONS

3.1. Focusing the European employment strategy on 3 objectives:

The first European Employment strategy launched in Luxembourg in 1997 was based on 4 pillars easy to identify and recognize for the Member-States.

The Group thinks that the Employment strategy should remain faithful to this original spirit and focus on a few main employment goals to avoid the risk of dilution of too many priorities.

Furthermore, the Group considers that if the European Union wants the new Member-States to appropriate the Employment strategy, the guidelines should reflect their concerns and priorities.

These considerations lead the High Level Group to propose to focus the European Employment strategy on 3 priorities:

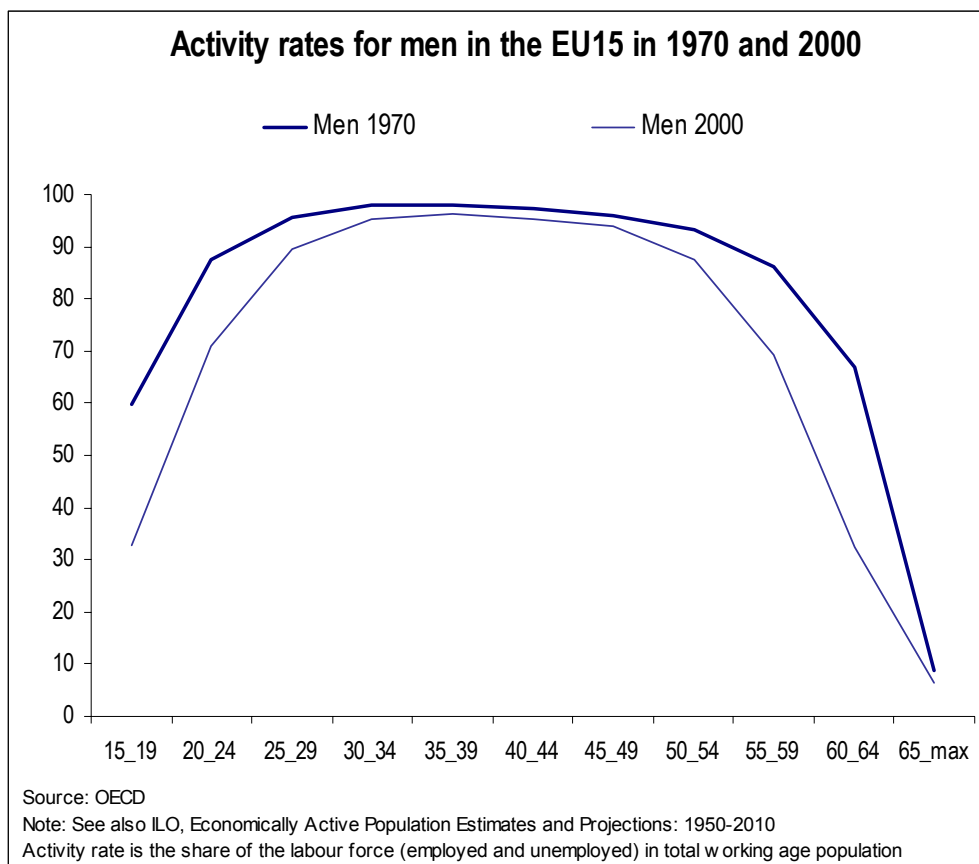
- to extend working-life;
- to implement lifelong-learning;
- to address economic restructuring.

3.1.1. To extend working life

As life expectancy increases by a quarter each year, continuing to shorten working life becomes unsustainable. Extending working life concerns both labour market entry and exit. Not only the workers over 55 get out of the labour market earlier and earlier, but the young enter the labour market later and later.

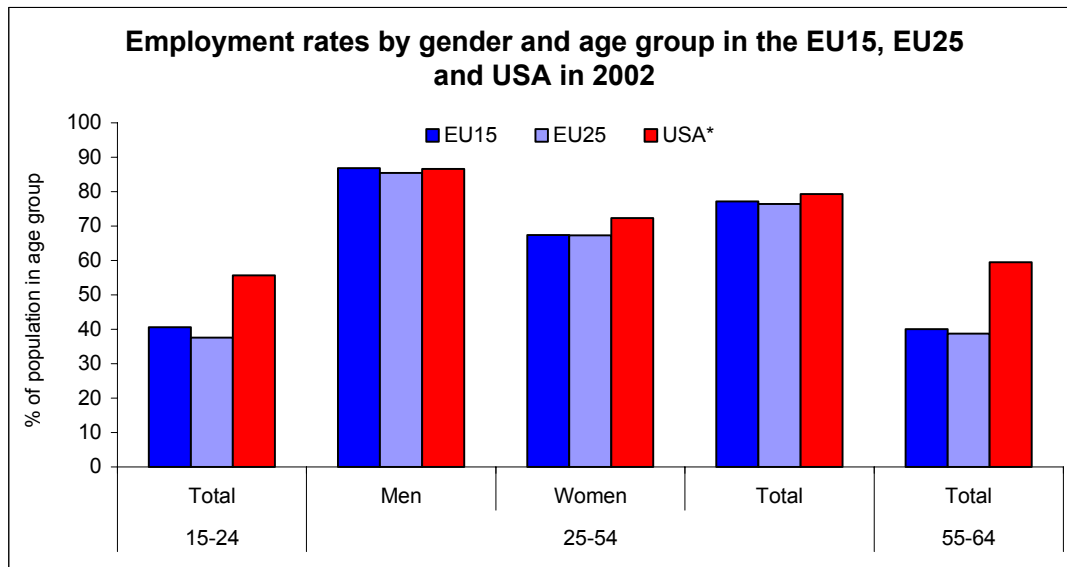
From 1970 to 2000 the share of all young men already active in the labour market declined for the 15-19 years old from 60% to 33% and for the 20-24 years old from 88% to just over 70%. Labour market participation of older men declined for the 55-59 age group from 86% to 69% and for the 60-64 group from 67% to 33%. In contrast, activity of prime age men stayed almost stable at 95-96% in 2000 compared to 97-98% in 1970.

While in 1970 almost one out of two young women (15 – 19) were active in the labour market, this figure was down to one in four in 2000. Prime age participation of women increased from around 50% to almost 80%. This secular increase in participation of women led also to an increase of activity of the 55-59 year old women from 35% to 44% but participation of the 60-64 old women declined from 20 to 15%.



Low employment and high unemployment remains a stubborn problem in the European Union. Whereas the European Employment Strategy has already yielded important structural reforms and effective improvements in the employment situation, the EU in its totality continues to underperform in terms of unemployment in comparison with its world wide competitors.

It is important, however, to acknowledge that the problem is not universal or systemic. For one, the employment rate of men of prime age (25-54) in the EU is similar to the one in the USA. Important employment gaps can be spotted with regards to the young, older workers, and to a certain extent also for women. Nevertheless, the situation differs markedly between countries, underlining that low employment and high unemployment or inactivity in these groups are not a universal characteristic in Europe.



Source: EU data from QLFD, comparable annual estimates based on LFS and ESA95, Eurostat
 US data from OECD Employment Outlook 2003
 * For the USA, age group 15 to 24 refers to 16 to 24

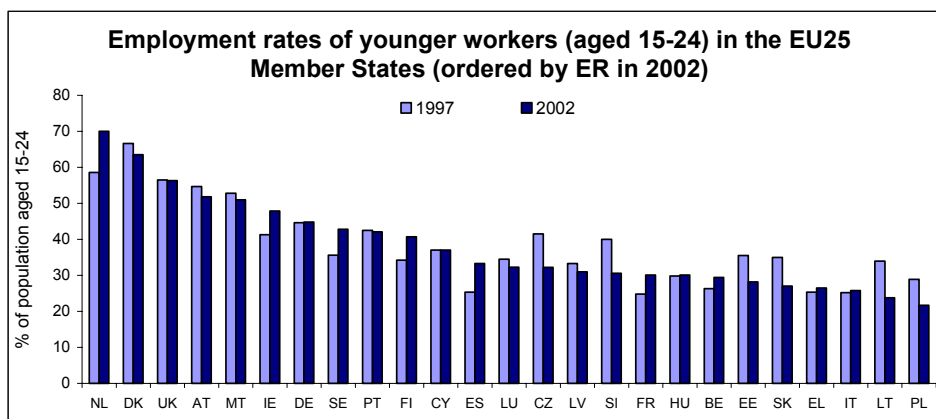
Extending working life can be achieved in many different ways and through different choices over the life-cycle.

To increase the employment rate of the EU as a whole, it appears necessary to increase the employment rate of:

- the young (15-24) ;
- women ;
- older workers (55-64).

3.1.1.1. To increase the employment rate of the young (15-24)

The difference in **employment rate** between the European Union and the U.S.A. is 13,4 percentage points for males aged 15-24, even if the situation is very different in the Member-States.



Source: QLFD, comparable annual estimates based on LFS and ESA95, Eurostat
 Note: Data for CZ, EE, LT, LV, SK refer to 1998 and 2002, and for CY and MT to 2000 & 2002

This situation is due to much longer studies in University and to a very late entry, in some Member-States, in the labour market. This is a good development when young people enter with appropriate skills and can find immediately paid work corresponding to their qualifications. However, many young people cannot benefit from such opportunities, as shown by the very high level of unemployment amongst young people.

The Employment Taskforce called the integration of young people in the labour market as a major cause for concern in many existing and new Member States is. The unemployment rate for young people is typically double that of adults. In Greece, Italy, Spain, Finland, France and Belgium, this rate is close to, or above, 20%. Among the new Member States it is especially high in Poland and Slovakia.

The difficulties are compounded in many cases by a tendency for young people to enter the labour market via jobs which do not offer prospects for further training and career progress, and then to swing back into unemployment or inactivity.

In the new Member-States, youth unemployment is a particularly challenging issue as its continuation may have long-term and devastating effects on the morale of the young population, on its support for reform policies and –as a consequence of the poor material situation of young families – on future demographic development. A strong commitment to pension reforms as a key political issue, should be coupled with similar attention being paid to the younger generation and its employability.

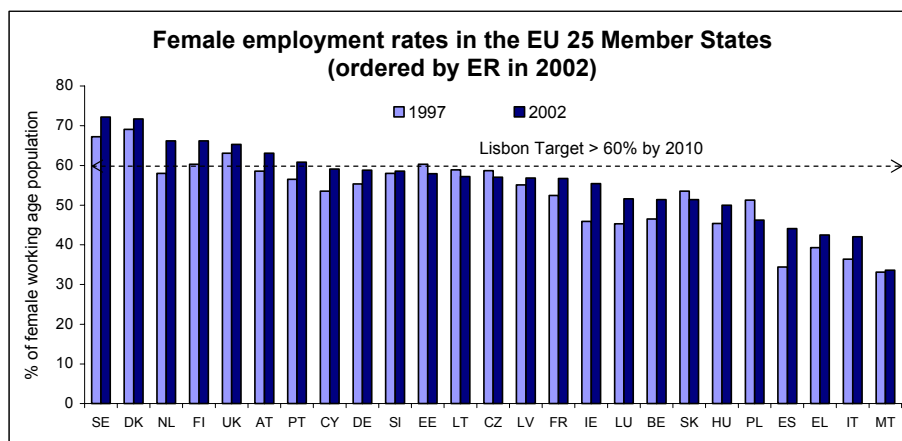
Policy recommendations

- With the shrinking of the labour force, it should be as important today to secure an earlier entry to the labour force as to postpone retirement.

- This implies that the skills match the jobs. Access to the labour market, suitable to the competences of young people, should become a real opportunity for every young person.
- To develop training given partly in an educational institution and partly in the workplace, like for instance in Germany, appears as a good way to implement access of the young to the labour market.
- Both public authorities and the social partners should consider it their responsibility to foster a lasting integration of young people into the labour market. Building pathways to work and training, within an effective use of preventive and active measures, including intensive coaching, is important.

3.1.1.2. To increase the employment rate of women

In the EU-15, 6.4 million women of working age are not in paid employment, although they want to work. When the 6.6 million women who are unemployed are added in, it is clear that the scale of the unused female labour supply is considerable.



Source: Structural Indicators, Eurostat

Note: Data for CZ, EE, LT, LV, SK refer to 1998 and 2002, and for CY and MT to 2000 & 2002

The availability of different working arrangements - such as flexible working, part-time work or career breaks - should be encouraged as they can be crucial factors for women deciding whether to enter or stay in the labour market. Parental leave arrangements can help reconcile work and family life, although they need to be designed in a way that does not lead to women having long absences from the labour market. Policies that enable men to share parental leave are a step in the right direction. Eligibility and access to labour market measures need to encourage inactive women wanting to work to make the move into work.

The considerable gender pay gap which persists in most Member States (around 16 percentage points in the EU on average) can also act as a disincentive for many women to enter the labour market or to move from part-time to full-time work. In this respect, stricter enforcement of non-discrimination legislation is needed, but also a wider range of measures involving the social partners to address the roots of the problem.

Particular attention should be given to the effect created by income-tested benefits in discouraging women from working. If the man is unemployed or early retired, and the benefit is income tested, then the wife may have little or no financial incentive to work.

Absence of care facilities for children and other dependants can also act as a disincentive of female participation and of full –time rather than part-time work. Available data show that countries with low availability of childcare such as Italy and Spain display low female employment rates while countries with high female employment rates such as Sweden, Denmark and Finland provide wide access to childcare facilities. Increasing the availability of care services will also create new job opportunities, often to the benefit of women.

At the Barcelona European Council in 2002, Member States agreed targets for childcare provision. These stated that childcare should be provided for at least 90% of children between three years old and the mandatory school age and at least 33% of children younger than three years of age by 2010. However, very few Member States come close to the Barcelona targets.

Policy recommendations:

The High Level Group, as the Employment Taskforce, urges Member States and social partners to:

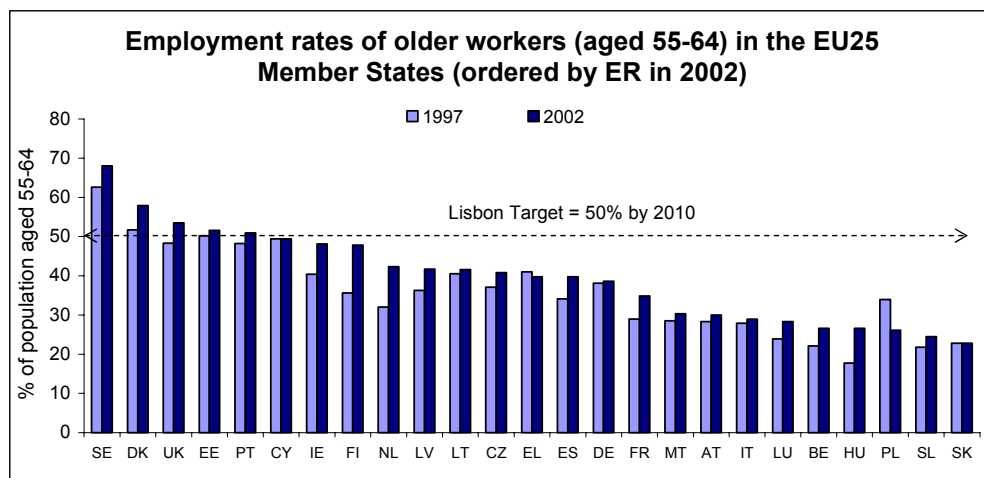
- remove financial disincentives to the participation of women, notably in relation to wages, benefits and taxation, including the gender pay gaps;
- increase the availability, affordability and quality of childcare and eldercare ;
- improve working arrangements, with measures to boost the attractiveness of part-time work and facilitate career breaks and flexible working.

3.1.1.3. To increase the employment rate of older workers

Longer life expectancy combined with lower birth rates will drive up the average age both of the total population and of the labour force, which is shrinking at the same time. This is why the low average employment rate of older people - amounting to 40% in the EU-15, in the new Member States only to 30% - represents a real challenge. It endangers the funding of old age pensions and of the entire social security system. Furthermore the specific skills and experience of older workers are needed to weather increased international competition in a globalised economy.

The EU Member States should reinforce their commitment to the Stockholm and Barcelona targets. The goal formulated in Stockholm to raise significantly the employment rate for older workers - to 50% - in the EU by 2010 should be pursued, even if it will probably be unrealistic for the new Member States. The same holds true for the Barcelona goal which asks Member States to delay the average age at which people leave the labour market by 5 years (from de facto around 60 to 65 years).

To allow people to complete a longer working career in order to delay the effective exit age should be a key priority. This goal requires reducing early exit and the reform of pension age systems for which the legal retirement age is one element amongst others.



Source: Structural Indicators, Eurostat

Note: Data for CZ, EE, LV, LT, and SK refer to 1998 and 2002, and for CY and MT to 2000 & 2002

To reach these objectives, the European Employment Strategy should focus on quality targets with regard to active ageing, both in terms of working conditions as to the nature of work itself. Stressful and monotonous working conditions induce the early deterioration of health and thus early exit from working life. Extending working life would be helped by increasing job satisfaction.

It also needs a greater involvement of older workers in lifelong learning: at this time it still is very low and must be significantly increased. Otherwise these workers will be unable to keep their qualifications in line with changing requirements and to maintain their employability.

Furthermore, social security systems should decrease the incentives to leave working life early and promote late retirement.

Policy recommendations

The policy recommendations for concrete action concern three levels.

- At the level of employment and social security systems
 - decrease the incentives to leave working life early and reduce strongly early retirement systems
 - promote later retirement through pension reforms
 - develop the possibility for retired people to work (including through part time or temporary jobs)

- At the company level, in particular through the involvement of the social partners,
 - promote the implementation of lifelong learning for older workers
 - improve working conditions
 - modernise the organisation of work in particular to better meet the needs of older workers while effectively using their expertise, including through shifting types of jobs (e.g. from a management post to an advisory post or coaching) or by taking up employment in a dependent company

- At the level of society

To increase the employment rate of older workers will require society to think differently about the potential contribution of older workers; this will imply a tremendous change of mentalities.

 - Promote a shift in public opinion through for instance advertisement campaigns (like in Nordic countries)

The above policy-orientations regarding the women, the young and the older workers show that it is possible both to extend and improve working-life through better working conditions and new work organisations, a sooner but better integration of the young into the labour market and a better conciliation – for men and women – of family and working life.

3.1.2. To implement life long learning

The High Level Group recommends to focus on lifelong learning. This should not be taken as meaning that the Group undervalues the importance of lifelong education, broadly interpreted. The key concept is individual capacity – underlining the importance of enhancing personal development.

Lifelong learning is high in the discourse, but action is insufficient and remains lagging behind. At this time, the participation in lifelong training in the EU average still falls clearly short of the 12.5 % target for all adults. The Group has noted, in this field, strong expectations from the actors for acts and not only words and for a better coordination of the initiatives inside the Commission.

Achieving the objective of becoming a competitive knowledge based economy, requires that companies can encourage and develop technological and organisational change and boost productivity and innovation. This can be achieved only with workers whose

qualifications are permanently adapted to the changing demand and requires an active strategy on the part of companies.

Empirically, a distinction between large enterprises and small and medium sized enterprises can be observed, with the latter clearly providing comparatively less training opportunities. However, it can also be observed that social partnership does play an important role, as the small and medium sized enterprises which are covered by agreements tend to do much better and agreements at national level may implement lifelong learning (as the recent national agreement in France).

For lifelong learning to pass from discourse into generalised action, three kinds of actions must be undertaken:

- Diversifying the means to supply lifelong learning.

The classroom and the personal relationship with the teacher will remain a central way to learn, but there are today many other means to be used:

- the various tools for e-learning should be adopted by schools and training centres which should evolve to open learning centres providing customised services to several target groups.
- libraries, multimedia data bases and other products of the contents industry can become more easily available through Internet and CD-ROMS.
- interactive television and specialised cable channels should be encouraged to address more particular demands.
- companies should be encouraged to adopt new forms of work organisation which can become learning organisations.

The diversification of the means for lifelong learning should be underpinned by a network of services able to validate and certificate the outcome of the informal learning activities.

- Fostering the demand for lifelong learning

On the other hand, the increase of demand for lifelong learning depends on many conditions such as:

- each individual should be encouraged to develop his or her own personnel and professional plan, on the basis of a regular assessment of competences as well as effective guidance services.
- a framework of basic competences and of the main occupational profiles should be regularly updated and widespread, notably through a network at the European level.
- companies should focus more systematically on developing their “competence tree” in order to meet its competitive targets.
- collective bargaining and individual labour contracts should incorporate more explicit rights and duties concerning lifelong learning in order to promote competitiveness and employability.

- working time management and child care facilities should create better conditions for lifelong learning.
- Sharing the costs of lifelong learning.
The costs of this investment should be shared between public authorities, companies and individuals according to the relative benefits of each initiative.

Policy recommendations

- National strategies should be defined to implement lifelong learning:
 - to organize supply: schools, companies, internet
 - to facilitate access to lifelong learning through working-time arrangements and new tools to validate professional experience
 - to share the cost between public authorities, workers and companies
- The national strategies for lifelong learning should, at the level of working conditions:
 - give more attention to the learning needs of specific target groups which have so far been underrepresented:
 - people with low skills levels, older workers, migrants ;
 - employees in small and medium-sized enterprises.
 - include access to training activities as a standard ingredient of the employment contract and collective agreements
 - connect learning with arranging working time and the arrangement for sharing costs and investments
 - foster the individual initiative through the creation of individual learning accounts
- The national strategies for lifelong learning should, at the level of learning instruments:
 - diversify the means for lifelong learning
 - support the creation of networks of services validating and certifying the outcome of informal learning activities.

3.1.3. To address economic restructuring

- Restructuring and managing change is a recurrent theme in the history of European integration. In the enlarged European Union, patterns of restructuring will become more diverse. Restructuring, as a result of adjustment to new economic and market demands - of which many are driven by increasing globalisation - will remain a key feature in Europe's economic landscape. In addition, the integration of the national economies of the countries which have been in transition for over a decade will extend the scope and nature of the restructuring processes.

EU membership will accelerate the modernisation of the economies of the new Member States, leading to major adjustments. Employment, more precisely the number of jobs, will be a major challenge for the new Member States.

Before the transition phase, the countries with centrally planned economies had no open unemployment. There was also an excess of labour demand over supply. Overstaffing was the rule and labour productivity remained low. The economic reforms in the 90s aimed at reversing these trends.

Far-reaching economic reforms opened quickly the national economies to world markets. However, the rapid price liberalization and strict macroeconomic stabilisation policies resulted in a sharp decline in economic performance and in the dramatic collapse of labour demand. The patterns emerging were not uniform and significant differences in employment trends emerged between transition economies.

After more than a decade of reforms, unemployment levels in these countries are high and unemployment is largely structural. On average, the unemployment levels in the new Member States are nearly the double of the EU-15 average. In addition to the high unemployment levels, there is an increasing proportion of long-term unemployed, a very high rate of unemployment of young people (about double the average unemployment) and there are also important regional differences, hampering economic and social cohesion.

During the first half of the 1990s, there was a strong entry of young-age cohorts between 15-25 years into the labour market responding to the significant changes in the demand for skills due to massive restructuring which favoured young, skilled workers, employers shifted. After this initial wave, the preference went to prime-age workers with work experience, in particular also because ill adapted educational systems did not react promptly to new labour market needs. These difficulties may be deepened in the immediate future, due to the speeding up of economic reforms and the adjustment of the economy.

While employment has been lost in the formal sector, all transition countries have seen rapid growth in the informal sector. Tax issues are of importance for this shift.

- The classical Community approach of redistribution to enhance economic and social cohesion within the European Union should be pursued. The fact that a least a third of the Community budget is available to help the poorest regions and the areas in restructuring is at the same time an act of solidarity as well as a productive investment to raise economic performance and to promote job creation.

The recent difficulties faced by ETUC and UNICE to formulate common answers to restructuring shows how hard it is to have a European treatment of such issues. Therefore, the capacity of the EU to intervene financially in areas undergoing restructuring and to accompany changes should be retained and further strengthened. In

particular, financial interventions should at the same time be part of programmes to stimulate innovation and job creation. Therefore, one should consider the development of medium term plans (e.g. five years) in the regions concerned to ensure bottom-up development for change facilitated by structural policies.

Another issue for economic and social cohesion concerns rural development policy. It is important for the future that more attention is given again to this dimension, as it concerns large geographical parts and a significant part of the European population.

Policy recommendations

- Restructuring is a key horizontal issue and should be treated as such in all Member States.
- Employment goals should be at the centre of economic and social policy. There is a key role here for the European employment strategy and the active involvement of the social partners.

Measures in favour of youth employment should be given high priority in the National Action Plans, together with further improvements in education, vocational training and *real* implementation of a life long learning system, including necessary institutional and budgetary measures.

- Social partners and other relevant stakeholders should be involved in the elaboration of redundancy plans at the level of companies and of development plans at the local level.
- There is a key role for Structural Funds to help to manage economic restructuring. Priority should be given to upgrading both the technical infrastructure and the workers' skills in regions hardest hit by restructuring. Both the Regional and Social Funds are crucial to provide the incentive for increasing the attractiveness to obtain FDI and other private resources to invest in enterprises and economic development in a sustainable way.
- Regional disparities must be addressed by a wide range of measures supported by EU funds, including more investment into the technical infrastructure, housing and transport policy.

3.2. Reforming the social protection systems

3.2.1. The challenges of the welfare state

A high level of social protection is a distinguishing factor in the definition of the European social model. Within the EU, the competence for organising and financing social protection systems belongs to the Member States. Each Member State has a collective system which protects people against social risks hereby preventing and reducing poverty. It facilitates access to essential services, and several social protection features also provide an investment in an individual's capacity to contribute to the economy.

Social protection is an integral part of the employment system. The quality of its interaction with for instance labour law, employment policy or collective bargaining affects an employment system's performance.

Social risks against which social protection typically offers insurance include old age, retirement and age-related dependency, the death of a provider, disability, sickness, maternity, dependent children, unemployment and sometimes also cover the need to care for the frail elderly and disabled or sick relatives.⁵ The ongoing welfare state reforms suggest that increasing attention is being given to new risks, in particular to addressing the social effect of changes in the household and labour market structures.

This structural change to cater better for new risks and traditional risks, in particular concerning old age pensions and health care, should be further pursued. The plans announced within the context of the open method of coordination in the field of social protection should therefore be implemented without delay.

On average, Member States devote 27.5% of GDP if total gross expenditure is taken as reference point, a reduction compared to 1993 data when the average amounted to 29%.⁶ Two thirds of the social protection resources are allocated to pensions and health care.

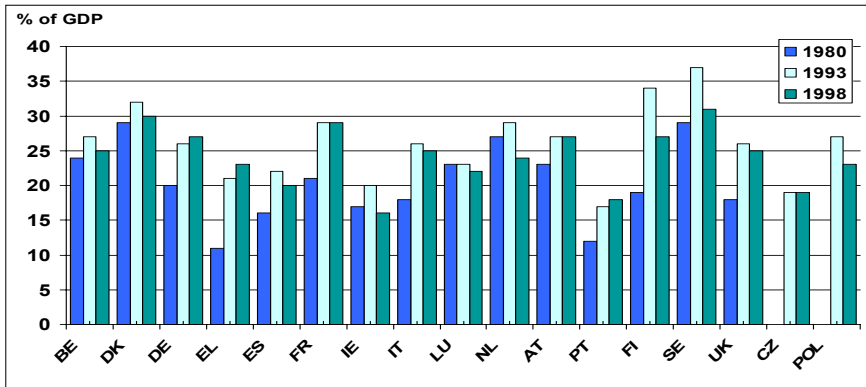
EU averages, however, hide significant differences between the Member States, albeit the total level of expenditure has been converging over the past decades.

Whereas countries which ranked at the high level of expenditure have been containing the resources transferred through social protection systems, countries which started at a lower level have been increasing expenditure to better address social risks. Consequently, the levels of expenditure are approaching one another now more than a decade ago.

⁵ COM(2003) 261 of 27.05.2003

⁶ European Commission (2002): Social protection in Europe 2001.

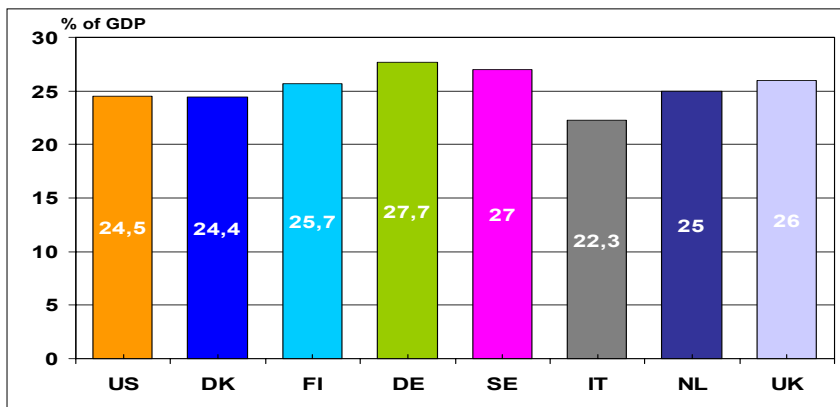
Public Social Expenditure



Source: OECD Social Expenditure Database 2001 – percentage of GDP

It has been documented that total net social protection expenditure, covering both public and obligatory private expenditure, is of a similar level throughout the industrialised world, underlining the expectations and needs of a population in a developed economy (OECD). This shows that countries have to provide for these needs on one form or another, the question is about the effectiveness of different methods of provision.

Net Social Expenditure



Source: OECD 2000 – Data for 1995 – percentage of GDP at factor cost (incl. Net Public and Obligatory Private Expenditure)

Contrary to a widely held view that social protection expenditure undermines competitiveness, economic growth and high employment levels, the empirical situation shows several important counter examples⁷. The European Policy Centre working paper

⁷ European Policy Centre (2004): Lisbon revisited – Finding a new path to European growth. EPC Working paper 08.

on the state of play on the Lisbon strategy concludes that high economic and social performance do go hand in hand for countries such as Sweden, Denmark, Austria, Luxembourg and the Netherlands, whereas Germany, France and Belgium make a cluster of what is labelled medium economic and social performance, and low economic and social performance is attributed to Spain, Portugal, Italy and Greece.

The European countries which score top positions in the competitiveness ranking by the World Economic Forum, all have a high level of investment in social policy and social protection, and show high employment rates and low poverty rates after social transfers.

The better performing countries have in common that they have undertaken reforms to reconcile their policies to meet their economic, employment and social objectives. There is evidence that countries which have been bringing about reforms are better equipped to deliver on economic and social prosperity than others. In short, there are several European examples which provide inspiration for positive change, based on the Lisbon paradigm of linking competitiveness, employment and cohesion.

Improving the conditions throughout the European Union to make the European Social Model perform well on both economic and social fronts also requires re-balancing collective solidarity and individual responsibility.

3.2.2. It is necessary for Member States to reform their social protection

The High Level Group recommends two major orientations:

- **Modernizing social protection to develop jobs creation**

If social contributions price labour out of the market, it is hard to reconcile economic and social goals. In this sense, the financing of social protection, whether through social contributions or through universal taxation, appears to be a major issue. Reforms of the systems for social security contributions and transfers that focus on the employment impact need to reduce the difference between wage costs and net wages by lowering taxes and contributions for employers and employees. Transfer payments should be designed to provide an incentive to work, rather than a disincentive. Priority should be given to the employment situation for people with low skills and low productivity. The benchmark should be that employment must pay both for the employees and the employers.

Conflict between employment and social protection often arises on account of the detailed features of policy. The switch from individual to family-based unemployment benefits, for example, has inadvertently caused a serious disincentive to work for the partners of the unemployed person. The failure of pension schemes to offer an appropriate financial incentive to postpone retirement is one cause of the lower

participation rate of older workers. “Reform” is often taken to mean simply cutting benefit levels; we should instead be thinking in terms of “redesign”. Redesign can allow us to maintain income security while encouraging people to take jobs and to remain longer in employment.

Put differently, we believe that social protection is a key instrument to ensure social inclusion in Europe, and that this will continue to be the case. Social protection provides, at all stages of the life cycle, an important source of security, which allows the great majority of Europe’s citizens to live their lives without fear of want. Social transfers achieve a substantial reduction in financial poverty. This does not however mean that social policies should remain unchanged. There are still a minority for whom the safety net fails; there are new needs as society evolves; there are labour market disincentives that need to be addressed. The right social protection system for 2010 will be different from that for 2000.

In most European countries social security is mainly financed with contributions paid by employees and employers. And these contributions have climbed to over 30% of gross wages in most of them, in some like Germany and France, they even exceed 40%. Such a high level of social contributions negatively affects growth and employment creation and promotes the persistence of unemployment. It pushes up the cost of labour for companies thus hampering the demand for labour. In addition, they diminish workers' net wages. Consequently it pays less to take on a job for low skilled people, because the wage might be only slightly higher than the income they derive from transfer payments.

Therefore, broadening the basis for the financing of the social security systems is imperative. The fiscal charge should be distributed more evenly across the production factors so that the tax base is evenly spread over the economy and society and that the charges are not disproportionately put on labour.

With the open method of co-ordination, the EU is developing a policy instrument that facilitates a European added value to structural reform which remains the responsibility of each Member State. It is therefore crucial that particularly in the field of social protection this method is further elaborated and synchronised in order to help Member States adapt their policies through learning from best practice and other national experiences. In practice, Member States may prefer to opt for various instruments or combination of instruments, including reform of tax and benefits in particular with regards to non-wage labour costs. For example, they may reduce social contributions on low wages or create fiscal incentives for low productivity jobs like family jobs.

In light of the demographic developments and the long-term trend of increasing health costs, the High Level Group recommends that health care is explicitly included in the open method of co-ordination with regards to social protection.

All Member States face the common challenge of an annual growth of health expenditure superior by several points to the GDP growth, due to population ageing and medical progress.

Part of the solution may be found in a greater efficiency and quality of the health systems: more spending does not mean, in many cases, better health, as is illustrated by the example of the consumption of antibiotics. Also a better coordination of the actors can improve the efficiency of health supply.

Beyond the search for quality, there is the question of a new division of the burden of the continuous growth of health expenditure between individuals and social protection. This requires explicit choices to be made: the UK provides an example in this respect. These choices should guarantee to all an equal access to health care.

Exchange of experience, together with defining common goals leading to national action plans can help the Member States in squaring the circle of containing costs with guaranteeing accessible and qualitative health care. Countries can benefit tremendously from co-operation, as they do already now in the fields of social inclusion and pensions.

Policy recommendations

- To make work pay, in particular through reforming taxation, labour market, and social security systems.
- To broaden the basis for the financing of social security systems. Several approaches are feasible: one is, for example, to draw more intensively on other types of income than wages. Another option is to finance social security from tax money rather than from social security contributions, as is now done in Denmark for example.
- To make social security benefits more efficient: there certainly is potential to do so in the area of health care. Efficiency can also be increased for the active and passive benefits of labour market policy without narrowing their scope.
- The High Level Group believes that it is therefore of crucial importance that the open method of co-ordination provides a comprehensive approach to steer reform to cater for both old and new social risks, while respecting the specific features and concerns of the different policy strands (social inclusion, social protection, health care). A co-ordination of the different processes together with the new cycle of the Broad Economic Policy Guidelines and the European Employment Guidelines, would help to take forward the Lisbon Agenda in line with the new provisions of the draft Constitution.

- **Promoting mobility over the life-cycle.**

For workers, working life is becoming more complex as working patterns become more diverse and irregular. A number of transitions need to be managed successfully, including

the transition from school to work, between jobs, between work and training, between career breaks and care periods, between working life and retirement.

If we want to increase working life and the employment rate both of the young and the senior workers, of men and women, if we want to meet the peoples' aspiration to a more diversified pattern of life, if we want to encourage fertility and take care of the elderly, we should pay more attention to life cycle developments.

Employment insurance systems, social protection systems and personalised employment services should operate so that they cover not only transitions from unemployment to employment (and vice-versa) but also facilitate transitions between different circumstances, such as work, training, career breaks or self-employment. The portability of acquired rights, notably in relation to pensions and healthcare, is crucial in this respect.

In the longer term, it may be useful to examine the possibility of allowing for new forms of work-life insurance through the establishment of personal accounts –such as individual learning/training accounts. These would provide entitlements to individuals to facilitate their transition from one status to another.

Policy recommendations

Therefore, at the level of working life, priority should be given to:

- promote the development of an individual working life pattern, allowing career interruptions, for instance for child upbringing or care for the elderly, easier transition between full-time and part-time arrangements, working and training periods, and enabling the extension of working life.
- adapt social protection systems to support mobility in the labour market and facilitate transitions between different statuses, such as work, training, career breaks or self-employment (job-to-job insurance).

3.3. Fostering social inclusion

It is necessary both:

- to keep the momentum of the EU Social Inclusion Process ;
- to take into account social inclusion in other key areas.

3.3.1. The EU Social Inclusion Process

- **Social Policy: the Dual Challenge**

At the heart of the work of the Group is the relation between economic performance and social policy. Getting this relation right is the key to the future prosperity and well being of the European Union. As many European leaders have stressed, the European economy needs to adapt to new competition and new technological possibilities, but this adaptation must be achieved while strengthening social inclusion. Europe has social as well as economic objectives. Promoting social inclusion and fighting poverty is a shared objective of the Member States of the European Union. Much has been achieved, but much remains to be done. More than 55 million people in the EU live at risk of financial poverty. The eradication of poverty and exclusion requires further steps, particularly to help children and young people.

The social policies of Europe's Member States face therefore a dual challenge:

- They have to be reformed to allow for the changing demographic structure (described in section 1.2) and to facilitate economic reform.
- They have to tackle the still worrying background of poverty and social exclusion.

This is a challenge primarily for individual Member States. Under the principle of subsidiarity, social policy is the prerogative of the individual Member State governments. But the Union as a whole has established shared objectives, and has agreed a common set of indicators by which progress is to be measured.

- **Social Inclusion: the EU Situation**

Social inclusion is multi-dimensional. Early European policy was concerned largely with the risk of financial poverty, but it has increasingly been recognised that social exclusion can take several different forms. The box summarises the main dimensions covered by the EU social indicators on which agreement was reached at Laeken in 2001. To these we have added homelessness, where there seems wide agreement that it should be incorporated, when data become available.

Box: Dimensions of Social Exclusion

- Risk of financial poverty (60% of median national income)
- Persistence of risk over time
- Distance between top and bottom of the income distribution
- Regional cohesion
- Long-term unemployment
- Persons living in jobless households
- Early school leavers not in education or training
- Low life expectancy
- Inequalities in health
- Homelessness

The current EU situation with regard to social inclusion is summarised in the 2003 Joint Report on Social Inclusion. Despite an improvement in the second half of the 1990s, the risk of financial poverty remains very significant, with 15% of the EU population living at risk of poverty in 2001⁸. There were more than 55 million people at risk, of whom more than half lived persistently on low relative income. A number of Member States have set quantified targets for the reduction of poverty: for example a reduction of 2 percentage points by 2005.

Women are generally at higher risk than men. In most countries, children experience higher levels of income poverty than adults. In some Member States, more than a quarter of children are living in households at risk of poverty. This led the 2003 Joint Report to call for action to end “child poverty as a key step to combat the intergenerational inheritance of poverty with a particular focus on early intervention and early education initiatives which identify and support children and young families”.

Particularly at risk are young people without the skills to succeed in the labour market: in 2002 nearly 1 in 5 people aged between 18 and 24 had exited the school system early and were not following any training. Many of them have to be re-socialised before any training.

In the EU as a whole, in 2002, around one in ten individuals aged 18 to 59 were living in a jobless household. At the same time, employment does not ensure escape from poverty: around a quarter of the people in the EU aged 16 and over at risk of poverty are in employment. The report by Gallie and Paugam in 2002 concluded that EU “employment growth since 1966 had not been accompanied by an improvement in several aspects of work that are of particular importance for reducing future risks of marginalisation”. In the

⁸ The 2001 wave data of the European Community Household Panel Survey refer to incomes of the year 2000. See Joint Report of 2003.

search for employment quality, as well as increased employment, the process for social inclusion needs to be considered in association with the Employment Strategy.

The common social indicators have contributed significantly to the social inclusion process, but further investment is necessary in the development of indicators (building on national experience) and in the statistical infrastructure.

• **Coherent and Integrated Approach to Economic and Social Policy**

It is not going to be easy for the EU to achieve both improved economic performance and greater social inclusion. Employment creation has proved surprisingly difficult despite considerable policy efforts; the sources of economic growth are not well understood; the external environment is not helpful. But, in our view, however, it is possible and realistic to expect the EU to make progress. One key ingredient lies in the recognition that economic and social policy have to be made in conjunction (as reflected in the title of our Group). In the past, social policies have too often been devised without regard to their economic consequences. Unemployment compensation schemes have been introduced, or extended, without a full assessment of the possible disincentive effects, becoming part of the problem themselves. Early retirement benefits have been used to solve short-term labour market problems without regard to their impact on the dependency ratio. Conversely, macro-economic policy has too often been made without regard to the social consequences. The costs of deflationary policies have not been evenly shared. Calls for labour market flexibility have ignored the need for income security.

In our view, economic and social policy should be made in conjunction, to avoid a situation where the problems in one domain are exacerbated by the solutions adopted in the other. Such an integrated approach poses a challenge in turn to the structures of government. In Member States, it is Ministries of Finance, or Treasury Departments, who typically focus on improved economic performance, and it is Ministries of Social Affairs or Social Policy who are responsible for social justice. Equally, at the level of the Union, there are different DGs. A coherent approach is needed at both national government and EU level.

This report takes a EU-25(+) view, and does not focus on the problems of particular Member States. At the same time, it should be recognised that individual Member States have specific problems, and these should be taken into account in considering the position of these countries. In particular, the costs of re-unification have had an enduring impact on the German economy, necessitating major reforms. We believe that the principle of subsidiarity allows Member States to make such adjustments without requiring action in the social policy domain by other Member States. The social inclusion process is sufficiently flexible to allow countries to choose different instruments to achieve the commonly agreed objectives.

- **The EU Social Inclusion Process**

In this redesign of social protection, the EU process set in train, following the Lisbon Summit, is making an important contribution. Two rounds have been successfully completed of National Plans for Social Inclusion; there have been two Joint Reports on Social Inclusion; and the new Member States have drawn up Joint Inclusion Memoranda. This process offers considerable scope for mutual learning and for the transfer of best practice. It has reinforced the adoption of concrete indicators that allow performance to be compared across Member States. It has made explicit to the new Member States the commitment of the EU to the social wing of the Lisbon objectives.

Policy Recommendations

It is essential that the present momentum be maintained as we move to a new streamlined procedure and as the EU is enlarged. In our judgment, there are several important features that should be addressed as part of the new streamlined procedure:

- The identification of new risks. Member States can learn from each other in that a new social problem may be recognised first in some countries. The “working poor” provide an example. The UK has been concerned for some years with the existence of people in work whose pay is so low that it leaves them and their families at risk of poverty. This risk is recognised by the EU in the 2003 Joint Report.
- The evaluation of different policies in different countries. The present process serves well to describe different policy approaches and legislation; it serves less well to evaluate the effectiveness of these policies. There is a strong case for a branch of the Framework Programme (Number 7) being allocated to the evaluation of social inclusion policies.
- The setting of targets. About half of the EU-15 Member States set quantitative targets for the reduction of social exclusion. These targets are not integrated into the EU process.
- In the second round of NAP, the EU-15 Member States were asked to pay particular attention to the gender dimension. Progress has been made, but gender mainstreaming is weak outside employment issues.
- The mobilisation of relevant actors. Policies with regard to social inclusion, unlike macro-economic policy, have a very direct impact on the citizens of the EU. Yet the social inclusion process has not so far succeeded in engaging public interest. Much needs to be done to involve the social partners, NGO’s, local governments, community groups, and individual citizens.

3.3.2. Relation of social inclusion to the other key areas

In addition, the HLG believes that during the next years, action related to the following five issues having an impact on social inclusion should be stepped up:

- Ageing
- Investment in children
- Ethnic minorities
- Immigration
- Employment

- **Ageing**

With regards to ageing, specific attention should be paid to the increased need for long-term care. Now that pension provisions in many Member States have managed to successfully – albeit not completely – guarantee a good standard of living to the elderly, it becomes apparent that the increased life expectancy creates additional needs.

From the standpoint of social exclusion, one of the greatest risks faced by the elderly is the inability to participate fully in society on account of their disability. An elderly person may have sufficient income, but not have access to the necessary services. Where the burden of caring falls entirely on family members, then this is a source of social exclusion for the next generation. Carers are typically women, and the absence of public services means that they are unable to enter the labour force or to acquire educational qualifications.

However, there are examples in Europe showing an innovative response to this challenge already. For instance, it has been recognised in the German legislation providing long-term care insurance. It is becoming a serious problem in other Member States where no pro-active action is undertaken yet.

Policy recommendations

- To promote affordable quality services in particular for long-term care
- To ensure equal opportunity with regards to access to services, including through innovative funding

- **Investment in children**

At the same time, the EU approach should help Member States on cutting down poverty amongst children and providing adequate investment in them. In a number of Member States, a disproportionate number of children are in households below the poverty line. Low income affects their nutrition, their health, and their housing. Given the importance

of this problem, there is a case for proposing a *basic income for children*, under which all Member States guarantee that the child benefit and other payments for children will reach a specified percentage of the median household income in that country. The provision of a basic income, which belongs to the competence of the Member-States, exists already in many of them and can take various forms: child benefits, basic income...

In order for children to have real equal opportunity in life, the role of education should be reconsidered. The EU agreed indicator refers to school attendance, but there is also the issue of attainment. There are increasing concerns about the relatively poor performance of a number of European countries in PISA and other measures of educational attainment. Improvement here is crucial at an aggregate level for the Lisbon strategy and at an individual level to promote social inclusion. There are also reasons to believe that the efficiency of higher education could be improved. The relatively low employment rate of younger workers is associated with longer periods spent in higher education. At the same time, a high proportion of young people cannot find a job.

Policy recommendations

- To reduce child poverty, including through a basic income for children delivered by Member States
- To provide pre-school education to all children, from two years onwards
- To set targets to reduce the duration and the specific rate of youth unemployment through national specifications

• **Ethnic minorities**

Many Member States identify in their National Action Plan on social inclusion the particular problems faced by ethnic minorities.

Policy recommendations

- To emphasise policies of integration of ethnic minorities in the Member States. That includes notably education and access to the labour market for the younger generation.

• **Immigration**

The recommendation by the HLG for a truly common immigration policy implies also a recommendation for the investment in immigrant workers and their families to enable them to integrate rapidly into the economic and social life of the new home country. This issue is further developed in section 3.5.

Policy recommendation

- To fully integrate immigrants into their new economic and social life
- **Employment**

Employment may play an important role to social inclusion and reducing the risk of financial poverty. The latter, however, is only valid if “work pays” and people in a job are not at risk of poverty.

A job may not pay sufficient to raise a family above the EU agreed poverty line. The same concern is evidenced in the “unemployment trap”. If the jobs on offer pay no more than unemployment assistance, and this is below the poverty line as defined at EU level, then employment does not provide a route out of poverty. Cutting unemployment assistance will not help, since it still leaves people below the poverty line.

These considerations have led to the increased use of “in work benefits”, where cash payments or tax credits are given to those in employment, scaled back as their income rises. Experience with these schemes has however revealed the dangers of scaling back the payment too sharply. This generates a high effective marginal tax rate. The high tax rates discourages people from seeking better jobs and discourages other members of the household from entering the labour force.

Policy recommendations

- To prevent that people in work fall below the poverty line
- To promote in-work benefits without creating new traps

3.4. Allowing European couples to have the number of children they desire

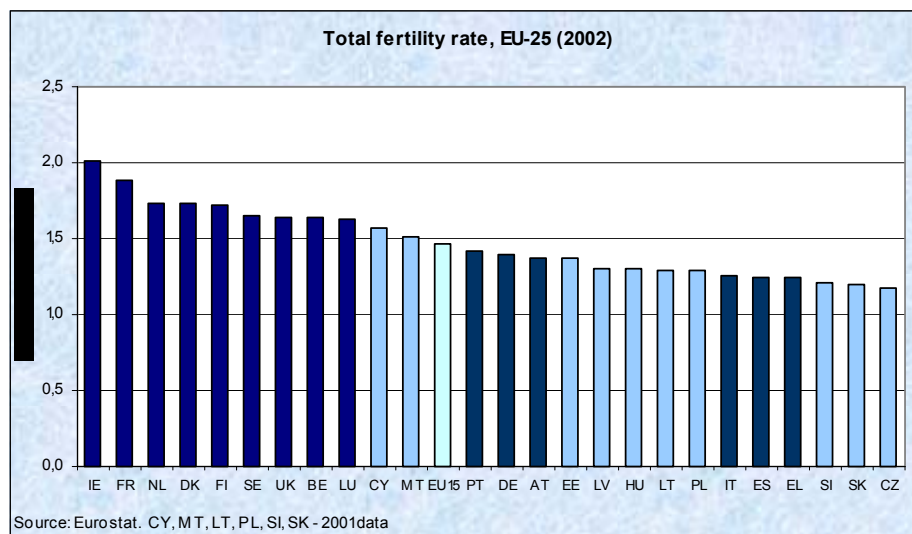
For the EU to maintain or increase its working age population in the longer term, it should facilitate an increase in fertility. Opinion polls show that there is a gap between the actual and desired family size, 1.5 vs. 2.3 children. This means that if appropriate measures are put in place to allow couples to have the children they desire, the actual fertility rate could increase. Member States show important differences between desired and actual family size. Whereas the excess of desired over actual number of children is 0.5 in Greece, Italy and Spain, the excess is 0.7 in Finland, Sweden, Belgium, France,

Germany and Ireland and amounts to 0.8 in Denmark and the UK⁹. This diversity suggests that such appropriate measures may differ importantly from country to country.

Furthermore, experience shows that the tension between combining family and professional desires leads to a decrease in the fertility rate. Sweden has been confronted with this phenomenon in the 1970's, Spain and Italy are facing the same difficulties now. The Swedish example shows that policy does help.

Two models appear in Europe ; France and Nordic States (Sweden, Denmark, Finland) with relatively high fertility, vs Spain, Italy, Germany and Austria with low fertility. One can distinguish a number of explanatory characteristics:

- The availability of quality provisions for combining child care and work.
- Family support: the example of Sweden where the reduction of family aids between 1993 and 2000 has resulted in a quick decline in fertility is very illustrative ;
- Child care: crèches, home-care; early schooling
- Societal values: countries with a relatively high fertility have a comparatively higher percentage of birth-rates outside marriage. The ability of society to tolerate births out of marriage is thus also a key element.



While the High Level Group does not call for a natalist policy, allowing couples to have the number of children they desire in each Member-State would create a virtuous circle in that it would bring confidence and dynamism in our societies, improve the old age dependency rate and thus sustain the pensions system and the health care system and increase the potential economic growth through the working-age population.

⁹ Data taken from G. Esping-Andersen (2002): Why we need a new welfare state. Oxford University Press, p.64.

Policy recommendations:

The EU should initiate a comprehensive policy to reconcile work and family life. Although a strong financial support of families is necessary as illustrates the example of Sweden between 1993 and 2000, the Group does not call for a natalist policy.

Fertility can be increased by concentrating on three policy areas:

- As to employment policy:
 - to encourage women to participate in the work force: there is a correlation between women participation in the work force and the number of children because of the existence of two revenues in the family ;
 - to encourage labour market arrangements adapted to the needs of women and men with care responsibilities (part time, parental leave open to both).

- As to other public policies:
 - to offer good and affordable services for child care either collectively (crèches and day-nurseries) or individually (private services) ;
 - to develop early schooling from the age of 2 onwards ;
 - to offer a proper housing adapted to the size of the families.

- As to societal issues
 - To encourage an equal distribution of family and care work within couples

3.5. Developing a European immigration policy

On the basis of the demographic situation, the European Union should plan for an immigration policy, helping to meet the demands for labour as a result of the changing age composition of the population and in particular the shrinking of the working age population, hereby resolving economic, employment and social pressures.

Immigration is nothing new. Throughout its history, Europe has been a continent with continuous migration. During the post-war period, immigration policies themselves have changed, in particular to respond to labour market needs. Three main stages can be distinguished:

(1) 50s-70s: Western European industry recruited temporary migrant workers (guest workers). In practice, it turned out that “nothing is more permanent than a temporary immigrant worker”.

(2) early 70s- end 90s: Immigration policy was restricted. Many “guest workers” who became unemployed following the oil crisis did not return to their home country. Instead,

they brought over family dependants in programmes of family reunification which were allowed.

(3) since end 90s: Several EU countries (Germany, Ireland, U.K. ...) started the recruitment of workers with well described specific skills (in particular ICT) to remove bottlenecks on the labour market.

The low level of integration of immigrant workers is attributed to the fact that their stay was not considered permanent. In the 90s, some new Member states copied the traditional post-war Western European approach, creating similar difficulties for the integration of these migrants as described above.

The absence of workers with specific skills also encourages new Member States to set up immigration projects based on specific selection criteria. The example of the Czech pilot project shows that economic, social and political integration is a clear priority, as there is a clear prospect for citizenship.

A key question for the future social agenda concerns the development of a European immigration policy. Since the Amsterdam Treaty and the 1999 Tampere European Council the legal basis and the political will to address immigration in a comprehensive way is present.

The High Level Group stresses the link between immigration, employment and social integration and the need for a follow-up on the June 2003 Commission Communication on this subject. It does not develop the other strands, particularly asylum policy or refugees for economic reasons, of a comprehensive immigration policy. Nevertheless, these will remain in the future also important, taking into account the traditions and culture which mean that EU countries cannot be selfish and seal off the borders.

Without any prejudice to a possible international governance of migration for which the ILO could play a role, the EU can play a major role in unblocking situations of deadlock at national level, particularly as a result of the follow-up to a set of common guidelines to be agreed.

A yardstick for immigration is the capacity of integration, as the limits for integration will also be the limits for immigration. Integration in the labour market is a key issue, but not the only one. Based on the best practice in the EU but also in other countries (Quebec, Switzerland) integration programs including language tuition, orientation and integration courses and labour market training, adapted to individual's needs and to some extent compulsory should be elaborated and monitored at the European level. An individual approach, linking rights to obligations, should be embodied in the " integration contract " under which failing to meet requirements stipulated in the contract would have negative consequences for renewal of the residence permit. At the same time, equal opportunity policies in a number of areas such as employment, housing, education and social protection should be implemented. Preparation and implementation of integration

measures should be participatory process in which local authorities, social partners and civil society should be involved.

The task for the EU countries will be to use immigration patterns more to their advantage, in particular to have an appropriate labour supply, once demography hits a turning point post 2010 and measures to compensate for ageing become essential.

An issue that deserves further attention is the role higher education can play in attracting high qualified individuals from abroad. The USA has a rich experience in attracting foreign students who are integrated subsequently in their labour market. This example should inspire the EU to make it easier to integrate such students in the European economy.

For immigration and integration to be successful and politically feasible, the process should be more selective, which might mean lower numbers of immigrants and also higher costs of recruitment.

The EU immigration policy to attract labour supply should be based on two fundamental criteria:

- An assessment of current and future predictable labour market needs ;
- An assessment of an individual's capacity to integrate into the new home country, including when changing the employment situation and building on real perspectives for acquiring civic rights.

A feasibility study on the introduction of a system based on points, which are attributed to certain skills and qualifications individuals have in order to rank priorities, should be launched as it has been experienced in Quebec. Nevertheless, it should be clear that the potential of the individuals recruited should be larger than just being active in a specific type of job, as for immigrants to become successfully integrated also requires the potential to be occupational mobile. A point system should therefore also assess the candidate's integration capacity.

Such a point system, which is different from the quotas approach, should be linked to a forecast of skills' needs at European level. The Commission should assess how such a forecast at European level can be developed, building on existing expertise and experience acquired already on this matter and covering the entire spectrum of skills and qualifications.

The expectations of controlled immigration should not be exaggerated and attention should be given to prevent over-concentration in regions or industries. Before such a system could be introduced, a large consultation appears necessary. In particular the social partners should be fully involved in this initiative.

Policy recommendations:

For concrete action, the following elements are identified:

- To introduce common protective measures, in particular to establish secure borders
- To develop an integration policy for immigrants, in particular through education of their descendants, by the Open Method of Coordination
- To define selection criteria prioritising the types of immigrants according to a system based on points to match the labour market needs better with the qualifications and skills
- To set up specific administrative bodies (e.g. to arrange recruitment, screening of candidates..)
- To develop co-operation with third countries to establish a win-win situation between the EU and the countries of origin (aid ; role of immigration for the development of these countries).

4. THE INSTRUMENTS: COMBINING ALL EUROPEAN INSTRUMENTS TO REACH STRATEGIC GOALS

The High Level Group supports the approach outlined in the current social policy agenda which calls for the combination of all available instruments to carry out the agenda, hereby involving all actors.

The distribution of competencies in the employment and social domain is highly diversified. This involves not only the EU and national level, but also the role of public authorities and the social partners.

With full respect for the principles of subsidiarity and proportionality, the point of departure is to combine all instruments and deploy them in a way conducive to meeting the strategic goals, as stipulated in the Treaty and as agreed in political commitments (e.g. the Lisbon strategy). Different policy making and decision making methods are to be used depending on the nature of the problems to be solved and the distribution of competence between the EU and national levels and taking into account the specific role granted to the social partners. Success of European integration depends on the ability to combine coherence with respect for diversity and combine efficiency with democratic legitimacy.

• Social dialogue

Since the early 90s, the social partners at European level have been encouraged to establish rules between themselves at European level. This has led to interprofessional and sectoral agreements, including several which have become binding law, as well as to an increased involvement of social partners in Europe's economic and social modernisation.

Within the employment and social domain, a strategic importance is given to the social partners to find solutions between themselves.

There are signs which suggest that Europe's enlargement may weaken this dynamic development. In the new Member States, the social partners are generally perceived to lack the institutional capacity and structure to fully contribute to the social dialogue. There are obstacles to overcome with regards to representativeness, social dialogue structures and practices, and the autonomy of the dialogue itself.

Therefore, special attention should be given to increase the capacity of social partners of the new Member States, by addressing

- the lack of technical capacities of the social partners, especially of employers' organizations;
- the doubtful quality of collective agreements (sometimes just repeating the legal provisions) and their inadequate enforcement;
- national social dialogue which lacks an innovative and strategic approach.

The competencies which were attributed to social partners in the Treaty took place during a period when labour market and structural changes in the economy have placed a steady pressure on union membership. Workers' representation structures and collective bargaining are slow in adapting to changes such as the abandonment of hierarchical production structures, delocalisation, out-sourcing, development of more flexible forms of inter-firm relations and of so called atypical employment relationships.

The fundamental question is whether the achievements of European social dialogue are interrelated with the corresponding developments at the national levels.

The relatively low level of social partners' involvement in the implementation of the European Employment Strategy, especially in drafting and implementation of the National Action Plans is a sign that changes at the European level will take time to have the desired effect at lower levels of social dialogue.

• Legislation

Legislative action is more behind us than before us for several structural reasons:

- The top priority for the new Member States is to transpose fully and to implement effectively the "acquis communautaire".
- The European Union has already legislated in many fields in industrial relations and there does not seem to be large legislative gaps.
- New directives should in the future result more easily from the implementation of agreements between the European social partners than from a negotiation between the 25 Member States.
- The social partners have adopted an ambitious work program including for example action on stress at work and harassment. Past experience proves that agreements reached by the social partners are very often more concrete, simple and closer to the economic and social needs.

However, for those areas for which the Treaty provides a legal base to regulate through legislation, the EU should remain vigilant and extend the legislation where appropriate to provide the basic rights and minimum standards, as called for in the Treaty, and establish a level playing field for businesses throughout the enlarged European Union. There may be a need to complete legislation in some areas, for example in health and safety, to face new risks. At the same time, updating or simplifying legislation, where possible, should be further pursued.

• **The open method of co-ordination**

The strength of the open method of co-ordination is based on the fact that it encourages co-operation at European level to bring about structural reform in policy areas for which Member States remain entirely responsible. It adds an important new instrument which is designed to help Member States to progressively develop their own policies to face common challenges. Based on objectives and guidelines, it provides a framework for action at the national level, which can then be monitored through indicators. Rather than making a ranking of performance, it uses benchmarks with a view to organise a learning process and to help exchange experience.

It creates a European dimension and makes political choices by defining European guidelines and it encourages management by objectives by adapting these European guidelines to national diversity.

The open method of coordination is to be combined with the other available methods, depending on the problem to be addressed. These methods can range from harmonisation to co-operation. The open method of coordination itself takes an intermediate position in this range of different methods. It goes beyond inter-governmental cooperation and it is an instrument of integration to be added to a more general set of instruments.

• **European Social Fund**

The European Union is confronted with disparities between and within Member States in terms of standard of living, employment and output. The European Social Fund (ESF), and by the same token all Structural Funds, have been playing a key role in the pursuit of economic convergence and the promotion of overall harmonious development. For over 40 years, the ESF has played a major role in social and labour market restructuring.

The countries and regions where the disparity is widest compared to the EU average are the so called 'Objective 1 regions', having a GDP per head below 75% of the EU average. These countries and regions have received the largest share of the financial resources of the Structural Funds to invest in both physical and human capital, hereby creating the potential for regional competitiveness and economic growth through a more balanced use of all resources.

The total amount of resources allocated to Cohesion policies in the period 2000-2006 is € 260 billion, of which € 213 bn is committed to the EU-15 countries, via the Structural Funds (€ 195 bn) and the Cohesion Fund (€ 18 bn); the Berlin European Council also allocated an additional € 47 bn for the new Member States.

Experience shows that these investments pay off. The Commission's Third Report on Economic and Social Cohesion demonstrates that real convergence has taken place. Over the period 1994-2001 for instance, the gap in income and employment levels has

narrowed. GDP growth per head in the cohesion countries – even when excluding Ireland – has been 1% higher than the average of the rest of the EU (3% compared to 2% of GDP/head growth). Also the employment rate has generally gone up by more than the EU average.

In short, Structural Funds have contributed to the catching-up of the new Member-States (GR, SP, PORT) following Southern Enlargement: the size of financial flows has been significant, particularly since the 1988 reform. Structural funds support has been complementary to Foreign Direct Investment. They have contributed to the creation of infrastructure and human capital and to education and training systems.

The recent enlargement created an unprecedented widening of the income gap between the richest and poorest Member States. Average GDP per head in most of the new Member States is well below the level in existing Objective 1 regions.

In the enlarged EU, 67 regions have a GDP per head below 75% of the EU-25 average (2001 data). These account for some 26% of the total population of the enlarged EU. For comparison, under 19% of the population of the EU-15 live in regions with GDP per head below 75% of the (EU-15) average.

The reduction in average GDP per head in the EU following enlargement means that 18 regions in EU-15 Member States have as a result of the 'statistical effect' been lifted above the Objective 1 region reference point. It is important that the transfer of financial resources is not abruptly stopped or reduced for these regions. For a third group of regions, which even without the statistical effect of enlargement would have a GDP per head above 75% of the EU average, funding should be gradually reduced. These are the phasing out regions.

As to the future, it is crucial that the majority of the financial resources of the Structural Funds remain allocated to the least developed regions and Member States in order to promote convergence and economic and social cohesion.

The ESF, as EU funding instrument to support the European employment strategy and the social inclusion process provides an added value throughout the EU, in particular by introducing a leverage effect on national and regional funding policy. During the Structural Funds 2000-2006 programming period, the ESF is investing approximately euros 62.5 billion in modernising and reforming labour markets. Five key priorities have been defined: developing active labour market policies, promoting equal opportunities, supporting lifelong learning, promoting a skilled and adaptable labour force, and specific measures to promote women's access to the labour market.

The policies on the Structural Funds should concentrate in the future stronger than in the past on target groups and regions (not states) with structural deficiencies on the one hand and effectiveness and efficiency (quality) on the other hand.

Also in the future the ESF should cover target groups outside the Objective 1 regions. And national programmes should be possible in addition – according to Art.87, clause III,a of the EC-Treaty

To be effective, the management of the ESF should be simplified. All stakeholders indicate that the delivery system is too rigid and complex. Priority should be given to ensure that the ESF is policy driven: it should help implementing the European employment strategy and the social inclusion process. The programming of the fund has been decentralised but the management, and especially the control, has not been. This calls for a redefinition of responsibilities between the Commission and the Member States with regards to the implementation of the ESF and a decentralisation of the control which is still totally centralised.

Policy recommendations

The High level Group recommends that the combination of instruments be further developed and refined to work towards the fundamental values and strategic objectives of the EU, as stipulated in the Treaty and laid down in political commitments.

On the social dialogue

- A first priority for the social dialogue is to guarantee its effectiveness. Therefore, every effort should be made to build strong linkages between the European and the national levels and to disseminate knowledge on European social dialogue among members and affiliates of social partners' organizations;
- The social partners should be encouraged to assess objectively their contribution to the implementation of EU social policy and to take appropriate measures at the European, but also national level, to improve effectiveness of their actions;

In social policy areas where the opened method of coordination is used, social partners should be involved and their specific characteristics should be taken into account. They should be invited to develop their own process of benchmarking, exchange of experience and identification of best practices;

- As the current social partners' work programme ends in 2005, the new programme should be as far as possible coordinated with the new Social Agenda for the years 2006 – 2010;

New items of social dialogue related to main social challenges should be put on the agenda in order to achieve agreements or develop consultations on strategic issues (ageing, youth unemployment, productivity, migration). In the new Member States, social dialogue should deal more specifically with restructuring, the negative social consequences of which could be eased in this way, and with the involvement of the

social partners in the planning and implementation of activities related to Structural Funds, especially the ESF;

The High level Group strongly encourages the development of a new agenda for industrial relations "to cope with priorities such as competitiveness and innovation, social cohesion, wage responsiveness, social inclusion and social protection, training and life-long learning, working conditions and work organizations, new forms of employment, working time management, reconciliation of work and family life"¹⁰;

Objective and credible indicators of industrial relations should be developed and data disseminated;

- The last Spring Council in Brussels (25-26 March 2004) called for the establishment of national Partnerships for change, tripartite mechanisms aiming at identifying common challenges and giving appropriate response in terms of harnessing change. The commitment and involvement of all actors is the lynchpin on which the success of the Lisbon strategy depends. Proactive partnership alliances are necessary as a lever for change to secure a more active contribution to the process of reform. Collective agreements tend to cover an increasingly broader range of issues beyond classical topics of wage and working time, and are being developed into instruments of anticipating and managing change;
- The technical capacity of social partners' organizations to deal with the above issues should be strengthened. European social partners have a special responsibility vis-à-vis their members and affiliates from the new EU Member States. More technical assistance should be provided to help social partners to deal with new contents of social dialogue;
- A strategic partnership between the European Commission and the ILO could contribute to a better knowledge of social dialogue as a part of the European Social Model and as a method of good governance in future EU candidate countries, but also outside Europe.

On legislation

- Implement the "acquis communautaire" and apply Community law throughout the enlarged European Union
- Privilege the social dialogue to find solutions to common issues, through binding agreements or other instruments, either through the autonomous work programme of the social partners or through consultations launched by the Commission. The Commission should continue to play a key role with its right of initiative for new legislation, hereby giving an incentive to social partners to opt for a negotiation route to settle the issues at stake between themselves.

¹⁰ See Report by the High level group on industrial relations

On the open method of co-ordination

- The open method of co-ordination should be further developed within the employment and social domains. The new provisions of the draft Constitution provide a legal basis for that.
- For the OMC to be effective, a few conditions have to be met. It is crucial that the policies are based on a previous strategic exercise and thus making choices and developing new political orientations. In other words, the OMC should not become a mere reporting exercise. Its added value lies in the definition of clear policy choices and its policy-making capacity. Therefore it should be strategic, improve the learning process, improve the participation of stakeholders while avoiding to be a bureaucratic process, and provide co-ordination between different policy strands.
- The Spring European Council is improving its methods since 2001. One of the major improvements concerns the coordination and the synchronisation between the broad economic policy guidelines and the employment guidelines which will be achieved for the first time in 2004, requiring a “follow-up package” to be prepared before the Spring European Council and a “guidelines package” to be presented afterwards.

On the other hand, the effectiveness of the strategy is impeded by the vastness of the scope of the policy plan. Too many subjects are on the table at the same time. This inhibits the strategic orientation of the Spring report and means that the menu presented to the European Council is too large. As a consequence, there are serious obstacles in explaining the necessary changes to the public.

Therefore, a selection of a few major projects to be developed over time would be recommendable. It would help to prioritise and ease the pedagogic task of explaining to the population why the envisaged changes are necessary.

On the European Social Fund

Economic and social restructuring can be associated with acute, often localised social distress in terms of unemployment, long term unemployment, poverty and exclusion in urban and industrial areas particularly affected by such restructuring problems. Helping to anticipate and address these challenges is the main contribution that the Structural Funds could make to reducing inequalities outside Objective 1 regions, in line with the Lisbon agenda.

- A key priority for the future should be to strengthen the links between ESF interventions and the National Actions Plans for employment and social inclusion.

With regard to employment, the recommendations addressed to the Member States should be taken into account. With regard to social inclusion, the link between the ESF and the Social Inclusion Strategy should be more direct.

The ESF support should be focussed on the most appropriate target groups and activities through the links to the European Employment Strategy and the Social Inclusion Strategy. Examples may include for instance older workers or migrants.

- The resources should therefore be focused in order to promote employability, adaptability of workers and enterprises to economic change and inclusion of disadvantaged people, through investment in human capital, lifelong learning, and social integration policies.
- As a guiding principle, the limited resources available outside regions lagging behind should be concentrated on tackling economic and social restructuring through positive management of change. This policy objective allows for flexibility to anticipate and respond to acute sectoral restructuring problems as for instance, those resulting from EU trade multilateral agreements or EU liberalisation bilateral commitments. Equally, it allows for better focusing the Funds' intervention on the underlying structural causes of problems identified in specific geographical areas, at national, regional local level.
- The High Level Group recommends a fair solution of phasing out for those regions which are no longer Objective 1 regions by provisional and degressive arrangements for a limited number of years.
- The financial management rules should be adapted to the types of project and actors involved. Management and control should be decentralised, through a better and clearer share of responsibilities between the Commission and the Member States.

* * *

The HLG is convinced that the future development of the European Union and its Member States is dependent on well functioning public institutions and architectural frameworks combining suitable problem solving, decision making and consensus finding, especially in the broad field of social programs (EU, national and regional programs). Improvements are not only a challenge for the new Member States, as mentioned above in the proposal of enforcing the social dialogue based on solid institutions and good procedures (e.g. improvements are necessary to encourage the social partners and other representative institutions to take part in the national Action Plans on Employment).

It is crucial that the process of modernising the public sector continues. Public administration in the area of employment and social protection should develop its

capacity to react efficiently to new risks and needs, as well as provide high quality services. Modern management methods as well as use of new technologies should be promoted. At the same time these services should be user-friendly and capable to deal with needs of individual persons.

An institutional setting of proper policy making needs further development of institutions not only in the political sector, but also in society. Social partners should be closely involved in the management of public affairs in the area of employment, social protection and human resources development.

In a larger context good governance is also an issue for the relation between the EU and its institutions on the one side and the Member States and their political and societal institutions on the other side. Improvements should combine general objectives with decentralized responsibilities and a proper system of control and evaluation.

SUMMARY of the Policy Recommendations

1 Employment

1.1 Focus the European Employment strategy on 3 priorities

1.1.1 To extend working life:

For the young:

- With the shrinking of the labour force, it should be as important today to secure an earlier entry to the labour force as to postpone retirement.
- This implies that the skills match the jobs. Access to the labour market, suitable to the competences of young people, should become a real opportunity for every young person.
- To develop training given partly in an educational institution and partly in the workplace, like for instance in Germany, appears as a good way to implement access of the young to the labour market.
- Both public authorities and the social partners should consider it their responsibility to foster a lasting integration of young people into the labour market. It is important to build pathways to work and training, within an effective use of preventive and active measures, including intensive coaching.

For women:

The High Level Group, as the Employment Taskforce, urges Member States and social partners to:

- remove financial disincentives to the participation of women, notably in relation to wages, benefits and taxation, including the gender pay gaps;
- increase the availability, affordability and quality of childcare and eldercare;
- improve working arrangements, with measures to boost the attractiveness of part-time work and facilitate career breaks and flexible working.

For older workers:

The policy recommendations for concrete action concern three levels.

- At the level of employment and social security systems

- decrease the incentives to leave working life early and to reduce strongly early retirement
- promote later retirement through pension reforms
- develop the possibility for retired people to work (including through part time or temporary jobs)
- At the company level, in particular through the involvement of the social partners,
 - promote the implementation of lifelong learning for older workers
 - improve working conditions
 - modernise the organisation of work in particular to better meet the needs of older workers while effectively using their expertise, including through shifting types of jobs (e.g. from a management post to an advisory post or coaching) or by taking up employment in a dependent company
- At the level of society
 - To increase the employment rate of older workers will require society to think differently about the potential contribution of older workers; this will imply a tremendous change of mentalities.
 - Promote a shift in public opinion through for instance advertisement campaigns (like in Nordic countries)

1.1.2 To implement lifelong-learning

- National strategies should be defined to implement lifelong learning:
 - to organize supply: schools, companies, internet
 - to facilitate access to lifelong learning through working-time arrangements and new tools to validate professional experience
 - to share the cost between public authorities, workers and companies
- The national strategies for lifelong learning should, at the level of working conditions:
 - give more attention to the learning needs of specific target groups which have so far been underrepresented:
 - people with low skills levels, older workers, migrants ;
 - employees in small and medium-sized enterprises.
 - include access to training activities as a standard ingredient of the employment contract and collective agreements
 - connect learning with arranging working time and the arrangement for sharing costs and investments
 - foster the individual initiative through the creation of individual learning accounts
- The national strategies for lifelong learning should, at the level of learning instruments:
 - diversify the means for lifelong learning

- support the creation of networks of services validating and certifying the outcome of informal learning activities.

1.1.3 To address economic restructuring

- Restructuring is a key horizontal issue and should be treated as such in all Member States.
- Employment goals should be at the centre of economic and social policy. There is a key role here for the European employment strategy and the active involvement of the social partners.
Measures in favour of youth employment should be given high priority in the National Action Plans, together with further improvements in education, vocational training and *real* implementation of a life long learning system, including necessary institutional and budgetary measures.
- Social partners and other relevant stakeholders should be involved in the elaboration of social plans at the level of companies and of development plans at the local level.
- There is a key role for Structural Funds to help to manage economic restructuring. Priority should be given to upgrading both the technical infrastructure and the workers' skills in regions hardest hit by restructuring. Both the Regional and Social Funds are crucial to provide the incentive for increasing the attractiveness to obtain FDI and other private resources to invest in enterprises and economic development in a sustainable way.
- Regional disparities must be addressed by a wide range of measures supported by EU funds, including more investment into the technical infrastructure, housing and transport policy.

2. Social protection

2.1 Modernizing social protection to develop jobs creation

- To make work pay, in particular through reforming taxation, labour market, and social security systems.
- To broaden the basis for the financing of social security systems. Several approaches are feasible: one is, for example, to draw more intensively on other types of income than wages. Another option is to finance social security from tax money rather than from social security contributions, as is now done in Denmark for example.
- To make social security benefits more efficient: there certainly is potential to do so in the area of health care. Efficiency can also be increased for the active and passive benefits of labour market policy without narrowing their scope.
- It is of crucial importance that the open method of co-ordination provides a comprehensive approach to steer reform to cater for both old and new social risks, while respecting the specific features and concerns of the different policy strands (social inclusion, social protection, health care). Together with the new cycle of the

Broad Economic Policy Guidelines and the European Employment Guidelines, the co-ordination of the different processes will help take forward the Lisbon Agenda in line with new provisions of the draft Constitution..

2.2 Promoting mobility over the life-cycle

At the level of working life, priority should be given to:

- promote the development of an individual working life pattern, allowing career interruptions, for instance for child upbringing or care for the elderly, easier transition between full-time and part-time arrangements, working and training periods, and enabling the extension of working life.
- adapt social protection systems to support mobility in the labour market and facilitate transitions between different statuses, such as work, training, career breaks or self-employment (job-to-job insurance)

3. Social inclusion

3.1 Strengthening the social inclusion process

There are several important features that should be addressed as part of the new streamlined procedure:

- The identification of new risks. Member States can learn from each other in that a new social problem may be recognised first in some countries.
- The evaluation of different policies in different countries. The present process serves well to describe different policy approaches and legislation; it serves less well to evaluate the effectiveness of these policies. There is a strong case for a branch of the Framework Programme (Number 7) being allocated to the evaluation of social inclusion policies.
- The setting of targets. At present about half of EU-15 Member States set quantitative targets for the reduction of social exclusion. These targets are not integrated into the EU process.
- In the second round of NAP, the EU-15 Member States were asked to pay particular attention to the gender dimension. Progress has been made, but gender mainstreaming is weak outside employment issues.
- The mobilisation of relevant actors. Policies with regard to social inclusion, unlike macro-economic policy, have a very direct impact on the citizens of the EU. Yet the social inclusion process has not so far succeeded in engaging public interest. Much needs to be done to involve the social partners, NGO's, local governments, community groups, and individual citizens.

3.2. Embedding social inclusion in other key areas

In addition, the HLG believes that during the next years, action related to the following five issues having an impact on social inclusion should be stepped up:

3.2.1 Ageing

- To promote affordable quality services in particular for long-term care
- To ensure equal opportunity with regards to access to services, including through innovative funding

3.2.2 Investment in children

- To reduce child poverty, including through a basic income for children delivered by Member States
- To provide pre-school education to all children, from two years onwards
- To set targets to reduce the duration and the specific rate of youth unemployment through national specifications

3.2.3 Ethnic Minorities

- To emphasise policies of integration of ethnic minorities in the Member States. That includes notably education and access to the labour market for the younger generation.

3.2.4 Immigration

- To fully integrate immigrants into their new economic and social life.

3.2.5 Employment

- To prevent that people in work fall below the poverty line
- To promote in-work benefits without creating new traps

4. Demography

4.1. Developing a European immigration policy

- For immigration and integration to be successful and politically feasible, the process should be more selective. The EU immigration policy to attract labour supply should be based on two fundamental criteria:
 - an assessment of current and future predictable labour market needs ;
 - an assessment of an individual's capacity to integrate into the new home country, including when changing the employment situation and building on real perspectives for acquiring civic rights.

- To define selection criteria prioritising the types of immigrants according to a system based on points to match the labour market needs better with the qualifications and skills.
- To set up specific administrative bodies (e.g. to arrange recruitment, screening of candidates).
- To develop an integration policy for immigrants, in particular through education of their descendants, by the Open Method of Coordination in the fields of employment and social policy.
- To develop co-operation with third countries to establish a win-win situation between the EU and the countries of origin (aid; role of immigration for the development of these countries).
- To introduce common protective measures, in particular to establish secure borders.

4.2. Allowing European couples to have the number of children they desire

Fertility can be increased by concentrating on three policy areas:

- As to employment policy:
 - to encourage women to participate in the work force: there is a correlation between women participation in the work force and the number of children because of the existence of two revenues in the family ;
 - to encourage labour market arrangements adapted to the needs of women and men with care responsibilities (part time, parental leave) open to both.
- As to public policies:
 - to offer good and affordable services for child care either collectively (crèches and day-nurseries) or individually (private services) ;
 - to develop early schooling from the age of 2 onwards ;
 - to offer a proper housing adapted to the size of the families.
- As to societal issues
 - To encourage an equal distribution of family and care work within couples

5 Combining all instruments for improved governance

The High level Group recommends that the combination of instruments be further developed and refined to work towards the strategic objectives of the next social agenda.

Social dialogue

- A first priority for the social dialogue is to guarantee its effectiveness. Therefore, every effort should be made to build strong linkages between the European and the national levels and to disseminate knowledge on European social dialogue among members and affiliates of social partners' organizations;
- The social partners should be encouraged to assess objectively their contribution to the implementation of EU social policy and to take appropriate measures at the European, but also national level, to improve effectiveness of their actions;

In social policy areas where the opened method of coordination is used, social partners should be involved and their specific characteristics should be taken into account. They should be invited to develop their own process of benchmarking, exchange of experience and identification of best practices;

- As the current social partners' work programme ends in 2005, the new programme should be as far as possible coordinated with the new Social Agenda for the years 2006 – 2010;

New items of social dialogue related to main social challenges should be put on the agenda in order to achieve agreements or develop consultations on strategic issues (ageing, youth unemployment, productivity, migration). In the new Member States, social dialogue should deal more specifically with restructuring, the negative social consequences of which could be eased in this way, and with the involvement of the social partners in the planning and implementation of activities related to Structural Funds, especially the ESF;

The High level Group strongly encourages the development of a new agenda for industrial relations "to cope with priorities such as competitiveness and innovation, social cohesion, wage responsiveness, social inclusion and social protection, training and life-long learning, working conditions and work organizations, new forms of employment, working time management, reconciliation of work and family life"¹¹;

- The last Spring Council in Brussels (25-26 March 2004) called for the establishment of national Partnerships for change, tripartite mechanisms aiming at identifying common challenges and giving appropriate response in terms of harnessing change. The commitment and involvement of all actors is the lynchpin on which the success of the Lisbon strategy depends. Proactive partnership alliances are necessary as a lever for change to secure a more active contribution to the process of reform. Collective agreements tend to cover an increasingly broader range of issues beyond classical topics of wage and working time, and are being developed into instruments of anticipating and managing change;

¹¹ See Report of the High level group on industrial relations and change in the European Union. Office for official publications of the European Communities, 2002.

- The technical capacity of social partners' organizations to deal with the above issues should be strengthened. European social partners have a special responsibility vis-à-vis their members and affiliates from the new EU Member States. More technical assistance should be provided to help social partners to deal with new contents of social dialogue;
- Objective and credible indicators of industrial relations should be developed and data disseminated;

Legislation

- Implement the "acquis communautaire" and apply Community law throughout the enlarged European Union
- Privilege the social dialogue to find solutions to common issues, through binding agreements or other instruments, either through the autonomous work programme of the social partners or through consultations launched by the Commission. The Commission should continue to play a key role with its right of initiative for new legislation, hereby giving an incentive to social partners to opt for a negotiation route to settle the issues at stake between themselves.

Open method of co-ordination

- The open method of co-ordination should be further developed within the employment and social domains. The new provisions of the draft Constitution provide a legal basis for that.
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- The Spring European Council is improving its methods since 2001. One of the major improvements concerns the coordination and the synchronisation between the broad economic policy guidelines and the employment guidelines which will be achieved for the first time in 2004, requiring a "follow-up package" to be prepared before the Spring European Council and a "guidelines package" to be presented afterwards.

On the other hand, the effectiveness of the strategy is impeded by the vastness of the scope of the policy plan. Too many subjects are on the table at the same time. This

inhibits the strategic orientation of the Spring report and means that the menu presented to the European Council is too large. As a consequence, there are serious obstacles in explaining the necessary changes to the public.

Therefore, a selection of a few major projects to be developed over time would be recommendable. It would help to prioritise and ease the pedagogic task of explaining to the population why the envisaged changes are necessary.

European Social Fund

- A key priority for the future should be to strengthen the links between ESF interventions and the National Actions Plans for employment and social inclusion. With regard to employment, the recommendations addressed to the Member States should be taken into account. With regard to social inclusion, the link between the ESF and the Social Inclusion Strategy should be more direct.

The ESF support should be focussed on the most appropriate target groups and activities through the links to the European Employment Strategy and the Social Inclusion Strategy. Examples may include for instance older workers or migrants.

- The resources should therefore be focused in order to promote employability, adaptability of workers and enterprises to economic change and inclusion of disadvantaged people, through investment in human capital, lifelong learning, and social integration policies.
- As a guiding principle, the limited resources available outside regions lagging behind should be concentrated on tackling economic and social restructuring through positive management of change. This policy objective allows for flexibility to anticipate and respond to acute sectoral restructuring problems as for instance, those resulting from EU trade multilateral agreements or EU liberalisation bilateral commitments. Equally, it allows for better focusing the Funds' intervention on the underlying structural causes of problems identified in specific geographical areas, at national, regional local level.
- The High Level Group recommends a fair solution of phasing out for those regions which are no longer Objective 1 regions, by provisional and degressive arrangements for a limited number of years.
- The financial management rules should be adapted to the types of project and actors involved. Management and control should be decentralised, through a better and clearer share of responsibilities between the Commission and the Member States.

Improving governance of social affairs

- The efficiency of European social policy is dependent on well functioning public institutions providing for suitable problem solving, decision making and consensus finding at the EU, national and regional levels.
- It is crucial that the process of modernising the public sector continues. The EU should develop specific programmes of cooperation and exchange of experience in the field of legal norms, their proper implementation and enforcement.
- In a larger context good governance is also an issue for the relations between the EU and its institutions on the one side, and the Member States and their political and societal institutions on the other side.

6. External dimension

- A strategic partnership between the European Commission and the ILO could contribute to a better knowledge of social dialogue as a part of the European Social Model and as a method of good governance in future EU candidate countries, but also outside Europe.
- To promote cooperation with other countries, neighbouring Mediterranean, Eastern Europe and with developing countries with the aim of promoting some key economic and social elements of the European model.

The merits of the European Social Model should be presented in the framework of technical co-operation focused on the promotion of good governance in the social field.

Conclusion

Beyond these different policy orientations, the Group would like to convey five main messages which could inspire the next social agenda:

- **To improve the contribution of social policy to growth, competitiveness and social cohesion** by developing lifelong learning, modernising work organisation and reforming social protection.

- **To extend working life** by increasing the employment rate not only of the senior workers and of women but also of the young.

We can both extend and improve working life by offering men and women a more flexible pattern of life, combining working periods, training periods and periods dedicated to children and to the elderly.

This implies the promotion of mobility over the life cycle both through working arrangements and social protection.

- **To foster social inclusion and invest in children and young people.**

Even if social policy currently focuses on the elderly and the sustainability of pensions, we must not forget that many young people are today at risk of poverty in Europe and that they will play a key role in the future of our societies.

- **To create a new demographic dynamism.**

History – the post war period – and geography – the example of United States compared to Japan – prove that demography is a key factor in the dynamism of a society: if we want to instil confidence and dynamism into our too often gloomy societies, then we should:

- develop a more selective and better integrated immigration;
- allow the young couples to have the number of children they desire.

- **To promote good governance in social affairs throughout Europe.**

Taking into account the differences between Member States, especially in EU-25, European social policy should define common objectives and not try to harmonise the social systems, which is both impossible and incompatible with the European political framework. It makes it all the more important to promote good governance at EU level as well as in each Member State.

Through these different messages, the idea of a **new intergenerational pact** emerges.

The present intergenerational pact is focused on the elderly and based on fears: fears of ageing and of its consequences on the pension system and on the labour force; fears of migrations...

The new intergenerational pact should be focused on the young and based on confidence: it is now time to turn all these fears into a win-win process based on a positive perception of the future and a new intergenerational balance.

The European Union could contribute through the next social agenda to the emergence of this new intergenerational pact which should involve the Member States, the social partners and civil society.

Composition of the High Level Group

- **Olivier Dutheillet de Lamothe (Chair)**, Member of the French Conseil d'Etat; former Social Counsellor of the French Presidency
 - **Tony Atkinson**, Warden, Nuffield College, Oxford
 - **Maria João Rodrigues**, Professor at ISCTE, University Institute, Lisbon; former Minister for Employment in Portugal
 - **Ludek Rychly**, Senior Specialist at the International Labour Office, Geneva; former Deputy-Minister of Labour and Social Affairs in the Czech Republic
 - **Florian Gerster** (until January 2004), Chairman of the Board of Management of the German Employment Service
- Dieter Schimanke** (from February 2004), Professor in Administrative Science; former Secretary of State in Germany

Organisation of work sessions

A. MEETINGS

The High Level Group worked for one year and a half and heard many experts and interested parties. The Group met on the following dates:

- 2 December 2002
- 21 February 2003
- 25 March 2003
- 28-29 April 2003
- 26-27 May 2003
- 24 June 2003
- 6-7 October 2003
- 3-4 November 2003
- 1 December 2003
- 16 December 2003
- 22-23 March 2004
- 26-27 April 2004

B EXPERTS

The following experts provided a substantial input into the work of the High Level Group:

Mr Yves Chassard, Director of Studies with Bernard Brunhes Consultants, France

Ms Anna Ekström, President of the Swedish Confederation of Professional Associations (SACO), Sweden

Mr Richard B. Freeman, Herbert Ascherman Professor of Economics, Harvard University; Director, Labor studies Program NBER; Senior Research Fellow in Labor Markets, Center for Economic Performance, London School of Economics; USA and UK

Mr Gyula Pulay, State Secretary, Prime Minister's Office, Hungary

Mr Gerry B. Rodgers, Director of the Policy Integration Department, ILO, Geneva

Mr André Sapir, Professor of Economics at the Université Libre de Bruxelles; Economic Adviser to the President of the European Commission

Mr Hans-Werner Sinn, Professor of Economics and Public Finance at the University of Munich; Director, Center for Economic Studies (CES); President of Ifo Institute for Economic Research, Germany

Mr Klaus F. Zimmermann, Professor of Economics at Bonn University; Director of the Institute for the Study of Labor (IZA); President of the German Institute for Economic Research (DIW), Berlin, Germany

C HEARINGS

Hearings on expectations with:

Members of the European Parliament (Delegation of the Employment and Social Affairs Committee):

Mr Theo Bouwman, Chairman of the EMPL committee
GREENS/EFA, NL

Mr Bartho Pronk
EPP-ED, NL

Mr Stephen Hughes
ESP, UK

Ms Elspeth Attwooll
ELDR, UK

Representatives the social partners at European level

ETUC:

Ms Maria Helena André (Deputy Secretary-General)

Mr Grigor Gradev (Enlargement expert)

UNICE:

Mr Philippe de Buck (Secretary-General)

Thérèse de Liedekerke (Director Social Affairs)

Representatives of the Platform of social NGOs

Ms Anne-Sophie Parent (President)

Mr Simon Wilson (Secretary-General)

Ms Kathleen Spencer-Chapman (Policy Officer)

Other Hearings with

Mr Jacques Delors, former President of the European Commission

Mr Emilio Gabaglio, former Secretary-General of ETUC

Mr Frank Vandenbroucke, Minister of Employment and Pensions, Belgium

The Lisbon Strategy**Policies, European instruments and concrete measures**

Policies	European Instruments	Some Concrete Measures
Information Society	eEurope Action Plan	<ul style="list-style-type: none"> - Internet access in schools, public services, companies - e-commerce
Enterprise Policy	Multiannual Programme for Enterprise and Entrepreneurship European Charter for Small Enterprises	<ul style="list-style-type: none"> - Support to start-ups - Cutting red tape
Innovation Policy	Framework of Common Objectives	<ul style="list-style-type: none"> - Developing the national systems of innovation
Research Policy	6 th Framework Programme European Research Area Towards 3% of GDP Action Plan for Research	<ul style="list-style-type: none"> - Networks of excellence - Integrated projects
Single Market	Single Market Agenda Financial Services Action Plan Risk-Capital Action Plan	<ul style="list-style-type: none"> - Telecommunications package - Energy - Single sky - Community patent - Gallileo
Education	Common objectives and targets eLearning Bologna Process for High Level Education Copenhagen Declaration for lifelong learning Action Plan for skills and mobility	<ul style="list-style-type: none"> - New tools for lifelong learning - Convergence of degrees and recognition of qualifications
Employment	European Employment Strategy: Joint Employment Report, Employment guidelines and Recommendations for Member States' employment policies	<ul style="list-style-type: none"> - Better employment services - Adaptability with security - Equal opportunities - Active ageing

Social Protection	Common objectives for pension provision Integrated approach for safe and sustainable pensions	- Coping with ageing
Social Inclusion	Common objectives Community Action Programme to combat discrimination Framework strategy on gender equality	- Targeted measures for the National Action Plans
Environment	EU strategy for sustainable development 6 th Community Action Programme for Environment Community Eco-label working plan	- Community Eco-label awards - Environmental inspections
Macroeconomic Policies	Broad Economic Policy Guidelines Stability and Growth Pact	- Redirecting public expenditure for growth and employment