

**Opinion of the Economic and Social Committee on the 'Communication from the Commission:  
A Concerted Strategy for Modernising Social Protection'**

(2000/C 117/07)

On 26 July 1999, the Commission decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned communication.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 8 February 2000. The rapporteur was Ms Cassina, and the co-rapporteur was Mr Vaucoret.

At its 370th plenary session on 1 and 2 March 2000 (meeting of 1 March), the Economic and Social Committee adopted the following opinion by 94 votes to three, with four abstentions.

## 1. Background

1.1. There has been a wide-ranging debate on social protection in the EU for a number of years. It was sparked when, as part of the implementation of the Community Charter of the Fundamental Social Rights of Workers, two recommendations were proposed and adopted on:

- common criteria concerning sufficient resources and social assistance in social protection systems<sup>(1)</sup> and
- the convergence of social protection objectives and policies<sup>(2)</sup>.

1.2. The aim of these recommendations was to promote a degree of convergence between the social protections systems of the Member States and to confirm a number of basic rights, with a dual objective: to ensure compliance with common, minimum social standards and to establish a welfare set-up that removed the type of disparities that upset market dynamics. The two provisions were the first (and are, as yet, the only) European standards in the field.

1.3. In 1995, the Commission published a communication on the future of social protection: a framework for a European debate<sup>(3)</sup>. This document aimed to bring the discussion up to date against the backdrop of the ongoing process of economic and monetary union and persistently high unemployment levels. Demographic trends in the EU countries were seen as a necessary frame of reference, though current demographic trends (falling birth-rate and an ageing population), and in particular the prospect of the baby boomers born three decades earlier reaching pension age within the next 20 to 30 years, should have been taken into consideration long before.

1.3.1. The specific importance of macroeconomic and monetary convergence and stability policies in relation to social, demographic and employment policies taken as a whole had become obvious. The indisputable need to balance public budgets, was the main factor pushing the Member States' governments to adjust their social security systems. A look at the reforms carried out<sup>(4)</sup> shows that not all the issues were always taken into account, giving rise to inconsistent results which sometimes penalised certain social sectors.

1.3.2. With that document, the Commission sought to draw attention to all the various reference parameters, in particular the relationship between social security as a universal guarantee system and active measures to promote employment/employability in the EU.

1.4. A little over a year later, the Commission added more fuel to the debate with its communication on Modernising and improving social protection in the European Union<sup>(5)</sup>, following up the Member States' reactions to the 1995 document. It undertook to carry out a number of more detailed investigations including: research into the cost and impact of social protection, a green paper on supplementary pension systems, an analysis of measures taken to ease fiscal pressure on employment, a study into preventive health measures, and a review of the regulations on the coordination of pension schemes for migrant workers. The Commission invited the social partners to contribute to the debate and asked the Member States and the Community institutions to establish a permanent dialogue on strategies for modernising social protection systems.

1.5. The ESC issued opinions on the above proposals and communications, and also developed its ideas further by means of a number of own-initiative opinions<sup>(6)</sup>.

<sup>(1)</sup> OJ L 245, 26.8.1992, pp. 46-48.

<sup>(2)</sup> OJ L 245, 26.8.1992, pp. 49-52.

<sup>(3)</sup> COM (95) 466 final.

<sup>(4)</sup> See MISSOC reports for 1996 and 1998.

<sup>(5)</sup> COM(97) 102 final.

<sup>(6)</sup> ESC opinion on modernising and improving social protection in the European Union, OJ C 73, 9.3.1998; ESC opinion on the future of social protection, OJ C 66, 3.3.1997.

## 2. A concerted strategy for modernising social protection

2.1. As the title suggests, the communication aims to outline a set of objectives and instruments to develop a concerted strategy for modernising the social security systems, against the backdrop of the already established framework, which combines observance of the stability and growth pact, a commitment to make social protection systems more favourable to employment, and confirmation of social protection as an important shared value of the EU in the context of enlargement.

2.2. On 29 November 1999, the Council adopted its conclusions on the Commission proposal with rather exceptional speed, before the European Parliament or the Economic and Social Committee had time to state their views. Nonetheless, the decision has the potential to trigger a major process opening up many opportunities, and the methods and procedures developed to manage it will certainly affect the social partners. The ESC will therefore express its opinion as planned, concentrating mainly on the best methods for ensuring that the decision is implemented fairly and efficiently.

2.3. The objectives proposed by the Commission as the basic framework for modernising social protection are to:

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

The Commission also stresses that concern for equal opportunities for men and women must be mainstreamed in all four objectives.

2.4. The bid to reach these objectives will be shored up by 'enhanced' mechanisms for exchanging information and 'monitoring policy developments'. The Member States will designate 'high level officials to act as focal points in this process'. They are also invited to work out the detail of the strategy, while the Commission has undertaken to prepare a new annual report on social protection.

## 3. Comments

3.1. The Committee welcomes the Commission's pledge to promote the debate on these subjects and its intention to base the modernisation of social protection on consultation of all

those concerned. It also endorses both the Commission communication and the Council conclusions of 29 November 1999, subject to the comments and observations set out below.

### 3.2. *The background*

3.2.1. As the communication has a number of significant precedents, including the Council's 1992 recommendations and the Commission's communications of 1995 and 1997, the Committee believes that consistency with the objectives that have been established over the years is essential. Furthermore, modernisation must in all instances mean improvement. The four objectives (and the mainstreaming) recommended by the communication should be taken as a whole, treated as being of equal value and pursued simultaneously. As strong, high-quality social protection systems are an integral part of the European social and economic development model, their social objectives should be paid just the same attention as their economic sustainability. In other words, there must be no doubt that investments in health, living conditions, the fight against poverty and marginalisation, and active measures to help people find jobs are by their very nature productive investments as they enrich society and its contribution to development. This is the meaning of the statement: 'social protection is a productive factor'.

In the past, the European social model has worked effectively with the social protection systems and provided a vital boost to the competitiveness of the economic system as a whole; room must be left for this mutually beneficial relationship between the social model and the economic system to continue and develop when the systems are modernised and improved.

3.2.2. Greater employment opportunities and increased participation in the labour market are necessary conditions for modernising social protection without being blinkered by macroeconomic and budget compatibility. The completion of the single market and the development of economic and monetary union have created what ought to be ideal conditions for sustained job-generating growth. A few months ago, the Committee stated that growth was still insufficient, productive investment remained inadequate<sup>(1)</sup> and domestic demand

<sup>(1)</sup> See the ESC Opinion on The macroeconomic dimension of employment policy, OJ C 368, 20.12.1999, p. 36, paras. 5.1.2 and 5.2.2.

appeared sluggish. More recently, economic results and forecasts have been somewhat better, but nevertheless the structural measures used to stimulate employment, the development of more employability-focused social protection systems and active reintegration policies must be accompanied by resolute growth and investment support measures that broaden the productive and employment base, increase labour productivity and do not penalise household consumption.

3.2.3. The redistributive function of social protection systems is essential and must be preserved, fine-tuned and permanently bound to the aim of promoting social cohesion and overcoming marginalisation and exclusion of all kinds. A recent Eurostat<sup>(1)</sup> study shows that social transfers (excluding pensions) significantly reduce the percentage of people under the poverty threshold. The extent of this reduction varies, however, from one Member State to the next, and within individual countries. Therefore, although the Commission is right to state that the more interdependent the Member States' economies are, the more social protection becomes a matter of common concern, any joint action must pay careful attention to the differences highlighted by the study. This also applies to the implementation of other common policies, especially those relating to the Structural Funds. The Commission admits that current economic change is likely to generate uneven redistributive effects and that new categories of people may find themselves at risk (for instance, workers with fixed-term or temporary contracts who will experience periods of unemployment with no income support, women, poorly-qualified older workers, single-parent families, single-income families and people with disabilities). Policies and decisions on modernisation must be tailored to specific national and regional conditions. Above all, however, they must be based on clear forecasts regarding the social effects of future economic trends, always giving priority to supporting and promoting the interests of the most vulnerable categories.

3.2.4. In the employment guidelines for 1999, the Council stressed the need to relieve the burdens on the recruitment of young people and to encourage older workers to retire later, in order to help make social protection systems more sustainable. In general, the Committee is whole-heartedly in favour of this approach. Keeping older people at work can be compatible with the recruitment and employability of young people, providing that quality and productivity are promoted for both categories. The ESC notes that, in certain countries, conditions for early retirement are defined by contracts negotiated between the parties or by legislative provisions.

When this is not the case, recourse to early retirement may be wrongful or at least negative in some instances, particularly where it is applied by companies or industries that are in no financial difficulty but simply wish to streamline their production, carry through mergers or enhance their balance sheets (the abuse of the early retirement option is no less damaging when agreed between a company's workers and management). For both social and economic reasons, flexible pension policies should be developed as an alternative to early retirement and lifelong learning programmes should be established in order to encourage workers to retrain in good time and find new areas of employment. Workers who have been in particularly wearing jobs for long periods should be given special attention.

3.2.5. Although many Member States are currently raising the retirement age, this trend cannot go on indefinitely. The 1997 communication contains a graph that illustrates the labour productivity gains required to maintain the financial sustainability of public social protection systems in the coming decades, on the basis of the current structure of social protection systems (without allowance for possible future changes), and taking the ageing of the population into account. It shows that annual labour productivity must rise from its current level of (approximately) 0,2 to a little over 0,7 by 2025. This would appear to be feasible, if sufficient attention is given simultaneously to research, technological development and life-long learning. This presupposes ongoing consultation between the social partners to release the resources for these investments and sustain them over time.

3.2.6. Social protection systems and the way they are financed vary a great deal from country to country. In its employment guidelines (guideline 14), the Commission has called for targets to be set for gradually reducing the tax burden on labour and non-wage labour costs, without undermining the recovery of public finances or the financial equilibrium of social security schemes. There is no immediate, universally acceptable way to take this guideline into account. The use of general taxation to compensate for a reduction in the tax burden on labour (particularly on relatively unskilled employment) is a non-starter in the absence of tax harmonisation among the Member States, which are tending to reduce taxes on factors other than labour in order to stay competitive and keep attracting outside investment. Furthermore, demographic, economic and social factors play a major role in the long-term financial stability of social protection systems. For the time being, therefore, the Member States must continue trying to strike the right balance by reaching a consensus between the parties concerned, while always bearing in mind the need to protect the weakest members of society.

(1) 'Social benefits and their redistributive effect in the EU', by Eric Marlier, in 'Population and social conditions', August 1999.

3.2.7. Similarly, regarding health spending and the need to ensure a high quality service, the Member States should continue to ensure that everyone has access to the services they need and to care that meets their specific needs. On this point, the development of mutual associations and universal preventive measures can play a key role in all the Member States.

3.2.8. The present communication's analysis of the relationship between the concerted strategy for modernising social protection and enlargement is somewhat brief. The Commission must rapidly disseminate the in-depth and up-to-date study currently being drafted on the current situation and trends in the applicant countries. It is not enough simply to suggest that these countries must 'work towards the development of efficient, effective and sustainable social protection systems'. The convergence criteria for the applicant countries should be well-grounded and clear. Furthermore, provision should be made, as part of the concerted strategy (which should involve the applicant country social partners), to determine how accession aid is geared to developing and strengthening the social protection systems of the future members. This is vital for many reasons, not least the need to address rising unemployment among women, young people and highly-qualified managers — a new phenomenon in countries where, until ten years ago, there was a high level of employment for these categories (higher even than in the best-placed EU countries). Promoting the European social model in the applicant countries will also require a specific look at these problems as they affect each individual country's social system, while bearing in mind that issues relating to the structure and financing of social protection systems are not covered by the current corpus of Community legislation. The Committee welcomes the principle of including the applicant countries in the concerted strategy, but believes this must happen soon to prevent the accession negotiations from generating further imbalances and difficulties in the applicant countries' welfare systems; such problems could arise during the process of implementing the body of Community legislation, because of the predominance of economic and monetary concerns.

3.2.9. The Commission has published comprehensive reports on the demographic situation and trends in the EU over recent years. As the ESC is examining this important issue in an information report, it will touch on it only briefly here, inasmuch as it relates to social protection. However, it should be noted that the Commission communication's demographic analysis appears to be geared largely to stressing the need to guarantee the financial sustainability of public welfare systems. This vast and complex subject calls for a thorough debate, the

outcome of which remains to be seen. Nonetheless, the negative demographic trend affecting most of the Member States, which looks likely to lead to a reduction in the current European population, appears to lie at the crux of the matter.

3.2.9.1. Although in many cases the current downwards trend in birth-rates reflects a voluntary decision to have fewer children, it would also appear to be rooted in a number of problems linked to social benefits and the way they work. These problems vary in their form but are common to many Member States. The causes that have combined to put people off raising larger families, to name but a few, include high levels of unemployment; the absence or lack of a family policy to provide good quality childcare facilities and to ensure an adequate income and job security during parental leave, and other measures designed to help reconcile work and family commitments; inability to accommodate changes in family structure and to mainstream these issues in national policies; and uncertainty stemming from a series of rapid social, industrial and behavioural changes that the European public have yet to take fully on board.

3.2.9.2. Many experts have suggested that within a few decades the EU could face a labour shortage and be obliged to 'import' labour from third countries, and that the contributions of those workers would help to finance the social protection system. This prospect too requires immediate in-depth analysis, without straying into an abstract debate on whether immigration would/could change the current face of the EU. A look should be taken, meanwhile, at ways of opening up the current social protection systems while they are being modernised and equipping them to deal with the problems associated with the reception and integration of future immigrants.

### 3.3. *The instruments*

3.3.1. The Commission quotes from a March 1999 European Parliament Resolution which asked it 'to set in motion a process of voluntary alignment of objectives and policies in the area of social protection modelled on the European employment strategy'. The formulation of a 'common political vision of social protection in Europe', hoped for by the Commission, is an extremely important objective that will involve complex transactions affecting the whole of society. Effective measures will therefore be needed to guarantee a truly democratic, i.e. participatory, process.

3.3.2. Responsibility for bringing the various social protection systems up to date lies primarily with the Member States. The social protection modernisation strategy cannot possibly, therefore, be based on binding legislation not wholly endorsed by the Member States, or, most importantly, labour and management. The latter must be closely involved in the modernisation strategy at both national and European level. Without prejudice to the possible development of a concerted process of modernisation which takes on board some aspects of the Luxembourg process, the ESC believes that it is too early to define quantitative objectives and insists on the need to build solid qualitative and methodological foundations, establishing all the conditions for a strong consensus supported by all social and institutional players at every level.

3.3.3. The existing welfare systems grew out of agreements, between social operators and governments, that almost always involved difficult periods of bargaining and often even conflict. The strong and responsible involvement of all the interested parties is, therefore, an essential element in the modernisation of these systems, as part of a concerted strategy. The Commission does invite the social partners to take part in the process via the Social Dialogue Committee, but it should also specify the role and powers of that committee more clearly. In particular, it should be possible by means of the European social dialogue to make a detailed assessment of current developments in a number of Member States that have launched processes to adjust their social protection systems by means of negotiations between the various interested parties. Furthermore, the potential link between the group of national experts and the European social dialogue must be determined. If the 'exchange of experiences, mutual concertation and evaluation of ongoing policy developments...', mentioned by the Commission, does not specifically involve a debate between all the players, it will be limited to contacts between govern-

ments (or, still worse, between the 'high-level senior officials' who are to manage the process).

3.3.3.1. The Committee stresses that, as well as requiring the participation of the social partners, the concerted effort to modernise social protection systems must also be backed by reliable and systematic data. It welcomes the Commission's intention to build on the Social Protection in Europe Report<sup>(1)</sup>, and to publish it annually. The Commission report must provide a starting point for the discussions of the group of national experts. The ESC could be involved in the preparatory work, and after publication the report should be referred for an opinion (a procedure which would clearly also have to involve the European Parliament and the Committee of the Regions). Where appropriate, the European Parliament, the ESC and the COR could take part as observers in the meetings of the group of national experts.

3.3.4. The Committee welcomes the reference to the involvement of the European Parliament, the ESC, the Committee of the Regions and, as already mentioned, the applicant countries. The Committee is willing to provide support, especially in the happy event of the rapid development of bench-marking procedures for comparing the situations in the Member States and highlighting best practice. The ESC stresses the fact that there should be an ongoing, detailed study of current national trends and experience, based on practical examples. To that end, the Committee is ready to lend all its support to the bench-marking process in conjunction with the European Parliament.

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(1) The Social Protection in Europe Report is currently published every two years in conjunction with Eurostat and the social security departments of the Member States. It provides a detailed summary of trends and suggests measures that could be of use.

Brussels, 1 March 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

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