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**THE ACTIVE WELFARE STATE :
A EUROPEAN AMBITION****Speech at the "Commission for Social Development"
of the United Nations**

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New York, 13 February 2001

1. COMMON CHALLENGES FOR SOCIAL POLICY IN THE EUROPEAN UNION

A series of major demographic, economic and social changes over the past 20-25 years across the European Union have profound implications for social protection systems and will continue to do so in future years. According to the 1997 (1) and 1999 (2) European Commission Reports on Social Protection four major trends are of particular importance:

- 1) First, the **ageing of the population** in all Member States and the prospective increase in the rate of growth in the number of elderly people from 2010 onwards. The largest expansion will be in the number of people of 75 and over, who tend to have greater demands towards pension systems, health care and social services. At a time when increased female participation in the workforce is likely to reduce the available pool of unpaid family carers, the demand for long-term care will increase markedly. A falling birth rate over many years also causes a prospective decline in the number of people of working age, thus potentially undermining the financing capacity of the system.
- 2) Secondly, the **changing gender balance** and the growing participation of women in the labour force, which has been accompanied by increasing demand for support services, both child care and the care of people with disabilities as well as the elderly infirm. This evolution puts gender issues and the importance of ensuring equality of opportunity for men and women at the forefront of the national and European political agendas.
- 3) Thirdly, the persistence of high and long-term **unemployment** and a **low rate of participation** in the workforce, especially among women and older workers, and the trend towards earlier retirement.
- 4) Finally, the increase in the number of households, the decline in the average size of households (or in other words: the rise of the number of people living on their own) and the increase of the number of households with no one in work. This has made it **more difficult to provide care and support from within the family** and increases the importance of the availability of income and other support for people who are not in paid employment.

We may adopt a neutral attitude to these facts themselves, even a positive attitude to some of them. But they do require systematic adjustments to the welfare state's architecture.

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- (1) COMMISSION OF THE EUROPEAN COMMUNITIES, *Social Protection in Europe 1997*, Luxembourg, Office for Official Publications of the European Communities, 1998, 160 p.
 - (2) COMMISSION OF THE EUROPEAN COMMUNITIES, *Social Protection in Europe 1999*, Luxembourg, Office for Official Publications of the European Communities, 2000, 124 p.

An ageing population means that more resources have to be spent on essentially traditional areas of social security, notably pensions and sickness insurance. At the same time, growing older gives rise to a new social risk: long-term dependency on care in an age of growing individualisation. Chronic illnesses, such as Alzheimer's disease, are gradually playing a larger part in it. The inequality between those who are affected by such conditions and those who aren't is dramatic.

The feminisation of the labour market is in itself a positive development. Yet this pushes a traditional objective further beyond our reach. Full employment as it was understood in most European countries was full paid employment for men – not for women. This was mainly associated with the traditional male breadwinner's model operated in many welfare states. When we target full employment today, we mean full paid employment for men and women. Even if more people than ever before participate in the labour market (which is the case, contrary to popular belief), full employment has become far more difficult to attain.

The services rendered by the welfare state today do not only require a lot more effort than before. Some new tasks are added, too. The traditional welfare state does not adequately meet the new needs of combining family life, work and training. Neither does it answer increasing poverty among women, which is due in part to the as yet unfinished emancipation on the labour market, plus –and this is not devoid of importance– the as yet incomplete emancipation within the family, accompanied by the clearly increased risk of having to manage all alone.

The changeover to a post-industrial society goes far beyond the problems of the welfare state. The social problem we are confronted with is the significantly higher risk of social exclusion among those with inadequate schooling. This is a new phenomenon because it refers, in statistical terms, to a predictable social risk. In this matter, the armoury of solutions of the traditional welfare state fails. Exclusion is not caused by either advanced age, accident or illness, nor even by a temporary fluctuation in the business cycle. The main cause is in the "new work requirements, which turn productive people into disabled people". (3) In such cases, the traditional welfare state offers benefits but no way out. We provide material comfort but offer no new opportunities.

In short, traditional social ambitions require more effort and co-exist with new challenges.

If we look for a composite measure of the strain our mature welfare systems already experience today, we may use simple **dependency ratios**, i.e. the ratio between the non-working population with social benefits and the active population. In 1970, the ratio of employed people to those living on benefit was 2:1 in Belgium. Today it has shifted to 1:1. Greatly simplified, we can say that half of the increased dependency is due to unemployment, the other half to retirement.

(3) J. DONZELOT, "L'avenir du social", Esprit, March 1996, pp. 58-81.

The use of this indicator needs of course refining. The image that a fixed group of 'payers' is poised against a group of 'recipients' is misleading because some people shift from one position to the other and back, and because both categories can co-exist within the same family. Nevertheless, this trend of increasing dependence must be stopped. The most frequently quoted reason is that the economic sustainability of social protection is coming under undue pressure. That is certainly true.

Let me quote this important conclusion drawn recently by the European Commission from its projections on the future financing of pension systems in Europe: "Expanding the number of these who are in work would help to alleviate the future problem of funding social protection systems at least as much as, if not more than, the reform of pension arrangements *per se*" (4). The real issue is the significant number of those of working age who are not part of the labour force at all (especially women not actively seeking work).

But there is yet another reason why a growing dependency ratio must give rise to some fundamental questions: dependence on benefit means, to a greater or lesser extent, social vulnerability. Part of this vulnerability cannot be avoided in an ageing society. Another part is avoidable, though, and hence must be reduced. In the latter case, dependency means that opportunities are denied: opportunities to actively participate in society.

There are still other indicators showing the strain on today's welfare state. The significant and systematic reduction in **poverty** that characterised my country in the 70s and 80s has ground to a halt. In health care, we are faced with more patients experiencing financial difficulties and with embarrassing policy choices because the resources do not longer match the new needs and possibilities.

The new Belgian government coined a new expression to summarise the challenge: we want to transform our country to an "**active welfare state**". The expression points to two different ideas: our goal is a society of **active people**, with a high employment rate; yet, we do want to achieve this goal without giving up the old ambition of the **welfare state** to offer adequate social protection.

(4) COMMISSION OF THE EUROPEAN COMMUNITIES, *Social Protection in Europe 1999*, Luxembourg, Office for Official Publications of the European Communities, 2000, p. 30.

2. FROM A CONVERGENCE OF IDEAS ON EMPLOYMENT-CENTRED WELFARE REFORM...

The Belgian government's approach is but one instance of a Europe-wide convergence of views on what is sometimes called "employment-centred welfare reform". Notwithstanding different political, institutional and cultural backgrounds, notwithstanding a wide variety of social security systems, I think one can safely say that European policy makers today agree on the following general guidelines for "employment-centred welfare reform":

- 1) Welfare policy cannot be reduced to employment, but employment is the key issue in welfare reform. Moreover, the nature of the employment objective has changed. "Full employment" as it was conceived in the past in most European countries, underlying traditional concepts of the welfare state, was full employment for men. The social challenge today is **full employment for men and women**. It points to the need to rethink both certain aspects of the architecture of the welfare state and the distribution of work over households and individuals as it spontaneously emerges in the labour market.
- 2) The welfare state should not only cover social risks as we traditionally defined them (unemployment, illness and disability, old age). It should also cover **new social risks** (lack of skills, causing long-term unemployment or poor employment, single parenthood) and respond to **new social needs** (namely, the need to reconcile work, family life and education, and the need to be able to negotiate changes within both family and workplace, over one's entire life cycle).
- 3) The traditional welfare state is, in a sense, predominantly a passive institution. A social risk has to result in a bad outcome, and only then there is the safety net spread by the various institutions that offer social security. An intelligent welfare state should respond to old and new risks and needs in an **active and preventive** way. As a corollary, it is stressed that the welfare state should not only engage in "social spending", but also in "social **investment**" (e.g. in training and education).

Personally, I would like to emphasise here that social investment is not a substitute for social spending. The idea that the "social investment state" can replace much of the traditional welfare state is unreal, given that we live in an ageing society, with ever more people dependent on benefits and social spending because of age. Moreover, social investment does not come cheap, certainly not in the short run.

- 4) During the nineties, there was growing consensus that **active labour market policies** should be higher on the agenda and upgraded, both in quantity and in quality, by tailoring them more effectively to individual needs and situations. Active labour market policies presuppose a correct balance between opportunities, obligations and incentives for the people involved.

Hence, taxes and benefits must not lead to a situation in which poor individuals (or their families) face very high marginal tax rates when their hours of work or their wages increase, or when they take up a job. "Poverty traps" and "unemployment traps" - discouraging mainly low-skilled workers from taking up jobs - characterise not only selective welfare systems, but some other more universal systems as well, in differing degree.

Activation thus is the keyword. It is therefore necessary to subsidise low-skilled labour, by topping up low-skilled workers' pay, and/or by selectively subsidising employers, combined with decent minimum wages. More generally, mechanisms in the current social security systems that discourage people rather than encourage them to be active, should be discarded as much as possible.

- 5) Such an active welfare state needs an **economic environment**, based upon both a competitive sector, exposed to international competition, and the development of a private service sector, which is less exposed to international competition, and in which low-skilled people find new job-opportunities. Continental Europe typically lags behind in the development of the private service sector. Wage subsidies for low-skilled people can also be instrumental in that respect.

Without this kind of convergence the political process set in motion by the 1997 Luxembourg Job Summit would have been more difficult (see below, section 5). It is one of the reasons why the discussion of the National Action Plans on Employment and the elaboration of European Guidelines for Employment Policies turned out to be a substantive exercise - contrary to what sceptics might have feared.

3. ... TOWARDS A CONVERGENCE OF VIEWS ON THE EUROPEAN SOCIAL MODEL?

Of course, a comprehensive view on the future of the European welfare states entails much more than the five points which I have listed so far. It also requires thorough discussion on the future of **pensions, health care, and care for the elderly**. I will here focus on pensions.

We should adopt a broad perspective on pensions, one that ensures that the long-standing **social objectives** of systems can be fully taken into account as Member States prepare their systems for demographic ageing. On the future of pensions, the debate is often conducted in a one-sided manner, focusing on the issue of ensuring the financial sustainability of systems, to the exclusion of other equally important issues related to ensuring the positive social impact of pensions. Notably in the context of the debates about the relative strengths and weaknesses of a public pay-as-you-go system versus

a privately managed funded system, Peter Orszag and Joseph Stiglitz have rightly emphasised that “we need to keep in mind our ultimate objective” (5). Ideological discussions on public versus private systems indeed distract our attention from the truly relevant question. It is precisely this insight which allowed us to gain momentum in Belgian pension reform and to make simultaneous progress in three domains:

- 1) a thorough modernisation of the **financial safety net** for the elderly, to fight poverty among the older generation more efficiently;
- 2) the creation of a **demographic reserve**, the so-called “Silver Fund”, to safeguard the financing of the first pillar of our pension system (a pay-as-you-go public system, which is, in Belgium, the fundamental guarantee that everyone has access to a decent pension). The Silver Fund is a budgetary device (one might say, a “disciplinary” device) that uses earmarked debt reduction to build up a demographic reserve, to absorb the acceleration in pension expenditure when the baby-boomers become pensioners.
- 3) the **democratisation of the second pillar** of our pension system, which is rather underdeveloped in comparison with other countries. The goal of the new legislation, to be introduced in Parliament shortly, is to make adequate supplementary social protection via ‘social’ pension funds a privilege for the many, not the few. Pension plans will have to be offered to all workers in the sector or company, and will have to meet a number of **social** criteria if they are to benefit from a supportive tax regime (and, moreover, provide transparency with regard to their investment strategy, i.e. publish whether or not they pursue Socially Responsible Investment). We especially look forward to the creation of robust sectoral funds, entrenched in the existing system of sectoral collective bargaining.

I believe the very same issues – how to fight poverty among pensioners more effectively; how to safeguard the existing pensions systems, with their in-built solidarities; how to develop supplementary pensions as a complementary social protection for the many – should structure our European discussions as well.

The Lisbon Summit (March 2000) has put the debate on pensions firmly on the European agenda by advancing the issue as the first priority of the new co-operation between Member States in the field of social protection. The Belgian government, which will organise the Presidency of the European Union in the second half of this year, wants to carry this debate forward by trying to establish a consensus on a set of common social objectives for European pension systems.

(5) I. P. ORSZAG en J. STIGLITZ (1999), “*Rethinking Pension Reform: Ten Myths About Social Security Systems*”, paper presented at the Conference “New Ideas About Old Age Security”, The World Bank, Washington, D.C., September 14-15.

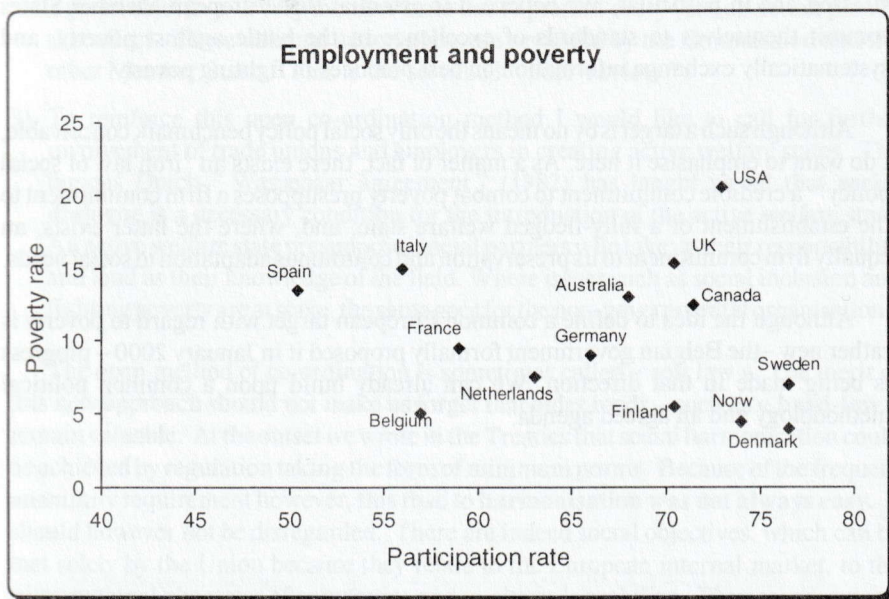
In defining common objectives for pension systems we can start from the 10 “principles and objectives” which the European Commission has proposed in its last year’s Communication on “Safe and Sustainable Pensions” and which revolve around the adequacy of pensions, intergenerational fairness, solidarity within pension systems, gender equality, sustainability, etc (6).

It is for Member States to decide what pension system they want, and how they will ensure its financial sustainability. But the fundamental challenge is one we all share. Clearly, if we succeed in defining common objectives with regard to pension systems, the idea of a European social model will become yet more tangible.

4. A DUAL BENCHMARK FOR THE EUROPEAN SOCIAL MODEL: ACTIVE PARTICIPATION AND LOW POVERTY

Earlier, when I defined the “active welfare state”, I said that our goal is a society of active people, with a high employment rate; yet, we do want to achieve this goal without giving up the ambition of the welfare state to offer adequate social protection. Indeed, promoting labour market participation is no substitute for social protection.

Consider the following graph on employment rates and poverty rates (7).



(6) COMMISSION OF THE EUROPEAN COMMUNITIES, The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions, COM(2000) 622, 11 October 2000, 20p.

(7) Source: I. MARX, “Low Pay and Poverty in OECD Countries”, Employment Audit, winter 1999.

More work does not automatically imply less poverty. If we look at the UK or the US, we see that the participation rate is much higher than in continental Europe, but the same goes for the poverty rate. By contrast, countries such as Denmark succeed in reconciling extensive social protection with high participation. The relation between employment rates (activation) and levels of poverty (social protection) is not “*if (employment) - then (no poverty)*”; nor do we have a mutually exclusive relation “*either (employment) - or (social protection against poverty)*”. The relation can, and should be, “*and-and*”: it is possible and necessary to aim at both social protection and the promotion of employment.

It is, among other considerations, this insight which lies at the heart of the Belgian and other governments’ plea within the European Union for complementing the Luxembourg process on employment with a common European strategy on social protection. Just as with the Luxembourg process, this process should be one where explicit, clear, and mutually agreed targets are forwarded, after which peer review leads European Member States to examine and learn from the best practices around. It would not be a process whereby the European Union takes over national competencies. “Best practices” should be taken literally here. What Europe needs is an exercise in ambition in the social policy area, the establishment of “standards of excellence” rather than standards of mediocrity.

A variety of benchmarks for social protection can be forwarded, but we have stressed one in particular. We believe it is essential that European Member States commit themselves to standards of excellence in the battle against poverty, and systematically exchange information on best practices in fighting poverty.

Although such a target is by no means the only social policy benchmark conceivable, I do want to emphasise it here. As a matter of fact, there exists an “iron law of social policy”: a credible commitment to combat poverty presupposes a firm commitment to the establishment of a fully-fledged welfare state; and, where the latter exists, an equally firm commitment to its preservation and continuous adaptation to social needs.

Although the idea to define a common European target with regard to poverty is rather new – the Belgian government formally proposed it in January 2000 – progress is being made in that direction. We can already build upon a common political methodology and an agreed agenda.

5. THE PROMISE OF A COMMON METHODOLOGY...

Earlier I mentioned the emergence of a convergence of views with regard to « employment-centred welfare reform ». Transforming this European convergence into common action was far from easy. Even if the post-Thatcher years brought common thinking across Europe, this did not mean that everybody was ready to act together. Not only were there many differences between systems as every welfare state had built its own variety, not only were the employment and poverty rates very divergent, but moreover in many countries there was a **constitutional fear for rules dictated from Brussels** and in particular for rules whose net result was to shift financial burdens from one member country to another. So if we were to make any headway at all, we had to tread lightly. And that is exactly what we have been doing in the **open co-ordination method** :

- 1) As a first element we decided to agree on **common objectives** in the field of employment (Luxembourg 1997) and, very recently, in the broader social field (Nice 2000). Some of these objectives are quite precise, whereas others are rather qualitative. As these objectives are revised every year, every year we have the possibility to make them more concrete in quantitative terms and in timing and more "excellent" in the sense that the standard to be reached should be the "best national practices" This is the so-called "**benchmarking**".
- 2) As a second element we left to every member state the **choice of means** to achieve a given objective. Every member state has to present every year an action plan to that effect. These national action plans are reviewed by the Commission and the other Member States. This is the so-called "**peer-review**".
- 3) To reinforce this open co-ordination method I would like to call for further involvement of trade unions and employers in creating active welfare states. The famous Dutch "Wassenaar agreement" (1982) has taught us all that **social dialogue** is a necessary condition for the introduction of the active welfare state. An active welfare state presupposes social partners who take up their responsibility and lend us their knowledge of the field. Where issues such as social inclusion and fighting poverty are at stake, the same goes for the non-governmental organisations.

The open method of co-ordination is sometimes called « soft law ». The merit of this new approach should not make us forget that older roads – such as « **hard-law** » remain valuable. At the outset we wrote in the Treaties that social harmonisation could be achieved by regulation taking the form of minimum norms. Because of the frequent unanimity requirement however, this road to **harmonisation was not always easy**. It should however not be disregarded. There are indeed social objectives, which can be met solely by the Union because they relate to the European internal market, to the trans-national character of companies and to citizen's mobility. They cover, among others, the free movement of persons (including the indispensable co-ordination of social security, where we still have a long way to go because Regulation 1408/71, which aims at ensuring that migrants keep their social security rights, requires urgent simplification and extension), the promotion of social cohesion (structural funds),

international aspects of social policy (workers' rights in multinationals, in cases where enterprises are being transferred). They further include minimal social standards and rules to prevent social dumping in the area of terms and conditions of employment, working hours, labour organisation, the rights of part-time employees, and so on. Europe also traditionally issues social measures aimed at objectives that the Union shares with Member States but where it is advisable that the Union should take the lead. Obviously, this is an open category but one which finds its foundation and justification in the social objectives of the Treaty. It may be illustrated with the following examples : the equal opportunities policy, non-discrimination, health and safety at work, promotion of social dialogue. Much progress has been made in most of these areas- more than the public generally realises – but there is still a long way to go. Unfortunately the new Treaty of Nice did not succeed in injecting more Qualified Majority Voting in this field.

6. ... AND A COMMON AGENDA

So where are we **today in Europe** ? A short summing up will do for our purpose:

- 1) First of all there is the **Luxembourg process** (October 1997) which aims to bring about convergence in national employment policies. We all have accepted to pursue 20 objectives under 4 headings :
 - i. Increasing participation in the labour-market. Specific objectives are indicated like ensuring all school-leavers within 6 months either a job or training.
 - ii. promoting innovating entrepreneurship
 - iii. increasing flexibility
 - iv. promoting equality of chance.
- 2) Second, this whole process of modernising the welfare state got further impetus at the **European Council of Lisbon** (March 2000). Over and beyond the Luxembourg process on employment, which was strengthened by quantifying the overall objectives, the European Council added the wider ambition of social policy. The council stipulated that :
 - i. participation in the labour market should reach 70 % by 2010, and for women the 60 %-threshold should be crossed by then (These objectives could even be reinforced by intentions of the Swedish Presidency to reach agreement on intermediate targets for 2005 (56% for women and 66 % for men).
 - ii. "Steps must be taken to make a decisive impact on the eradication of poverty by setting adequate targets to be agreed by the Council by the end of the year. (...) Policies for combating social exclusion should be based on an open method of co-ordination combining national action plans and a Commission initiative...."
 - iii. cooperation should start on the future of European pension systems

3) Thirdly, at the **European Council of Nice** (December 2000), the heads of State and government approved six strategic orientations for social policy constituting a **common social agenda**:

- i. more and better jobs
- ii. finding a new balance between security and flexibility
- iii. fighting discrimination and exclusion
- iv. modernisation of social security
- v. equality between men and women
- vi. integrating social aspects into our foreign policy

I just mention these six objectives without further elaboration; they are in a sense a European rerun of the active welfare state, which I have described elsewhere. There is however one single point I want to stress. As my government has been one of the first to recognise that the relation between employment and social protection can be made into a mutually reinforcing one, we worked very hard to complement the Luxembourg process on employment with a common strategy on social protection. **For us Nice is the other side of the coin minted in Luxembourg.**

Within this social agenda, the European Council of Nice gave **particular attention** to two of these six objectives. They are particularly dear to me because they add to the Luxembourg process exactly these dimensions we need to take the road towards the active welfare state.

1) Fighting social exclusion and discrimination was very much put on the foreground.

- i. Member States are invited to develop their national priorities within the framework of the following **objectives**: to facilitate participation in employment and access for all to resources, rights, goods, and services; to prevent the risks of exclusion : to help the most vulnerable ; to mobilise all relevant bodies.

I want to stress that these general objectives have been specified in more detail. They refer to decent income and housing, access to health care and education, etc. The broad scope of these objectives is not surprising : social exclusion is a multidimensional problem. That feature should be recognised throughout the process of dealing with the problem.

- ii. It is impossible to monitor progress in Member States with regard to social inclusion without comparable, quantitative **indicators on outcomes**. This certainly is a complex and sensitive issue. Fortunately, hereto we do not have to start from scratch.

Recently the European Commission proposed six indicators with regard to social cohesion : dealing with income distribution (the income quintile ratio); the number of people below the poverty line (before and after social transfers) ;

the persistence of poverty : the number of jobless households ; regional disparities and the amount of early school leavers not in further education or training (8).

Although there is political agreement that appropriate indicators are needed to monitor the Member States' developments in social policy, **we still have a long way to go.**

Achieving a consensus in this field is a major ambition of the Belgian Presidency of the Union. The result would be a set of shared indicators linking ambitions and progress in fighting poverty and social exclusion in Member States to the objectives agreed by the Nice European Council. (More detail : see Towards a European Social Policy : turning principles of co-operation into effective co-operation.: <http://www.vandenbroucke.fgov.be/T-001111.htm>)

iii. Following the Conclusions of Lisbon, each EU Member State should present a National Action Plan, including a description of the (nationally determined) indicators and follow-up methods. These action plans are due for June 2001. On the basis of a first analysis of the National Action Plans, which I hope will be ready after the summer, the Open Method of Co-ordination can then really get underway. Drawing first common conclusions by the end of 2001 must then be feasible.

2) As a second priority objective the European Council of Nice mentioned the **modernisation of the social security systems** with particular attention for the **old age pension systems**.

As I argued earlier, we should adopt a broad perspective on pensions, one that ensures that the long-standing social objectives of systems can be fully taken into account as Member States prepare their systems for demographic ageing. This is the point of view of the group of high-level officials created by the Council to support our co-operation on social protection. The Social Protection Committee wants to ensure that its work is sufficiently visible to act as a counterweight to narrower perspectives, which may otherwise dominate the debate. In this endeavour it has our full support. Given the work currently undertaken by the Committee, I believe it is possible to make progress, during the Swedish and Belgian Presidencies, in the development of the common social objectives I mentioned before. Our aim should be to establish in the domain of pensions what we have established in Nice with regard to social inclusion, namely, a consensus on our broad objectives.

As a conclusion I think that this new social agenda will enable us to develop a « **equilateral policy triangle** » (9) where for the first time in our history social policy, employment policy and economic policy reinforce each other within the European Union.

(8) Communication from the commission, *Structural indicators*, COM(2000) 594, 27 September 2000, 75p.

(9) The concept of the "European policy triangle" was introduced by Anna Diamantopoulou, European Commissioner for Employment and Social Affairs. She used this concept the first time when addressing the European Parliament on August 31, 1999.