



Keynote Speech
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CHECK AGAINST DELIVERY

The New Social Europe
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We meet a week before another European Council.

One year after Hampton Court promised to change the terms of debate on the European Social Model.

But can we really say, one year on, that anything has changed?

Has there been any leadership for a new political direction on how to face the challenges to the European Social Model?

Has there been any coherence in the political agenda since then?

I'm here as President of the Party of European Socialists.

When I became President two years ago, my ambition was to put the purpose back into the PES: to renew our common thinking on the future of European social democracy.

For the past two years, I have been in the "machine room" with the leaders and leading thinkers of our parties. Leaders including Göran Persson, Tony Blair, Kurt Beck, Alfred Gusenbauer, Piero Fassino, José Socrates, José Luís Rodríguez Zapatero.

Leading thinkers like Jacques Delors (my co-Chairman on the New Social Europe), Allan Larsson, Maria João Rodrigues.

For the past two years, we have been forging a new agenda for Europe. A new agenda for coherence, for connecting to people.

We call it the New Social Europe.

It started the day before Hampton Court with our PES Leaders' meeting in 10 Downing Street on 26th October 2005.

There we adopted a common strategy for Growth and Investment in Europe: a simultaneous investment strategy for higher growth.

Since then, we have been working to define the New Social Europe: a roadmap for reform of our welfare states. Our approach is not only to deal with European questions separately from national questions. For too long, we have been thinking and acting in separate boxes – as if they were isolated from and against each other. Our idea is to act together simultaneously in all four democratic houses: the local, the regional, the national and the European.

Our idea is that the New Social Europe – the PES' headline for reform – must be about how to make our welfare states fit for the twenty-first century.

We must start by understanding the fundamental strength of Europe: our inclusive and cohesive society. That we are the only continent to be pursuing social justice and competitiveness as mutually-supporting goals rather than trade-offs.

Europe is not a competition among states and it should never become that.

The New Social Europe is about taking the best of the past and building on it in the future.

There are new challenges the welfare state must face.

In the past, in the pre-industrial and industrial ages, change took place more slowly. Stability was far greater over longer periods of time. Now we live an age of constant change, of rapid developments. How can the welfare state remain relevant to people in these conditions? How can the welfare state deliver security in conditions of permanent economic change?

The New Social Europe roadmap

In all parts of the European Union, governments and political parties are faced with **choices of reforms and overall strategy**.

For me and for the PES, it's not a question of reforms or not. But what type of reforms and realised in which context. It's about direction and common actions. It's about how to do it and how to act jointly.

Talking about New Social Europe is assuming that we have an old one. But some people question this. We insist that Europe is social – that we, together, have more in common in our welfare states than we have differences. Common ideas of universality in access to education, in social protection, in security, in health care, our

common values and insisting on cohesion and inclusion. This is what we understand by Social Europe – but of course, within that framework, we have different types of welfare states. But we all have to make our choices for the future.

Certain reform choices must be made in the Nordic countries, others in the UK, others still in the central and eastern European new Member States, and the Northern and southern parts of the continent.

The fundamental idea is that the direction of the reform choices and investment initiatives must be coordinated and that we are not making decisions that contradict one another. That is what we understand by our **roadmap**.

Our aim is to outline this roadmap in the PES New Social Europe report. It will serve as a common agenda in each of the four democratic houses.

Reforming the European Social Model is not a-political: there will not be one way to do it. For example, the Lisbon agenda contains many goals, but what it doesn't say is how and in what order to go about it. This is where we see the essence of political choices and the difference between governments of contrasting political creeds.

Social democrats have fought hard to build up our welfare states over the past century. But we haven't achieved enough. We all know the figures: 18 million unemployed. 92 million of working age who are classed as economically inactive. 68 million in or near the limit of poverty; 8 million working poor.

We need a New Social Europe:

- **An inclusive Europe**
- **An educated Europe**
- **An innovative Europe**
- **A new Working Rich Strategy**

We will not fall into the same traps as in the past. We insist on learning by experience and understanding the very essence of political choices and reforms.

Fighting myths about the New Social Europe

Let's start by fighting some myths about creating a New Social Europe.

a. First myth: we can't afford a New Social Europe

The debate on the European Social Model often revolves around the threat to the financing of our welfare states: "Can we afford the welfare state? Shouldn't we reduce the welfare state to raise Europe's competitiveness?"

This is the first big conservative myth.

The Nordic countries have amongst the highest public spending in the EU and are also amongst the best-performing economies in the world. If you look at world

rankings for competitiveness, for technological performance, for creativity, you'll find the Nordic countries always in the top ten and consistently in the top three. That's because they combine a high level of competitiveness with social security. Social security is many different things. I believe modern social security is about investing in people.

Europe's welfare state is not too expensive, but it needs to be more effective.

Let's not kid ourselves that the US is spending less on welfare than we are.

The US has total social protection spending of almost 26% GDP, if you count private social spending too.

That's the same as the total welfare spending of Italy and not that far off from Germany.

Another example. The US is spending more on health than the EU: almost 15% GDP for the US against around half of that for EU countries. But still US citizens have a healthy life expectancy below the European average and 40 million US citizens have no health insurance at all.

- Is Europe willing to go down the track of higher exclusion for the illusion of a cheaper welfare state?
- Or, should Europe commit itself to a more effective welfare state with social inclusion and full employment?

We need better social policies, not fewer. This is what the New Social Europe is about.

b. Second myth: all we need is more labour market flexibility to raise employment and face globalisation

If labour market flexibility alone is what is needed, then the French proposals for a "first job contract" (contrat première embauche) must therefore have been a good thing. All that was lacking was the "political" will on the part of the trade unions, on the part of the Parti socialiste, and on the part of the general public.

I believe that such an interpretation is a fundamental mistake.

- One: **economic reforms are not all inherently good. There are good reforms and there are bad reforms.**
- Two, the **democratic process of introducing reforms is as important as the content of the reforms.**
- Three it is a mistake to want to introduce reforms if you do not set out **the right macro-economic conditions for these reforms to work.** Growth is fundamental. But the Commission President José Manuel Barroso does not agree: he thinks first reforms on the supply side; and then growth will come more or less by itself.
- Four, **flexibility alone will not address the fundamental issues: a.** people's opposition to globalisation and change, their feeling of insecurity; **b.** education

and skills that are key to maintaining a high level of human capital; c. the rising precariousness of employment (the 2-tier job market) that will kill our chances of social justice; d. the diminishing role of social dialogue, which I fundamentally believe is a weakness in any labour market.

If you look at employment protection around the EU, there is a mixed picture: it's harder to dismiss employees in Sweden than in France. There is no direct link between low job security and high economic performance.

This thinking on flexibility is blocking us from doing things simultaneously, which is economically well-documented: no sustainable growth without reforms, no reforms without sustainable growth. People will simply not accept a one-sided approach.

The social democratic conception of labour market flexibility comes with our belief that flexibility is accompanied by an active welfare state and can never be a stand-alone measure.

We insist on coherence.

The New Social Europe is about the big picture: **How to provide economic and social security and jobs – in people's everyday lives – in a world of constant change?**

What now?

Smart growth not “old” growth to unlock the potential of our welfare societies

The pre-condition for achieving New Social Europe will be higher growth. But it must be smart growth based on the best use of new sustainable technologies, not old growth based on old technologies and old methods of production.

We need this growth to carry through an ambitious new investment programme to fund the new functions of the welfare state and boost the sustainability and innovation of our economies.

Full employment is the key objective that helps achieve many of our aims for the New Social Europe: for social inclusion, financing the welfare state, and an upwards convergence of living and working standards in an enlarged Europe. Working smarter, not harder.

We have to start shifting the investment curve – more in children, in education and training and green growth; and using the EU's tools better to achieve our goals.

A. Doing things together: using the EU offensively for smart growth with full employment and social justice

Last year's reform of the Growth and Stability gave much needed flexibility for governments to conduct crucial public investments.

But the fact remains that **Europe is still financing US growth**:

- **In the EU 15, over the past fifteen years there's been a surplus in private net savings of 2-6% GDP per year;**
- **If you take account these private net savings, Germany has no deficit, in fact it has a 5% current account surplus, which could be used for consumption or investments.**

The American choice has for some time been higher economic growth, followed by an external deficit, financed by the rest of the world and, first and foremost, by Europe.

Europe's choice has been focussed on strong external competitiveness, leaving internal demand and growth too low.

Therefore, we do have the potential for new growth and we can use it if we change our strategy: structural reform alone will not bring new jobs and social justice.

This smart growth strategy would rely on the fact that almost 90% of trade takes place within the European Union and only 10% with the outside world.

We must leverage this economic interdependence for the purposes of stronger economic growth, job creation and social inclusion.

The PES Growth and Investment Strategy sets out that European governments must boost investments in priority areas – including lifelong learning, R&D, child care – through a simultaneous, coordinated action to boost growth both in the short term and in the long term.

We can address these common challenges together, in a coordinated way by pro-actively using our mutual economic interdependence within the Single Market. We simply need a new agreement for intelligent macro-economic coordination. This is not about taking competences away from national finance ministries – it's about using our economic interdependence to the benefit of our national economies by acting simultaneously:

- There needs to be **greater economic coordination between national governments, but also between the European Central Bank and the Eurozone countries.** Coordination must be geared towards intelligent public investments across the European Union for greatest synergetic effect.
- Such investments should also be combined with incentives for parallel **private investments**, and even partnerships between public and private. We're talking about a design including a take-off effect on private investments.

This is the essence of our common Growth and Investment Strategy, adopted on 26th October 2006. A whole set of expert studies clearly show that closer economic coordination - combining a joint effort on investment - would generate higher growth and would create several million more jobs over several years.

I met with the SPD executive not long ago and I told them: What you have to start asking is not what Germany can do for Europe, but what Europe can do for Germany!

If Germany participated in a European coordinated investment strategy it would see significant increases in growth and job creation. Unemployment would go down and public finances would improve. But even if Germany did not participate, but other European countries did pursue the investment strategy, Germany would still benefit (albeit to a lesser extent) thanks to Germany's economic interdependence with its neighbours.

The potential from cooperating together is so great - we've got to start doing it!

B. Shifting the investment curve: Investing in children

Making child care the next frontier of the welfare state is fundamental for the New Social Europe.

We must gain a new understanding of the role of child care policy.

High quality universal child care will be essential to attain full employment, tackle the demographic challenge and achieve social justice. It will have a positive impact on:

- ✓ **Life chances:** children from disadvantaged backgrounds – whether poor or immigrant – gain the early learning opportunities to put them on an equal footing with other children. By breaking the generational cycle of low achievement, we will lay the foundations for higher educational and employment levels in later life.
- ✓ **Strengthening social capital:** children learn their first social skills in nurseries, learn trust, inclusiveness and how to be in a community;
- ✓ **Improving integration of immigrants:** by improving the native language skills of their children before primary school;
- ✓ **Female employment and fighting poverty:** supporting women to have the children they wish and to work on the same terms as men. This would contribute to breaking the cycle of generational poverty, which is rising with the number of single parent families and remains a huge obstacle to building more equal and inclusive societies.

There is a clear and indisputable correlation between employment and child care in Europe: Denmark and Sweden have the highest numbers of people in work and the highest child care coverage too.

Providing high quality child care represents a net return on initial public investment and a positive effect on government revenues because:

- ✓ You have increased public revenues from female employment
- ✓ There is net job creation

We're not talking about a cost, but an investment.

C. Making the Revolution: The Active Society

What I mean by making the revolution is the revolutionary leap we've got to take to reach an active society. There can be no sustainable growth without the right kind of reforms, and no reforms without sustainable growth. I want to talk about the right kind of reforms we will need, based on the new growth we will have.

Making the revolution consists of:

- ✓ **Investing in active labour market policies in an intensive way**
- ✓ **Making the travel from the old to the new job as short and intensive as possible** in terms of re-skilling and support for job-seeking – chances of re-employment narrow every month
- ✓ **Minimising the risk of income loss**
- ✓ **Maximising the development of competences and qualifications.** Europe simply cannot afford to keep education and training opportunities in the hands of an elite. Today, the people who need education and training the most get it the least: the unemployed, the low-skilled, older workers.
- ✓ **Creating closer links between employment services, educational institutions, employers and the Social Partners to prevent bottlenecks in the labour market.**

By coupling mobility with security and active measures, we can lower unemployment and raise productivity simultaneously. There need to be supportive policies to provide economic security and to facilitate the transition from one job to another, based on a clear framework of **rights and duties**. Unemployment benefits to maintain living standards, on the condition of undertaking relevant re-skilling or accepting a job offer: it's a Sicilian offer, "**an offer you can't refuse**". To do this **individual action plans** need to be defined for each unemployed person, taking into account the persons' qualifications, job opportunities in the local labour market and the need for re-training. You've got to start with what somebody can already do and build on that.

By investing heavily in human capital through education, training and lifelong learning policies, we're pursuing a Working Rich strategy where people's productivity rises along with their earning potential. Investment in active labour market policies, particularly for education and training, and adult education generally have got to be prioritised in a radical way. The fact is that investment in active labour market policies is going down all over Europe. It's been steadily decreasing since 2002, with a drop

of 14% in 2 years, despite growing needs. The drop in investment in training alone represents nearly 50% of the total disinvestment in active labour market policies in recent years. This has to be reversed. And adult education that's relevant to the labour market must be made available to all, in and out of work.

We've got to foster closer links between employment services, educational institutions, employers and the Social Partners to prevent bottlenecks in the labour market: making education and training relevant to labour market needs and matching people with jobs.

Social dialogue has a pre-eminent role to play in helping design and implement the right mix of policies to dynamise the labour market.

Modernising our labour market policy is about providing security in change, within a clear framework of rights and responsibilities for all actors:

- An active growth-promoting state;
- Income replacement linked with active labour market policies to re-skill and get into work as fast as possible in a new deal between the unemployed and the state;
- Adult education;
- The interplay between employers, educational institutions, the social partners and employment services.

In 1993 I introduced an offensive programme for intelligent public investments: in active labour market policies, particularly lifelong learning, in education, in child care, and in R & D. The real rate of growth in 1994 was 5.5% in the first year – thanks to this ambitious investment programme. Then did we begin to implement labour market reforms of introducing more job flexibility combined with new forms of security.

The net result was: lower unemployment, higher employment, higher sustainable growth, a more active, inclusive society, and much higher economic security. In fact, Denmark flattened the Philip's curve, demonstrating clearly that there was no trade-off between inflation and unemployment.

D. Investing in Green growth and green jobs

The third future-oriented action must now be investment in green growth and green jobs.

The New Social Europe is also about replacing the current EU growth, with a new smart green growth concept. That means investing in the medium and long term, putting jobs into sustainability. It means taxing jobs less and taxing polluters more to promote green growth and job creation.

We have the money to do it if we shift our investments from the old to the new:

- One example: In the last 25 years, out of all money spent on R&D in energy in OECD countries, 75% went into nuclear and fossil fuels, and only 1% into wind

power, although wind power alone could supply over a third of the world's electricity by 2050, and one-fifth by 2025.

That would correspond to an employment of nearly 3 million people in the OECD. **If Europe can become the world's main supplier of wind energy, then we could get the major share of that employment!** And, that's only one type of renewable energy: solar, biofuels are other technologies that will generate jobs, growth and sustainability in a mutually reinforcing way.

Europe invests about 1.9 percent in R&D, while US spends 2.8 per cent and Japan 3.1 per cent of GDP on production of new knowledge and on transforming of knowledge into innovation and production. The links between universities and business – key to innovation - are much weaker in Europe than in the US. We need to reverse this, so that innovation can translate into high quality, highly skilled jobs.

Can the New Social Europe be built in the current political context?

What I think that the European Union desperately needs at this moment is **POLITICAL LEADERSHIP**.

The New Social Europe plan I've outlined would be hard for any economy to implement at a growth rate of only 2.5% GDP, as it is in the EU-25. Eurozone unemployment even went up slightly this past month.

What I ask of the European Commission is not the politically impossible - all I ask is for them to make a scenario:

- ✓ **What would happen if we actually started doing things together?** If Member States made the right investments in key priorities in a given period.
- ✓ **What would happen if we radically shifted the investment curve** towards child care, education, training and green growth - in terms of employment and the medium to long-term sustainability of public finances?

I hear people say, "But how are we going to pay for it?"

Here are three ideas:

1. By acting together for higher growth, we will be able to use the extra growth for new investments – instituting a virtuous circle;
2. We can change the composition of public spending towards active-oriented policies;
3. Higher employment – in the active society – will bring higher public revenues.

The New Social Europe is a coherent progressive political programme for reform:

- ✓ Smart growth through massive investment in new green technologies and R&D;
- ✓ A new understanding of the role of child care policy
- ✓ A revolution in adult education and skills
- ✓ Progressive labour market and welfare reform
- ✓ A quality leap in economic policy coordination at European level.

Let's make a new deal for a New Social Europe.

Thank you.